Contributions to Management Science

Alina Mihaela Dima *Editor*

Doing Business in Europe

Economic Integration Processes, Policies, and the Business Environment

Springer

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Preface

In the present context, doing business in Europe is a challenging endeavour. The evolution of the ongoing integration process in the context of EU enlargement is a phenomenon that has a twofold impact: on people and businesses alike. In a changing and challenging European environment, companies should redesign their business strategy in order to cope with common rules and practices but also with the multi-specific consumer behaviour. On the other hand, managing a business in a complex environment is not an easy task especially when it comes to addressing the needs of the consumers, and, in this case, corporate social responsibility becomes an essential dimension in the activity of the company. The main issues related to European integration and EU policies offer the necessary knowledge to improve business competitiveness in an ever-growing Europe. The main issues related to European integration and EU policies provide the necessary knowledge to improve business competitiveness in Europe.

The book brings together an international panel of experts within the field of economic integration and international business conveying the absolute link between the two dimensions: the impact of the integration process(es) on the business environment. The multiple perspectives are highlighted through the numerous examples and case studies showing concretely how "local business" becomes "international business" in the light of opportunities, constraints and overall historical changes. Therefore, the book has as its study focus the integration group that is considered to have reached the highest economic integration level: the European Union. As such, starting with the regional and global economic integration framework, going through the multicultural structure that makes everything possible and how the union came to be, the book shows how the common policies of the EU impact businesses and entrepreneurship within both the common market and the Member States.

For students taking European integration or international business and entrepreneurship courses (or adjacent), learning about the intricacies of how EU became what it is today often proves a rather challenging undertaking, but the multitude of applications and cases, by country and by concept, illustrating the theory with detailed analysis of the specific effects of the integration process on the business environment, should make it far more achievable. Nevertheless, the book ultimately proves to be a useful tool for both academics and business people with any sort of interest in the European issues and business. The readers of the book will gain advantages such as having the knowledge of the specific issues defining the economic and political context in Europe, understanding the main concepts related to integration accompanied by cases and examples, analysing main EU sectoral policies and constraints for people and businesses, also defining the main challenges of the EU enlargement and identifying the main advantages and disadvantages of doing business in Europe in the present context.

The book envisages international collaboration by authorship, reviewers, editorial board and readers. Using the format of an edited book with international participation, this offers to the integration process different views and perspectives. The different affiliation of the prestigious authors from various countries provides a different perspective over the integration process and its effects on the businesses in each country. The book includes many examples, applications, study cases and case studies by country where we could analyse in detail the specific effects of the integration process on the business environment.

Bucharest, Romania Alina Mihaela Dima

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European Union Between the Big Bang and the Big Crunch

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Abstract As the European Union (EU) has been shaken by various challenges such as the economic and immigration crises, Euroscepticism, Brexit, the raise of extremist parties, we consider timely a short overview on the political, social, and economic contexts that lead to the creation of the EU, and on its predecessors. The present chapter provides insights into the enlargements of the EU and it lays the foundations that lead to the current situation in the EU by shading light on the multi-layered causes and consequences of UK leaving the EU. Reflections are made on the clash of national and supranational entities and on political regimes and parties that dominate the EU stage as of the 2014 elections.

List of Abbreviations

EC	European Communities or European Community
ECSC	European Coal and Steal Community
EEA	European Economic Area
EEC	European Economic Community
EMU	European Monetary Union
EU	European Union
Euratom	European Atomic Energy Commission
SEA	Single European Act

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Upon reading this chapter, you should be able to

1. Understand the economic, social, and political contexts existent before the formation of the EU
2. Understand the main events in the evolution of the EU
3. Understand and describe the waves of enlargement of the EU
4. Understand the intricacies and challenges posed by governing such a complex entity as the EU
5. To understand what were the causes of the Brexit and the role played by Euroscepticism
6. To develop arguments on the enlargement of the EU

1 Introduction

The European Union is a unique economic and political union covering 4 million km^2 created between 28 countries reuniting a 500-million population across the European continent (www.europa.eu). The EU aims at increasing the life quality of its member states and, by extension, of everyone. Attention is given to fields like agriculture and sustainable food (40% of its budget) (Morris et al. 2016) education (the union encourages students to study abroad to prepare them for facing the competition of an international environment and better develop their skills), health, environment, security and external relations, justice, and migration. The EU is constituted around the idea of an internal market (single market) which is the driving economic enabler for the free movement of persons, goods, services, and capital.

So far, the EU has traversed both turbulent and prosperous periods that left visible marks and contributed to the way the Union is looking now. After a slow start when six countries managed to unite and set up the predecessor of the EU, fighting to ensure peace, undergoing several waves of enlargement, and facing the challenge of providing a democratic and transparent administrative apparatus fit for a 28-member union, adopting, and introducing the euro to being awarded the Nobel Peace prize for. Now the union is being confronted with a new series of challenges that are most likely going to take a toll on the entire functioning of the system.

The migration and refugee crisis is what supposedly burdened the whole union in terms of health system, overcrowding, increased crime rate, terrorism, etc., causing another stringent issue and bringing the EU on the brink of rise of nationalism could be conducive to potential extremist doctrines taking over different states within the borders of the EU and endangering its existence. Additionally, the EU is experiencing the first withdrawal (of the UK) in its history which can be regarded both as a setback and an advance in the evolution of the organisation. These circumstances fuel the beliefs of the Eurosceptic. The following sections of the present chapter will tackle the context before the creation of the EU, the setting up of the EU, and will specifically address two important challenges the EU is up against: the Brexit and the rise of nationalist parties, and the chapter will close with a case study.

2 Political, Economic, and Social Contexts Before the EU

The origins of the idea of a united Europe are not usually traced back to more than immediately after the end of Second World War or, in some cases, to events that happened during the interwar period. However, if we leave behind the political and economic forces have been involved in the creation of the EU we can go much further back in history and see that "the European idea" was advanced by poets, philosophers and artists in their works who have sought to analyse European consciousness long before political actors began to pay attention to the unification of European states (Swedberg 1994).

For Voltaire, Europe was a "great republic divided into several states, all with common religious bases, all with the same legal and political principles unknown in other parts of the world" (Pagden 2002, p. 175), while Kant argued that the European nations were naturally progressing towards a type of federal statehood characterized by a universalist and cosmopolitan moral culture (Tully 2002). However, these philosophic musings would have remained as such without the political support which started to gain momentum in the aftermath of the First World War.

It is commonly accepted that the first solid political movement towards the realization of a unified Europe appeared after the First World War. Pan-Europa, a 1923 political project supported by Richard Coudenhove-Kalergi, an Austrian-Japanese politician and philosopher deemed by most as the father of a unified Europe, sought to create a European federal union which would have been led by France and Germany and would have excluded the Soviet Union due to its authoritarian regime and Britain due to its imperialistic interests (Kühnhardt 2011).

The movement did manage to garner the support of several prominent leaders among which Edouard Herriot and Aristide Briand, two leading French politicians who were involved in the negotiations which subsequently led to the inclusion of Germany in the League of Nations. Thus, in 1925 we find the French Prime Minister Herriot talking publicly about the idea of a United States of Europe, and a few years later, in 1929, the German foreign ambassador Stresemann advancing the idea of European integration and even of a common currency to the League of Nations (Weigall and Stirk 1992).

However, it was necessary for European nations to go through the challenges of the 1940s which meant seeing millions of people die due to mass exterminations or of war, entire societies being disintegrated, the economies of countries going to shambles, and the rise of new regimes in countries all over the world. Thus, it is no surprise that the idea of a EU was the result of political leaders coming to realize and fear the consequences of extreme nationalism which had led to the rise of Hitler's regime in Germany (Fest 2013). It was necessary for them to see what resulted from the glorification of the national state to concede to reduce their own state's sovereignty and accept the idea of a supranational entity which would finally bring forth collective peace and economic development. However, the concerns with state rebuilding after the Second World War took precedence over the idea of unification. Germany's economy had suffered an immense shock during the Second World War and at the end it was left in a dismal state: in 1947, per capita food production had decreased by 51% in comparison to 1938, and the industry had lost two thirds of its capacity of production in comparison to 1938 (idem). The economy also suffered from labour shortages as most of German workers had been killed during the war.

An important event in the creation of the EU was the concrete move for regional integration in 1947 with the setting up of the Economic Commission for Europe, closely followed by the establishment of the Organisation for Economic Cooperation in 1948 and the creation of the Council of Europe (institution that does not have a formal role in the organizing and governing of the EU, and it not part of the EU institutional framework) in 1949 (www.europa.eu). These events delimitated the division of Western Europe into two large camps UK and the countries that later formed the European Free Trade Association (EFTA: Norway and Switzerland followed by Iceland in 1970 and Lichtenstein in 1991), in contrast to Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands which were also referred to as the Original/Inner Six.

Therefore, a corroboration of political, economic, and social factors has led to the necessity of the creation of precursors of the EU and finally of the EU to provide the nations with peace and shelter from the war; a pooling of resources, people, practices; coordination of industries like steel and coal.

3 The Founding of the EU

The idea of European integration started taking shape by means of the Schuman Declaration in 1950 that resulted in setting up the European Coal and Steal Community (ECSC) in 1951 which in nature had as a precursor the French economic planning designed by Jean Monnet (www.europa.eu). The treaty came legally into force in 1952 and it expired in 2002, 50 years after its entering into force. In pursuit of European peace, the ECSC was an optimal solution and had as spillovers the controlling of Germany's armament because of industry coordination (Mikkeli 1994). The step taken by the signatory states, France, West Germany, Italy, Belgium, The Netherlands, and Luxembourg (the latter three also referred to as Benelux countries) of the ECSC was grand and required political courage to give up national aspirations and agree to share and exercise their powers in common. Subsequently, the governments of the Original/Inner Six proposed the establishment of a general common market and an atomic energy pool which were established by the Treaty of Rome in 1957, being enforced in 1958 (www.europa.eu). Therefore, this treaty created two entities: the European Economic Community (EEC) and Euratom (European Atomic Energy Commission). Among the three (ECSC, Euratom and EEC), the European Economic Community became dominant and it was renamed European Communities or European Community (EC) which embodied both Euratom and ECSC, ensuring higher integration for transportation and agriculture policy areas (www.europa.eu).

UK stayed away from the Community in consideration of its nationalist interests, until the 60s when it applied for membership, but by that time the French President Charles de Gaulle regarded the potential membership UK as a threat. This opposition of the French ended with the resignation of the French President and with the threat posed by economic growth that Germany started to accumulate (Marcussen et al. 1999).

In 1973, three more countries managed to join: UK, Denmark, and Ireland and their joining the EC overlapped a tumultuous period characterised by staggering unemployment, excessive inflation and stagnant economy which would only recover and improve by mid 80s with the previous introduction of European Monetary System (EMS) as a mechanism for cooperation in the monetary policy (Dinan 2004). UK was regarded as a potential alleviator of the economic situation of the EC.

On the other hand, countries such as Portugal, Greece and Spain were liberated dictatorship regimes and as they were in search of preserving the newly acquired democratic statuses, they found a solution in joining the EC and the EC wanted to be precautious, and in 1981 Greece became a member, closely followed by Spain and Portugal in 1986 (Bache et al. 2014). In 1985, Greenland was given the home rule by Denmark and this is the moment when a part of a member state withdrew from the Community (there is another example with Algeria which after getting its independence from France in 1962) (Tierney 2013). But the year 1986, besides bringing Spain and Portugal as members, meant also the introduction of a Single European Act (SEA) (www.europa.eu). Regarded as the first treaty reform in EC and an important pivot in the history of the Community, the act leveraged on economic and social cohesion promotion to compensate for the previous period and in this respect the member states were urged to achieve single market by 1992 and they were pushing forward plans for a monetary union. After the end of the Cold War (which brought a new player on the EC stage—East Germany that reunited with West Germany—this new member was assimilated by Germany without resulting in an increase of the number of member states, but in a territorial/population increase), the countries were pushed towards developing a common foreign and security policy which in connection to the monetary union became the main matters of negotiations of the Maastricht Treaty (www.europa.eu). In this stance, the European Community/Communities were becoming the EU, a potential rising global power that could only function under the political unification necessary to support its economic welfare development. An organisation with such a numerous and varied membership would be very different from the EEC formed by the Inner Six leading to pursuing the questions of enlargement upon the finalizing of the Maastricht Treaty and agreement upon new financial and budgetary arrangements for the existing member states.

The next set of EU enlargements brought along a unique challenge, since it was without precedent in terms of scope and diversity: the number of candidates, the area (increase of 34%) and population (increase of 105 million), the wealth of different histories and cultures (www.cursuri-jean-monet.ase.ro). A single set of trade rules, a single tariff, and a single set of administrative procedures will apply not only just across the existing Member States but across the Single Market of the enlarged Union.

The year 1995 brought new members in the EU: Austria, Finland, and Sweden. They could not have joined before the end of the Cold War for them being neutral would create a strong mismatch between their political position and the one of the members. The prospects of bringing richer members to aid balancing the budget of the EU were more preferred to the prospects of bringing poorer countries. In the period to come, the EU was exposed to incredible challenges raised by the monetary union which was finally accomplished in 1999 and required from its member states very harsh economic choices for being part of it (UK had an opt-out negotiation exempting this country from adopting the euro as its currency). In all this turmoil, newly independent countries were seeking to become members in the EU, but they had different drawback that interfered and delayed their joining: low economic development and precarious administrative capacity. In the event of receiving new members, the EU elaborated two new treaties: The Amsterdam Treaty and the Nice Treaty (www.europa.eu). As so far, the EU did make any radical changes to its institutional apparatus, it now became aware of the urgency of these changes to reduce the gap between the Europeans and Brussels.

In 2004, ten new countries made their way to the EU and managed accede: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, Slovakia, Malta, and Cyprus. This enlargement was solving on the one hand the problem with the disillusionment with the EU, but on the other hand it fuelled constant conflicts between national and supranational, differentiation and unification and did not manage to solve them but only to provide them with a framework of manifestation in pursuit of harmonisation. Moreover, the EU has gone through ups and downs along history and has achieved what it is today given the resistance to change and the need to change brought about by each enlargement (Weidenfeld and Janning 2004), the problems that it faced and the reforms that it needed in counteracting them. The EU faced challenges in sustaining the convergence on both political and economic matters, therefore it was subject to institutional changes as it needed to accommodate ten new members, rendering the policies and institutions of the formerly Six as obsolete. The EU had to adapt for it was becoming a conglomerate of countries which were very different one from another from ethnicity, religion, economic development, historical experiences, language, and conceptions of nation and policy structure stand points (Fella 2002). This enlargement has the most significant one in terms of people, number of countries but not a prosperous one from an economic point of view.

Despite being on the list of the countries which were to accede in 2004, Romania and Bulgaria have only managed to enter the EU in 2007 because they did not fully comply with criteria required by the EU. They are still working to attain complete integration and join the Eurozone. The economic crisis in 2008 has not only endangered the EU but also the Eurozone as it surfaced the cracks of the

Table 1 EU enlargement in a nutshell (Source: Authors' own processing)

Year	Countries	Event	Number of countries
1951	France	Founding	6
	West Germany		
	Italy		
	Belgium		
	The Netherlands		
	Luxembourg		
1973	UK	First enlargement of EC	9
	Denmark		
	Ireland		
1981	Greece	Second enlargement of EC	10
1986	Spain	Third enlargement of EC	12
	Portugal		
1995	Austria	Fourth enlargement of EU	15
	Finland		
	Sweden		
2004	Czech Republic	Fifth enlargement of EU	25
	Estonia		
	Hungary		
	Latvia		
	Lithuania		
	Poland		
	Slovakia		
	Slovenia		
	Malta		
	Cyprus		
2007	Romania	Sixth enlargement of EU	27
	Bulgaria		
2013	Croatia	Seventh enlargement of EU	28

European Monetary Union (EMU) mechanism signalling a potential landmark in disintegration or a diversion in the direction a federal state (Patomaki 2013). The last enlargement took place in 2013 when Croatia joined the Union. Table 1 presents the formation of the EU in the context of the seven enlargements it has gone through.

The EU as we know it today has evolved tremendously as compared to its predecessors, but it preserved some traits: the idea of economic integration, the concern in relation to the dominance of Germany, the British detachment (see the Brexit subchapter) and it still suffers from small-country syndrome (the fear small member states feel related to being dominated—hegemony). As reported by Ec. Europa.eu, the following countries are candidates for new EU expansion: Albania, The Former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Turkey;

while countries such as Bosnia and Herzegovina and Kosovo have been promised the prospect of joining the EU as soon as they are ready to do so therefore their current status is of potential candidates.

The following foreseeable context led to high concerns being raised the European Commission: in 1900 Europe used to account for 25% of the world's population, and by 2060 it will account for less than 5%. Additionally, Europe's GDP will plunge on a downward slope from 22% currently to 20% by 2030, demographically speaking Europe will be the oldest in the world (45 years, second being North America—40 years old) (European Commission 2017). The European Commission is preoccupied concerning the future of the EU in terms of unity and it made some projections on how the union will evolve in terms of "impact of new technologies on society and jobs, to doubts about globalisation, security concerns and the rise of populism" and it delivers five potential scenarios that make a compelling case for unity: Scenario 1: Carrying On—the changes would be in reinforced security that would require citizens Scenario 2: Nothing but the Single Market , Scenario 3: Those Who Want More Do More—certain member states want to work commonly in specific policy areas, Scenario 4: Doing Less More Efficiently, Scenario 5: Doing much more together—in this case the Single Market will strengthened through harmonisation of standards and stronger enforcement and trade will be exclusively dealt with at EU level; Economic, financial and fiscal Union will be achieved as envisioned in the report of the Five Presidents of June 2015; cooperation on border management, asylum policies and counter-terrorism matters will be systematic; the EU speaks with one voice on all foreign policy issues; a European Defence Union is created; the EU budget will become significantly modernised and increased, backed up by own resources and the euro area fiscal stabilisation function will become operational; Decision-making will be faster and enforcement stronger across the board (European Commission 2017, p. 25—www.statewatch.org). In the end questions of accountability could arise for some who feel that the EU has taken too much power away from the Member States. What stands out in this white paper is the fact that the Commission fails to discuss the potential enlargement or contraction of the EU throughout this period and we regard it as flowed since the Union is expected to remain constant in terms of membership.

4 Challenges Currently Faced by the EU

4.1 Brexit, Its Consequences, and Euroscepticism

Ever since its inception, the EU has smoothly gone through its stages of economic integration: free trade area, customs union, common market, economic and monetary union. When the union seemed to make its way towards complete economic integration, the referendum that took place in UK in 2016, which ruled in favour of the withdrawal of the country from the EU, placed the future of the whole union under jeopardy by creating a precedent (both from administrative and socio-psychological perspectives) in terms of withdrawal, disregarding the particular cases with Greenland and Algeria.

Will this situation trigger further chain reactions? Apparently, the Netherlands and Denmark contemplate the exit from the EU as a feasible endeavour. In France, where opposition to the EU is far greater than in the UK, the current runner for presidency campaigns on a "Frexit" plebiscite. There have been constituted anti-EU, anti-U.S., and pro-Moscow parties to push for similar votes as the Brexit across the bloc. A new study from the European Council of Foreign Relations found these parties are lobbying to hold 32 referendums, which the think tank described as "a tidal wave of popular referendums (Tolhurst 2016) overburdening the bloc that already faces slow growth, terrorism and migration on a large scale.

The crisis from 2008 could have also acted as a catalyst for the potential disintegration of the union, the crisis posing severe problems in terms of real convergence among member states and considering their limited ability to respond to various challenges. The difficult situation has also given rise to euro-sceptics since some member states are still struggling with economic and social problems (Radu et al. 2014). Should this be hailed as the beginning of the disintegration of the EU? Do European states afford to give up the advantages resulting from belonging to a strong Union? Can they keep their competitive advantages acting as individual powers in the current globalized international context?

Before answering these questions, we must be aware that the financial crisis should not be the only one to blame for this situation since studies have confirmed that there is a checked negative correlation between immigration and Euroscepticism which translates in the fact that the tougher the position on immigration the less likely the support for EU integration which was also the case of the UK (Van Wolleghem 2016). Since its beginnings, the EU has had its shares of detractors and critics. Hard Euroscepticism can be defined as the outright rejection of the idea of a European political and economic union coupled with the opposition to one's country joining or remaining a member of the EU (Taggart and Szczerbiak 2004). Increased Euroscepticism has been found to be a dramatic consequence of increased levels of income inequalities (Kuhn et al. 2016). However, there is also a softer side of Euroscepticism which involves the rejection of measures intended to increase the scope of EU's competencies or of particular EU policies which are deemed damaging for one's nation at a certain time.

In 2016, the citizens of UK made a sovereign choice and decided to leave the EU. The decision the country took can be regarded as a constitutional change for the UK and also as a rupture from the EU (Pisani-Ferry et al. 2016). The UK has had its long-standing share among the Eurosceptics ever since the beginning of the Union when it refused to become part of it sustaining its imperialist/national interests which will further interfere with the EU integration repeatedly. In 1980 65% of the UK voters were against EU membership while only 26% were in favour, also in 2011 as immigration started increasing, people turned increasingly against the EU (Menon and Salter 2016). Concerning the Eurozone, UK adopted an opt-out clause to protect its right of having its own currency different from that of the euro. So far, no independent country has left the EU.

Immigration policy may have been one of the Brexit main causes (Wadsworth et al. 2016) which in its turn was caused by the freedoms of movement (core principles of the EU)—goods, capital, services, and people—these freedoms threatened the borders of the UK that lack control over them, the mass movement of people overburdens public services and leads to doubtful quality for public services for the citizens. What is overlooked by many is the fact that immigrants from European Economic Area (EU, Iceland, Lichtenstein, and Norway) contribute to the fiscal system with 34% more than they took leading to the affirmation that they overpay for the public services (Dustmann and Frattini 2014).

Exiting the EU would leave great yawning gaps in various fields of the UK's policy system. As the country leaves the EU, all EU directives and regulations will become ineffective. The government must make substantial efforts to pass all necessary legislation before leaving and an alternative would be to transpose the EU legislation into national legislation. Competition policy and international trade negotiations will be affected because UK does not have the necessary required skills and competencies to deal in this area (Dhingra and Sampson 2016). Moreover, another immensely affected sector would be that of agriculture, the Common Agricultural Policy not being an option for the UK anymore resulting in substantial losses for the farmers. The EU has provided UK with strong funding framework for ensuring collaborative health research and the withdrawal of the country will result in losing its voice over health policy making which has so far been beneficial for the UK (McKee and Galsworthy 2016). UK is one of the most consistent beneficiaries of research and innovation funds and in this context, the country is bound to lose. In terms of foreign direct investments (FDI), they will decrease and they will affect the national income of UK. With respect to the car industry, the effects of the Brexit can be critical since trade costs increase (caused by losing the removal of tariff barriers), production in this country will be unappealing as it would result in higher costs for shipping within the EU, and transfers of resources, research, and development and even people between the parent company and production plants will become costlier (Dhingra and Sampson 2016). A major concern comes from English citizens who reside and work outside UK, and from European citizens who reside and work in the UK whose statuses are uncertain at the moment. On the other hand, security and defence do not lie at the intersection of national and supranational competences since UK built a strong bilateral partnership with France and it mostly relies on NATO (Heisbourg 2016).

There are many decisions that the country must make and among those decisions, UK also needs to ponder on the kind of relationship that it wants to carry with the EU. As the UK was part of the Single Market, a way of still remaining a member is for it to join the European Economic Area (EEA) though economically less costly than being a member of the EU, joining the EEA also means complying with a set of EU rules in the conceiving of which the UK has no power of decision. The country may opt for making new trade agreements. As it has been the case before, UK has to face the making a choice between economic benefits and political sovereignty. On the one hand, UK leaving the EU could irrevocably scar the image of the Union, but o the other hand it could contribute to a close than ever Union by taking out a so much privileged member that did not fancy that much European integration.

4.2 The Rise of Nationalism Across the EU

The present subchapter will analyse the rise of nationalism across Europe. In the middle of the migrant crisis, sluggish economic growth and enhanced disillusionment with the EU, far-right parties—some longstanding, others newly formed—have been achieving electoral success in several European nations. The main parties which have caught the attention of the journalists are: Germany—The Alternative for Germany party; France—National Front; The Netherlands—Party for Freedom; Greece—Golden Dawn; Hungary—Jobbik; Sweden—Sweden Democrats; Austria—Freedom Party; Slovakia—People's Party-Our Slovakia (New York Times 2016).

There are two fundamental reasons for which voter support of the far-right parties has seen an exponential hike: dissatisfaction with the EU (based on the ongoing enlargement of the EU, while national loss of sovereignty) and a fear that immigration is threatening economic growth (Khader 2014). Also, the names of the parties reflect an appeal to sovereignty: UK Independence Party (UKIP); the Freedom Party of Austria; and France's National Front. In comparison with the parties that have dominated the European Parliament landscape, these new have formed around the idea of nationalism which is a major differentiator between them and the ones on the right and left. In the context of the ever increasing far-right parties' popularity, electors feel that the partnering with the EU has meant conceding their individuality as a nation and their power (idem). Therefore, the question is: Which are the future trends of the political European platform based on present data and what are the economic consequences of these findings?

What 2016 has taught and cemented in analysts around the world is that voters do not decide based on numbers, logic, facts, and common sense but more on feeling, sentiments, and traditions (Arzheimer et al. 2017). As it is obvious from the Brexit and the US elections, people have chosen candidates that have a more nationalistic agenda because they are dominated by a basic emotion which is fright. Nonetheless, there are other causes that could have contributed to the Brexit such as xenophobia, austerity, and dissatisfaction with politics and recent studies have revealed that UK ranks 28 out of the 28 EU countries for European identity whereas it ranked 26 out of 28 for trust in the EU, being one of the least well-integrated countries, moreover, geography could have also played an essential role in this decision since the country is an island (Dennison and Carl 2016).

As the world gets increasingly connected, economic inequality becomes more and more unequivocal as revealed by the gap between the rich poor which has widened in the last decade (Kuhn et al. 2016). The digital world has brought upon the age of fake news and post truth, where people's perception can be and is easily manipulated. This has led to uncertainty, fear and economic insecurity which represent the variables that leave room for a very thriving context for these

Fig. 1 Rise of nationalism in Europe: results of most recent national elections in 2014 (Source: Authors' own representation based on BBC (2016)

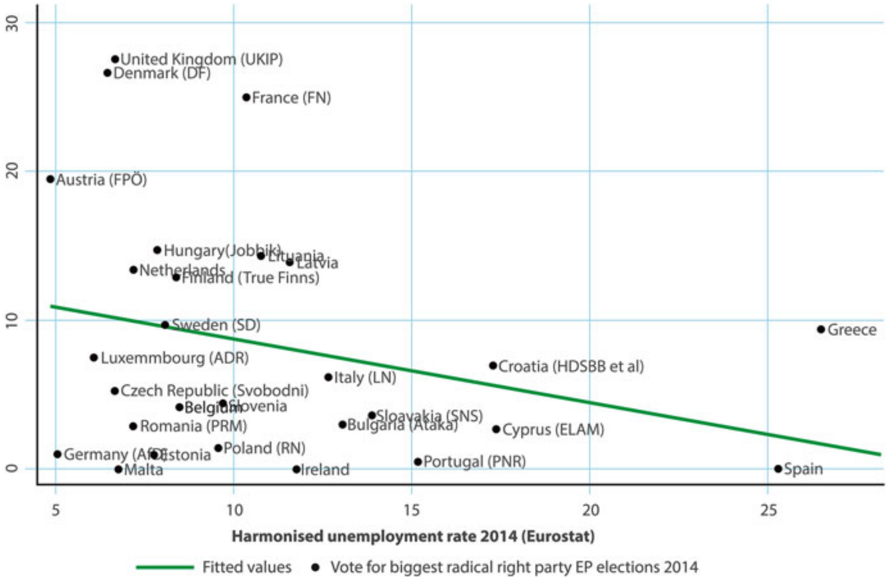

Fig. 2 Unemployment and far-right parties' elections 2014 (Source: Authors' own representation based on Cochrane and Nevitte (2014)

far-right parties to flourish, followed by possible upheavals and conflicts which may arise between the new and old regimes. The following map shows the percentage of far-right parties in the European Parliament from different countries in 2016 (Fig. 1):

Based on the information from the map, the countries that have the largest percentage of far-right nationalists in the European Parliament are also the countries that were most severely affected by the refugee crisis of 2014–2015, additionally these are the countries that have the highest number of asylum seekers in Europe (Eurostat 2017).

The scatterplot (Fig. 2) shows the share of votes for the biggest far right party in each country from the EP elections 2014 on the y axis and the harmonized unemployment rate on the x axis. There is a small to moderate negative correlation

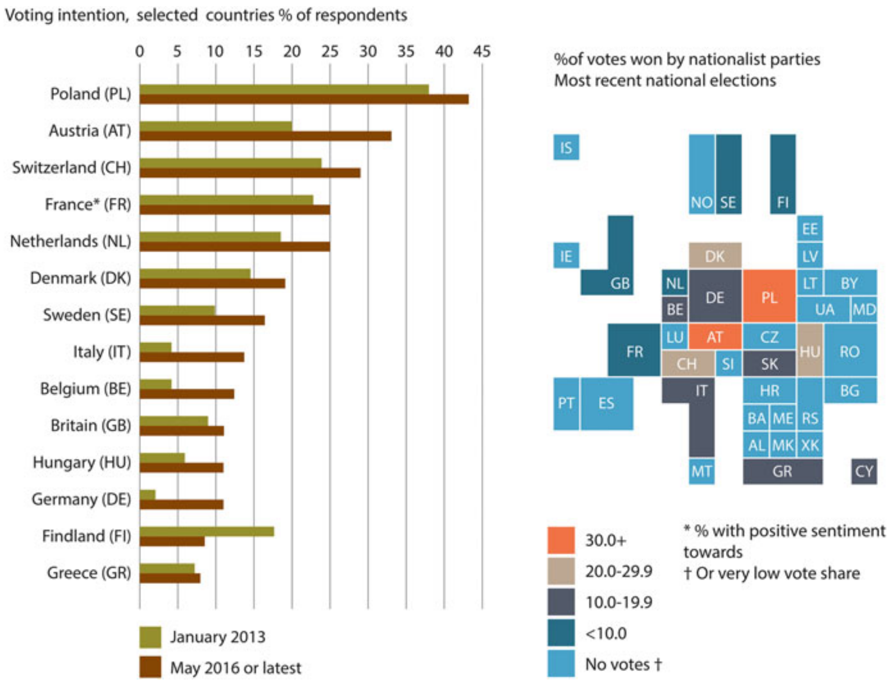

Fig. 3 Support in Europe for far-right parties (Source: Authors' own representation based on The Economist (2016)

between the two variables revealing that the lower the unemployment, the larger the far-right vote becomes. What is an outlier in this is that strongest far right parties are in the countries that are prosperous and have gone through steady well developed.

On the other hand, German politics has been shaken up by Alternative for Germany (Ad), a right-wing party launched in 2013 by economists who strongly opposed the euro (Treib 2014). Under its leader Frauke Petry, the party has drawn ever more support by rallying against immigration. The AfD's success has been interpreted as a sign of discontent with Chancellor Angela Merkel's open-door policy for Syrian refugees and this policy may have endangered the lives of German citizens (Verkaik 2016) or could have burdened the economy (Melin 2016). Last year Germany took in a record 1.1 million asylum seekers, many of them Muslims from Syria, Iraq and Afghanistan (Fig. 3).

On May, the 22nd 2016 Europe came within 31,000 votes of electing its first far-right head of state since 1945. Norbert Hofer of the Freedom Party of Austria (FPÖ) only narrowly lost out to Alexander Van der Bellen, the former Green Party leader, in his country's presidential election. Such a near miss, by a politician who would have previously been dismissed as a fringe candidate (www.economit.com), is a sign of turbulent times that we are witnessing. Across the continent right-wing populists are on the march.

We can grasp the fact that far-right parties are going through a surge and this brings bad economic prospects, as these parties are not supporters of international trade and free movement of goods and people (Geddes and Scholten 2016). History has shown that these kinds of extremist parties are not well prepared in monetary and fiscal policies and that they are violent triggering conflicts (Mudde 2007). A relevant example of such actions was followed by the economic crisis in the 1920s resulting in The Second World War.

Ever since the existence of the EU, there has been a negative feedback from political and financial experts and the public opinion. Extremist European parties have always been against what the EU has to offer. A possible solution for this problem would be finding the middle ground, as there should be a balance between the far-right ideology and the majority. Moreover, the problem of rising extremists around Europe could also be accentuating the advantages and opportunities that globalization holds, by making people realize how important the free movement of goods and people is in keeping and developing the existing lifestyle, the political leaders can gain the necessary support to create new policies that incorporate the level of safety and wealth needed for a better future.

Questions and Activities

1. Elaborate on the backgrounds that lead to the formation of the EU as we know it today. Has the EU become an obsolete idea?
2. Eastern European immigrants have sought employment in western European countries for decades. But the current economic environment has compounded the tension felt by western Europeans as eastern Europeans are securing jobs whether coveted or not in their countries." Explain and comment upon this statement in the light of the challenges currently facing the EU.
3. "The euro is seen as the first culprit in this European economic shipwreck, as the far-right parties claim is proved by the fact that the Eurozone has the weakest growth rate and the highest unemployment level in the world. Therefore, some parties see the exit of the euro as the only solution to saving their country from bankruptcy." (www.robert-schuman.eu). Do you agree with this statement? Provide at least three arguments to sustain your opinion.
4. Rising extremist parties have been reported as a problem. How could you solve this?
5. Is the status quo of the EU a problem? Explain.
6. What are the economic, social and political merits and flaws of the Pro-EU and Anti-EU movements?
7. Are there any feasible underlying strategies for the developmentof the national states behind the populist discourse of the Eurosceptics? To solve this requirement, you need to conduct individual research and provide a 2-page single spaced opinion essay on the topic with at least 5 academic references.
8. Which are some possible advantages of acting independently (in the context of exiting the EU) from an economic, political, social perspective?

9. Should we anticipate a new economic and political configuration on the international scene? Formulate 5 hypotheses and provide one argument and one counterargument for each.
10. Which are the implications of the current ongoing events in the EU for external stakeholders? Identify the current situation in the EU and the stakeholders of the EU.

Case Study: The Partial Secessionist Movements in Europe: The Case of Catalonia

In the current European Union, we can observe regions, such as Catalonia and the Basque Country in Spain and Corsica in France, and countries, such as Scotland in the United Kingdom which have shown a continuous quest for independence of their country or their kingdom (Lehning 1998). However, most of them are in favour of their continuing in the European Union. This dichotomy between the secessionist movement of its current national structure (their country) and the desire for continuity in its supranational structure (European Union) has drawn attention to many social researchers.

Catalonia is an autonomous community of Spain, located on the north-eastern extremity of the Iberian Peninsula. It is designated as a nationality by its Statute of Autonomy. The capital and largest city is Barcelona, the second-most populated municipality in Spain and the core of the seventh-most populous urban area in the European Union. Barcelona is a major international cultural centre and a major tourist destination. On the other hand, Catalonia is situated between France and Andorra (North), the Mediterranean Sea (East), and the Spanish autonomous communities of Aragon (West) and Valencia (South). The official languages are Catalan, Spanish, and the Aranese dialect of Occitan.

After 36 years of Franco's dictatorship (also called Francoist Spain), where the use of Catalan was banned in institutions and public events, and the self-government were abolished, the Spanish Constitution of 1978 returned the political and cultural autonomy to Catalonia (Preston 2012). The article two of the Spanish Constitution of 1978 reveals the balance between the unity of Spain and the recognition of the historical nationalities of Catalonia, Galicia, and the Basque Country (Spanish Constitution, Article 2); however, it looks that this balance has disappeared in the last years.

The Catalanism is a movement that appeared in the 1950s (Gray 2014) and focused on getting self- governed. Although Catalanism has been a barely visible movement in the Catalan society since the Spanish Constitution of 1978, several political parties have supported it continuously, such as Esquerra Republicana de Catalunya (Republican Left-Wing of Catalonia) and Convergencia i Unió (Right-wing of Catalonia). An example of the lack of social support during some years to the Catalanism was when Esquerra Republicana de Catalunya failed to win any representation in the national election to the Spanish Parliament in 1986 (Eichert 2016).

In 2006, the Catalan society approved a new Statute of Autonomy of Catalonia by referendum, which was contested by different sectors of the Spanish society, which sent the law to the Constitutional Court of Spain. Four years later, some of the articles that rendered the Catalan System of Justice autonomous, were declared null by the Court. Additionally, the symbolic declaration of Catalonia as a nation was declared void as well as the new territorial division and the status of the Catalan language. This decision was one of the main factors which re-triggered the Catalanism movement (Guibernau 2014).

On the other hand, when the economic crisis in Europe broke out in 2008, Catalonia's drive towards secession increased (Gray 2014). The Spanish financing system requires each region to pay to the central government a tax based region's economic success to ensure that it can help regions that may face high debt levels. In 2010, it was reported that Catalonia was paying 23% above the mean and over-distributing its resources to assist other Spanish regions (Gray 2014). According to the Statute of Autonomy of Catalonia, the Spanish pending debts to Catalonia were 759 million euros for 2008 and 219 million euros for 2009.

In 2013, Catalonia had 23.85% unemployment, which shows the effect of the economic crisis on the Catalan society. The loss of competitiveness, lack of resources, the accumulation of an annual deficit of 8% of GDP, and the financial arrangements imposed by the Spanish government were the second main factor which triggered Catalanism (Guibernau 2014). However, the desire of the majority of Catalan society to continue in the European Union did not change.

The peak of Catalan movement occurs on November 9, 2015, when the Catalan lawmakers approved a plan for secession from Spain by 2017, which was suspended by the Spanish Constitutional Court a few days later. According to Guibernau (2014), three main factors which explain the recent rise of secessionism in Catalan society are: (1) the lack of response to demands for greater autonomy, (2) the Spanish high court sentence against the 2006 Statute of Autonomy, and (3) Catalonia's fiscal deficit with the central administration.

But, which are the main implications of a Catalan secession? Oskam (2014) analyses three elements: The secession procedure, the economic impact, and the EU-membership. Several studies developed by the Catalan government (e.g. Consell Assessor 2013) suggest that the Catalan society has the right to decide its self-determination according to the general and democratic principles according to the European and international law. However, the Spanish Constitution of 1978 would require the consent of the central state. On the other hand, it is not clear who has to decide the self-determination according to the current jurisdiction: just Catalan citizens or all Spanish citizens.

Castells (2014) suggests that the independence of Catalonia could provoke the 'Border effect' which might decrease trade between Catalonia and Spain. Some figures suggest a reduction of 3.3% of the joint GDP of Catalonia and Spain (9% decrease in Catalan GDP). This situation during an economic recovery process could have repercussion both the medium and long run.

The third implication is undoubtedly one of the most worrisome to Catalan citizens: EU membership. The majority of Catalan citizens are pro-Europe, and do not contemplate the possibility of ceasing to be members of the European Union. Here it is one of the main dilemmas of secession. While supporters of the secession wish to leave the Spanish state (their current national structure), they wish to remain part of the European Union (their current supra-national structure). Meanwhile, “the legal debate is centred around the question whether a seceded territory ceases to be a EU member and therefore must apply for accession according to Article 49 of the EU Treaty, or if the border changes would lead to a treaty amendment for the territories that formerly integrated the EU member country, as established in Article 48” (Oskam 2014, p. 58). This debate is not just legal, but also political. On the other hand, not being part of the European Union would imply an immediate and long-term decline of foreign investors, which would have disastrous effects on the financing of companies located in the Catalan territory (Castells 2014).

Questions

1. Reason and justify whether a region which gets independent from a country of the European Union should continue to be part of the European Union or not. If your answer is yes, under what circumstances or conditions?
2. What social consequences would the Catalan independence have for Catalan citizens without being part of the European Union?
3. What social consequences would the Catalan independence have for Spanish citizens?
4. If you were the President of the Spanish Government, how would you act in the situation previously described?

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The Single European Market: Challenges for Doing Business

Dumitru Miron

Abstract It is not easy to establish the precise moment when the concept of economic integration emerged in the sense that it was given after the start of the European integration process. Pelkmans define economic integration as a process of "*elimination of economic frontiers between two or more economies*" considering that "*the fundamental significance of economic integration is the increase of actual or potential competition*". This chapter contains a few answers to some important questions such as: what is the substance of integration and what are the criteria underlying the decision of states to launch an integration process? What are the symptoms based on which one can decide whether the integration process functions properly or if it still is a desideratum? This chapter analyses the single internal market as an essential stage of the European integration process stressing the four freedoms of goods, services, capitals and human resources.

The key points of the chapter are the following:

1. To discuss the conceptual approaches related to the process of economic integration;
2. To explain the main stages of the European integration phenomena;
3. To provide a presentation of the wider context of the Single European Market;
4. To analyze the free movement of goods, services, capitals and human resources at the European Union level;
5. To clarify the reasons for the necessity of upgrading the Single Market

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1 Introduction

The main analytical challenge linked to the concept of economic integration is not related to the insufficiency of its definitions, but to the abundance of its somewhat contradictory definitions. From the many different perspectives that this term has been approached, there is one aspect about which researchers seems to have reached consensus the phenomenon of economic integration can be understood both as a process run on a certain long-term horizon and as a state of fact, a complex economic reality identifiable at a given moment. One of the most elaborate analysis of the concept of economic integration is found in Balassa, who drew attention to the risks attached to too general definitions. He proposed the conceptual delimitations of rigor between "*commercial integration, integration of production factors, political integration and full economic integration*". A first aspect of the process of economic integration was the one on the integration of markets, used by Vajda in a cognitive relation with the integration of production processes and the integration of development processes and programs. It has been pointed out that the expected effects are different if the integration concerns only certain markets (the market for industrial products, the market for agricultural products, the market for certain types of services, etc.), if the integration of all the sectoral markets is expected. The main challenge faced by the political decision-makers in the European countries that have decided to participate in the mainland integration exercise was the choice of the appropriate integration factor that those states are willing to accept. Referring to modern economies, Tinbergen distinguishes between *negative integration* (removing obstacles affecting the economic relations between different states) and *positive integration* (creating equal conditions for the functioning of components of integrated economies). In practise, negative and positive integration will go together. Starting from the author's point of view and taking into account the process of integration at European level, it can be argued that if the first version seems to be simpler as it involves structural deregulation and trade liberalization, the latter proves to be much more complex as it presupposes more sophisticated forms of state intervention in the economy and the harmonization of general and sectoral public policies. The process of economic integration has gone through several stages the most acclaimed in the literature being: *Free trade area (FTA), Customs union (CU), Common market (CM), Economic union (EU), Total economic integration (TEU)*. The transition from one form of integration to another and from one stage to another must be a process with a high degree of flexibility that cannot be described in detail since the beginning of integration. The first stages of integration (FTA and CU) mainly refer (sometimes even) to the integration of commodity markets and fall within the defining logic of *laissez-faire* theory. The more advanced stages of integration (CM, EU, EMU or TEU) imply a much higher level of macroeconomic and intersectoral coordination. Integrative reality has shown that the latest stages of integration cannot gain solidity and irreversibility unless it advances sufficiently in the direction of political integration. The achievement of the common market stage, referred to as the European Union Single

European Market (SEM), has always been at the center of economic integration. The most common of the definitions of this integration stage was the focus on ensuring freedom of movement for goods, services, capital and human resources. On the SEM example, both the determinants of negative integration (ensuring relevant freedoms) and positive integration (the harmonization of the regulatory and institutional framework needed to guarantee these freedoms and the implementation of common commercial, agricultural, competition policies, industrial). As the achievement of the single market also implied a high coefficient of positive integration, the Single Act defined the necessary policies for the creation of a comprehensive market (social policy, economic cohesion and social cohesion) and policies aimed at the success of an inclusive market and technological development). This abbitious goal was to establish, by 31 December 1992, an "*area without frontiers*" in which the movement of goods, labor, services and capital is ensured. The reform underlines the absolute priority of the rapid realization in less than seven years of a single market which at that time was no longer just the means to develop the progressive interpenetration of the economies of the member countries but especially the chance for European industry to report differently to global competition. The target to create a Single Market also aimed at developing a feeling for Europeans that they belong to the same ensemble within which they will be able to move freely without formalities and to study and work where they wish. The Single European Act represented a crucial moment in the history of European integration, but not only. A single market, as defined by those strategic document, implied: Free movement of capital, labor (people), services and goods; Removing border controls; Harmonization of VAT rates; Mutual recognition of certification standards and procedures; The right of residence without necessarily having a job; Common commercial policy (not just a common foreign trade tariff); Untenable regulation of public procurement; Community control over competition policy and mutual aid; Increased structural funds; Qualified majority in the Ministerial Council.

The Single Market has generated new opportunities for companies and strengthened competitiveness of European economy, has created new jobs and offered greater choice for consumers and has enabled people to live, study and work where they want. It has contributed to better integrating EU firms into international value chains and a new level of involvement of European economies in a globalized world. The functioning of the Single Market has led to an important increase in intra-Community trade and has increased the share of EU countries in total foreign direct investment flows. Economies, and in particular industries in EU countries, underwent an in-depth restructuring, characterized by a burst of mergers and acquisitions, coupled with increased competition on national markets, leading to increased convergence in prices of goods and services. However, according to the experts of the EU Commission, there was a decrease in the national concentration, even if the average size of the companies remained relatively stable. This seemingly paradoxical situation, in the opinion of the some experts, was explained by a double phenomenon: on one hand there was a reduction in the weight and importance of the dominant enterprises in their national markets as a result of intensified competition and on the other hand an increase in the "position" of the same companies at Community level through "pan-europenization" of their work. That is, the volume of activity of large industrial groups has grown globally at Community level, but the geographic distribution of this activity has changed, with relative activity falling relative to the domestic market and increasing in other EU markets. The European economic and social landscape is experiencing significant changes as a result of concerted action on the following factors: *economic and financial crises; the very high level of unemployment; low levels of growth; inadequate levels of investment and obstacles in product and services markets; outdated and excessively burdensome regulations the entrepreneurs are confronted with.*

2 Some Conceptual Approaches

2.1 The Path from Economic Disintegration to Economic Integration

In the field of economic sciences, the term integration was first used in conjunction with industrial organizations to express a set of transactions between firms embodied in commercial arrangements on *a vertical axis*, for the purpose of linking suppliers to users, and *on an horizontal*, basis concerning the cartels that may take place between economic actors in various forms of competition. The attempt to establish when the concept of economic integration emerged in the sense that it was given after the start of the European integration process is not very easy task. The *Encyclopedia of Social Sciences*, published in 1937, contains the term integration but reduces it only to industrial integration. A new edition of the same Encyclopedia, published in 1968, contains four definitive positions for the concept of international integration. Of these, three (regional integration, global integration and functional integration) are developed by specialized researchers in the field of political science and only one (the one referring to economic unions) was developed by a specialist in economics. When Jan Tinbergen published the paper "*International Economic Integration*" (Tinbergen 1954), he stated in the preface that the earlier edition of this book was called "International Economic Cooperation." From an epistemological point of view, until the concept of economic integration has been reached, other concepts such as economic cooperation, economic solidarity, merger or unification have been used. One can appreciate that, in its modern sense, the term of economic integration is found in several specialized papers without reference to each other (Machlup 1977). One of these works belongs to German researchers specialized in commercial statistics and was published in 1933 (Ropke and Misses 1933).

It has been believed for a while that the term was used by Eli Hecksher in his work "*Mercantilism*" published in 1935 (Hecksher 1935). A comparison between the original content of this work (published in Swedish) and the one published in English revealed that the author did not use the term of economic integration in the original version but the one of integrated state policies. The analysis of the literature on the subject shows that the term of economic disintegration and not that of economic integration was initially used (Bonn 1938; Hayek 1939). A more ambitious approach to this area is found at Hilgert (1942), which has expanded its analysis of the fundamentals of international trade, considering that "*despite the systemic deterioration of the 1920s and the 1930s, it remained the central factor of the mechanism of transmission of the unit on a global scale*." It is appreciated that the current understanding of the term of economic integration was first found in the documents drawn up for the launch of the Marshall Plan. Thus, in a report of a special committee dealing with the US Naval Strategy Coordination (US Department of State 1947), the concept of economic integration was used in two paragraphs, even if it had somewhat different meanings. The two concepts were "*the need for effective integration and coordination of economic programs in critical regions*" and "*the reintegration of European countries into a productive and commercial global and regional health system*".

The main analytical challenge linked to the term of economic integration was not the one related to the insufficiency of definitions given to it, but to the abundance of somewhat contradictory definitions. For example, Pelkmans defines economic integration as a process of "*elimination of economic frontiers between two or more economies*" considering that "*the fundamental significance of economic integration is the increase of actual or potential competition*" (Pelkmans 2001).

From the many different perspectives that this term has been approached, there is an aspect that seems to have come to the consensus that the phenomenon of economic integration can be understood both as a process run on a certain long-term horizon and as a state of fact, a complex economic reality identifiable at a given moment.

From the perspective of economic integration as a dynamic process, full or incomplete integration have been mentioned in the literature. From this perspective, the main question concerned the subject of integration. It has been explained that it can be represented by populations, geographical areas, different market categories, production processes or resources. Other questions that economic analysts attempted to provide usefull answers to were: *what is the substance of integration and what are the key criteria underlying the decision of states to launch an integration process*? *What are the symptoms on which to decide whether the integration process has begun to function properly or is it still in the desideratum?* The answers to these questions differ according to the school of economic thinking to which those who tried to offer them belonged. A second area of consensus among different analysts is the one on the following three issues:

- Economic integration refers in particular to division of labor and to intra and international specialization;
- Integration presupposes freedom and mobility of goods and factors;
- Integration is closely linked to differentiated commercial treatment as to the origin or destination of goods, services, capital and human resources.

One of the most elaborate analyses on the concept of economic integration is found in Balassa (1961), who stressed the risks attached to too general definitions. This author proposed rigorous conceptual delimitations between "*commercial integration, integration of production factors, political integration and full economic integration*". Starting from this point, other authors (Machlup 1977) brought into the analytical landscape concepts such as: **national integration** (intranational or inter-provincial); **regional (plural) integration** and **global integration** (multilateral or universal). A first question was asked, namely the extent to which the integration of factors should refer to all or only a part of them. This question was necessary in order to be able to treat adequately the phenomenon of liberalization of the movement of the factors connected with the free movement of commodities (goods and services). A first aspect of the process of economic integration was the one on the integration of markets, used by Vajda (1971) in a cognitive relation with the integration of production processes and the integration of development processes and programs. It has been pointed out that the expected effects are different if the integration concerns only certain markets (the market for industrial products, the market for agricultural products, the market for certain types of services, etc.), if the integration of all the sectoral markets is expected. The main challenge faced by the political decision-makers in the European countries that have decided to participate in the mainland integration exercise was the choice of the appropriate integration factor that those states were willing to accept. Thus, the dilemmas related to the sequence of integration versus its completeness, the unique velocity for all members, or the variable geometry. The concrete realities of the integration phenomenon taking place at the European level have provided answers to some ~~most~~ of these dilemmas, but have left others unclear. Full market integration involves adequate (not optimal) mobility of what is being offered and required in those markets and the liberalization of flows under non-discriminatory treatment. Mobility of the factors of production and non-discriminatory treatment for market actors are rather the conditions of the integration process than essential elements for defining the term of economic integration.

Without being an end in itself, economic integration has served to achieve strategic results. The most important strategic objective of the integration process was to increase the welfare level for entities involved in the integration exercise. In connection with this comprehensive objective, it is possible to place the one of increasing the coefficient of political stability in the regions of the states that have decided to become involved in the integration phenomenon.

Another perspective on the economic integration process has revealed two other aspects of it, namely: **static integration** and **dynamic integration.** In its static approach, the concept of economic integration can be perceived as a state of affairs in which the national components of a composite economy are no longer separated by economic boundaries, but operate interdependently, which leads to the emergence and maximization of synergy effects. From a dynamic perspective, economic integration implies the gradual withdrawal of barriers that separate certain national economies (which may amount to removing many forms of discrimination), with national states participating in this process reaching a certain level of institutional, regulatory and behavioral harmony. The ratio between the static and dynamic dimensions of the economic integration process has been different during the stages of the European economic integration process. Referring to modern economies, Tinbergen (1954) distinguishes between **negative integration** (removing obstacles affecting economic relations between different states) and **positive integration** (creating equal conditions for the functioning of components of integrated economies). In practise, negative and positive integration will go together. Starting from the author's point of view and taking into account the process of integration at European level, it can be said that if the first version seems to be simpler as it involves structural deregulation and trade liberalization, the latter proves to be much more complex as it presupposes forms more sophisticated by state intervention in the economy and the harmonization of general and sectoral public policies.

Negative integration involves a number of easier steps to go through and can be titled with the phrase "*delete and not print*". Negative integration measures can be more clearly defined and, once negotiations have ended and commitments entered into treaties, they become mandatory for public authorities, for the corporate environment and for citizens. In this analytical logic, it can be said that permanent decisions of a sophisticated administrative machinery are no longer required. Monitoring compliance with assumed commitments becomes a task of bodies set up and able to respond to complaints from economic actors who consider their interests to be harmed.

Positive integration implies a more active, permanent and flexible participation of the societal actors involved in the integration process. Such an approach is based on a process of assuming commitments at the beginning with a certain level of generality. For these reasons, positive integration requires the creation of joint institutions to analyze societal phenomena and processes, to formulate proposals of a regulatory nature, to initiate measures to enable it to achieve the desired goals and to determine national institutions to implement a series of measures, often unattractive for certain societal categories. Because generic commitments have to be defined, redefined or even substantially altered, if the economic environment changes significantly, uncertainty arises, especially at the level of private societal actors, which cannot significantly affect the operational mechanisms and the principles underlying economic play. It turned out that positive integration became the domain of politics and bureaucracy, not one of predictability and rigor.

2.2 Stages of the Economic Integration Process

The process of economic integration has gone through several stages, the most acclaimed in the literature being (Table 1):

The transition from one form of integration to another and from one stage to another must be a process with a high degree of flexibility that cannot be described in detail since the beginning of integration. The first stages of integration (FTA and CU)

Table 1 The Balassa stages of economic integration

Nr. Crt.	Stage	Definition	Characteristics
1.	Free trade area (FTA)	✓ Tariffs and quotas abolished for imports from area members ✓ Area members retain national tariffs (and quotas) against third countries.	✓ Essence of GATT definition ✓ No positive integration
2.	Customs union (CU)	✓ Suppresing discrimination for CU members in product markets; ✓ Equalisation of tariffs (and no or common quotas) in trade with non-members.	✓ Essence of GATT definition ✓ No positive integration
3.	Common market (CM)	✓ A CU which also abolishes restrictions on factor movements.	Is "beyond" GATT; definition should also include services: no positive integration.
4.	Economic union (EU)	✓ A CM with "some degree of harmonisation of national economic policies in order to remove discrimination due to disparities in these policies".	Positive integration introduced; extremely vague.
5.	Total economic integration (TEU)	✓ "Unification of monetary, fiscal, social and counter cyclical policies" ✓ "Setting up of a supranational authority where decisions are binding for the member states".	Centralist; vision of unitary state; supranationality only introduced here.

Source: Balasssa, 1961

mainly refer (sometimes even) to the integration of commodity markets and fall within the defining logic of laissez-faire theory. The more advanced stages of integration (CM, EU, EMU or TEU) imply a much higher level of macroeconomic and intersectoral coordination. Integrative reality has shown that the latest stages of integration cannot gain solidity and irreversibility unless it advances sufficiently in the direction of political integration. All of the above stages of integration have at least two common features.

- On the one hand, they minimize the discrimination between economic actors in the partner countries (fulfilling what analysts call the *internal purpose of integration*).
- On the other hand, certain forms of discrimination are maintained or introduced in relation to third party economic actors (which can be termed the *external purpose of integration* processes).

All stages involve a complex process of cooperation between public authorities and private actors in the countries involved. The cooperation will focus on the procedures for harmonizing different divergent interests, obtaining consensus on the ways to follow, developing and applying new forms of economic conduct. In other words, any step forward in the process of advancing integration requires the agreement of all partners on the rules to be followed in the process of obtaining the acceptable general or sectoral integration coefficient.

As the advancement progresses towards the common market stage and goes beyond this integration stage, the only institutional or regulatory harmonization is not enough, making compulsory the transfer of decisional abilities from national to supranational level. For the objectives of integration to be achieved, it becomes mandatory to create joint decision-making institutions, which makes adjusting the freedom of action of economic actors and that of political decision-makers in the member countries. It has become clear that the more advanced the stage of integration has become, the more obvious the restrictions the executive decision-makers of the participating states have to face.

Integration reality at European level has established the following hierarchy of cooperative policies:

- **Information.** The partners agree to inform each other of the tools and mechanisms that define the economic policies they intend to implement. This information can serve a beneficial redefinition of the intended macroeconomic strategies by each participating state to make them more consistent with those of the other participants. At this stage of cooperation, each partner reserves their full freedom of action, which does not affect national public policy competences.
- **Consultation.** The partners decide to enforce the commitements, in addition to the mutual supply of economic information, to seek both the opinion and the support of the other partners about the decision packages they intend to formalize. Cross-cutting analysis and open negotiations are actively promoting more coherent macroeconomic and sectoral policies. And in this case, at least on a formal level, the sovereignty of each of the states participating in the integration process is not altered in any way, even if certain punctual interests may suffer.
- **Coordination**. It is a step forward in the integration process as it forces partners to seek and obtain the agreement of others about the actions they intend to take to implement a series of common sectoral policies. There are analysts who call this cooperative stage as cooperation, especially when reaching macroeconomic goals. Coordination often means adopting rules that increase the international component of collaboration. Coordination can lead to the harmonization of national laws and regulations of an administrative nature. Also, at this stage of the co-operation process, the convergence of the target variables of structural policies can be achieved. However, the agreements reached on the way of coordination are not accompanied by ways of sanctioning the failure of the agreed ones, because, at this stage of the cooperation, the desiderata and the types of political actions at national level are not limited.
- **Unification.** It means, in principle, either abandoning the instruments previously used at national level and replacing them with the most successful measures taken at Community level, or adopting single instruments that are binding for all the participants in the integration process. At this stage of the process of conciliation, we are witnessing the diminution of national competence in the choice of macroeconomic or sectoral policy instruments.

It should be noted that there may be a close correlation between the stages of integration and the stages of the co-operation process between the decision-making authorities of the countries participating in the integration process. In more sensitive situations, when actors involved in integration dynamics are not willing to accept the same integration factor, one can call upon the mechanism called *multilevel governance*, which makes some sectors move forward faster while others can Expected some states to implement certain phases of integration procession while others may decide to wait until they have reached the desirable level of economic, social or territorial convergence.

3 The Single Internal Market: The Essential Stage of the European Integration Process

The achievement of the common market stage, referred to as the Single European Market (SEM), has always been at the center of economic integration. The most common of the definitions of this integration stage was the focus on ensuring freedom of movement for goods, services, capital and human resources. On the SEM example, both the determinants of negative integration (ensuring relevant freedoms) and positive integration (the harmonization of the regulatory and institutional framework needed to guarantee these freedoms and the implementation of common commercial, agricultural, competition policies, industrial). As Craig said, "*any accurate assessment of the meaning, content and development of the single market must take account of four factors. These are the primary Treaty articles themselves, Community law, ECJ's jurisprudence and action taken by the Community institutions*" (Craig 2002). All four are of importance for understanding the single market, and interact in interesting and significant ways.

3.1 The Economic Context that Led to the "Single European Act"

Article 9 of the Treaty of Rome, which entered into force in 1958, states that "*the Community will be based on a customs union that will cover all trade in goods and which will involve the prohibition of customs duties on imports and exports of products between States Member States, as well as other charges having equivalent effect*". In July 1968 all tariff barriers and most of the existing quantitative restrictions on trade between Member States were eliminated. Later, new and new areas that have not been predicted to be directly related to the completion of the single market have been incorporated as parts of it: public procurement, intellectual and industrial property, company law, energy, tax policy, consumer protection, competition policy, etc. The founders of European Communities opted for a CU covering all trade in goods taking into consideration alo what Art. 24 from GATT calls "*other restrictve regulations*".

Several academic analysts, as well as representatives of various societal groups, asked how necessary a 'single market' was? Few assumptions have been made about either increasing the competitive force of communities towards the US and Japan, or political unity. But these are not the only reasons, because there are other important economic fundamentals, due to the logic of integration and interdependencies. In developed societies, behaviors have their own autonomy, and the most obvious are related to the strength and weakness of companies. An European economic architecture divided into small markets could not take full advantage of the effects of scale production, because an adequate market was not only achieved by suppressing trade barriers. The European financial markets were microscopic to the American and Japanese ones, although the European Union generated an impressive part of the capital of the world. On the other hand, the challenges of the third industrial revolution were no longer based on mass production, and hierarchical, rigid structures. Because the integration process had entered a certain stagnation, in 1985 the European Communities bodies debated the desideratum on the completion of the European single market. On the basis of a position paper issued by the Commission and entitled White Paper, the "Single European Act" was adopted in June 1985, which was ratified by the parliaments of the 12 member countries at that time between 1986 and 1987. The Single European Act entered into force on 1 July 1987, being the first legal document to amend and complete the Treaty of Rome. Many years ago, a French economist (Schreiber 1967) warned that the US-led war and then Japan against Europe "*is not given with dollars, oil, tons of steel, not even modern cars, but with creative imagination and talent organization*". The same economist said that "*it is the first great war without weapons and no armor*!" Became mandatory for europeans to have a European industrial policy, without whom American industry will continue to organize the future of the Common Market. It is noted that in the struggle for competitiveness West European producers found easier reasons for cooperating with American or Japanese firms than with each other. Western Europe has been removed itself not in the field of fundamental research, where it excelled, but in the field of applications, where the industrial battle was disputed. Offensive growth of Japanese productivity, Western Europe opposed a defensive growth that destroyed jobs by substituting them for capital.

The Treaty of Rome provided for the free movement of goods, but in reality, customs duties were replaced by value added tax (VAT), different in terms of levels and ways of perceiving from one country to another, which did not suppress at all the control of goods, and people at the border. Fought by the founders of the Common Market, protectionist "hidra" has spread to new forms along the Community frontier as well as alongside the Community. Technical rules, reciprocity conditions, certifying the origin of products, the obligation of companies to have a representative in the country of export, the ban on advertising for imported products, the regime of credits, subsidies and national preferences have frequently applied to intra-Community trade. States have shown a special imagination to protect their localized industry on their territory, even when its capital was

American or Japanese. For example, in the case of automobiles, Italy requires a certificate of origin to register the imported ones; The British banks were mainly crediting sales for those made in-house; Germany applies tax relief to car buyers equipped with catalytic exhaust drums. The examples are numerous: the use of a telephone not supported by the French specialist company was penalized with a consistent fine and three months of imprisonment in case of a repeat offense. Afnor, Cnet in France, British Standards Institutions in England, or Deutscher Ausschuss in R.F. Germany were bodies with unlimited powers that made the Common Market too little "*common*" (Delors 1987). Restrictions were even more numerous in the area of government procurement. In the sphere of agro-food products, the import country's prescriptions to products of a controlled origin and a traditional brand that consumers would have unchanged have gone through. After the completion of the customs union in 1968, the European integrationist architecture seemed to have lost its dynamism, and the ambitious objectives of the Treaty of Rome on creating an economic and monetary union seemed to have been postponed. The process of deepening integration seemed to be slowing down and the European project gained in dynamism only in terms of increasing membership. Industrial, economic and not just commercial integration has prevented physical, technical barriers (norms, closure of public markets) and fiscal barriers, whose action with a brake effect has not been offset by any other incentive. The interpenetration of the areas covered by the Single Act is evident: the free movement of capital requires a harmonization of taxation, financial instruments, banking regulations, monetary policies. All relate to investment and commerce, and through production, research, and payroll.

By September 1987, for example, the EC Commission had proposed 190 barrier removal measures out of a total of 300 provided by the White Paper and another 20 additional. Of these, the Council of Ministers had only approved 75. Progress was relatively slow and could not have expected anything else. Member states could not be indifferent if their businesses favored in any way the "big market" at the expense of their own national markets. The big market could not be done without governments being prepared and economic legislation reconciling the single market's goal with national priorities. The single internal market of the EEC is, in fact, the beginning of the achievement of the economic and monetary union within the Community and it does not involve the abolition of national entities. Taking into account the individual, the European citizen, explains why the Single Act introduces the notion of "*space without frontiers*", a wider and deeper concept than that of a "*common market*". The Single Act should not be understood as something that would imply the same step for all members of the community, differentiation and the nation-state remaining an essential component of the whole process, the central place of macroeconomic policy, with the combined economy of the country.

The most important contribution of the reform to the completion of the single internal market by the end of 1992 was the transition to a "qualified majority" for the key provision of the Treaty of Rome (Article 100 which allows for the harmonization of legislation). In fact, the majority rule applies to decisions on the big market, economic and social cohesion, technological cooperation, while unanimity will be preserved for a qualitative leap in the Western European Monetary System, free movement of persons, fiscal harmonization, orientation of multiannual programs in Research and development or environmental issues. In other words, the majority will apply to those areas for which the principles of action have been agreed unanimously or to which Member States may decline their interest.

3.2 Single Internal Market Objectives

Because the achievement of the single market also implied a high coefficient of positive integration, the Single Act defined the necessary policies for the creation of a more inclusive market (social policy, economic cohesion and social cohesion) and policies aimed at the success of a large market And technological development). The objective was to establish, by 31 December 1992, an "*area without frontiers*" in which the movement of goods, labor, services and capital is ensured. The reform underlines the absolute priority of the rapid realization in less than seven years of a single market which at that time was no longer just the means to develop the progressive interpenetration of the economies of the member countries but especially the chance for European industry to report differently to global competition. The objective of creating the Single Market also aimed at developing a feeling for Europeans that they belong to the same ensemble within which they will be able to move freely without formalities will be able to study and work where they wish.

It should also be recalled that another important single market objective was the changeover to the qualified majority which would gradually replace the unanimity rule. In order to allow for some flexibility, the possibility for States to continue, on request, under the double control of the Commission and the Court of Justice, has allowed them to apply more protective national provisions and regulations, particularly in the fields of health and environment. This was allowed even after the adoption of a harmonization measure at Community level. The reform of the Treaty of Rome, as agreed in the Single European Act, also aimed at achieving other objectives such as (Sută 2000):

- *Economic cohesion*, which means that conditions are created for each member to performe in managing its economic policy in a convergent way with those of the partner countries in the Community, thus counting on EEC support.
- *Harmonization of social policies*, i.e. the possibility for the community bodies to adopt and implement in all member states social regulations aimed at harmonizing the working and living conditions of the citizens of the member countries.
- *Coordination of Member States' research and technological development efforts* with multilateral Community support, including financially.
- *Monetary cooperation.*
- *Voting by qualified majority*, to gradually replace the rule of unanimity.
- *Enhancing the powers of the European Parliament*, elected by direct universal suffrage and receiving power of amendment in new areas where decisions are taken by a qualified majority.
- *Strengthen the Commission's executive role.*

The Single Act, in order to achieve these objectives, provided for a coherent decision-making system based on three types of programs:

- A multiannual framework program adopted by unanimity, which opens the field for Community action, setting out the general objectives, the Community's financial participation and its division between the different actions.
- Specific programs, adopted by a qualified majority, defining the specific objectives of each action, technical content, duration, means and modalities of execution.
- Complementary programs, to which only some Member States participated, which ensured their funding, subject to possible participation. The implementation of these programs depends on a set of appropriate instruments created by the Community through actions whose funds are allocated to joint ventures. The notion of complementary programs opens the prospect of a technological community within a framework accepted by all partners.

Therefore, the Single European Act represented a crucial moment in the history of European integration, but not only. Single Market, as defined by the Single European Act, implied: Free movement of capital, labor (people), services and goods; Removing border controls; Harmonization of VAT rates; Mutual recognition of certification standards and procedures; The right of residence without necessarily having a job; Common commercial policy (not just a common foreign trade tariff); Untenable regulation of public procurement; Community control over competition policy and mutual aid; Increased structural funds; Qualified majority in the Ministerial Council.

3.3 The Four Freedoms of Movement

Free Movement of Goods At the time of July 1, 1968, the European Community had, in general terms, achieved the status of customs union. However, the entirelly free movement of goods in the European space proved to be difficult to achieve. After the creation of the customs union, the protectionist effect of tariff barriers removed from intra-Community trade relations was successfully taken over by technical, tax barriers, non-harmonization of customs and tax laws, etc. The creation of the internal single market thus meant, in addition to customs union, the suppression of internal border control, the harmonization of tax and customs legislation, the removal of technical barriers and other non-tariff barriers that limited the proper functioning of the free movement of goods in practice. The free movement of goods in the European Community area meant, first of all, the suppression of internal customs frontiers. This callenging goal was achieved in two stages. The first stage involved the introduction of the Single Administrative Document (SAD) as the only document required in the EEC to fulfill customs formalities, thus replacing the numerous and different documents previously used and significantly simplifying customs procedures at the Community's internal borders. Also, a unique classification system for goods was adopted, which also entered into force in 1988. The second step involved the removal of customs formalities and controls at intra-Community frontiers. The sanitary and veterinary inspection for animal and plant products has, as an exception, remained a period after 1993 being replaced by the sanitary veterinary control at the place of production and marketing. As a result of the elimination of internal customs frontiers, since 1 January 1993, there is no longer any customs staff at intra-Community frontiers. After July 1, 1968, the free movement of goods in the community space has been seriously disrupted by the emergence of new barriers through the non-recognition by some states of national norms and standards in certain areas. Customs frontiers were replaced within the Community with "technical frontiers". The most affected were the electronics, chemicals, medical devices, construction materials, etc. The Commission and the other institutions have tried to harmonize Member States' regulations and technical standards, but the move has proved difficult. In 1979, following a case brought to light by the European Court of Justice, problems arising from the coexistence of a large number of national regulations in the Community area were resolved by generalizing the principle of mutual recognition according to which "*According to the rules in force in its home country, must be able to circulate freely in all the countries of the Community provided that the essential security requirements are met*." Meantime the Community has developed a comprehensive process of normalization of technical standards, based on three pillars:

- The harmonization of national regulations, which consists in laying down minimum standards of exigency, the protection of health and the environment that must be met by products circulating in the community space;
- Elaboration of European single standards and standards elaborated by European standardization bodies, such as: the European Committee for Normalization, the European Committee for Electrotechnical Normalization, the European Telecommunications Normalization Institute, etc.;
- Generalized application of the principle of mutual recognition for products for which no single European standards have been achieved or harmonization of national rules.

In addition to increasing the transparency of technical standards, in 1983 a Community Directive was issued requiring Member States to notify the Commission of the technical rules which they intended to adopt in the future, the Commission was entitled to suspend or prohibit the adoption of a rule National authorities by a Member State, if it considers it appropriate that it should be the subject of a Community initiative rather than a national initiative. Since 1997, EU Member States have to inform the Commission every time they refuse to recognize a rule accepted in another Member State. The non-harmonization of national tax regulations made it possible for the positive effect on the intra-EEC trade flow to be seriously diminished after 1968. The place of customs frontiers was taken over by national tax frontiers. Although VAT has been uniformly applied since 1977, progress on the alignment of rates and the VAT regime (i.e. the perception method, products and sales types subject to VAT) were considered insufficient and inconsistent. At the launch of the Single Market. In these circumstances, the Commission recommended in 1987 the following measures:

- Generalized application of VAT to all types of sales, not only for domestic sales, but also for sales of products from one Member State to consumers in another Member State. According to the Commission's recommendation, VAT was to be invoiced to the producer and the country of origin for all transactions. Two particular situations were also highlighted:
  - if the buyer of a product is also the final consumer of the product, then the VAT payment will be made in the country where the product was purchased;
  - if the buyer is an entity subject to turnover tax (e.g. an enterprise), then he/she will pay VAT in the country where the product was purchased on purchase, and if the product is resold, the entity will invoice the VAT, At the existing level in his country.
- Limit the value added tax to two in each country, i.e. a normal value added tax and a reduced value added tax; It has also been proposed to limit the list of products subject to reduced VAT. Also in order to unify the VAT regime, the Commission proposed that each country set the normal VAT rates between 14 and 20% and the reduced VAT rate in the range of 4–9%

The VAT harmonization process has continued on the harmonization of VAT levels between Member States and the replacement of the charging principle at the place of destination, with the principle of toll taxation at the place of origin. With regard to the second axis, in 1993, the Ministerial Council decided to apply the principle of VAT to the place of origin in a generalized way, which was to take place during a four-year transition period between 1993 and 1997, in two steps. Since 1997, the principle of VAT billing at the place of origin has generally been applied to all types of transactions, but this system has raised some problems with the functioning of VAT settlement and reporting mechanisms between Member States. After 1989, VAT exemption for each country through which the product was passed became operational, the rule being that the VAT is paid only once to the tax authority of the state where the product is imported. For companies, this meant the abolition of about 60 million customs documents that had to be drawn up in one year for such operations. In order to avoid fraud, excise goods are subject to a number of limits on their own consumption. These limits can be exceeded if there is evidence that they will be subject to their own consumption. In order to protect the health and safety of people, Community law requires manufacturers to bring only safe products to the market. To that end, in order to achieve the highest level of protection, confidence and safety of products, particular account must be taken of: the characteristics of the product; its effects on use with other products; product presentation, labeling, and any instructions for use and storage; categories of consumers exposed to a particular risk while consuming the product in question, especially children.

Also in the context of product safety specific rules have been adopted that take more seriously into consideration the nature of certain products. These refer to foods that require a certain degree of hygiene and labeling and products for a particular nutrition. It was necessary to strictly specify the ingredients and instructions for use. For example, pharmaceutical products are subject to very strict authorization procedures for their marketing on the market. Furthermore, all medicinal products intended for the public should contain a leaflet with information and precautions for use, but in particular possible contraindications or adverse reactions. Community labeling provisions provide for articles on the environmental dimension of products. In particular, household appliances must be labeled with the Community Ecolabel and be subjected to environmental tests in advance.

Free Movement of People For most people, the most tangible sign of their belonging to a common European space without internal barriers is the freedom of movement of people. Passenger border control when crossing from one member country to another was virtually eliminated. Article 48 of the Treaty of Rome provided for the creation of conditions for the free movement of persons within the Community. This meant abolishing all discrimination based on nationality in terms of employment, wage setting and working conditions. The first measures to ensure the freedom of movement of workers were adopted in 1964 when the holders of the so-called "liberal professions" had the right to practice in any of the member countries on the basis of the harmonization of professional qualifications. Since 1985, harmonization has been dropped in favor of mutual recognition of vocational training and qualifications. Any diploma or university degree awarded in a member country after at least three years of study is recognized in the other countries. That is why the EU has created a system for the recognition of diplomas and citizens' training in the member countries. The basic principle is that once a person is qualified to practice in his country, he/she is qualified for the same profession in any other EU country. The Social Charter, adopted in 1989, also included provisions on ensuring the free movement of persons. The freedom of movement of persons can not be complete without the freedom of establishment, thus facilitating the implementation of one of the fundamental rights of the citizens of this common European area: the right to live and work in any EU country of their choice for the same salary, and tax regime, having access to education and vocational training, enjoying social protection and having the right to vote and to be elected in municipal and European elections under the same conditions as the citizens of the chosen country of residence. The only restrictions that remain in the way of free movement of persons are those related to guaranteeing the security and protection of citizens. Governments of EU Member States are currently concerned with identifying the best ways to eliminate identity control. Efforts to promote open borders have taken into account, in parallel, the avoidance of proliferation of international terrorism, clandestine immigration and drug trafficking. These have been achieved by coordinating policies in the field of justice and home affairs, as well as by setting up an information exchange network within Europol. For a certain period of time did not proceed to identity control at intra-Community borders. As a result of recent events, particularly those related to terrorist attacks and immigration flows, relaxation in the field has been slowed down being performed some steps ahead to harmonize social policies, recognize diplomas, repatriate social assistance rights, pensions, etc.

The right to live and benefit from social protection in any EU country also benefits freelancers, students, pensioners and other non-working people if they prove they have enough income so as not to become a burden on the host country. If a person moves from one country to another, that person is free to bring his property into the country without paying any kind of tax. However, some Member States may require car registration taxes or impose restrictions on certain goods such as weapons and ammunition. In the new country of residence, the citizen of the Community has the same rights to engage as nationals of that country. However, there are sectors to which he or she has no access (military, police, diplomatic services, justice, etc.). Some member countries require diplomas, titles, certificates or other special qualifications as conditions for joining positions with a certain remuneration. Sometimes it can be very difficult for all skills and qualifications to be recognized. This is because of the significant differences that exist in each country's education system (Office for Official Publications of the European Union 1999).

In the EU there are rules in the legislation of each Member State that provide for the protection of personal data. Personal data can be requested when opening a bank account, an insurance policy, when signing contracts. Every citizen of the Community has the right to the protection of personal data, information on the use of data, to be asked and to give consent for their use. Those working in another country have the right to join freely in trade unions, vote or stand as candidates, enjoying the same rights with residents.

The Community has introduced a number of measures that improve health and safety at work. For this purpose, in 1996, Bilbao, Spain, became the headquarter for "European Agency for Safety and Health at Work". Its objective is to ensure decent working conditions for workers, especially in the SME field (European Agency for Safety and Health at Work 1999). The Agency has set up a network of information at European level with which it cooperates with representatives of the Member States. The network is based on the Internet and can also be accessed by the competent bodies of the Central and Eastern European countries which have subsequently become members of the EU. Networks include EU directives, other type of legislation, research projects, training courses in areas such as health and safety at work, practical solutions, preventive action, cooperation. Last but not least, the free movement of people also applies to young people. For them, perhaps the most attractive thing is to get to know their European neighbors and live among them. The European Commission has launched several initiatives to facilitate the free movement of young workers, students, teachers and scientists in member countries.

Free Movement of Services Although the services sector is the most labor force intensive for the EU (over 60%), the progress in liberalizing the sector has been slower than those recorded in the case of the movement of goods. In the field of financial services, for example, only banking services were fully liberalized on 1 January 1993. Insurance services fully entered the Single Market on 1 July 1994. Subject to Articles 52 and 54 of the Treaty of Rome, freedom of movement of services is based on the principle that companies in a Community country are in possession of their operating license in the country of origin in order to be able to operate throughout the EU. The Treaty on the European Union regulates the principle of liberalizing services in two forms:

- The right of establishment of nationals of a Member State on the territory of another Member State of the European Union for the purpose of providing a service;
- Service provision, on a cross-border basis, without having to travel to the provider.

Freedom to provide services, according to art. 59 and 60 of the TEU is valid for nationals of Member States who are resident in the territory of another Member State. These two conditions: *the nationality of a Member State* and *domicile in the territory of another Member State* are cumulative. The provisions of art. Articles 59 to 66 TEC apply only to services. For the purpose of art. 60 of the ECT are considered to be services, those self-employed activities temporarily exercised in another State, rewarded with a sum of money, to the extent that they are not subject to the rules on the free movement of persons, capital and persons. In this sense, the service category includes: industrial activities; commercial activities; craft activities; liberal professions. Under the notion of services within the meaning of Art. 60 includes activities for remuneration, which constitute a component part of the economic life of that State. Therefore, the provisions of art. 60 does not apply to the national education system. State education does not fall into the category of services according to art. 60 TEC, considering that state education is not an economic activity, but rather has social political functions; Private education falls within the scope of art. 60 to the extent that fees are charged for the activities performed. The transmission of television signals, including those with advertising character, is considered an area on which the provisions of art. 59–66 TCE. However, trade in goods, sound recordings, films and other products used for the dissemination of advertising messages to which the Treaty rules on the free movement of goods apply. By associating these two freedoms, it has been established that "*the exclusive rights that a company enjoys for broadcasting television advertising are not incompatible with the rules on the free movement of products which it promotes*" Community law classifies the services into three broad categories: *Active Services; Passive services; Correspondence services.*

Active Services This type of service assumes that the one who intends to provide a service moves for this purpose to another EU country. For example, when a French architect moves to Italy to supervise the building of an Italian client's building. For the case of active services, art. Article 60(2) EC provides that Community provisions on the right of establishment shall not be infringed where the service provider temporarily carries on business in the State in which the service is provided in accordance with the rules laid down in that State for its own nationals. In other words, the service provider from another EU country must be subject to the same rules as service providers who are nationals of the State where the activity in question is performed. Although not expressly mentioned, the right of entry and stay on the territory of the receiving State of the service provider for the period of such service is implicitly included in the provisions of Art. 59-66 TCE. Article 60, paragraph 3 states that all those who fall within the scope of the freedom to provide services must be treated in the same way as domestic service providers—the "principle of national treatment". The free movement of services therefore contains a ban on any measure which, directly or indirectly, is discriminatory on grounds of nationality. Certain measures are not considered to be discriminatory, even if they have a different effect on natives and foreign service providers: the requirement that the foreign presser possess a certificate of knowledge of the language of the country where the service is provided, for example. Also, Art. 59 and 60 provide for the requirement that the service provider should reside or reside in the territory of the State where he is operating. The European Court of Justice has determined that the requirement for the service provider to be resident in the State in which the activity is performed is likely to eliminate the beneficial effects of Art. 59 in the context of the liberalization of the movement of services within the EU, therefore such a restrictive provision should be removed. In the case of active services, it is necessary to eliminate not only discriminatory but also non-discriminatory measures which have a restrictive effect on the freedom to provide services. The logic underlying this prohibition is the following: if the categories favored by the provisions of the free movement of services would be subject to the same rules as the natives, achieving this desideratum would be much more difficult. For example, a freelancer who would like to provide high-level services could be compelled (if ad literate to be non-discriminatory) to be a member of professional organizations in both countries. Eloquent is the example of a Belgian lawyer who tried to represent a Dutch client before a Dutch court. This was forbidden because the Dutch law allowed only persons domiciled in the Netherlands to plead before a Dutch court and the lawyers who advocate in the Dutch courts to be members of the Dutch Bar. Subsequently, these restrictions were abolished on the basis of the TEC provisions on the liberalization of the movement of services.

Passive Services This type of service assumes that the consumer moves to the country of the service provider. Although par. 3 of art. Article 60 expressly provides only for situations in which the service provider moves to the beneficiary State, however the interpretation of this text may be extended and also applied to passive services. The case concerning the free movement of passive services was appreciated by the Court of Justice as a corollary to Art. 60, "thus achieving the goal of liberalizing lucrative activities not included in the free movement of goods, capital and people". As a result, by extension, the freedom to provide services must also include the freedom of the recipient to move within the EU to receive a service in any of the Member States. This freedom must also be extended to payments, tourist services, medical services, etc. All persons traveling to Member States for one of the purposes mentioned above are to be considered recipients of services to which they will benefit under the same conditions as nationals of the State where the services are provided.

Correspondence Services It refers to the case where only the proper services cross the border, the consumer and the provider remaining in their country of residence. In the category of correspondence services there may be listed: sending architect's plans for construction to his client abroad, consultancy services, radio and television broadcasting, etc. In this case, the country from which the service provider and the consumer of the services originate is not essential but crosses the border between two EU Member States. Also, the existence of previous relationships between the provider and recipient is not a condition for the application of the freedom of movement of correspondence services. Under the provisions on freedom to provide services, there will be not only restrictions established in the country of destination but also those existing in the country of origin, even if they are generally applicable, non-discriminatory, and neither the object nor their effects follow To favor service providers in that country from other EU suppliers.

Freedom of movement and provision of services is delimited by other fundamental freedoms. Article 60 TEC expressly states that the free movement of services is not applicable as long as there are competing and contrary provisions in the area of free movement of goods, persons or capital. The specific features of the services, within the meaning of art. 59–66 TCE are: the temporary and self-employed nature. The delimitation of freedom to provide services over other freedoms of movement can sometimes be difficult, especially when services are linked to a product. Less difficult is the delimitation of the right of free movement of services to the freedom of movement of labor. The provisions of art. 48 (freedom of movement of labor), however, refers to non-dependent activities provided by natural persons in subordination relationships, while freedom of movement of services concerns self-employment. The most problematic delimitation occurs in the case of freedom of establishment with regard to the free movement of services. As regards freedom of establishment, it is the long-term integration of the service provider into the economic life of that State. Even if a person moves to another EU country, he/she may, under certain conditions, use either the freedom of establishment or the freedom to provide services. Freedom of establishment is regarded by some specialists as a fundamental component of the freedom of movement of persons within the EU. By default, however, this freedom is associated with the freedom to provide services, based on the need to ensure an optimal distribution of all factors of production at Community level, so that their mobility allows for the pursuit of commercial and productive activities in a favorable environment. According to art. 52 par. 2 TEC, freedom of establishment also includes the right to start and continue as non-self-employed, which means the right of access to such activities and the right to set up and manage companies. Article 52 required that any restriction on the freedom of establishment of nationals of a Member State in the territory of another Member State to be abolished in progressive stages until such time as they have been completely abolished.

And in the case of freedom of establishment for the purpose of providing a service or practicing a profession, the principle of non-discrimination and national treatment (as regards nationals of the Member States) applies. In situations where restrictions are imposed on the territory of a State, service providers or persons exercising a liberal profession would be required to bear extra costs to those of residents (difference of treatment which has no objective justification). Freedom of movement of services is one of the fundamental freedoms, so that it can only be restricted by provisions justified by the general interest. Where there are no single Community provisions in certain areas related to the free movement of services, certain national restrictive provisions may be accepted if the following conditions are met cumulatively: *To be non-discriminatory; Be justified by stringent reasons relating to the general interest; Have a moderate action in relation to the intended purpose*. If these restrictive regulations already exist in the service provider's State of origin, these measures become redundant in the receiving State and must therefore be removed. The essential condition for the adoption of such restrictive national provisions is the absence of single Community rules. If such Community rules exist, national rules must be interpreted in the light of these provisions. In this context, it is important to highlight the importance of Community acts on the recognition of professional diplomas and certificates. The non-discriminatory character of the restrictive measures is necessary for them to be justified by the legitimate interests mentioned in art. 59. These provisions can be justified in some cases on the basis of the exceptions listed in Art. 66. Within the legitimate interests, there are: *professional regulations concerning obligations, conduct and professional responsibility; Consumer protection, functioning of the state's legal system effect, functioning of the national tax system*. The moderate nature of restrictive measures implies that, for several possible measures, the State may choose those which least obstruct the freedom to provide services. Unacceptable are generally the domicile obligations of the provider in the receiving State. For example, a lawyer may represent a client in front of any court within the EU but the condition that he or she be contacted in a timely manner. However, there are some areas where domicile in the state where the service is pressed is compulsory: insurance, certain categories of doctors. National restrictive provisions requiring the provider's membership of certain professional organizations of the recipient state of the service are not acceptable. The receiving State of the service must consider whether all the checks, professional examinations in the provider's country of origin are compatible with their own requirements. In this respect, restrictive provisions requiring the repetition of examinations already held in the State of origin are prohibited. Irrespective of the content of a restrictive measure, the State which adopts it must prove its legitimate interests.

Exceptions to the free movement of services are mentioned in Art. 66 and are related to activities involving the exercise of state authority for reasons of order, security or public health. Under these exceptions, certain services may not be provided in the territory of a State of nationals of another Member State. For a unified use of the public administration exception, this notion is defined at Community level as all activities directly or indirectly involving the state authority in exercising the sovereignty of a state—posts in public administration, army, police, army. As regards the activities of lawyers as being related to the exercise of State authority, the Court of Justice has determined that this profession falls under the category of free professions and is not subject to exceptions to public administration. However, certain types of activities performed by lawyers are attributable to the activities of exercising public authority and are subject to the provisions of art. 66. A somewhat peculiar status has financial series whose liberalization has had a dynamic and a range different from those of other categories of services. Most studies on this issue have highlighted the importance of deregulation of the financial services sector, which would have beneficial macroeconomic and microeconomic effects. The financial services sector has been verry sensitive subject in the integration process. Even in the Treaty of Rome, despite the declaration of the Member States' intention to liberalize the movement of capital and services, only a degree of liberalization of the financial services sector was sufficient "to ensure a satisfactory functioning of the single market". Excessive regulation and existing restrictions on the free movement of financial services have a negative impact on the efficiency of the sector and the increase in operational costs. The result of these restrictive policies finds its correspondent in the significant differences between the national financial markets in the EU: the increased role of banks in the capital market, the degree of openness to external competition (higher in the case of the UK), the portfolio of offered products, the prototype of the universal bank in Germany, the traditional prototype of the bank). The 1980s were characterized by efforts by the EEC and national authorities to deregulate and liberalize the movement of the financial sector. The liberalization strategy for financial services really started only at the time of the adoption of the White Paper in 1985. In order to achieve this, it began with the adoption of specific measures aimed at facilitating the free and full circulation of capital. This condition was necessary but not sufficient to create the single European financial market, and harmonization of national regulations in the field was necessary. The liberalization of insurance services in the European Union continues to make progress. The only segment of fully liberalized insurance in the EU remains reinsurance.

In recent years, two key service sectors have been liberalized: telecommunications and transport. Liberalization of telecommunications took place at the end of 1998, with the exception of mobile telephony that was liberalized in January 2003. New service areas, such as electricity, audio-visual services and the explosion of on-line information services were Commission's concerns. Also, the liberalization of services includes the construction of trans-European networks (TENS). The Maastricht Treaty recognizes the importance of such networks (transport, telecommunications, oil and gas). In addition to very fast rail links between Member States, infrastructure and electricity supply should also be mentioned. The European Union has an obligation and has committed itself to developing these networks, including the latest ones: computer, satellite transmission. Financing the development of trans-European infrastructure and networks has been and is the priority of the European Investment Bank. The EU also finances numerous R & D projects and pilot projects for each region in Europe (Structural Funds).

The regulation of services of general interest in Europe is based on two principles: **Neutrality** (as regards the status of private or public companies and their employees guaranteed by Article 222 of the Treaty) and **the freedom of member countries to define their services of general interest** (to guarantee the special or exclusive rights that are required of the companies providing them, to regulate their management, to finance them in accordance with Article 90 of the Treaty) (Office for Official Publications of the European Communities 1999). The conditions of Article 90 do not apply to non-economic activities or vital issues of national interest. Services of general economic interest are subject to Community rules designed to create the Single Market. Monopolies that may obstruct the proper functioning of the market by blocking a particular sector of the market are included. Legislation regulates this monopoly situation, while maintaining intact services of general interest. Suppliers of certain services of general interest (infrastructure, energy, communications) may obtain derogations when they influence their performance. Definitions of tasks of general interest need not necessarily determine how they will be resolved. For this reason, any exception to the rule is subject to the principle of proportionality. This principle, contained in Article 90, is designed to ensure the best match between the obligation to provide services of general interest and the way in which they are provided, so that the means used are proportionate. The principle is formulated to allow a flexible, contextual balancing that takes into account the different objectives and circumstances of the Member States as well as the technical and budgetary constraints that vary between the sectors of the integrated economy. The principle also allows for the best possible interaction between market efficiency and needs in the general interest, ensuring that the means of satisfying them do not adversely affect the Single Market or trade, which would be contrary to the Community interest.

The results obtained so far from this interaction have been very positive, both in terms of the efficiency of services of general interest and the implementation of the rules. All legal instruments on air, rail and electricity have been unanimously adopted by the Member States in the Council. The Court of Justice has confirmed these instruments by striving to achieve the best possible balance. The European Commission, the European Parliament, the Council of Ministers and the Court of Justice have also respected the national definition of the general interest, based on the national specificity of each member country and their social and cultural characteristics. The promotion of the European general interest, a concept launched by the European Commission and developed by Parliament and the Council of Ministers, was meant to ensure the provision of very high quality services, all at a price that every citizen can afford. The concept is based on the following principles: equality, universality, continuity and adaptability. These criteria are not always met at national level, but will be fully implemented and effectively visible. Public service obligations may be imposed by general interests such as land-use planning, security and environmental protection. The Single Market provides consumers with very good services and puts Europe in a stronger position in line with international competition. Services of general interest can be provided by the public sector as well as by the private sector. The goal is to provide a service at the highest level, which everyone at the scale of the Single Market, including people with social, financial or health problems, can afford.

Free Movement of Capital It involves the removal of control over capital flows. It must be perfectly integrated with the harmonization of national capital taxes in order to ensure fair competition between low-tax and high-taxation countries. The liberalization of capital movements was the first of the four freedoms that have been achieved. A directive regulating the abolition of control over capital flows was adopted in 1988 (Commission Européenne 1997). It was followed by other directives for the liberalization of banking and financial services. In the view of the authors of the Single Act, the emergence of financial Europe is proof of economic maturity. It was the condition of achieving the Single Market, allowing for the optimal circulation and placement of resources in European projects and in performing firms. The White Paper, in the area of financial services liberalization, states: "*The liberalization of financial services, parallel to the movement of capital, will be an important step in European financial integration and the deepening of the internal market*." At present, the emphasis is increasingly on the free movement of financial products as a lever to facilitate, among other things, technical progress by resorting to minimal coordination of financial and banking regulations as a basis for mutual recognition By Member States of what each of them does to protect the public. In the case of securities, the coordination of the rules applicable to collective investment undertakings is intended to grant equivalent protection to investors, irrespective of the Member State in which they are established, with the right to free trade throughout the Community. The full liberalization of capital movements has been and is a sine qua non condition for the free exchange of financial products and services within the Union and an optimal allocation for productive and commercial purposes of funds deposited with financial institutions. The total liberalization of capital movements was conceived in three stages:

- Liberalization of capital operations—such as commercial loans or direct investments—which are directly related to the free movement of goods and persons and the freedom to set up institutions with direct consequences on balance of payments;
- The liberalization of operations with financial instruments (bonds, shares and other equity), creating broad arbitrations between the financial markets of the member countries, putting them in direct competition;
- Liberalization of operations with financial and money market instruments.

4 Upgrading the Single Market

The Single Market has generated new opportunities for companies and strengthened competitiveness of European economy, has created new jobs, offered greater choice for consumers and has enabled people to live, study and work where they want. It has contributed to better integrating EU firms into international value chains and a new level of involvement of European economies in a globalized world. Designed to suppress the "stiffnesses" of the Community market as well as the barriers to the mobility of the factors of production that the operators in the countries suffered, this project has proved to be fully effective, both in terms of industrial development and of mutual trade. The balance of the Single Market is considered, with some reservations, to be positive, although both the domestic and the external environment have put its mark on it, especially on the dynamics of the Single Market. In the opinion of the EU Commission experts, the economic impact of the Single Market is generally encouraging, but it is premature to see that the measures adopted are fully effective. The same experts believe that, according to preliminary data, the signs of a sensitive transformation of Member States' economies through the functioning of the Single Market are clearly perceptible and highlighted by:

- Strengthening competition between businesses, both in the productive and service sectors;
- Accelerating the pace of restructuring in industry, advancing as a corollary improving competitiveness;
- A wider range of goods and services offered at lower sales prices, especially in newly liberalized sectors;
- Greater rapidity and lower costs of cross-border deliveries due to lack of goods controls at internal borders;
- Increased mobility within the EU of workers and non-workers;
- Creating new jobs in the EU countries;
- Additional revenue growth in the EU, in the order of 1.1–1.9% in the period 1987–1998;
- Inflation rates lower by 1–1.5 percentage points, than those that would have existed in the absence of PIUs;
- Strengthening convergence and cohesion between the different regions of the EU;
- Ensure a competitive climate conducive to economic growth, discouraging the creation of large national monopolies;

The functioning of the Single Market has led to an important increase in intra-Community trade and has increased the share of EU countries in total foreign direct investment. Economies, and in particular industries in EU countries, underwent an in-depth restructuring, characterized by a burst of mergers and acquisitions, coupled with increased competition on national markets, leading to increased convergence in prices of goods and services. However, according to the experts of the EU Commission, there was a decrease in the national concentration, even if the average size of the companies remained relatively stable. This seemingly paradoxical situation, in the opinion of the same experts, was explained by a double phenomenon: on one hand there was a reduction in the weight and importance of the dominant enterprises in their national markets as a result of intensified competition and on the other hand an increase in the "position" of the same companies at Community level through "pan-Europeanization" of their work. That is, the volume of activity of large industrial groups has grown globally at Community level, but the geographic distribution of this activity has changed, with relative activity falling relative to the domestic market and increasing in other EU markets. The European economic and social landscape is experiencing significant changes as a result of concerted action on the following factors: *economic and financial crises; the very high level of unemployment; low levels of growth; inadequate levels of investment and obstacles in product and services markets; outdated and excessively burdensome regulations the entrepreneurs are confronted with.* For these reasons, in order to capitalize and consolidate the outcomes achieved at the level of the single market, the following axes of an action nature are needed:

- *A deeper and fairer Single Market.* To fulfill this objective is necessary to create a better business environment for investment by providing greater regulatory predictability and further strengthening the Single Market. Implementing initiatives for European Energy Union, for a Digital Single Market Strategy, for the Action Plan on building a Capital Markets Union, for the planned Circular Economy package, at the European and national level are created conditions for business environment to benefit from a more integrated European economy.
- *A new Single Market Strategy based on opportunity, modernization and results.* Barriers to the free exchange of products and services, inadequate enforcement of existing rules, low levels of cross-border public procurement and insufficient political support for structural reforms limit the opportunities for businesses and citizens, resulting in fewer jobs and economic inefficiency. European Union decision-makers invite all societal actors to involve themselves in a process of creating opportunities for consumers, professionals and businesses, encouraging and enabling the modernization and innovation that Europe needs and ensuring practical delivery that benefits consumers and businesses in their daily lives.
- *Enabling the balanced development of the collaborative economy.* This new type of business model leads to greater choice and lower prices for consumers, provides growth opportunities for innovative start-ups and existing companies, increases employment and benefits employees by allowing for more flexible schedules, from non-professional micro jobs to part-time entrepreneurship, allow that different kinds of resources can be used more efficiently thereby increasing productivity and sustainability.
- *Helping SMEs and start-ups to grow.* In the European Single Market SMEs complain about: the complexity of VAT regulations; uncertainties over company law; understanding and complying with regulatory requirements; a lack of access to finance; the fear of punitive bankruptcy laws; barriers to innovation. In this respect Commission need to perform some activities such as: *put forward a legislative proposal on business insolvency, including early restructuring and second chance; launch a Start-up initiative, to initiate a broad assessment of requirements for start-ups and ways to reduce such requirements and to facilitate compliance; use COSME funds to provide targeted information to encourage young innovative SMEs to expand cross-border and make use of the possibilities offered by the Single Market; ask the REFIT platform to focus on barriers to innovation and discuss how they can be removed or reduced.*

- *Making the market without borders for services a practical reality.* Having in mind that businesses and professionals still face too many difficulties operating across borders, at the European and national levels is necessary to address regulatory barriers such as diverging legal form, shareholding requirements and multidisciplinary restrictions in key business services. In line with the 'once only' principle, the services passport will eliminate the need for multiple requests for information and documentation already provided to the home Member State, through the creation of a 'common electronic repository' of documents by the home country administration upon the request of a service provider.
- *Preventing discrimination of consumers and entrepreneurs.* The rise of online trade and increased travel between Member States, has led to new business opportunities for entrepreneurs and access to a wider range of offers in goods and services for consumers. The decision-makers are obliged to take measures—both legislative and enforcement actions—to fight unjustified different treatment of customers on the basis of residence or nationality in terms of access, prices, or other sales conditions by: identifying and banning specific forms of residence-based discrimination not grounded on objective and verifiable factors; making it easier for consumers and consumer associations to know if and how there is discrimination, including through the use of transparency tools; and improving enforcement by national authorities through the reform of the Consumer Protection Cooperation Regulation.
- *More transparent, efficient and accountable public procurement.* In the European Single market procurements are still often carried out without the necessary business skills, technical knowledge or procedural understanding, leading to a lack of compliance and negative consequences for both businesses and taxpayers. It will seek to facilitate the collection, consolidation, management and analysis of procurement data, supporting Member States' efforts towards better governance in public procurement. Building on the policies already in place, such as eProcurement, the Commission will foster the development of tools for improved data quality and availability by streamlining existing data gathering mechanisms and supporting the creation of contract registers. It will also promote the development of data analytics tools, in particular to detect anomalies in the procurement process. The Commission need to seek to improve the effectiveness, efficiency and transparency of the procurement remedies system under the Remedies Directives, to encourage first instance review bodies to cooperate and network to improve the exchange of information and best practice and to paid attention to the strengthening of the specialized first instance administrative review bodies. In addition, the Commission need to offer Member States the possibility of receiving assistance and advice on the legality of the procurement aspects of projects they intend to launch.
- *A culture of compliance and smart enforcement.* Effective compliance is essential to deliver the opportunities and benefits of the Single Market. The Commission need to apply a smart enforcement strategy, including sectoral strategies. It

will propose a regulatory initiative allowing it to collect reliable information directly from selected market players, with a view to safeguarding and improving the functioning of the Single Market. It will further deepen its partnership with Member States through implementation plans for new major legislation, compliance dialogues organized on a yearly basis with each Member State and the possible development of a data analytics tool to improve the monitoring of Single Market legislation.

Questions and Activities

1. The main analytical challenge linked to the term of economic integration was not the one related to the insufficiency of definitions given to it, but to the abundance of somewhat contradictory definitions. Explain and comment upon this statement in the light of the challenges facing the Europe after the Second World War. Shortly
2. What is the main area of consensus among different analysts linked to answering the following questions: What is the substance of integration and what are the key criteria underlying the decision of states to launch an integration process? What are the symptoms on which to decide whether the integration process has begun to function properly or is it still in the desideratum?. Shortly explain your answer.
3. Starting from the Jan Timbergen's point of view and taking into account the process of integration at European level, shortly explain *positive* and *negative integration* taking into consideration the stage of Single European Market.
4. Some analists consider that "*All stages of an economic integration process involve a complex process of cooperation between public authorities and between private actors in the countries involved in the process*". Do you agree with them (make sure you justify your answer)?
5. Integration reality at European level has established the following hierarchy of cooperative policies: ***Information; Consultation; Coordination; Unification.*** Explain and comment upon each of these cooperative policies in the light of the challenges currently facing EU's economic governance.
6. Craig said, "Any *accurate assessment of the meaning, content and development of the single market must take account of four factors. These are the primary Treaty articles themselves, Community law, ECJ's jurisprudence and action taken by the Community institutions*". Do you agree with it (make sure you justify your answer)?
7. Shortly explain how necessary a ***'single market'*** was for the European integration process?
8. Shortly explain the objectives aimed to be achieved through the reform of the Treaty of Rome, as agreed in the Single European Act.
9. Shortly explain one of the four freedoms of moovement (*Free movement of goods; Free movement of services; Free movement of capital; Free movement of persons*). Make sure you justify your answer.
10. Shortly analize five axes of an action nature in order to capitalize and consolidate the achievements at the level of the single market.

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European Union Trade Policy

Dumitru Miron

Abstract The process of economic integration at the European level began with the integration of the market of goods. Therefore, the EU's trade policy was the first genuine common policy. Even if it is still the most important global trading actor, the EU cannot ignore the transformations taking place within the multilateral trading system. The current context is marked by tensions between multilateralism and regionalism. This raises numerous challenges to the resilience of the global trading system. The present investigation is based on the hypothesis that the trade policy is still a major tool used to address these challenges. This chapter provides an examination of EU's trade policy emphasizing the actors involved, the challenges that the EU has to face, the tools that can be used and the specific responsibilities of the European integrationist group.

The key points of the chapter are the following ones:

1. To discuss the rationales for a single community trade policy;
2. To explain to what extent EU have the chances of remaining a global trade actor;
3. To provide a presentation of the EU's placement with the big strategic dilemmas, namely: free trade versus protectionism; free trade versus fair trade; opening to the external environment versus inward looking attitude;
4. To analyze the instrumentation with which it operates in the European Union's trade policy equation;
5. To clarify the contribution of trade policy to implementing Europe 2020 Strategy goals.

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1 Introduction

The economic integration in Western Europe was meant to reduce as much as possible the disintegration process that had occurred in this part of the world following the Second World War. Following an integrative approach, the European decision-makers have firstly focused on the commercial dimension by launching a customs union with the stated intention to build a common market later. Within the entire economic integration process, the commercial integration was permanently at the confluence of the traditional-modern dichotomy. I will capture this aspect in the first part of this chapter.

The analysis begins by stressing the main reasons for which a single trade policy was necessary. There are increasingly more public statements expressing concern about the European Union's ability to maintain its position as a major global actor. This chapter supports the opinion that EU's success is mainly due to the actions of the member states and to the increasing role of the community institutional bodies. I argue that trade can be seen as "*opportunity for growth and new jobs creation*". Through my analysis, I intend to reveal the specific way in which the European Union places itself in the defining triangle of the relative positioning of any commercial entity, namely: multilateralism, regionalism, and unilateralism. I also point out that EU itself cannot remain out of debates on such defining topics as: free trade versus protectionism; free trade versus fair trade; opening to the external environment versus inward looking attitude. One of the conclusions is that, despite the fact that the relevant economic theory has argued for a free trade policy, economic reality prevailing at the European level shows that many arguments have been brought in favor of imposing protectionist measures. The present chapter shows that by adopting this attitude, different categories of economic actors can win, although it has been ignored the fact that end-users have important losses due to price increases of imported goods, diminishing their quality and narrowing the selection. The present analysis on the topic of trade policy is based on developments that have occurred in terms of trade since the beginning of the millennium. Among the most relevant analytical dimensions can be mentioned: *advance of globalization process which led to the emergence of international value chains; the emergence of new actors with international dimension that contribute at redefining the scale of competitive advantages; global economic developments that have transformed trade from part of the problem to part of a solution to the major challenges facing all stakeholders in the world economy.*

Having in mind that the institutional design of the European Union is very complex and unique compared to any other entity, I have noticed that in the process of managing the community trade policy, all unique integrative philosophies apply (i.e. intergovernmentalism, neo-functionalism, multi-level governance or consassociationism). The integrative binder could be considered the principle of ***subsidiarity*** whose transposition in practice still raises many challenges. I analyzed here the tools with which it operates in the European Union's trade policy equation taking into consideration that on trade policy level. We have witness the transition from a trade philosophy defined primarily through tariffs and quantitative restrictions to one in which measures "*behind the border*" can be found and has centered initially on commercial flows liberalization that subsequently advanced (after Nice Treaty on 2001) to services and trade aspects of intellectual property rights.

The methodological approach in this assessment aims at distinguishing between offensive and defensive commercial policy instruments. The aim of fulfilling the Europe 2020 Strategy requires the repositioning that involves: a more accurate application of multilateral rules of conduct; identification of most effective ways that support legitimate rights of European economic actors; more strictness of retaliatory measures at unfair trade practices; successful use of the mechanism of multilateral trade dispute settlement; offering best practices in the implementation of commitments; fight against protectionism. As the new economic reality demands, the main measures adopted should be focused on: switching from trade liberalization to support more stakeholders to benefit from this process; implementing effective measures to increase inclusiveness of economic growth; an increasing EU role in translating Development Agenda; reviewing Community schemes of nonreciprocal and nondiscriminatory preferences in the logic of a new GSP; greater transparency and legitimacy regarding correlation between trade and development; reviewing fundamentals in economic and trade partnership; taking greater account of social and environmental issues. It is recommended to promote a trade policy with a high degree of effectiveness.

2 European Trade Integration: Between Tradition and Modernity

The need of a single community trade policy has been fueled by the following reasons:

- *Requirements related to the achievement of the single internal market*: The lack of a common trade policy would encouraged the misappropriation of trade (European Community market penetration of imports by customs territory of the member state with the lowest barriers to product) for whose combat would have applied restrictive measures of intra-Community trade.
- *Increasing the role of European Economic Community (EEC) at international level in accordance with its economic dimension*. Uniform actions in relations with trading partners has allowed the EEC to benefit from the advantages from its very specific economic dimension.
- *Protecting the decision-making process regarding the influence of European interest groups favorable to protectionism.*

As shown in literature, *the common commercial policy is the core of foreign economic relations* (Smith 2007 pp. 226–235), governed by Article 113 (133) of Treaty of Rome. Some authors (Trebilcock and Howse 1999) find the idea that the current stage of European integrative architecture is due to liberalization of economic flows, smart practicing of subsidiarity principle and offensive promotion of group interest at international level. Also in common trade policy, we find the same short, medium and long term objectives that all countries pursue, and what appears to be different is the manner in which the mix of trade policy is composed and the adopted measures are implemented. The common trade policy can be considered, especially in the current economic and political context, one of the most important Commission competence transposed through a kaleidoscope of committees subordinate to the Ministerial Council. Some experts (Pullmans and Beater 2006) argue that trade policy instruments target the following interest areas: "*the external implications of EU deepening and enlargement, the design of policies to stimulate trade and investment flows and the promotion of multilateralism mainly for the benefit of developing countries*". Regional and global economic reality has shown that the trade policy objectives, especially those concerning the functioning of international trading system, can be achieved by two specific instrument categories. *Firstly, partnerships and agreements* concluded by the European Commission become relevant in the context of foreign policy, aimed at boosting intra-European trade and increasing the volume of cross-border trade. In the *second category*, the author (Smith 2007) includes *trade defense instruments* that counter unfair practices of third parties, as the procedures that govern trade disputes. EU objectives are well connected with the new international situation, where, although there has been registered significant progress regarding the quit of traditional trade measures, mitigation of non-tariff barriers, especially those arising from administrative formalities or from the application of other national public policies, become "..." (Trebilcock and Howse 1999, p. 135).

Rhetorically, it can make note that "*The EU's foreign trade policy contributes to Europe's competitiveness on foreign markets*" (Commission Communication 2006). Globalization made trade a main concern for the citizens. It has been understood that the economies open to external environment, and the range of the earning opportunities multiply if the economic actors are able to face new operational challenges competitiveness and operates with uniform and good faith rules.

2.1 European Union as One of the Main Trading Actors at International Level

EU is the second trade actor regarding the exports, as the imports of good, remaining well integrated globally. The EU success is mainly due to actions of the member states and to the increasing role of the community entities, given that international trade can be seen only as "*opportunities for growth and new jobs creation*" (European Commission 2016). Although the integration process has been launched in liberalized market logic, it became quickly obvious that policymakers have placed the common trade policy on the neo-protectionism logic. According to

Jovanović (2015), EU decided to join this trend, as multilateral commercial conduct does not allow the unilateral use of traditional trade instruments when pressures from interest groups exist at national and regional level that want to obtain a series of "s*hort-term political benefits to the detriment of economic gains over a longer period*". It can be argued that, despite the favourable opinions regarding the free trade policy, in the recent years EU has become a protectionist commercial actor at the global level, especially in the trade in goods intensive in human resource. Another analyst (Molle 2006) emphasizes that producers' requests in the region were often reflected in trade policies adopted at European level, especially because "*the positive effects of the liberalization of goods and services flows are diffuse, less visible and consequently difficult to quantify*".

Some authors (Bhagwati and Hudec 1996, p. 135) revealed that, although multilateral trade negociations seem to have led to a significant decrease of tariffs and effect of other measures applied at the border, a favourable framework has been created for implementing new measures that restrict trade. State involvement under the pretext of protecting citizens, "*taking into account that differences between countries regarding specific legislation, can be used to promote national industries*" (Rugman et al. 1997). Thus, in the last decade, regulations regarding health, security and consumer or environment protection have increased in importance, especially in developed countries members of EU. Starting from that there are analysts who appreciate that there are enough signals that in recent years a part of the European Union's trade policy has become pronounced neo-protectionist. On the other hand, other analysts support the contrary. Standing between the two extremes, Alasdair R. Young (2004), consider that "*the European Union's role in international trade contains two significant contradictions: first, although its trade policy, with some notable exceptions, is generally fairly liberal, it has been the respondent in a number of high-profile trade disputes; second, although a champion of multilateralism, the EU has had problems complying with World Trade Organization (WTO) judgments*". I do believe that, given the complexity of the current international commercial landscape, it is all the more difficult to position ourselves on either side. The constant position of the European Union on the part of the group of commercial actors that still believe in the values of the commercial multilateralism cannot be disputed. In addition to a new public model attitude where as the power of a sector is higher, the more protection it will receive in exchange for votes by politicians, a robust direct correlation can be referred to between the number of employees in a sector and the extent and effectiveness of non-tariff measures applied to protect that sector. Both academic analyst and policy makers in public policy (those from Europe and other countries participating in the international trade system) shows their concern regarding the situation of trade liberalization because non-tariff barriers have been less malleable in terms of reducing them through international negociations. European Union is a good example for the truth that, despite some attempts to fully liberalize trade, the elimination of non-tariff barriers is at the beginning, further negociations in this area at the multilateral level being necessary.

2.2 Triangular Size of Community Trade Policy

European Union trade policy need to be analysed alongside the well-known standard dimensions, as all references to international trade environment (Politica privind comerţul şi dezvoltarea, Institutul European din România 2005, p. 6):

Multilateral Dimension This type of traditional trade philosophy is primarily exerted within institutions defined by General Agreement of Tariffs and Trade (GATT) and, since 1996, by World Trade Organization (WTO). I need to stress the fact that, since the beginning, EU member countries has played a central role in developing the international trading system. Relatively similarity can be identified between the determination for commercial liberalization that can be identified both in the GATT text and in the Treaty of Rome establishing the European Economic Community (EEC). The EU single market was inspired by principles and practices of the international trade system. EEC has always been among the most proactive promoters of effective international trade based on the rule of law.

Multilateralism represents for EU decades of multilateral trade negociations, hundred agreements or codes of conduct, impressive levels of decreasing in customs duties or mitigation of quantitative restrictions on imports, the promise of amicable settlement of commercial disputes, and the setting up an effective monitoring trade policies mechanism. EU member states have been, at the beginning, the promoters of fundamental principles for international trade such as: *non-discrimination, transparency, equity and fairness*.

It can be said that the position the EU has adopted since the time when the US authorities launched the concept of competitive liberalization is quite interesting. Some analysts argue that the EU's reluctance to the US proposal in 1982 to launch a new round of multilateral trade negotiations has led to the shift of Americans' interest in the values of regionalism, which led to the establishing of Nord American Free Trade Area (NAFTA) and Asia Pacific Economic Cooperation (APEC). Moreover, the European Union frequently seems to focus so heavily on its regional agenda that it forgets its global responsibilities. Bergsten (1996) pointed out that "*Paradoxically, the strongest pressures to reverse the liberal course can be found in the entities that created, nurtured, and championed the postwar order: the United States and the European Union*". Even though throughout the post-war period, in the EU trade policy equation, one can find almost equal determination for trade liberalization and the protection of the single internal market, we do not believe that the EU has been a brake on the process of advancing the multilateral direction of global trade but a promoter of it. The biggest challenge to the common trade policy was represented by the fact that, since the 1990s, European decision-makers have been increasingly concerned about the external dimension of competitiveness. As Commissioner Mendelson pointed out in October 2006 "*For me this means setting out a clear programme of measures to maximize the competitiveness of European companies when they trade*". In other words, this means rejection of protectionism at home and activism in opening markets abroad. It can be said that this was the European version of what the Americans called the new dynamic reciprocity.

At EU decision-makers level has become clearer that the focus has changed from traditional measures in trade borders of countries to macroeconomic and sectoral national policies that by their content and implementation can create trade barriers as effective as traditional ones. Integrated Europe contributed to the shift to more comprehensive approach of international trade, concerns being focused (promising intent, but modest results) on sensitive sectors such as: *trade in agricultural products, trade in services, trade-related aspects of intellectual property rights and investment processes; relationship between trade and environmental aspects; specific competitive behaviour of public authorities or private actors*. EU is among the global economic actors who want to attack the so-called "*specific problems of the 21st century*" such as: *investments; competition policy; government procurement; food security; export duties; climate change; underevaluation of exchange rates*.

The EU member countries contributed fully to setting up a regulatory landscape for liberalize cross-border trade flows and begin a new process of global economic governance. The role of EU during the multilateral negotiations rounds could be considered in a way contradictory. On the one hand, based on neoliberal values promoted in the postwar period by countries from the group, it has contributed to progress in trade liberalization and offer best practices that could be taken as a model by other states. On the other hand, due to the rigidity of some EU sectoral policies (especially the agricultural or competition policy), development of trade conduct and liberalization has been delayed for decades.

Bilateral and Plurilateral Dimension It is that component of community trade landscape reflected by negotiated and concluded agreements by EU outside the WTO multilateral negotiations and by specific measures on the relationship with countries or regional economic groups. At the level of community bodies, it is considered that bilateral partnerships with the most important trade actors is the way that ensure more trade openness (European Commission document, MEMO/13/1080, 3 December 2013). At the end of 2014, EU notified WTO executive bodies the existence of 37 regional agreements (WTO online information, "RTA Database"). In 2013 the first inter-regional agreement between EU and countries from Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama) come into force based on three operational pillars—politic dialogue, cooperation and trade agreement (tariff concessions, facilities for trade in services, sanitary and phytosanitary measures, government procurement, protection of intellectual property rights) (European Commission online information, "EU-Central America association agreement"). In this landscape, there are: (a) *free trade agreements* with members countries of European Free Trade Association (EFTA), with Mexico and South Africa; (b) *setting up agreements similar to customs* union with Turkey, Andorra and San Marino; (c) *new type agreements (association agreements or partnership and cooperation agreements)* concluded in the early 90s with Central and Eastern countries. Such agreements have prepared the way for many countries, not only in trade, to become in 2004, 2007 and 2013 EU members. Only in the last 3 years, the EU concluded negotiations with Canada (on September

2014); Ecuador (on July 2014) and Singapore (on October 2014) and Japan (in 2017). Trade negotiations with Morocco and Thailand (started on March 2013) and USA (started on July 2013) are in different phases. EU continues negotiations regarding free trade agreements with India, Malaysia MERCOSUR and Vietnam.

Unilateral Dimension This redefined facet of reporting to international partnership has as a relational pillar the adoption and implementation of unilateral measures by European Union as further tools of trade policy in order to ensure development and/or political stability according to political priorities of the group. The most commonly form used for implementing this type of measures is trade concessions to third countries by EU based on economic interest for accelerating trade in a particular region and capitalization of relevant new competitive advantages identified on this axis. With their specific novel, preferential schemes offered unilaterally by the EU developing countries enroll in this plan. The following are relevant as partnership:

- *Economic Partnership Agreement negotiated with countries from Africa, Caribbean Basin and Pacific Area (Cotonou Partnership)* signed on February 2000. This new type of partnership on North-South axis is an updated form of traditional *Conventions from Yaoundé and Lomé* that set, as a derogation from the rules of multilateral conduct, the partnership between EU member states and the former colonies (known as ACP). Unilateral preferential trade regime refers to all industrial products and the most part of agricultural products. In fact, ACP countries benefit from the most liberal rules in order to fully benefit from the trade facilitation;
- *Mediterranean agreements* concluded successively, with Algeria, Egypt, Israel, Lebanon, Morocco, Palestine Liberalization Organization and Tunisia. The main objective of this trade agreement is to create a deep free trade area in Mediterranean basin on the path of trade liberalization between EU and countries from the region, but also of trade between them.
- *Community schemes of customs preferences, non-reciprocal and nondiscriminatory* applied by EU under the Generalized System of Preferences (GSP), on the relation with developing countries and eligible for this treatment. In this logic of partnership (a new edition started on 1st January 2014) it is allowed to export from EU in conditions close to free trade, most of the manufactured products and some processed agricultural products. Based on the graduation principle, the number of beneficiary countries under the EU preference scheme fell from 178, in the previous edition, to 92, the process of decreasing the number of beneficiaries continuing in the near future.
- “*Everything but arms*”. This unilateral preferential scheme from which benefit 49 countries is operational for the relation with less developed countries that comply with international agreements concerning environmental protection and prohibition of certain behavior considered unethical (for example: child labor or forced labor practice). Under this trade agreement, free access is granted for unlimited period, for exported products, excepted arms and ammunition.

- According to the goal of achieving an "Extended Europe" asymmetric preference is given in order to ensure peace, stability, freedom and prosperity in the region.
- It also can be mentioned *Autonomous Trade Measures* that apply since 2000 in relation with 6 Balkan countries (revised in 2005, 2011 and 2016) (European Commission online information, "Autonomous trade measures"). EU signed in 2014 a *Deep and Comprehensive Free Trade Area* (DCFTA) agreement—after already signing an Association Agreement on closer political ties with Ukraine. On 27 June 2014 the EU signed Association Agreements with Georgia and the Republic of Moldova and complete the signature process with Ukraine, each providing for a Deep and Comprehensive Free Trade Area. Unilateral preferences were granted to Moldova since 2008 and Ukraine (since 2014).

2.3 Some Reasons of Switching from Trade Liberalization to Practicing Protectionism

As some analysts pointed out, "*Despite its institutional prominence and empirical relevance, EU trade policy attracts comparatively little scholarly attention*" EU trade policy literature remaining "*underdeveloped, both theoretically and empirically*" (Duur 2007). Despite the fact that the relevant economic theory has argued for a free trade policy, economic reality prevailing at the European level shows that many arguments have been brought in favor of imposing protectionist measures. The main reasons for restrictive trade measures have been protecting domestic producers from competition of foreign firms, so obtaining additional budgetary revenues. It is considered that by adopting this attitude, the two categories of economic actors (corporate environment and public authorities) can win, although it has been ignored the fact that end-users have important losses due to price increases of imported goods, diminishing their quality and narrowing the selection. Empirically, the level at which earnings as a result of imposing tariff or non-tariff trade barriers exceed losses, depends on "*the size of the customs duty, the importance of the goods to domestic consumers or the number of jobs saved*" (Hill 2005, p. 181).

Economic Arguments Bringing to the fore the economic arguments to justify protectionist measures has been driven by completing and redefining theories related to trade with foreign countries and the emergence of what many authors have called strategic trade policy. New evolution of economic theory and practice made possible the reduction of the relevance of traditional explanations (infant industries argument, stringency justification for the country's defense strategy, defense jobs etc.) and new reasons for trade policies gain relevance (e.g. strategic trade policy). As a rule, in supporting the arguments related to strategic trade policy, it can be considered the effects generated by economies of scale, with the existence of a limited number of companies in the global market. As an example for the new type of argument it can be mentioned the decision of some EU member states regulatory and actional supported by some specialized trade organizations, to support Airbus (having as stakeholders the governments of UK, Germany, France and Spain) to become a European champion able to play successfully in transatlantic competition. Thus, the economic arguments are often on the base of government intervention at the European level, especially that the global market is dominated by foreign companies that have the advantage of the "first mover". By granting export subsidies and limiting access of foreign competitors in the local market, public authorities help significantly to the success of domestic companies at international level.

Non-economic Arguments Lately, the imposing of neo-protectionism can be justified by the desire of protecting national and cultural traditions, such as countries like Poland, where pheasants' farms exist or Germany, country with a long tradition in beer making. However, protecting traditional symbols within the EU member states contribute to maintaining sales prices quite high and limiting the efficiency and effectiveness with which some companies can operate. In this context, it becomes obvious that the recommended solution for the European companies should be structural adjustment and upgrading, not seeking support from public authorities to artificially maintain a competitiveness already lost. Once with the increasing civic militancy of the planet's inhabitant the ethical dimension of international trade is becoming more relevant, and covers both visible features of a good, and production practices. In the category of non-economic arguments, the most convincing is the consumers' protection. For example, at EU level the import of US beef has been restricted, considered to be treated with growth hormones. Hill (2005, p. 189) considered that this measure is inconsistent with multilateral trade conduct, because there was no evidence confirming that such meat should affect the citizens' health. With the adoption of *Codex Alimentarius* establishing that such meat is not dangerous, USA called for lifting the restrictions, but it has been hit by the refusal of the EU, that insisted with protecting the consumers.

According to changes that have occurred in terms of geographical chart of international trade, new economic actors have appeared in the current trade area, especially developing countries. So, EUs decission makers started to adopt regulations to address concerns about food safety, environment and animal welfare. According to some experts from World Bank (2012), a number of neo-protectionist measures, such as technical regulations or quality standards have an important impact on business, generating a decrease in the competitiveness of foreign products. This is due mainly to additional costs, determined by the need of "*adapting the commodities to the specific standards and regulations of the importing country and the conformity assessment procedures of the products*". Increassing concern of European citizens regarding the goods offered on the market, especially food, obliged governments to find the best way to combine policies that respond to their requests with measures regarding the achievement of economic objectives. Some analysts (Tothova 2009) suggest that the incompatibility between policies that meet the concerns of citizens and trade obligations undertaken is most commonly encountered when fears refers at "*an aspect of the production process that is not embedded in the good, or the researchers have distinct visions, and society as a whole exhibits different levels of risk aversion*" (Idem, p 6). It is often possible to implement market-based solutions that "*fulfill the personal freedom of consumers*", for example by supporting education programs for citizens or correct food labeling. The authorities can also appeal to a direct intervention to prevent the introduction of consumer products with a questionable safety. The adoption of regulation designed to protect consumer health and safety has led to an increasing number of trade disputes. The regulations in areas of activity that appear national, such as food inspection or product labeling have a direct impact on trade in goods, affecting both importing countries and exporting ones (Trebilcock and Howse 1999). At European level, labeling is a sensitive topic, even if the goods are subject to intracommunity trade, companies being forced to comply with current standards, so products must be labeled with the common name of the product. However, this is reflected in trade between USA and EU, especially genetically modified products. Thus, the European market is still restrictive regarding the import of such goods, imposing discriminatory labeling schemes, despite the development of biotech industry.

3 Regulatory and Institutional Framework of EU Trade Policy

The present analysis on the topic of trade policy was based on developments that have occurred in terms of trade at the beginning of the millennium. Among the most relevant analytical drivers must be placed: *advance of globalization process which led to the emergence of international value chains; the emergence of new actors with international dimension that contribute at redefining the scale of competitive advantages; global economic developments that have transformed trade from part of the problem to part of a solution to the major challenges facing all stakeholders in the world economy*. The way in which act such an atypical economic actor (European Union which is not a traditional state but no specific international organization), and ensure implementation of multilevel governance (with the corollary principle of subsidiarity) is very interesting. Trade policy contains trade in goods and services, trade-related aspects of intellectual property rights and foreign direct investments and trade protection measures. In these areas, EU member states act only if and to the extent of authorization by decision-making bodies. There are several areas with shared competences. It is about the consumer protection, logistical or environmental issues. In these sectors member states still maintain some self-regulatory skills exercised in accordance with guidelines adopted at Community level. But these measures adopted at national level must not affect intra-group trade or with third parties. Common trade policy tool is decided and applied under two-tier regulatory: *primary legislation*—treaties and other agreements of similar statute; *secondary legislation*—regulations; directives, decisions and recommendations and opinions. EU cross-border trade are considered "*powerful growth drivers and job creation*" (European Commission documents COM 2010). The common trade policy is a set of measures, tools, policies in the foreign trade of the European Union and has as the main objectives the following: *boosting EU exports of goods and services by determining actors to penetrate many foreign markets; ensuring protection for European industry of goods and services, especially through measures against unfair competition caused by certain imports from third countries; combating all forms of discrimination or denial community goods and services access on third markets; providing a legal and institutional framework favorable to foreign direct investments, with adequate protection of investors and investments; supporting European interests in international organizations; boosting trade integration of many countries in regional and international redefined landscape*.

3.1 Institutional Dimension of Common Trade Policy

Institutional design of this challenging component of this integrative landscape is very complex and unique compared to any other state entity. In the process of managing the community trade policy, all unique integrative philosophies apply (intergovernmentalism, neo-functionalism, multi-level governance or consassociationism). The integrative binder could be considered the principle of *subsidiarity* whose transposition in practice still raises many problems. Community institutions responsible with developing and implementing trade policy are:

- *European Parliament*. For a long time this body defining democracy and transparency of sectoral policies applied at European level has a less visible role, its role remaining as an advisor of compliance. Treaty of Lisbon gives the European Parliament a greater role, giving decision full rights in trade policy. Compared to the previous situation, when only Ministerial Council was responsible for the adoption of trade legislation, and Parliament was consulted and involved in ratification of trade agreements only in some limited major cases, now the European Parliament decides the strategic axis of EU trade policy according to the *ordinary legislative procedure*. When adopting international agreements, Parliament gives its notice before they are ratified by the Council. European Parliament ratifies trade agreements with a simple majority of its members. It can be added the role of political control exercised by the Parliament on the way that other bodies have acted, at European or international level to implement trade policy instruments.
- *Ministerial Council of the European Union*—is the main decision-making body in trade policy, which adopt decisions by qualified majority procedure. Ministerial Council decides the strategic axis of EU trade policy with the European Parliament and adopts international agreements concluded by EU. Unanimity is required in order to ratify the agreements that have as object trade in services, trade aspects of intellectual property rights or direct investments.

- *European Commission*—is the founder of the common trade policy and the main partnership instruments negotiator at bilateral, regional and multilateral levels. The Commission implement trade policy by calling to *acts of delegation* and *implementing acts*. Negotiations are under a mandate which the Commission receives from member states by the Council decision. Commission can obtain from the Community legislative level the ability to adopt legal acts that have no law level able to implement the legislation. The objectives of this delegation and the content, desires and time involved are presented in the document which made this delegation. Delegation is conditioned by meeting certain specific requirements and can be revoked in certain circumstances by Parliament and Council. These committees are composed of representatives of Member States and assist the Commission in the implementation of trade policy tools.
- *Advisory committees*. They represent tools by which member states exercise control over how to develop and implement this sectoral policy. The process was established by the term "*comitology*". These committees are composed of representatives from member states and provide specialized assistance in the implementation of trade policy instruments. Trade Policy Committee has an important role. Its main function is to coordinate EU trade policy and here the whole issue of trade policy is discussed, from strategic problems of WTO negotiation rounds to specific problems exports. Within this Committee, Commission provides support from all EU member states on all trade policy issues.

Community regulatory and institutional framework is constantly evolving, this high dynamic being the result of a strategic *positive sum game* involving a variety of state and non-state actors. On February 2014 came into force two new community regulators (Trade Omnibus Regulations) which encodes regulatory framework relating to external trade policy. Member states have also certain limited responsibilities in services and intellectual property. Documents that implement EU trade policy are:

- regulations with general application, binding and directly applicable in Member States (*regulations*),
- *directives* that must be transposed into national law and practice of member states,
- *binding decisions*,
- *decisions of general application*,
- *recommendations* and
- *opinions* which are not binding (Botez and Aldea 2005).

Decisions on common trade policy based on European Commission proposals, must be accompanied by notice "133 Committee article", committee of responsible policy of member states whose work is reflected in Commission proposals or documents on international trade negotiations, reports on negotiations, trade disputes and some commercial issues facing EU member states. The final decision is adopted by the Council and/or European Parliament and involve the Court of

Auditors and financial and consultative EU bodies (depending on the type of act and issue).

3.2 The Main Instruments of EU Trade Policy

On trade policy level one can notice the transition from a trade philosophy defined primarily through tariffs and quantitative restrictions to one which measures *behind the border* can be found and that has centered initially on commercial flows liberalization and has advanced (after Nice Treaty on 2001) to services and trade aspects of intellectual property rights.

Customs Policy of the European Union Since 1968 (when it was adopted by harmonizing member states national customs tariffs), Common Customs Tariff has remained the traditional tool of the EU's common trade policy. For implementing common trade policy (main driver for integration of good markets) it was established that any good imported from outside the EU to be charged only once when entering the territory of one member state. The Common Customs Tariff have several types of taxes (Prisecaru 2004, p. 141): *ad valorem taxes* on industrial products and *specific taxes* on several categories of agricultural products. Given the complexity of the partnership developed by the EU, a series of exceptions are provided regarding high tariffs on agricultural products and some industrial products sensitive to foreign competition and many headings which are not charged import taxes. EU does not apply export or transit taxes, but *escalating tariff* (increasing custom tax with increasing degree of product processing) for certain products (textiles, rubber, tobacco and specific products etc.) is more frequently. The latest version of Community Customs Code entered into force on October 2013, most of its provisions being applied from May 1, 2016, after delegation and implementation acts have been applied. This process is one in which „ *the design of the business framework is developed in accordance with the provisions of Articles 290 and 291 of the Treaty on the Functioning of the European Union (TFEU) with the appropriate involvement of the Member States and the business community*" (Regulation (EU) No. 952/2013 of the European Parliament and of the Council, 9 October 2013).

According to EU legislation, *"customs procedures"* refer to *release, transit, customs custody, processing under customs control, temporary admission, active processing suspension, passive processing suspension, exports*. It is mandatory the registration at the customs authorities of member states of all economic actors that operate within the common customs involved in activities covered by customs legislation and those parties which carry at least one activity referred to in Art. 4 (3) of the Regulation concerning the implementation of Customs Code. Specialized national authorities of those economic actors give a unique registration and identification number *(Economic Operator Registration and Identification Number (EORI))* recognized at Community level.

The companies involved in commercial transactions or their representatives from EU can submit customs declarations electronically or factual in any member state. Persons not resident in EU can submit customs declarations for transit or temporary admission. Statistics show that in recent years, 98% of customs declarations are submitted online. EU answer to international efforts to simplify and standardize customs procedures and practices in recent years has encouraged customs declaration of goods before their arrival at destination. If customs procedures involve more than one customs authority from EU, one license for a customs procedure will be granted. EU continues to successfully implement electronic customs initiative in order to improve the efficiency of customs procedures and to facilitate trade (European Commission online information, "the EU Customs Union"). Member states can provide the status of *authorized economic operator* (AEO) with respect to a set of common criteria. Based on this criteria there are the following types of certificates: AEO-C (AEO Certificate—Customs simplifications); AEO-S (AEO Certificate—Security and safety); and AEO-F (AEO certificate—Full). Participation in the program is voluntary and is open to all economic resident actors in EU. Non-economic resident actors can also apply, actors that have created subsidiaries in countries dealing with activities related to customs procedures. EU has signed agreements of mutual recognition of authorized economic operator status with more countries: Switzerland (July 2009); Norway (September 2009); Japan (October 2010), Andorra (January 2011), USA (June 2012); China (May 2014). EU has taken in its customs code provisions of the WTO Agreement on customs evaluation of goods.[1] Customs value is determined by transaction value (CIF price of imported goods).

EU uses *non-preferential rules of origin* and *preferential rules of origin*. Non-preferential rules of origin have as a purpose the implementation of retaliation measures (anti-dumping and countervailing), of quantitative restrictions, quotas for imports under the most favored nation clause or other measures to control imports adopted in accordance with multilateral trade conduct. The rule of thumb used to define the origin of products which have undergone transformation on several customs territories is that of "*the last relevant transformation that is economically justified*". Preferential rules of origin are applicable in relation to transactions subject to preferential trade agreements, reciprocal or non-reciprocal (European Commission online information, "DG TAXUD: Arrangements list"). The type of rule of origin is different from one trade agreement to another, but general rules applicable in almost all cases still exist. The Commission will consider the decision to extend practices connected with community scheme of preferences and other preferential arrangements. In both cases, the origin is determined by the increase in value-added or tariff jump method.

All tariff lines from Common Customs Tariff are consolidated. Taxes are applied at level that were consolidated, leading to a simple tariff average of

[1]Provisions of the WTO Agreement profile can be found in Art. 28 to 36 of the Community Customs Code and the provisions on its implementation—Art. 141 to 181 and in annexes 23 to 29.

6.5%. Community tariff landscape can be seen as stable. Changes produced are caused by changing tariff codes or international prices for certain goods. Tariff nomenclature (Combined Nomenclature) is based on *Harmonized Commodity Description and Coding System* and described at 8 digit code. In the latest TARIC version (2014) we can find 9379 tariff lines, of which over 25% are exempted of import duties. In the common customs tariff there are *tariff picks* to products sensitive to competition (22% for cars or 26% for fish products) and quotas are applied on the basis of various preferential agreements conducted by community bodies. In order to benefit from exemptions or reduce taxes any economic actor should apply to national authorities. These facilities are reviewed and approved by the Commission and are applied on "*first come, first served*". In recent years, the average tariff has steadily decreased, and the most important falls have been recorded for agricultural goods. Despite import duties, the only para barriers we can find in EU practice are *excise and value added tax (VAT)*. As a matter of transparency rules, an *online database* operates where we can find information regarding the level of customs duties, quantitative restrictions, measures to control imports and exports.

Non-tariff Protection Instruments As the level and effectiveness of protectionism of trade barriers have reduced, based on a so-called "*law of constant protection*", non-tariff barriers have been used, especially *quantitative restrictions***.** These forms of protection (especially import quotas) have been managed for a long time at national level, but since 1994 have been established and managed at EU level. Using quantitative restrictions has been in serious decline as EU implemented multilateral agreements and plurilateral codes of conduct. After completion of the Uruguay Round and starting the process of implementing commitments at multilateral level, we can speak about the elimination of quantitative restrictions applied in the EU and reduction of the effects on relationship with third parties. As a rule, EU does not apply any quantitative restrictions on imports from WTO member states and states that have negotiated bilateral trade agreements. The single restrictive measures are applied only for reasons for security or environmental protection. Restricting certain imports can be made for the implementation of international conventions where EU participates. This is the case of *Vienna Convention on the protection of the Ozone Layer* or of the *Montreal Protocol on substances that contribute to ozone depletion*. As a principle, imports of these products are prohibited, but certain exceptions are provided, when the management process is based on *import licenses* granted to Commission [Regulation (EC) No. 1005/2009 of the European Parliament and of the Council of 16 September 2009 on substances that deplete the ozone layer (OJ L 286, 31.10.2009)]. Another case of restricted imports for ecologic reason is represented by the measures taken to implement provisions of the International *Convention related to trade in species of flora and fauna endangered*. EU takes part with other states of "*Forest Law Enforcement Governance and Trade Voluntary Partnership Agreements*", which makes that imports of certain species of wood or wood products to be controlled by applying licensing procedures. Licensing procedure applies according to *Kimberley Process*

Certification Scheme on Rough Diamonds where EU takes part of. Import licenses can be obtained from the six "*Union Authorities*" with headquarters in Anvers, London, Idar-Oberstein, Prague, Bucharest and Sofia. Amid the emergence of neo-protectionism in Europe, (Roarty, 1996) brings to the fore the complex effects of a series of measures still listed in the gray area of protectionism, such as voluntary export restrictions. These measures considered to be "*market sharing arrangements*" are frequently found in economic policies equation applicable at European level. The author suggests that trade policy is "*complementary to the industrial one*", regarding the fact that in the last century voluntary export restrictions (VER) were imposed to protect high intensive technology industries, due to proliferation of strategic trade policy argument. In the same perspective, EU is responsible for escalating the proliferation of VERs that distorted significantly international trade affecting particular economic interest of developing countries, being required to comply with commitments aimed at restricting exports of products "*sensitive*" on the European market.

Since 1990, given protection has been used more, especially to the implementation of retaliatory measures to trade practices considered unfair. Trade policy instruments currently used by European Union can be divided into: *defensive and offensive tools*. Defensive tools are adopted arguing that can contribute to the development of fairer trade and protection of interests of various components of European society. It supposes that this type of trade instruments is compatible with the requirements of commercial conduct adopted at multilateral level. As its results from the literature review in the field, the main defensive instruments are (Politica privind comerţul şi dezvoltarea, Institutul European din România 2005, p. 7):

- *Anti-dumping measures*, whose role is to counteract dumping, considered the most common way to distortion correct competition;
- *Countervailing measures* adopted for situations where it is presumed and proved that domestic support or export subsidies of certain products was used, thus ensuring a more unsustainable external product competitiveness;
- *Safeguard measures,* adopted under Art. 19 of GATT and, after completion of the Uruguay Round, in accordance with the provisions of the Agreement on Safeguards. In certain situation (but quite volatile) temporarily restricted imports of a product is used if it is estimated that domestic production of that product is seriously affected or threatened to record significant damage due to increase of imports. After 2005 EU does not apply any kind of safeguard.

Regulatory framework related to this part of the common commercial policy consist of: *Basic Anti-dumping Regulation, Anti-subsidy Regulation and Regulation no. 260/2009 and 625/2009 on Safeguards.* We currently assist a process of reviewing this regulatory framework, aiming at increasing transparency of investigations, a better definition of the dumping margin and the level of subsidy, clarify the concept of third representative market and measures that can be taken following the period of application of the restrictive measure. Despite stricter provisions regarding procedures that initiate and conduct investigations to prove dumping, European countries continue to implement them, although, theoretically, these actions must be filed only if foreign producers are suspected that sell their goods at a price below the normal value, so they discriminate by price.

WTO statistics show that in 2015, 108 anti-dumping measures were in force, brought by European institutions, significantly more than 12 countervailing ones, or safeguard measures, which did not exist at all. Dumping accusation concern a very wide range of products and are directed to suppliers from emerging economies. Although they are adopted in order to countering unfair commercial practices, anti-dumping measures are often based on pressures from some relevant actors of the internal market. Some analysts revealed that European countries use antidumping during downward phase of the business cycle, when companies are making significant efforts to get protection from their foreign competitors. Thus, once economic growth is slow, local companies perceive income from investing resources in searching protection as larger compared to those from the development of productive activities. We can say that the anti-dumping legislation take into account the political dimension, instead of the economic one, since these trade defense instruments "g*o beyond the framework of punishing unfair practices and ensuring an environment competition*", being implemented in order to protect European industries.

Some analysts (Vandenbussche et al. 2001) consider that antidumping measures, implemented within the EU to protect fair competition represent "*instruments of industrial policy*". The authors suggest that greater bargaining power of European trade unions favor authorities to intervene in trade and degree of stringency of anti-dumping measures. Therefore, if unions have a reduced bargaining power, policy makers will focus on imposing price commitments and while increasing their influence, they decide to adopt anti-dumping duties that the whole group will benefit from. The same analysts have shown that both companies and the whole European integrative architecture will benefit from imposing anti-dumping taxes and price commitments. Dumping measures are for other analyst (Kerr 2006) "*a major weapon in the protectionist arsenal*". Author has shown by an empirical study that "*incorrect*" practices gives undeserved legitimacy to protectionist policy. Thus, companies that seek to gain profit by implementing legal action can be unfairly accused, creating the false impression that they are engaged in unfair pricing practices that will affect indigenous companies. In another context, competition policy in most developed countries does not include as unfair practices price discrimination or selling bellow production costs. For example, price discrimination is applied in EU member states as discounts offered to students or loyal customers, lower prices of tickets purchased in advance, or goods sold in particular period of the year in physical or virtual stores. Thus, we can say that price discrimination is often accepted, without being obstructed by the intervention of authorities in order to protect competition in the unified market.

Charges of companies or group of companies to foreign competitors or the opportunity to adopt safeguard measures are investigated by European Commission which decides whether there is unfair incriminated practice and proposes retaliation measures. The implementation of retaliatory measures on a country or a company as the magnitude of the proposed measures must be approved by the Ministerial

Council (Silaşi et al. 2005). Safeguard measures initiated by the EU target certain products sensitive to competition, especially textiles and clothing, steel products and automobiles. A mechanism similar to that applicable to dumping applies to *counter export subsidies*. International rules on subsidies have been significantly strengthened with the entry into force of the WTO Agreement on Subsidies and Countervailing Measures on January 1, 1995. The EU regulation on protection against subsidized imports entered into force on same date and refers only to imports from outside EU, making possible to impose the countervailing measures for subsidized goods whose import causes or threatens to cause injury to domestic producers of substitutes. The following conditions must be met in order to apply countervailing measures:

- The subsidy must be specific, export one or be granted to a single company, industry or group of companies;
- To be a material injury to the industry from Union, reducing the market share of domestic producers, reducing prices etc.;
- Affecting Community interests, costs resulting from the application of these measures should not be disproportionate to the expected benefits.

Products that have been implemented compensatory measures were of high technology from Japan and some newly industrialized countries or any product coming from countries with low labor costs. The first application of this type of action can be found after 1976, the first case being that of sanctioning a bicycle chains import from Taiwan. In this case, the European Commission is leading the investigation and implement interim measures, the final decision belonging to Council. Article no. XIX of GATT allowed imposing a series of restrictions if imports from certain sources cause or threaten to cause serious harm to domestic producers. This article allowed the use of some non-tariff barriers and as exceptions the implementation of some tariff measures. Typically, the tools used are quantitative restrictions, as voluntary export restrictions or import licenses. The most common situations where such restrictions apply are related to trade in products sensitive to competition, such as textiles and steel products. European Union actively uses these trade defense instruments as an effective mean of protection against unfair imports from outside the Union. European Union had imposed 135 anti-dumping measures, 12 anti-subsidy measures and other 91 investigations were ongoing by the end of 2005. However, undertakings apply for 19 products from 15 countries. The main reason of the offensive instruments is related to boosting the process of market opening and liberalization of trade. The main offensive instruments are (Idem):

- *Trade barriers regulation*. This is an element of the *acquis* under which economic actors from EU can ask community institutional bodies to take measures if they consider that exports face trade barriers punishable by multilateral conduct on external markets. These rules can be used to decide if these practices have negative effects on community trade. If there are some evidence that can support these complaints, community bodies may use WTO commercial dispute settlement mechanism.

- *Market access strategy*. Based on EU's Market Access Database documentary foundation to assess the level to which European products have access to third markets is created, a systematic mean to track what happened with complaints from European companies is provided to Commission, and a means by which you can see at what level commitments of EU partners are implemented bilaterally or multilaterally is provided.
- *Monitoring trade defense measures applied by third countries*. Community bodies have a panel of mechanisms that can check if third countries are out of international conduct norms that regulate the right way for application of defense market instruments (antidumping, countervailing or safeguard measures). Specialized services of the Commission advise all stakeholders and report violations by third parties of fair trade conduct and create premises that sensitive issues can be discussed in bilateral or multilateral trade forum.

Eu is proving very good at the chapter technical obstacles, like all industrialized countries. Most of the regulations on technical requirements and compliance plan are harmonized at EU level in order to ensure free movement of goods, while maintaining the highest level of health and safety of persons, animals and plants, a high degree of protection of consumer and environment (WTO document WT/TPR/S/284/Rev.2 of 28 November 2013, section 3.1.8). The EU technical regulations, standards and evaluation procedures of conformity is included in Blue Guide on the implementation of EU rules on products, adopted on 2000 and revised several times (last time on 2014) (European Commission 2014). Regulatory bases for development of uniform standards are represented by Regulation no. 1025/2012 where we find the procedures to be followed for the implementation of standards or similar technical regulations by European organizations working in the field of standardization (*European Committee for Standardization, European Committee for Standardization in the field of electrical engineering, European Institute for Standards in Telecommunications*).

Based on this *acquis*, also national bodies from technical regulation field must notify publicly their program of activities. Commission manages an online database where all requirements relating to the adoption of new technical regulations and the list of national standardization bodies from member countries are included. Goods in legal circulation in a Member State should benefit from the *mutual recognition principle*, so they must move freely in other member states even it may be considered that do not fully correspond to specific technical requirements of the country. Even in these circumstances, a product may be restricted as an exception, if it can be proved that the refusal "*is justified on grounds of public morality, public policy or public security, protection of the health or life of humans, animals or plants; to protect national treasures possessing artistic, historical or archeological* *value; the protection of intellectual and industrial property*" (TFEU, Article 36.) or other reasons decided by the European Court of Justice. EU legislation on *sanitary and phytosanitary measures* (SPMs) has been harmonized with international trade conduct although, in certain circumstances, member states can adopt certain measures (WTO document WT/TPR/S/284/Rev.2 of 28 November 2013, section 3.1.9). On May 6, 2013 the Commission adopted and notified the WTO Committee on SPS a set of measures regarding the simplification, modernization, increase of consistency and convergence of technical regulations with multilateral rules of conduct. These measures focused on standards of health and public security in the logistics chain related to agricultural products. This package entered in the normal consultation and regulation process in the Parliament and the Council of Ministers on May 17, 2015. EU member states are members of the Commission on *Codex Alimentarius*, of *World Organization for Animal Health* and contracting parties to the *Convention on the Plankton*. European Union is member of one of these organization, in addition to its member states. Provisions on SPMs can be found in all bilateral agreements signed by the EU, which strengthens the concern for international trade in accordance with the principles of non-discrimination, transparency, reciprocity, ethics and fairness.

Domestic support measures and direct export subsidies represent a package of regulations that in certain circumstances can significantly distort competition and have been used effectively by EU. Especially when EU member states have experienced the effects of economic turmoils it the use of these trade policy measures has become common in both protection and promotion of exports. In recent years, we can say that the level of state intervention in economic life has increased. Some analysts have pointed out that, although multilateral trade conduct have regulations regarding the use of these measures, subsidies for trade reasons „*are still difficult to disciplined politically*". This can be explained by the fact that subsidies become more and more "*prerogatives of national politics*" thus abandoning them may suggest giving up national sovereignty, attribute of statehood. Some analysts suggest that, although an open economy reduces the inefficiency associated with the redistribution of income between sectors and make them less expensive than in economic isolation, subsidies are preferred as a means of redistribution and it should be implemented more frequently. It has been proved that subsidies to certain sectors can stimulate production in these sectors and a perceptible redistributive effect can be recorded (Vannoorenberghe and Janeba 2016). These tools that hopefully solve certain asymmetries or market failures are part of the arsenal used in some EU sectoral policies (*regional development policy, social common policy, agricultural common policy*). By calling these type of stimulus community bodies pursue several goals such as: "*creating new jobs, increasing (even artificial) competitiveness, economic growth, improving quality of life or sustainable development*" (European Commission online information 2015).

EU state aid regulation is reviewed every seven years, the set in force at the moment is that adopted on December 17, 2013, under Regulation no. 1305/2013 concerning support for rural development by ERDF. In accordance with Art. 107 to 109 from TFEU, state aid favoring certain economic actors or the production of certain goods is basically forbidden and considered incompatible with the single market principles. However, there are many exceptions that the Commission has approved under specific regulations. State aid must be approved in advance by the Commission and if there is incompatibility of these schemes with Community rules, then the amounts received must be returned to the state which granted the support. An improvement of process of state aid grant produced after the global crisis burst in 2008 and was based on various rescue programs adopted both national and EU level. Using this type of supporting scheme of economic actors or of an entire sectors of economy was not homogeneous at community level and the actions of the governments were not treated equally by the Community institutions.

For some countries (Bulgaria, Czech Republic, Estonia, Malta, Romania and Croatia) state aid related to crisis was not approved. Common bodies have approved aid schemes for Poland and Slovakia, but these countries have not used them. Countries such as Lithuania, Hungary, Finland and Sweden have used these economic incentives in lesser extent. There were member states, like Ireland or Greece, who used extensively these forms of domestic support, particularly in 2011 and 2012. Specific regulations can be found in community legislation on services of general economic interest defined as (Pesaresi et al. 2012) "*services of an economic nature that the public authorities consider to be of particular importance to citizens but which are not offered under market conditions or at least to the minimum required by society*" and whose offering "*requires public intervention.*"

A unique sequence of EU trade and economic picture is competition policy connected closely, especially in recent decades, with trade policy. Principles and procedural—methodological aspects that define this sectoral policy can be found in Regulation No. 1/2013 laying down instructions that ensure the implementation of Art. 101 and 102 TFEU. By these elements, *restrictive trade practices, abuse of dominant position, merger distorting competitive environment and other non-competitive attitudes are prohibited*. By Art. 106 (2) TFUE some limited exemptions for companies providing general economic interest are allowed. Regulation no. 139/2004 regulated rules of procedure for the review and approval of mergers and acquisitions at Community level. In accordance with or in derogation from the general principles of EU competition policy, sector specific regulation has been continuously in this area. Analysis highlights that in recent years, as EU has implemented multilateral agreements, sectoral rules derogating from the essence of competition policy were limited. Latest changes in this regard focused on agricultural and shipping sectors. By adopting Regulation no.1308/2013 new exemptions have been adopted based on effectiveness of common negotiations between olive oil producers, beef, calves and seed material, and by Regulation no.697/2014 exceptions previously adopted for only 6 years were prolonged.

As globalization advances and international interdependence increases, the Community authorities responsible for competition issues have intensified cooperation with authorities with similar responsibilities in other countries. Some examplex are: Agreements with the US (1995, 1998 and 2011), Canada (1999), Japan (2003), Republic of Korea (2009), Switzerland (signed in 2012 and entered into force on 1 December 2014), Brazil (2009), China (2012), India (2013) and Russian Federation (2011). Provisions on competition were included in all bilateral agreements negotiated and concluded by the EU with third parties. EU actively supports multilateral cooperation, as a relevant actor in certain forums such as: *International Competition Network (ICN), UNCTAD Intergovernmental Group of Experts on Competition Policy or OECD Competition Committee*. At Community bodies level this multilateral architecture can become active platform to promote undistorted competition and counteract protectionist practices. It can enable national authorities to respond more effectively for some more complicated cases as typology and scale border. Another sensitive area of EU trade landscape is the public markets (government procurement). According to a Commission estimation (European Commission 2012) expenses for the purchase of goods and services by public entities represent 13.7% of cumulative GDP of the EU. Because these transactions are carried out in accordance with multilateral trade conduct (plurilateral agreement on government procurement, with EU regulations in the field, but also with some specific national regulations, there may be relatively easy sources of distortion of competition. EU policy on government procurement has as main goal the maximum effectiveness in public spending on the way to transparent and non-discriminatory procedures, in accordance with the principles of the single internal market. The rules applicable in this area take into consideration other aspects such as: social aspects, innovative dimension, environmental regulations, technical aspects etc.

4 Contribution of Trade Policy to Implementing Europe 2020 Strategy Goals

For decades the European integration landscape, facing more challenges, has tried to be enrolled in a strategical logic defined through emblematic objectives and supported by a series of multiannual financial perspectives. Such a new design of European integration in economic and trade area can be found in referential documents: Agenda 2000, Lisbon Strategy, and Europe 2020 strategy. By adopting the Europe 2020 strategy, European integrative group has proposed to create during 2010–2020 all premises to reach a smart, sustainable and socially inclusive economic growth. Trade measures can be found through measures designed to help achieving the 7 flagship targets. The most important strategic measures related to trade area are: *EU participation in the successful completion of bilateral and multilateral negotiations; development of trade relations with other strategic partners; supporting European business environment actors to increase their presence in foreign markets; creating new opportunities for European and foreign investors; a more proactive approach in the implementation of commitments in* *terms of international partnerships; internalization as many benefits derived from the progress of globalization.*

This new strategic repositioning involves: *a more accurate application of multilateral rules of conduct; identification of most effective ways that support legitimate rights of European economic actors; more strictness of retaliatory measures at unfair trade practices; successful use of the mechanism of multilateral trade dispute settlement; offering best practices in the implementation of commitments; fight against protectionism.* Actions should be focused on: switching from trade liberalization to support more stakeholders to benefit from this process; implementing effective measures to increase inclusiveness of economic growth (the successful use of European Globalization Adjustment Fund); an increasing EU role in translating Development Agenda; reviewing Community schemes of nonreciprocal and nondiscriminatory preferences in the logic of a new GSP; greater transparency and legitimacy regarding correlation between trade and development; reviewing fundamentals in economic and trade partnership; taking greater account of social and environmental issues. It is recommended to promote a trade policy with a high degree of effectiveness. Such trade policy is one focused on: new economic realities defined by global value chains, digital economy and the increased role of tertiary and quaternary sectors; supporting cross-border mobility of experts, top managers and service providers; a structured partnership involving states, community bodies (especially European Parliament) and corporate and civil society leading to better implementation of various agreements; role in the growth of the SME sector.

A proper trade policy nowadays is one that is developed and applied in connection with other sectoral policies, especially those related to investments. Therefore, EU trade policy must respond to European citizens' expectations and send credible messages to other regions of the planet. A regulatory and institutional framework is necessary, where prevail measures that aim a sustainable economic growth, a correct, ethical, nondiscriminatory and mutually beneficial of trade with foreign countries, to ensure proper application of the promised facilities and granted preferential schemes. New goals that need to be promoted through the revised instruments of common trade policy must be: energizing multilateral trade negotiations so that multilateralism be boosted by bilateral and plurilateral approaches, and not eroded by them; enhance the presence of the European economic actors on the markets of Asia, Africa and Latin America; reconsidering the partnership with BRICS countries; placing in the logic of new generation of trade relations with Australia, New Zealand, India, the Philippines and Indonesia; implementation of provisions of Trade Agreement with Canada (recently adopted and in ratification process); restarting negotiation with US to complete Trans-Atlantic Trade and Investment Partnership (TTIP); upgrading existing agreements with Turkey, Mexico and Chile; reviewing trade relations with Russian Federation to eliminate hostility and to exploit existing opportunities.

It is necessary that EU policy makers to do more for transparency, credibility and legitimacy of adopted measures. Most Europeans must be convinced that the adopted measures may bring them additional benefits. If we talk about the partnerships negotiated with other states, community bodies must demonstrate that they want to create conditions for European users of goods and services to benefit from cheaper products, more, diverse and quality greatly improved. In addition, new trade strategy should protect European consumers and ensure that citizens can trust products that come to them. Such a new strategy should ensure the increase in jobs available for EU workers, especially that international statistics show that 90% from the future global economic growth will occur outside the European Union and one to 7 jobs depend on exports outside the EU. Community bodies must ensure that all commercial partners meet social and environmental standards agreed at international level. Transparency of trade negotiations must increase in order that many EU citizens take note of the results.

Questions and Activities

1. The need of a single community trade policy has been fueled by the *requirements related to the achievement of the single internal market*. Explain and comment upon this statement in the light of the challenges currently facing the current EU's trade policy.
2. "*The common trade policy is the core of foreign economic relations of the European Union*". Explain why this statement may have been made. Do you agree with it (make sure you justify your answer)?
3. Rhetorically, it can make note that "*The EU's foreign trade policy contributes to Europ's competitiveness on foreign markets*" Do you agree with it (make sure you justify your answer)?
4. Some analists consider that, in the recent years, EU has become one of the most commercial protectionist actor at the global level, especially in the trade in products intensive in human resource. Explain why this statement may have been made. Do you agree with it (make sure you justify your answer)?
5. EU could be considered as a global economic actor who want to attack the so-called "*specific problems of the 21st century*" such as: *investments; competition policy; government procurement; food security; export duties; climate change; underevaluation of exchange rates*. Explain and comment upon this statement in the light of the challenges currently facing the new trade policy.
6. Shortly analize five *reasons of switching from trade liberalization to practicing protectionism.*
7. The way in which act such an atypical economic actor (European Union) and ensure implementation of multilevel governance (with the corollary principle of subsidiarity) is very interesting. Do you agree with it (make sure you justify your answer)?
8. Shortly explaine if the *defensive tools* of trade policy can contribute to the development of fairer trade and protection of interests of various components of European society.
9. Shortly explaine if the *offensive tools* of trade policy can contribute to the development of fairer trade and protection of interests of various components of European society.

10. The defining documents for the Europe 2020 Strategy foresee that is recommended to promote *a trade policy with a high degree of effectiveness*. Explain and comment upon this statement in the light of the challenges currently facing the current EU's trade policy.

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European Cohesion Policy

Gabriela Carmen Pascariu and Cristian Incaltarau

Abstract The European Cohesion Policy is the largest and most complex policy of the European Union. As it is a policy focused on reducing the intra-EU gaps in development, the Cohesion Policy is particularly relevant for less developed economies and regions, where it has a key contribution to stimulating economic competitiveness and accelerating growth, boosting and spreading the positive effects of the internal market. In this chapter we aim to introduce a theoretical foundation for public interventions on cohesion in the process of European integration, as well as to explain the system of Cohesion Policy coordination, regulation and implementation, to present critically its impact on the European economy and explain the way in which Structural and Investments Funds contribute to and may be used for business sector development in the European Union.

Key points of the chapter:

- *Understand the relationship between economic growth and disparities dynamics and the importance of reducing disparities for the integration process;*
- *Understand the basic concepts related to Cohesion Policy and use them correctly in their own analyses and interpretations;*
- *Understand the Cohesion Policy governance system; get familiar with the system of structural and investment funds and how they work within Member States and their regions;*

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- *Acquire new competences of working with official statistical databases and gain new knowledge on how to capitalize on the European sources of information on Cohesion Policy.*

1 Introduction

The interest in cohesion as a priority of the political agenda of the European Union started in the 80s against the background of the growing development gaps after the Southern enlargement, but also due to the impact of the internal market. In that context, there was general agreement at the policy-making level that the functionalist integration method of the Treaty of Rome (EU 1957), based on the liberal theories could no longer provide the answers needed for a Community that was more and more integrated though more structurally diversified compared to the Community of its founders. Consequently, the Single European Act (SEA) (EU 1986/1987) has institutionalized cohesion as a political priority at European level, the decrease of economic and social disparities becoming since then one of the main goals of the EU. The general agreement was that the convergence needed to achieve the internal market and deepen European integration by an economic and monetary union, could only be the result of a complementarity between free market mechanisms (specific to the internal market) and public interventions aimed to reduce disparities by supporting endogenous growth in less developed regions.

Following the SEA, the set of interventions for reducing the disparities was integrated into a unitary system of action giving content to a new European policy—*Cohesion Policy (CP)*. The CP was implemented in the framework of multi-annual "packages" of structural interventions in accordance with the Multiannual Financial Frameworks of the EU; it has reached the 5th structural package for 2014–2020, while each intervention package has practically turned into a new reform intended to constantly increase the efficiency and effectiveness of interventions. The CP has evolved from a distributive logic to the one based on development, from a nominal to a real approach towards convergence, based on a continuous process of adaptation to each stage of integration (considering both the conditionalities for deepening integration, as well as those specific to the enlargement waves) and also to the dynamics of the EU's strategic goals.

The importance given to cohesion in European policies was initially justified by the principle of solidarity, so as to compensate fot the eventual losses of less developed economies due to internal market mechanisms. Consequently, the CP had a redistributive role. As theories of growth and development evolved, it was though clear that the existence of disparities generates a sub-optimal allocation of resources, with disintegration risks for the whole EU system, through their destabilisation effects upon the internal market and the Economic and Monetary Union and due to entailed political risks (break-down of consensus). Disparities are limiting economic growth, while generating distortions on the market through anti-competitive practices and/or dumping, and thus they may alter European solidarity as a key integration process conditionality (Buzelay 1996; Dragan et al. 2013). As a consequence, the reduction of disparities became not only a social (unequal distribution of benefits generated by the internal market) or political issue (solidarity, common interest), but also an economic challenge affecting the functionality and effectiveness of the internal market, as a main system of economic integration and welfare growth in the Member States. So, besides redistribution, the Cohesion Policy gained a structural dimension, and became the main investment policy of the European Union.

Without any relevant theoretical developments in the field, cohesion puts together two concepts: the nominal convergence (using such variables as GDP/inhabitant, income, inflation, public debt, other) and the real convergence (production and trade structures, employment, productivity, human capital, living conditions, environmental quality, governance models, other). From this perspective, it is important to remember that the objective of cohesion does not pretends to eliminate disparities but aims to reach a level of convergence when "disparities in social and economic welfare among different regions or groups of the Community are politically and socially tolerable" (Molle 2001, p. 395). Also, the literature separates the economic dimension from the social and territorial ones (EPRC 2001), though they are being brought together under the CP system (economic, social, territorial[1]), the reduction of disparities operating on several levels of action: individual (by creating, for example, equal opportunities for citizens, irrespective of the state they belong to; by reducing disparities related to quality of life and degree of compliance with fundamental rights and freedoms); among countries and regions (on different spatial levels set up by the so-called *Nomenclature of Territorial Units for Statistics*—NUTS[2]); among urban/peri-urban and rural areas (by their association with the Common Agricultural Policy); in the intra-urban area (urban development).

Nowadays, the CP is not only the most important policy supporting the least performing countries or regions in the EU, but it is also aimed to contribute to the EU2020 Strategy's goals for smart, inclusive, and sustainable growth (Europe2020—European Commission 2010). The central pillar of cohesion instruments are the structural and investment funds (ESIF), which account for 43% of the EU budget allocations for the programming period 2014–2020 (compared to only 25% during 1988–1993); important amounts invested in the Member States as co-financing have also been added.

2 Why Do We Need a Cohesion Policy in the EU?

In essence, as any public policy, the European Cohesion Policy is an answer to the so-called market "failure" in the sense that the internal market either cannot generate the anticipated/expected growth and welfare effects, as a result of the

[1]The territorial dimension was added to the Treaty of Lisbon (TFEU) (EU 2007) that reconfirmed the cohesion as the priority aim for the European policies and the policies of other member States.

[2]The NUTS system was adopted in order to ensure harmonisation with the European regional statistics and to facilitate the cohesion policy implementation. More information at: http://ec.europa.eu/eurostat/documents/3859598/6948381/KS-GQ-14-006-EN-N.pdf

economic integration process, or its effects occur, but are not fairly distributed and/or produced over an acceptable period of time (socially and politically).

Being for a long time focused on a redistributive function supporting convergence among member states and regions, the CP has gradually become an integrated policy adopting the three distinctive functions of public policies (Begg 2016): an allocation function (to strengthen the market role in allocating resources efficiently), a redistributive function (favouring the less performing economies and actors in order to reduce disparities) and a macroeconomic stabilization function (in order to enhance resilience and reduce the risks linked to the instability effects induced by inequalities).

2.1 Internal Market, Growth and Disparities

In spatial terms, the economy of the European Union reflects an unequal distribution of economic activities. Inequalities may be generated by the integration process as such (free markets tend towards industrial and spatial agglomeration) and/or be the result of the initial conditions of the participating countries. For example, after the enlargement to the South, the population of Greece, Spain and Portugal (1980) grew by 22% of the EU9, while the GDP grew only by 10% compared to average European GDP (14% PPC), one out of five Europeans within the EU12 had an income of 30% of the EU average compared to one out of eight in the case of the EU9. The EU enlargement to Central and Eastern Europe (CEE) highlighted even more the centre-periphery differentiations by an unprecedented surge in disparities. This time, the population of the EU grew by 28% of EU15, while the GDP grew by only 5% (11% measured in terms of purchasing power parity) with a decrease of the average GDP by 12.5% and a doubling of regional gaps. In 2013, 25% of the EU population was living in regions with a GDP/capita lower than 70%, while 10% of population was affected by severe material deprivation. Nevertheless, despite the convergence process that occurred after the accession of CEE countries, the disparities have remained high (Table 1).

At national level, the ratio of extreme differences in GDP/capita (PPPs) was 1:4 in 1995 (EU15), then it steadily decreased until 2015 with a slowdown of the convergence pace due to the economic crisis (see Table 1). At regional level, the differences are even higher (Table 2). Considering the ratio between top and bottom 10% ranked regions, the disparities are 1:4 in GDP/capita, and 1:8 in unemployment and productivity.

As we have mentioned above, economic disparities are a source of instability generating inefficient use of resources and reducing internal market potential to produce wealth. Additionally, disparities may raise the questions of European project viability, considering that the treaties were meant by the Member States since the beginning of the EU for a “harmonious development of its territory” for “economic and social cohesion” and for a “convergence of economic performance”. Furthermore, the attractiveness of the European Union for its member

Table 1 GDP/capita dynamics, 1995–2015 (EU15=100%), current prices

	1995	2000	2005	2008	2011	2015
EU28	86	86	88	90	91	92
EU15 most developed countries						
Austria	112	112	112	112	117	118
Belgium	107	107	107	104	109	109
Denmark	108	109	109	113	117	117
Finland	93	102	103	109	107	101
France	99	100	98	96	99	98
Germany	113	105	104	106	112	114
Italy	106	103	96	96	95	89
Luxembourg	188	212	216	234	240	243
Netherlands	110	120	119	125	121	118
Sweden	108	112	109	114	115	114
United Kingdom	96	99	103	99	96	100
EU15 less developed countries						
Greece	73	74	82	84	69	63
Ireland	90	115	130	121	120	163
Portugal	68	72	45	73	59	71
Spain	77	82	89	91	84	83
EU12, 2004 enlargement						
Cyprus	81	81	89	95	87	75
Czech Republic	65	61	70	76	76	81
Estonia	30	36	53	62	65	69
Hungary	43	45	55	56	60	63
Latvia	26	31	44	53	52	59
Lithuania	28	32	47	57	60	69
Malta	66	70	71	72	76	81
Poland	37	41	45	50	59	63
Slovakia	41	43	53	64	68	71
Slovenia	65	69	77	81	76	76
EU12, 2007 enlargement						
Bulgaria	28	24	33	39	41	43
Romania	26	22	31	45	48	53
2013 enlargement						
Croatia	37	41	49	57	55	53
Max/Min rate (without Luxembourg)	1:4.04	1:5	1:3.9	1:3.2	1:2.9	1:3.8[a]

Notes: EU12 aggregate refers to countries that accessed to the EU in 2004 and 2007
Source: Authors' representation based on Eurostat database (2017a)
[a]The growth of disparities is explained by the explosive evolution of GDP in Ireland. The exclusion of Ireland leads to a ratio 1:2.7

states and their citizens is given mainly by the added value in terms of prosperity and the acceleration of convergence.

Although it has been fragmented by successive enlargements and various crises, the dynamics of European economies confirms a general process of long-term

Table 2 Regional disparities within the EU, 2000–2015

GDP per capita (% EU average)	2000	2007	2015
Regions analysed	265	276	274
Average top 10% regions	186.17	184.80	189.38
Average bottom 10% regions	31.42	38.89	46.69
Ratio	1:5.92	1:4.75	1:4.06
Unemployment rate			
Regions analysed	233	266	275
Average top 10% regions (% EU average)	20.60	15.27	24.89
Average bottom 10% regions (% EU average)	2.49	2.69	3.00
Ratio	1:8.27	1:5.67	1:8.31
Labour productivity			
Regions analysed	213	268	274
Average top 10% regions (% EU average)	172.03	179.10	196.09
Average bottom 10% regions (% EU average)	14.98	22.42	24.67
Ratio	1:11.48	1:7.99	1:7.95

Notes: Unemployment rate refers to population aged 20–64 years. Labour productivity was computed using GVA divided by the number of usual hours of work in main job [computed as the product between the average number of usual weekly hours of work, the number of employees (aged 15–64 years) and the average number of weeks in a year (52)]
Source: Own calculations using data provided by Eurostat Database (2017b)

nominal convergence at both national and regional levels (Barro and Sala-i-Martin 2004; Aiginger 2013). For example, at regional level, the convergence tendencies up to 2008, generated by the higher growth rates in less developed regions (beta convergence[3]) and strengthened by the Cohesion Policy, have reversed along with the economic crisis as extreme disparities have increased with the implicit deepening of gaps within countries. Additionally, convergence takes place more among "clubs of countries/regions" (comparable in terms of development and having similar production and trade specialisation patterns) with different convergence speeds that tend towards different levels of equilibrium; transfer from one club to another being difficult. As a result, the lowest/highest disparities in the European economy tend to exacerbate, especially at regional level (Boldrin and Canova 2001; Pascariu and Frunză 2011; Pienkowski and Berkowitz 2015).

In fact, many studies outline a positive relation between economic growth, strengthened by the internal market, and regional structural inequalities (divergence theories). Natural tendencies of market liberalisation generally lead to divergence, thus stimulating the concentration of innovative industries in developed (central) regions, while the periphery mainly attracts primary labour intensive sectors with a low added value and reduced dynamics (Mack and Jacobson 1996; Dupuch et al.

[3] Absolute β-convergence occurs when the poorer economies are growing faster than the rich ones and they all tend to converge to the same stationary level of real income per capita in the long run. β-convergence differs to σ-convergence, which occurs when there is a decrease in income per capita dispersion between regions (e.g. Barro and Sala-i-Martin 2004).

2004). Income gaps are low among national economies and high among regions (especially if intra-national disparities are high), the periphery being dependent on the centre and having a low potential to generate catching-up processes.

Consequently, internal market stimulates economic growth and a process of convergence occurs; at the same time it generates agglomeration economies that increase disparities resulting in a complementarity of the convergence/divergence processes. Convergence is conditional as it depends on such factors as economic dynamics (in periods of crisis governments sacrifice equilibrium, spatial "equity" in order to support competitiveness enhanced by agglomerations, although disparities may increase) (European Commission, Directorate-General for Regional and Urban Policy 2014), integration deepening (the more intense the reciprocal exchanges of commercial flows and capital, the stronger the convergence) (Kaitila 2004), production and trade patterns (convergence occurs mainly among economies with similar specialisations) (Petrakos and Rodriguez-Pose 2002), innovation capacity and human capital development (Farole et al. 2009), the system of institutions (economic convergence occurs if there is a convergence in the quality of institutions and governmental effectiveness) (Molle 2007).

As economies of the European Union are different structurally, particularly at regional level, the result is that the tendencies of free market are leading more to divergence than convergence. Therefore, less developed economies and regions need to be supported by public policies in order to counteract internal market divergence processes (Pienkowski and Berkowitz 2015). Considering the specific features of Central and Eastern European economies, the enlargement of the EU towards the East has emphasized the heterogeneity by adding a new periphery with its own development problems. Therefore, while the centre–periphery pattern was even more obvious within the European economy, the need for public interventions in order to foster growth and regional convergence increased even more, bringing new challenges to the European Cohesion Policy.

2.2 Cohesion Policy and the EU's Strategic Objectives

Starting with the 2000–2006 programming period, an increasingly thematic concentration on the development axes set by the strategies at the EU level was provided. These strategies were correlated with the specific strategic objectives at the national and regional levels through the implementation system existent in the member states (for example, currently, by means of Partnership Agreements). The first correlation in terms of result indicators was made in the 2007–2013 multiannual package of interventions, and meant that ever since the start of negotiations concerning the planning and programming documents with the member states, the funding priorities had to match the objectives of the Lisbon Strategy, this process being known under the name of Cohesion Policy "Lisbonization" (Allen 2010). That moment meant a radical reorientation of the CP, from a policy having mainly a redistributive role towards a structural investment-oriented policy,

Table 3 The strategic prioritisation of the Cohesion Policy

<table>
<tr><th colspan="2">Lisbon (2000–2010)</th><th colspan="2">Europe 2020</th></tr>
<tr><th>Strategic objectives</th><th>Thematic priorities CP</th><th>Strategic objectives</th><th>Thematic priorities CP</th></tr>
<tr><td>The most dynamic and competitive knowledge-based economy</td><td rowspan="4">Business support (including RTDI)
Environment
Human Capital (labour market, education, social inclusion)
Infrastructures (transport, energy, telecoms, social infrastructure)</td><td>Smart growth (competitiveness, innovation, technology development, human capital)</td><td rowspan="4">Research and innovation; Information technology and communications (ITC); SMEs competitiveness; Shift to a low-carbon economy; Climate change and prevention and management of resources; Environmental protection and resource efficiency; Sustainable transportation and removing bottlenecks in key infrastructure networks; Employment; labour mobility; Social inclusion and combating poverty; Education, competence and life-long learning; Strengthening institutional capacity and public administration efficiency</td></tr>
<tr><td>High employment/better jobs</td><td>Sustainable growth (energy, climate, resources)</td></tr>
<tr><td>Social progress/high level of social cohesion</td><td rowspan="2">Inclusive growth (poverty, cohesion)</td></tr>
<tr><td>Environment (Goteborg, revised Lisbon)</td></tr>
</table>

Source: Authors' representation

a reorientation strengthened afterwards in the 2014–2020 programming period (Table 3).

Currently, the Cohesion Policy is developed as a system of public interventions complementary to the internal market, playing a two-fold role, orienting and allocating resources through the market towards meeting the strategic development priorities, on the one hand, and strengthening the growth and welfare effects generated by the economic integration, on the other. The growth of its efficiency and effectiveness is not only an economic but also a political necessity. We refer here to the fact that the current political option at the European level for "a multi-speed Europe" or a "hard-core Europe" is in the end also the reflection of the failure of the EU's economic and governance system to generate a faster reduction of gaps (economic, social and territorial) and to produce "as much wealth for as many citizens" as the essence of the welfare state prevailing in the governance models of the member states; it is the reflection of a reality of a "centre-periphery" development pattern, with a "core" (developed, competitive, effective) and a "peripheral" Europe (with a relatively low competitiveness, inefficient, forced to adapt quickly, to catch-up, to depend in its development on the "exogenous" factors) that has induced in time centrifugal forces and has weakened the European Union as a political system.

The development of the periphery, the reduction of its dependence on the core (here we also refer to the reduction of economic growth dependence or productivity on foreign capital or funds coming from the EU budget) is therefore also a political priority on which the future of the European Union depends, irrespective of the political architecture that will result after the new institutional negotiations.

3 How Does the EU Cohesion Policy Work?

The Cohesion Policy is part of the category of policies in which competences are shared between the Union and the Member States [TFEU—Title I, art. 4 (EU 2007)]. As a policy focused on regions (over 70% of funding is being implemented through programmes at regional level), it is also known as a Regional Policy. Accounting for 43% of the EU budget, it aims to generally improve the quality of life for its citizens by supporting sustainable development, using a system of funds with non-refundable financing as the core instrument of intervention. The legal basis for the CP is provided by the provisions of the Treaties, and its secondary legislation is established by regulations, which both constitute the European framework for the use of structural and investment funds (named until the current programme structural and cohesion funds). For the period 2014–2020, eight main regulations have been adopted, respectively: 6 regulations for the ESIFs (The European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD), European Maritime and Fisheries Fund (EMFF)); and 2 regulations for the territorial cooperation objective, namely the Regulation on European Territorial Cooperation and the Regulation on the European Grouping of Territorial Cooperation.

The decision-making procedure is the ordinary one, and its implementation is done across all 4 spatial levels (European, national, regional, local), the main actors in the implementation being the member states. At European level, the key institutional actors are: the European Commission: the Directorate General for Regional and Urban Policy; the European Parliament (Committee on Regional Development and Employment/Social Affairs Committee) and the Council (qualified majority; 15/28 countries; 65% of the population); the European Court of Auditors; Committee of the Regions; the Economic and Social Committee.

In the Cohesion Policy's system of governance, four major principles are applied:

3.1 Programming Principle

The programming principle refers to the fact that the actions performed by the member states in the framework of the Cohesion Policy are set by multi-annual planning, while the financing is being delivered at national level through specific national programmes which are aligned to the EU's objectives and thematic priorities.

The Cohesion Policy is implemented as an integrated intervention system; the first multi-annual package (called the Delors I package) was implemented starting

Table 4 Financial instruments in the Cohesion Policy framework

2007–2013 (structural and cohesion funds—SCF)	2014–2020 (European structural and investment funds—ESIF)	EU amount 2007–2013 (billion euros)	EU amount 2014–2020 (billion euros)	Share of SCF budget 2007–2013 (%)	Share of ESIF budget 2014–2020 (%)
ERDF	ERDF	200.69	196.36	44.79	43.83
ESF	ESF	76.81	83.14	17.14	18.56
CF	CF	70.07	63.39	15.64	14.15
EAFRD[a]	EAFRD[a]	96.24	99.35	21.48	22.18
EFF[a]	EMFF[a]	4.30	5.75	0.96	1.28
Total		448.11	447.99	100.00	100.00

Source: Authors' representation using data from the Directorate-General for Regional and Urban Policy

[a]Under the previous programming period (2007–2013), the EAFRD and the EFF have been included in the Common Agricultural Policy, although they are actually acting as structural instruments, contributing directly or indirectly to business development in rural areas. Nevertheless, during the 2014–2020 periods, the two funds have been re-engineered into a Cohesion Policy similar to the programming periods before 2007–2013. Unlike the previous programming period, during the current period, the European Fisheries Fund (EFF) turned into European Maritime and Fisheries Fund (EMFF)

with 1989 for a period of 4 years. At present, the Union implements the 5th multiannual programme—*Investing in growth and jobs*—a name that actually reflects the main objective of the CP for the 2014–2020 period. Each programme is structured according to the objectives to which various structural funds are linked, having a regional and a thematic allocation.

The current five instruments under the ESIF have been allocated a total of almost 448 billion euros, which is almost half of the total EU budget. While the total amount is pretty much the same as in the previous programming period, some small reallocations have occurred. If the amounts dedicated to the ESF, EAFRD and EMFF increased (the ESF had the largest increase by more than 6 billion euros), the amounts for the ERDF and CF decreased (CF decreased by almost 7 billion euros, while the ERDF by more than 3 billion euros) (see Table 4).

The programmes are initiated by the member states (see below) in a consultation process with the regions and the main stakeholders, including civil society. They are approved by the European Commission which mainly aims to coordinate the actions of the member states to achieve the common objectives established in the European strategic and regulatory framework. The rule of subsidiarity applies to the programming process according to the partnership principle.

3.2 Partnership Principle

The partnership principle ensures that every programme is being established through a collective process involving the European Commission, the member states' authorities (at national, regional and local level) and also various social and economic partners.

The Commission develops, monitors and evaluates the application of the financial instruments in the member states, with the support of the Economic and Social Committee, the Committee of the Regions and the member states; the Parliament and the Council approve, evaluate the implementation of the policy in the member states and propose the necessary measures for improvement, if needed; the member states participate in the development of the strategic and programming documents at Union and national levels, implement programmes and evaluate their results through impact assessments. Also, as the main actor in the CP governance, member states have to make sure that all the relevant national partners are being involved in every stage of the programming process in order to better meet regional and local needs (design, management, implementation, monitoring and evaluation). With this aim, a Managing Authority is established in each member state for each Operational Programme (OP) (at national, regional or local levels) supported by intermediate bodies. All OPs must be approved by the European Commission before their implementation. Also, being a policy designed for the regions, their role in the multi-level system of governance of the EU has constantly grown, regions participating in all stages of the life cycle of this policy in agreement with their social partners. However, some studies highlight the formal symbolic role of the regions, as long as the framework of action is regulated at the national level, particularly in the countries in which the regions are not administrative units but only statistical territorial units (Allen 2010).

For the current period, the framework for the CP development and implementation has implied:

1. The adoption of the Common Strategic Framework (CSF) at the Union level, which includes the priorities at European level in accordance with the strategic objectives of the Europe 2020 Strategy and ensures the coordination of the member states;
2. The signing of a Partnership Agreement (PA) negotiated by mutual agreement (involving a large consultation of the interest groups at national level during the elaboration stage: regional and local representatives, civil society etc.), by the Commission and each member state. PA ensures the correlation between the European intervention priorities and the national ones, established based on strategies and own reform plans, and establishes the responsibilities of all the actors involved;
3. The development and adoption of OPs, thematic or regional, as programming instruments which translate the priorities from the PA into concrete measures aimed at the different fields covered by each OP (for the current period 540 OP were adopted).

3.3 Additionality Principle

The additionality principle requires states to also contribute to the investments delivered through the ESIF. The European structural funds may not replace or reduce the national structural expenditure by a member state in a region but they should only be additional to national public spending. The funds are therefore used as a source of funding as grants for various public projects, private or in partnership, in a co-financing system and with shared management. The rate of co-financing differs by region, programme or action; the maximum co-financing rates are the following: 75–85% in less developed and outermost regions; 60% in transition regions; and 50% in more developed regions. In this way, the Union ensures a prioritisation of the use of national resources according to common strategic objectives.

3.4 Concentration Principle

The concentration principle states that funds are concentrated both geographically and according to some thematic objectives.

Geographical Concentration

The Cohesion Policy is concentrated on the "left behind" and disadvantaged regions (having a natural disadvantage, rural areas, insular areas etc.) in order to promote a harmonious development of the whole Union (art.174 TFEU—EU 2007). A new regional delimitation has been established during the current programming period and three distinct categories have been defined (Table 5): *the less developed regions* are the regions, whose GDP per capita, is less than 75% of the average GDP of the EU27, which were eligible for the Convergence Objective under the previous programming period; *the transition regions* are those with a GDP per capita between 70 and 90% of the EU27 average and this is actually a "safety net" for the regions which were eligible under the convergence objective in the previous programming period (replacing the phasing-in and phasing-out system), but whose GDP per capita statistically increased after the EU enlargement although they are actually facing the same structural problems; *the more developed regions* are those with a GDP per capita over 90% of the EU27 average, that were previously eligible for the "Regional competitiveness and employment" Objective.

Table 5 Cohesion policy architecture 2007–2013 vs. 2014–2020

2007–2013 Objectives	Funds	2007–2013 Goals	Category of regions	Funds
Convergence	ERDF, ESF, CF	Investment in growth and jobs	Less developed regions	ERDF, ESF, CF
Regional competitiveness and employment	ERDF, ESF		Transition regions	
			More developed regions	ERDF, ESF
European territorial cooperation	ERDF	European territorial cooperation		ERDF

Source: European Commission, Directorate-General for Regional Policy (2011)

Unlike the previous programming period, in the current period there is not only one main objective, namely, to support job creation, investments and economic growth, but it is differently addressed depending on the development level of the region. More specifically, the general goal of spurring development is being differently delivered through its specific financial instruments according to the development level of the regions compared to the EU average.

While the less developed and transition regions are eligible for funding from the ERDF, ESF and CF, the more developed ones are eligible for funding from the ERDF and the ESF. Together with 2 other funds managed under the Common Agricultural Policy, but also acting as structural instruments, namely EAFRD and EMFF, these are the main investment sources of the EU, being jointly known as the European Structural and Investment Funds (ESIF). About 54% of ESIF are dedicated to less developed and CF regions (70% if we are excluding the EARFD and EMFF), in order to support development gaps.

The allocation of instruments according to the three categories of regions in terms of development clearly proves the commitment of the Cohesion Policy to reduce disparities by supporting the poorer regions to catch-up with the more developed ones. While the less developed regions (GDP per capita <75% of EU average) and the CF regions (Gross National Income per capita <90% of EU average) accounted for 51.2% of the EU population during the current programming periods, about 70%[4] of the available funds were designated for them (European Commission, Directorate-General for Regional and Urban Policy 2014).

Thematic Concentration

The thematic priorities of the Cohesion Policy evolved in time according to the EU strategic objectives, as well as national and regional development priorities.

Under the current programming period, the funds are concentrated on 11 thematic priorities which support the delivery of the Europe 2020 objectives, namely, smart, sustainable and inclusive growth.

Smart growth concentrates on economic development and it is delivered through the first three thematic objectives which are being supported through the ERDF fund (1–4 thematic priorities[5]). The 8–11 policy themes focus on human development, and aim to achieve the *inclusive growth* objective under the Europe 2020 Strategy by being mainly financed through the ESF (8–11 thematic priorities). The CF supports the thematic objectives 4–7 targeting the sustainability of development by providing more attention to environmental protection under the *sustainable growth* objective of the Europe 2020 Strategy.[6] Nevertheless, EAFRD and EMFF

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[4]If the EAFRD and the EMFF are also included, the less developed and CF regions get about 54%.

[5]The 4th priority is the exception as it relates to the sustainable growth objective of the Europe 2020 Strategy.

[6]Therefore, the countries eligible for benefiting from this fund for the 2014–2020 programming period are: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.

are being concentrated on 3, 5 and 6 priorities, supporting the delivery of both smart and sustainable growth objectives. More specifically, enhancing the competitiveness of SMEs is the main priority, as it is considered the main way for boosting the sluggish growth of the EU economy (Table 6). Thus, this policy area (P3) gets about 14% of the budget available (95 billion euros) through the five funds described above, which reach together 448 billion euros, with a total investment estimated at 630 billion euros (if the national contribution is also included). Both environmental and non-environmental infrastructure (P7, P6 and P4) are still considered the top priorities for the less developed and the CF regions, as they are given around 110 billion euros, which is almost half of their available amounts. For the more developed regions, transport, environment and energy infrastructures (P7, P6 and P4) account for almost 27%, but special attention is given to the SMEs' competitiveness (P3: 20%), social inclusion (P9: 12%) and climate change (P5: 11%) policy areas.

Applying the principles outlined above ensures the coherence in governing and implementing the Cohesion Policy, its continuity across the different programming periods, as well as increasing the efficiency and effectiveness in terms of impact.

4 Is the EU Cohesion Policy Effective?

Starting with the first Delors package (1988–1993), the GDP of the countries that will be later called "cohesion countries" (with GDP/capita <90% of the EU average)—Greece, Ireland, Portugal, Spain grew from 68.3% to 74.5% of the EU average and the regions of Objective 1 (the "less developed" regions—GDP/capita <75% of the EU average) had growth rates over the European average, reducing the difference compared to the EU average by 3%. Many jobs were created, increasing employment level and more than 470.000 enterprises were supported in regions under Objective 2 (regions affected by industrial decline). The trends in disparity reduction prevailed, as the GDP/capita grew during 1995-2005 from 74% to 88% compared to the EU average in Greece, from 91% to 102% in Spain, and from 102% to 145% in Ireland (European Commission, Directorate-General for Regional and Urban Policy 2014; European Union 2008). Similarly, the economies of the states that joined the EU in 2004 also displayed a reduction in disparities, as the GDP/capita at the level of the EU10 was converging towards the average of the EU 25 from 63% at the time of accession up to 76% in 2015. Romania and Bulgaria also went through a process of convergence; the GDP/capita grew in Romania from 42% compared to EU27 average to 57% during the 2007–2015 period and from 40% to 47% in Bulgaria during the same period (Eurostat Database 2017a). As a result, overall, during 2001–2015, disparities decreased among the EU28, the less developed EU member states showing higher growth rates than highly developed states.

Overall, a process of convergence occurred also at the regional level, complementary to the national convergence. For example, during the period 2000–2015 the regions with a lower GDP per capita in 2000 generally displayed higher average

Table 6 Cohesion Policy funding by thematic priorities, 2014–2020

	Less developed and CF regions		Other regions		EU amount		Total amount
Main priorities	(billion euros)	(% by priority)	(billion euros)	(% by priority)	(billion euros)	(%)	(billion euros)
Competitiveness of SMEs (P3)	21.48	8.90	42.26	20.46	63.74	14.23	94.97
Environment protection & resource efficiency (P6)	27.86	11.54	34.15	16.53	62.01	13.84	85.46
Network infrastructures in transport and energy (P7)	54.14	22.42	4.33	2.10	58.47	13.05	71.42
Low-carbon economy (P4)	27.72	11.48	17.13	8.30	44.85	10.01	64.12
Social inclusion (P9)	20.26	8.39	24.29	11.76	44.55	9.94	62.72
Research and innovation (P1)	23.40	9.69	20.33	9.84	43.74	9.76	65.76
Educational and vocational training (P10)	21.35	8.84	13.19	6.39	34.54	7.71	49.21
Sustainable and quality employment (P8)	18.66	7.73	15.39	7.45	34.05	7.60	48.68
Climate change adaptation and risk prevention (P5)	6.10	2.53	22.44	10.87	28.55	6.37	41.24
Information and communication technologies (P2)	9.08	3.76	5.14	2.49	14.22	3.17	20.71
Technical assistance	7.69	3.19	5.72	2.77	13.41	2.99	18.73
Efficient public administration (P11)	3.69	1.53	1.37	0.67	5.07	1.13	6.47
Outermost and sparsely populated	–	–	0.67	0.33	0.67	0.15	0.82
Discontinued measures	–	–	0.13	0.06	0.13	0.03	0.18
Grand total	241.43	100	206.56	100	447.99	100	630.48

Note: Total amount includes both EU and national contributions.
Source: Authors' representation using data from the Cohesion Policy Data portal (European Commission, Directorate-General for Regional and Urban Policy 2017a)

growth rates (the process called β convergence, convergence confirmed also for the previous periods) (Fig. 1). If in 2000, the first 10% of the regions recorded a level of GDP per capita of almost 6 times higher than in the last 10% of regions, in 2015, the ratio between the first and the last quartile was reduced to 4 (Table 2). In the same period, the gaps in productivity between the first and the last quartile decreased from 1:11 to 1:8.

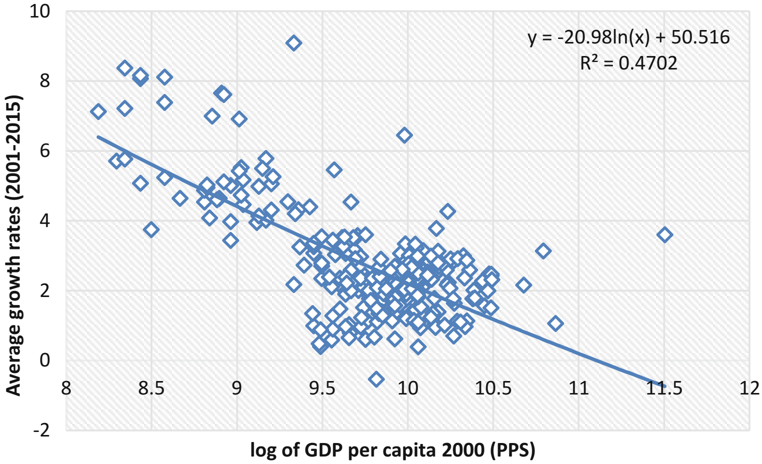

Fig. 1 EU28 regional β-Convergence 2000–2015 (Source: Authors' representation using data from Eurostat Database (2017b). Note: Average annual growth rates in 2001–2015 versus the log of the initial GDP per capita in 2000 by EU28 NUTS2 region

Still, even if overall the convergence trend towards the average of the EU is obvious, it should be noted that it is not uniform and that, in some regions, there was a divergent evolution. For example, the Sterea Ellada region in Greece recorded a negative average level of economic growth during 2001–2015 and the gap compared to the EU average grew. If in 2000, the GDP/capita in this region reached 96% of the EU average, in 2015, it lowered to 61%. The divergent trends may also be recorded in the opposite direction, through higher rates of economic growth compared to the average recorded in the developed regions. For instance, the pace of growth of over 6% during the 2001–2015 period registered in the region Bratislavský kraj in Slovakia managed to move even further away from the average level of development of the EU, from 113% in 2000 to 197% in 2015 (Eurostat Database 2017b).

In the evolution of development gaps at regional level, the recent economic crisis had an important impact that affected over two thirds of the regional economies in the period 2008–2011, slowing down the process of convergence. This was felt differently at regional level, testing the capacity of the regions to resist and recover, respectively, after the economic shock. During the period of its highest intensity (2008–2009), 92 regions recorded a negative economic growth rate of over 4% and only 7 regions managed to go over 4%. However, overall, for the period 2000–2011 the inter-regional gaps had been reduced, although the convergence slowed down for a short period of time after 2008, while the intra-national gaps increased in many countries mainly due to the spectacular growth of capital city regions (European Commission, Directorate-General for Regional and Urban Policy 2014, pp. 1–6).

Although it is difficult to separate the contribution of the Cohesion Policy to those dynamics of intra-EU disparities, a set of models were developed to assess the impact and effectiveness of the CP, the most used models being HERMIN, QUEST and RHOMOLO.[7] Many studies evidenced a positive impact of the Cohesion Policy (European Commission, Directorate-General for Regional and Urban Policy 2014; Pienkowski and Berkowitz 2015), but its intensity is conditioned by various factors. First, the impact depends on the absorption level which reflects the amounts injected into regional economies. Becker et al. (2012) point out that the highest impact is reached when the absorbed funds are between 0.4 and 1.3% of the GDP of the regions. So, redistribution from the regions receiving amounts higher than 1.3% of the regions' GDP to those below 0.4% may increase the overall efficiency. Therefore, the allocation of funds must be correlated with the regional potential, namely with the regional absorption capacity (macroeconomic, administrative and financial absorption capacity) (Constantin et al. 2011). Second, besides the level of funds being allocated/absorbed, the conditions at the national level also matter. For example, sound national fiscal and macroeconomic policies were shown to be able to increase the effectiveness of the CP transfers (Tomova et al. 2013). If the economic environment is perceived as being unsafe, because of the high fiscal or macro-economic imbalances, like a high government debt level or a high foreign borrowing, the impact of the funds may be considerably weakened. Third, Rodríguez-Pose and Garcilazo (2015) argues on the importance of institutions in maximising the returns of cohesion investment. They show that above a certain threshold of expenditure (around 120 Euros per person per annum) additional public investment may lead to waste, as improving the quality of governance may have a far better impact in boosting economic growth. Fourth, along with government quality, the human and territorial capital endowments were also proved as a condition for turning cohesion transfers into economic growth (Becker et al. 2013; Fratesi and Perucca 2014).

Other studies are arguing for the negative role played by the policy (Esposti and Bussoletti 2008; Le Gallo et al. 2011), mainly by causing distortions in the allocation of the factors of production, as a result of the artificial support for low-performing industries or regions. A strong argument in this sense comes from the institutionalist approach that explains the differences among countries as differences in terms of institutional quality as institutions play a key role in growth and development (Acemoglu et al. 2006; Farole et al. 2009). Therefore, the impact of the Cohesion Policy in the less developed countries in terms of growth and convergence risks to be weaker if not reinforced by a process of institutional convergence (Rodriguez-Pose and Garcilazo 2013). Similarly, considering the positive correlation between the cohesion investments' impact and regional endowments (Fratesi and Perucca 2014), the CP needs to deal a trade-off between the effectiveness in maximising the overall growth and the degree of spatial equity that can be achieved by minimising interregional inequalities.

[7]The models use impact indicators, mainly GDP, investment, employment, productivity.

5 Case Study: Structural and Investment Funds as a Support for SMEs and Entrepreneurship

SMEs are the backbone of the European economy as they represent an important source of growth and employment, contributing to a large extent to strengthening the internal market efficiency and to reducing disparities. Recent developments show that the difficult period since the recent economic crisis has finally been surpassed, and SMEs have grown both in terms of added value and employment (European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs 2016). While the added value grew by 3.8% in 2014 and 5.7% in 2015, employment provided by SMEs has also grown by 1.1% in 2014 and 1.5% in 2015. In 2015, the 23 million SMEs generated 3.9 trillion euros in added value (57.4% of total added value) and employed 90 million people (66.8% of total employment and 85% of all new jobs) (European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs 2016).

Given their fundamental role in the EU economy, supporting SMEs is one of the best ways to revitalize the current sluggish EU economy. The problems the SME sector is facing are generally related to a relatively low labour force performance (especially management), difficulties in access to information and finance, low capacity for innovation and exploitation of new technologies, relatively low productivity, weaknesses which are being emphasised under the internal market liberalization process and the increase of international competition, which are specific to the wider globalization processes (OECD 2000).

The EU is trying to address all these barriers that SMEs are facing, and therefore they have been given special attention during the current programming period. Under the first thematic priority, mainly funded through ERDF, the EU supports research and innovation in order to help SMEs maintain their competitiveness by providing them access to more advanced and resource efficient technologies and by supporting the transposition of research results into better products (Table 7). In order to maximise the SME innovation potential, the Cohesion Policy supports cluster formation, as experience has shown that together SMEs are more innovative and register more international trademarks and patents, as they were shown to develop over 87% of all patents (Delgado et al. 2014). Also, when part of a cluster, firms experience higher productivity growth rates, they create more jobs and provide higher wages (Porter 2003).

SMEs are also supported by the Cohesion Policy through human capital formation programmes using ESF under the 8th thematic priority (Table 7). Lifelong learning and labour mobility programmes are financed for increasing workers' adaptation and to make sure they can face any challenges and easily reintegrate into the labour market. Also, limiting early school-leaving and promoting equal access to good quality will improve the prospects for acquiring a more flexible, productive and innovative labour force. Special attention is also given to the promotion of entrepreneurship education, by helping the young population develop an entrepreneurial mind set and skills. Nurturing the new generation of

Table 7 Investment priorities linked to SMEs by ESIF

ESIF	Thematic priorities	Investment priorities linked to SMEs
ERDF	P1	Promoting business investment in innovation and research.
	P3	Enhancing the competitiveness of SMEs by: • Facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators; • Developing and implementing new business models for SMEs, in particular with regard to internationalisation; • Supporting the creation and extension of advanced capacities for product and service development; • Supporting the capacity of SMEs to grow in regional, national and international markets, and to engage in innovation processes.
ESF	P8	• Self-employment, entrepreneurship and business creation including innovative micro, SMEs; • Adaptation of workers, enterprises and entrepreneurs to change.
CF[a]		• Investment in the environment, including areas related to sustainable development and energy; • Trans-European networks in the area of transport infrastructure (TEN-T);
EAFRD		• Fostering knowledge transfer and innovation in agriculture, forestry, and rural areas; • Enhancing competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and the sustainable management of forests; • Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture; • Promoting social inclusion, poverty reduction and economic development in rural areas.
EMFF		• Increasing employment and territorial cohesion; • Fostering innovative, competitive and knowledge based fisheries; • Fostering innovative, competitive and knowledge based aquaculture; • Promoting a sustainable and resource efficient aquaculture.

Source: Adaptation after European Commission and European Investment Bank (2014, pp. 45–46)
[a]This fund is mainly financing infrastructure but it indirectly supports entrepreneurship and SME policies by generally raising regional attractiveness and by encouraging agglomeration economies

entrepreneurs, under the Entrepreneurship 2020 Action Plan will ensure a more dynamic EU economy with a high number of jobs and a higher level of prosperity.

Besides investing in new technologies and in human resources, the Cohesion Policy instruments also enforce SMEs competitiveness by sponsoring business networks. These will help SMEs make the most of market opportunities, by connecting with partners across Europe, to share good practices and help them internationalise and face competition in the Single Market and beyond, supporting businesses to boost their competitiveness and internationalize their activity while leading them to better economic performance as internationalisation is correlated to higher turnover and employment growth rates and stronger innovation (European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs 2014).

The budget thematic allocations confirm that supporting the competitiveness of SMEs is the main priority as it has been dedicated the highest amount reaching almost 64 billion euros (about 33 billion euros through ERDF, 28 through EAFRD and 3 billion euros through EMFF). At the same time, this priority is being indirectly supported by the other funds and priorities, by increasing the attractiveness of countries/regions through innovative technologies, infrastructure development, and human capital accumulation and by improving the business environment, which is a priority for European, as well as national public policies. Nevertheless, along with the Cohesion Policy instruments, the EU is also supporting SME through various other instruments embedded into other European policies[8]: Industrial Policy, Culture and Education, Environmental Policy, Research and Innovation, Policy regarding employment, Social affairs and inclusion, other.

Box 1 Projects for tourism development co-financed by ERDF. Good practice examples (2007–2013 Programming Period)

Name of project	Aim	Impact
Project: Making tourism SMEs fit for the e-business age ("Digital Tourism") **Region:** Wales **Period:** 12/2009–03/2015 **Fund:** ERDF **Total investment:** 11.7 million euros (EU amount 55.8%)	Improving the business performance of tourism SMEs by designing a Digital Tourism Business Framework programme.	– 79% of users reported an improvement and/or growth in their businesses, with 1 810 new or improved products, processes or services; – 44 jobs created; – website traffic has grown dramatically attracting about 3.5 million sessions in 2014 compared to 1.6 million for the predecessor sites.
Project: If we build it, they will come: Romanian towns try to boost tourism ("Medieval fairs circuit in Northern Transylvania—the Karolyi Castle in Carei and the Karolyi Citadel in Ardud")	Developing the north-western Transylvania region and its historical buildings as a tourist destination.	– Increasing the number of tourists by 5% (the results showed a 10% increase, attracting over75,000 visitors per year); – 14 jobs created; – Increase in revenues of hotels, restaurants and

(continued)

[8]For an exhaustive list, please see: https://ec.europa.eu/info/funding-tenders/overview-funding-programmes_en

Box 1 (continued)

Name of project	Aim	Impact
Region: Romania **Period:** 04/2009–09/2012 **Fund:** ERDF **Total investment:** 4.2 million euros (EU amount 85%)		shops' owners because of the raise in the number of tourists.
Project: Developing 'SLOWTOURISM' between Italy and Slovenia ("SLOWTOURISM—Valorisation and promotion of slow tourist routes between Italy and Slovenia") **Region:** Italy and Slovenia **Period:** 05/2010–06/2014 **Fund:** ERDF **Total investment:** 3.7 million euros (EU amount 85%)	Linking Italian and Slovenian tourist areas in the Upper Adriatic through the philosophy of *slow tourism*, with a special focus on sustainability, responsibility and eco-friendly concepts.	– 5% increase in the number of employees in the natural tourism sector, revenues in this sector and he number of tourist packages; – 10% increase in the number of visitors from outside the region; – Promote the 'slow' philosophy with the next generation.
Project: Exploseum: Former German explosives factory turned into interactive museum ("Open air industrial architecture museum with an underground tourist route and Exploseum War Technology Centre DAG Fabrik Bromberg in Bydgoszcz") **Region:** Poland **Period:** 11/2008–07/2011 **Fund:** ERDF **Total investment:** 1.9 million euros (EU amount 64%)	Redesign the former German pre-war arms factory—DAG-Fabrik Bromberg for cultural, educational and tourism purposes.	– Refurbish over 19,000 m^2 consisting of eight buildings and underground tourist route; – Have already attracted over 130,000 people since its opening.

Source: Own representation, based on the European Commission, Inforegio database (European Commission, Directorate-General for Regional and Urban Policy 2017b), http://ec.europa.eu/regional_policy/en/projects/

To use the opportunities of ESIF, SMEs should first be informed on the OPs covering their region. It is important that they understand what the programme is interested in funding, which the eligibility and selection criteria are, which the expenses that may be covered are and what the co-financing rate is as well as what the result indicators are in order to choose the most appropriate program for the desired investment. It should also be understood that the programmes fund actions are linked to the strategic and programming objectives of the region and that these may contribute to the achievement of their result indicators. For this reason, the own interests of an entity (whether we talk about an SME, a public actor or a non-governmental organization) and the European, national, regional/local strategic development objectives need to be similar in order for the project to be accepted for funding. A special attention should also be given to the horizontal funding objectives through the CP (research and innovation; information technology and communication (ITC); growth of competitiveness of small and medium-sized enterprises; supporting the move towards a low carbon emissions economy), the SME sector being "called upon" to contribute to the smart specialisation of the regions and to improving the competitiveness of the European economy in an approach specific to the sustainable development pattern.

6 Conclusions

The European Cohesion Policy consists of all instruments (legislative, financial, procedural) and methods of implementation developed and applied to reduce economic, social and territorial disparities in line with the principle of multi-level governance: subsidiarity, assigning and proportionality.

The importance given to cohesion in the process of European integration is explained by the negative effects of disparities at a time when these increased with each stage of the Union's enlargement, while the internal market tends rather to increase them. From this perspective, the Cohesion Policy may be viewed as a response of the EU's governance system to the internal market "failure" to generate (through free trade) in due time the convergence needed to achieve, on the one hand, the integration objectives provided by the treaties, and, on the other, the strategic objectives for economic development of the EU and the member states.

Many empirical studies outline the positive impact of the CP by reducing development gaps among the member states and regions. Key contributions of the Cohesion Policy were emphasized through stimulation of research, technological innovation and development, increasing employment and human capital, improving the governance system of member states, accelerating the process of economic integration of new EU entrants. The CP has also improved the business environment, especially for SMEs, and entrepreneurship, by supporting measures for enhancing SMEs competitiveness, which is the leading priority under the current programming period.

Nevertheless, going beyond this simple *logic of convergence* (in terms of GDP/capita, employment rate, or/and productivity) is required. From a normative perspective, it is important to understand that the reduction of the disparities of one region compared to another does not equal to the reduction of its peripheral nature. A convergence in GDP/capita or employment (indicators to which CP relates to) may also be achieved while maintaining some of the structural weaknesses of the less developed economies (e.g. low intensity of technology or human capital, specialization in energy intensive industries, dependence on export and FDI; unsustainable structure of foreign capital; reduced quality of social infrastructure). The EU Southern countries have recently showed during the crisis that, in spite of a long convergence process, these are facing major structural weaknesses and a low resilience capacity.

Therefore, the use of GDP/capita as a synthetic indicator for setting the financial allocations between convergence and competitive regions (less vs. more developed regions) in CP should be also linked to other indicators which are not just monetary and which better explain the economic and social disparity existing among countries/regions in order to decide who and which development axes will have priority in benefitting from the support of this policy.

Questions and Activities

1. Choose six indicators from the EU Sustainable Development Indicators (SDIs—http://ec.europa.eu/eurostat/web/sdi/indicators) and design a national level database for the period 2007–2013. Please meet the following requirements:

   (a) Analyse the evolution of disparities and find out whether there was a process of convergence or divergence between countries.
   (b) Establish correlations between the thematic priorities of Cohesion Policy and the selected indicators. Which of these priorities are supporting the reduction of the gaps observed?

2. Choose an economic activity, according to your interests (tourism, agriculture, education, health) and identify at least 4 axes (from at least 2 operational programmes) in your region suitable for financing an investment project in the chosen area.
3. Choose a project which has already been implemented in your region (European Commission database available at: http://ec.europa.eu/regional_policy/fr/projects/). Analyse how this project is related to the objectives of the Partnership Agreement of your country. What about to the Europe 2020 goals?
4. Suppose you want, as a public actor, to develop tourism in your local community and meet the following requirements:

   (a) Set up a priority action for this goal and identify the most reliable axis within the operational programmes to submit a project to get support from the ESIF;
   (b) Argue why and how such funding is suitable for your local development goals;
   (c) Explain how this investment project will contribute to the achievement of indicators in the selected operational programme. What about the Europe 2020 strategic objectives?

5. Analyse comparatively the development level of the EU countries and the economic growth over a longer period of time (10 years). Correlate these evolutions with the level of competitiveness and the quality of governance and institutions. What do you notice? What conclusions could be drawn on the relations between growth—competitiveness and institutions?

6. Take a closer look at the data shown in Table 1 (GDP/capita dynamics, 1995–2015) and answer the following questions:
   (a) Did development gaps reduce or increase over the period under review?
   (b) Which are the countries with the highest economic growth rates?
   (c) Does the figures in the table confirm an absolute β-convergence process? What about σ-convergence? Explain!
7. Set up a GDP/capita (PPS) and labour productivity database at regional level (NUTS 2) for three countries: yours, the less developed and the most developed for the period 2005–2015 (or another period including 2008). Answer the following questions:
   (a) How did intra-national disparities evolve over the analysed period?
   (b) What about the extreme ratios (Max/Min) among the three countries?
   (c) Did the crisis affect the dynamics of disparities? In what way?
8. Analyse the spatial and sectoral distribution of FDI flows in your country. Can industrial agglomeration processes be identified? What do you think are the most important factors that have triggered these processes and what could be the impact on territorial disparities in your country?

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The Relationship Between Competition Policy and Innovation in the European Business Environment

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Abstract Competition is an essential element in the efficient functioning of markets. It brings important benefits to the consumer by encouraging companies to innovate, in order to provide consumers the best goods and services at the best possible price. In the European Union, this process should contribute to the national competitiveness and EU global competitiveness. Competition policy provides instruments to encourage and improve the competitive process, and to ensure consumers to enjoy the benefits of that process. These aims are achieved in practice through competition law and enforced by competition authorities. Companies should be stimulated to innovate but innovation could stimulate to exceed the limits of competition law. Appropriate information and prevention instruments at the national level could increase the corporate responsibility and promote competition culture inside the company.

The key points of the chapter are the following ones:

1. To understand the role and main elements of the competition policy
2. To identify the anti-competitive practices used by companies
3. To analyze the relationship between marketing strategy and competition policy
4. To describe the competition culture in Romania
5. To analyze the relationship between innovation and competition policy

1 Introduction

> Competition is in the genes of all living things. Watch a flower compete for its share of sunlight or watch the goldfish in your aquarium. Infants and small children compete without knowing it. Remember how the queen bee wins? Competition is the spice of life and the soul of progress. How else can quality rise to the top? Clark (1988)

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Following Clark's line of thought, it is clear that a culture of competition is necessary in a market economy because competitive markets are the best way of allocating resources to the best final use and greatest consumer satisfaction. Competition is an incentive, but also a pressure for companies to continuously innovate and change their business activities in order to improve their productivity and provide qualitative products and services (Nikolovska and Mamucevska 2014). Competition has the role the ensure that consumers are able to enjoy the benefits of a normal competitive environment: lower prices, better quality products and services, and high diversity of supply, all of which have been proven to be in the best interest of the consumer (Hausman and Leibtag 2007).

A normal competitive environment, or in the words of Clark (1961), a workable or effective competition, is characterized by the following: (a) a large enough number of buyers and sellers so as not to allow the formation of monopolies, oligopolies or other dominant market positions; (b) a large heterogeneity of the products and services of the particular industry in question; (c) a number of rational market actors who seek to maximize profit on the short run and business value on the long run through market behaviors (Delp and Mayo 2017). Moreover, Mosteanu et al. (2006) argues that the role of the state in a normal competitive environment is to ensure the autonomy of the market actors (e.g., in terms of prices, quantities, etc.) and to protect their interests by passing and enforcing competition laws aimed to prevent and sanction anticompetitive behaviors.

As previously emphasized, these characteristics help normal competitive markets increase the welfare of the consumers, which is consider by most states and regulatory authorities as the main objective of free market competition and of the adoption of a supervisory role for the free behaviors of market participants by national states (Claassen and Gerbrandy 2016). We cannot have a proper consumer protection in the absence of a market economy, with a normal competitive environment; imposing rules regarding competitive behaviors is the only mechanism through which states can protect consumers when the laws of demand and supply no longer function. Thus, the final rationale for the existence of competition legislation is to ensure that the rights of the primary beneficiary, the citizen, in his many qualities, are protected: (a) as a consumer—free market competition leads to lower prices and increased heterogeneity of supply; (b) as a participant on the labor market—free market competition leads to constant innovation, both in terms of products and of production processes; (c) as a shareholder—free market competition generates increased efficiency and higher market value; and (d) as a tax payer—free market competition ensures a uniform and just application of the taxing system.

The institution of competition becomes a fundamental requirement of market economy in order to preserve the free competition principles. Competition law takes into consideration also the potential effect of anticompetitive practices, placing an emphasis on punishing not only actual anticompetitive behaviors which have produced damaging results, but also the intention to commit such infringements (Gerard and Henry 2005). Thus, the main responsibilities of the competition authorities are to prevent anticompetitive practices by monitoring market behaviors and supervising market actors, and to correct and sanction illegal market practices in order to reestablish the normal competitive environment. In order to sanction, it is necessary to establish which type of negative effects the competition law infringements had or could have had: restrictions (e.g., of territories, of market supply), preventions (e.g., of market entry or market moves) and distortions (e.g., behaviors initially excepted from antitrust legislation transformed into illegal practices on the market) (Cucu 2013).

The subjects of anticompetitive practices can be undertakings (defined as "every entity engaged in an economic activity, regardless of the legal status of the entity or the way in which it is financed" by the ECJ Case C-41/90) or national and local public authorities. Only in exceptional conditions, the government can institute price control mechanism or other mechanisms that are anticompetitive for a short period of time and only on the basis of sound economic reasons because otherwise it will create market distortions which will be difficult to mend by future competition policies (Yarrow et al. 2008).

Increased market globalization and the reduction of national states' authority in regards to market regulations have led to the dissolution of national borders when it comes to the application of competition legislation. The transnational character of the actions aimed at protecting free market competition can be seen in the fact that nation states are no longer the main setting for the discussions and analysis of anticompetitive practices, which are now the topic of interest of numerous international forums and organizations such as the European Competition Network (ECN) and the International Competition Network (ICN).

The European Competition Network (ECN) was established in 2004 as a forum of discussion and cooperation of EU authorities in regards to matters that pertain to Articles 101 and 102 and the implementation of competition laws in EU states. The main objective is to ensure that the EU competition law is applied in a uniform manner especially in what regards matters of transnational anticompetitive business practices. The network allows national competition authorities with the dissemination of information regarding cases and potential solutions, the coordination and support of investigations, and the discussion of various issues regarding competition legislation.

The International Competition Network was established in 2001 by specialists working in 16 competition authorities and it has grown to include more than 100 competition agencies across the globe. This network is unique because it is an informal forum for discussion among specialists working in agencies concerned with competition law enforcement and its main purpose is to foster global dialogue, cooperation and convergence on competition matters. The main activities include annual conferences and meetings on various topics related to competition policies and the establishment of best practices in the field which are offered as recommendations for national authorities.

This transnational character of current competition policies and initiatives has been clearly felt in the cases of countries which became EU members in the past 10 years such as Romania, Bulgaria, Croatia, etc. Adhering to the EU has had both opportunities and challenges in regards to competition matters and the most significant change was the improvement of the quality and quantity of investigation instruments at the disposal of national competition authorities and the emphasis placed on EU community convergence and coordination (Danov and Becker 2014). For example, Romanian markets have been included in sector inquiries, which are considered useful not only for determining market concentration, market barriers and degree of vertical integration, but also for providing fact-based recommendation for EU policies and funding programs (Kroes 2007). Moreover, the Romanian Competition Council has had to adopt a more proactive attitude and use its resources more for preventive actions such as dissemination of information and improving competition legislation.

The current context imposes changes not only for regulatory authorities, but also for business managers and owners. First of all, they have to maintain an up-to-date knowledge of the national and EU competition policies in order to avoid penalties and fines whenever planning the next business strategy. For example, an expansion strategy through acquisitions can be a cause of concern in regards to market concentration and businesses should notify competition authorities before finalizing the negotiations. Moreover, certain business practices which are pursued in order to gain a competitive market advantage can generate concerns and even fines from competition authorities if not applied correctly such as in the case of selling below production costs can constitute a sound short-term strategy especially in cases of market penetration, but when used by a player with a dominant market position, it is considered an infringement of competition laws. Second of all, businesses managers have to learn to take advantage of the protection offered by competition authorities and issue complaints whenever they feel that their position on the market is unfairly threatened by rivals who are colluding or other illegal business practices. Third of all, business managers have to promote a culture of competition inside their organizations in order to ensure that the competition rules are known and applied at all organizational levels and that the business is well positioned in order to use competition policies to better serve its customers.

2 Types of Anticompetitive Practices

There are three main types of anticompetitive practices: horizontal agreements (e.g., cartels, exchange of information, boycotts, etc.), vertical agreements (e.g., exclusive dealing, refusal to supply, tying agreements, etc.) and abuse of dominant position (e.g., abnormally high prices, dumping prices, product bundling, conditioning sales, etc.) which are prohibited by Art. 101 and 102 of TFEU.

For all anticompetitive practices, it is important to first establish the relevant market that will be taken into consideration during the investigation, this being the collection of all substitute products or services that are considered interchangeable by customers as a result of their characteristics, prices and intended uses. The relevant market of the product or service has three main market dimensions: (a) the relevant product market itself, where the main criteria used for definition is that of interchangeability (i.e. the degree to which other products constitute substitute for the product in question); (b) the relevant geographic market, where the main criteria used is the geographical one (i.e. where the product is being sold); and (c) the temporal market, where the main criteria is the period on which the investigation has to focus on. The definition of the relevant market takes into consideration only the actual competitors and how the anticompetitive behavior affects their market position and not also potential competitors.

2.1 Horizontal Agreements

Inter-firm cooperation is one of the foundations of the modern business world, but scholars and competition regulators have constantly emphasized the fact that this cooperation has to be done in a way that would result in greater welfare for the customer, not only for the business. Thus, competition legislation frowns upon both intentional and unintentional agreements and concerted practices between players situated at the same level of the supply chain. Most commonly encountered forms of horizontal agreements are cartels, information exchange agreements, joint purchasing agreements and research and development agreements.

Cartels usually imply one or more of the following anticompetitive practices between players that should be competitors or potential competitors (Østerud n.d.-a): price fixing (agreements regarding the prices of goods sold including discounts, margins, etc.), market sharing (based on geographical considerations or others such as customer or product sharing), quantity agreements (agreements that set the final output), bid rigging (various collusive behaviors that affect the normal functioning of tenders inducing bid sharing, bid rotations, cover bids, etc.) and information exchange (necessary for the coordination of the activities of cartel members).

Information exchange can foster competition if it allows businesses to increase their efficiency and provide higher customer satisfaction, but in certain cases it can also lead to market distortions that harm the consumers' interests such as when businesses exchange information regarding their future pricing and production strategy, which allows businesses to coordinate their future market actions and are usually intended to help increase profit margins, not customer satisfaction (Boutin et al. 2011). Thus, in cases of information exchange competition authorities have to establish if this is part of cartel activity or of a broader cooperation agreement, as a result of membership in a trade association or an idiosyncratic case resulting from a single event/meeting (Østerud n.d.-a).

A well-known case of an anticompetitive horizontal agreement is that of the five German banks which, in 2001, were found guilty of having agreed on the application of a banking fee/commission for currency exchange services and were sanctioned by the European Commission with fines that ranged between 2.8 and 28 million euros based on their position on the relevant market and the incomes they had generated in the previous fiscal year. Four of the banks found guilty of price setting are known as the "big four" and their share on the retail currency market represented an average between 70% and 80% at the time of the investigation (Dima and Pantea 2008). In order to prevent these types of anticompetitive practices, in the case of three of the banks (Commerzbank AG, Dresdner Bank AG and Bayerische Hypo—und Vereinsbank AG) the value of the fines was doubled, a measure deemed appropriate by the European Commission considering their size and the amount of available financial resources. Moreover, the initial amount of the fines was further increased by 40% in order to reflect the seriousness of the infringement and the fact that the agreement had a long-term perspective; the Commission extended the time of analysis up to October 15th 1997 when the banks first decided on the fees even though the understanding regarded the quantum of the fees/commission to be applied only between January 1st 1999 and December 31st 2001.

As proof of an understanding between the German Banks, the European Commission relied on concrete evidence of an agreement (various documents such as facsimiles and invitations which proved that several meetings had taken place) that had either as object or effect the diminution of market competition, with dire results for the commercial activities between EU member states. The object of the agreement was the taxation of currency transactions using a commission that amounted to approximately 3% in order to allow German banks to protect themselves against currency risks and future loses. As a result, the European Commission considered that this was a serious infringement of Art. 81 (direct pricing) and thus concluded that there was no need to demonstrate an actual effect. In reality, the horizontal agreement did not result in a uniform application of a 3% fixed commission as not all banks had participated in the agreement, but this was seen as an attempt to harmonize pricing policies that is especially prohibited by competition legislation because it prejudices the consumer. Seen as a serious infringement, in cases of price setting, the European Commission issues sanctions irrespective of whether the negative effects were actually caused or remained only a probability (Dima and Pantea 2008).

2.2 Vertical Agreements

Vertical agreements are defined as agreements between undertakings situated at different levels of the supply chain which concern economic transactions with products or services. In general, these vertical agreements which establish the terms for a specific sale (price, quantity, quality, etc.) do not restrict competition, but when they do they can have more damaging effects that horizontal agreements because they can block the market for other competitors and impose higher prices on consumers. According to Slaughter and May (2016), anticompetitive vertical agreements have as potential effects: (a) the creation of entry barriers (e.g., demanding that distributors or suppliers work only with a certain producer makes it difficult for competitors to enter the market); (b) the reduction of inter-brand competition (e.g., collusions between suppliers or buyers in regards to prices, or market sharing); (c) intra-brand competition (e.g., diminution of competition between distributors of the same brand through market sharing, customer sharing, etc.); and (d) increased barriers for cross-border trade (e.g., market splitting which hurts EU market integration, limiting the possibilities of consumers).

For example, there are vertical agreements which seek to block exports, such as the agreement between the automotive company Peugeot SA and its subsidiary from the Netherlands which sought to block the exports of new cars to consumers from other member states during the period 1997–2003. This type of practice constitutes a grave infringement of TFEU Art. 101. The constraints imposed on dealers had two aspects: first of all, Peugeot SA refused to pay performance bonuses to those that sold cars to consumers from other states, and, second of all, through its subsidiary, the production company exerted direct pressure on those which it identified as being heavy exporters by threatening them with the reduction of the number of cars supplied.

Another interesting case of anticompetitive vertical agreement regards Volkswagen's decision to impose prices on its dealers and to restrict their ability to resell to other individual distributors. Between 1996 and 1999, Volkswagen AG and its German dealers had an agreement that was sanctioned by the European Commission in 2001 with a fine amounting to 30.96 million euros (Case COMP/F-2/36.693). The case is of importance because it had consequences for the legislation in matters of competition and also because it shows the interdependence between strict marketing policies and anticompetitive practices that are sanctioned by competition laws. The nature of the deal between Volkswagen and its dealers was a vertical one based on a contract of exclusive distribution through which the production company imposed its distributors to sell only in a restricted geographical area, to not supply other distributors and to not distribute the products of other competitors. Moreover, the producer set the price and constrained its distributors to sell the products at that price, any discounts resulting in the cease of the distribution contract on the basis that it brought prejudices to the products and the image of the brand, being contrary to Volkswagen's interests. Practically, Volkswagen tried to hide the practice of price setting, which is prohibited by competition law, behind that of the recommended price, one that acts only as a suggestion and, if not respected by the distributor, it does not lead to sanction from the supplier.

2.3 Abuse of Dominant Position

Competition law interdicts abuses of dominant positions, not the dominant market position per se, as mentioned by Article 102 of TFEU: "Any abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States." In order to be considered an abuse, a certain business practice must be first catalogued as abuse through exclusion, abuse through exploitation, or abuse through discrimination (Østerud n.d.-b). Exclusionary business practices are aimed at restricting the behavior of current or potential competition and can include: discriminatory prices, refusal to do business, dumping prices, boycotts, fidelity commissions, sale conditioned on the exclusion of a competitor or a supplier or distributor from the market. Exploitation practices are aimed not at competitors, but at consumers directly and are listed under heading

(a) of Article 102 of TFEU: “directly or indirectly imposing unfair selling prices or other unfair conditions”. Discriminatory practices can be directed both at competitors and consumers and are defined by TFEU Article 102 (c) as: “applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage”.

Between the dominant position and the abuse there has to be a reciprocal relation and we have to acknowledge that a certain business practice that comes from an undertaking that does not have a dominant position on the market will be considered acceptable, the same business practice in the case of a dominant player might be considered abusive. This is the case of those undertakings which refuse to sell their products in cases when there is no alternative for the buyer. For example, the European Commission has established that the dominant supplier on a market of raw materials is abusing its position when it refuses to sell the raw materials to a producer in order to keep it for its own production of derivate products, because this can cause the competition from the other producer to disappear (Manolache 2001). There are also other examples such as when suppliers pressure undertakings not to open up their markets of seek to tie in their customers by offering discounts, when they restrict sales to retailers or prevent retailers from selling competing products, when they refuse to supply a foreign business or constrain independent distributors not to supply products for export, or offer discounts to certain consumers and compensating these losses by increasing the prices for other consumers (European Commission Decision 88/138 and 88/501). Thus, competition laws have to ensure that those undertaking which have a dominant market position are not distorting the market in order to obtain certain benefits which they would not be able to enjoy in the case of a normal competitive environment.

An important case of abuse of dominant position in European Union is that of the IT giant Microsoft which was fined a record breaking 497 million euros in 2004 for tying two products together and determining customers to use them together, at the detriment of competitors producing the complementary product which was tied to the principal one. Moreover, on November 10 2005, Microsoft was fined an extra 280.5 million euros plus a 2 million euros fine per day for loose-fitting of the competition behavior (i.e., not renouncing its anticompetitive practices), and starting with July 31 2006, the daily fine was raised at 3 million euros per day. More exactly, Microsoft sold its Windows operating system alongside other “tied” products such as an Internet browser (Internet Explorer) and a media player (Windows Media Player). The European Commission argued that by offering customers operating systems with pre-installed software applications Microsoft had successfully used its dominant position on the operating systems market in order to challenge the Netscape’s dominant position on the market for browsers of Netscape and Real player’s dominant position on the market for media players. The Commission decided that in order to ensure competition on the relevant market (i.e. the market of PC operating systems) Microsoft had to, first, offer its competitors the information necessary to ensure the interoperability of the operating systems and, second, that it had to renounce selling at “0” price its Windows Media Player alongside its operating system.

3 Competition Culture and Policies in Romania

Competition policies are the main mechanisms through which states can ensure that market dynamics are not affected by individual interests and that the interaction between buyers and sellers lead to efficient economic transactions that allow both consumers and businesses to balance their interests. These state-led mechanisms are of great importance especially in countries which have a past rooted in authoritarian practices where economic activities where centralized and directed by the public administration and economic actors do not have a long history of free market activities. This is especially visible in the case of Romanian public companies which, until the middle of the 1990, were protected from anticompetitive practices sanctions. When this protection disappeared after the liberalization of many markets such as energy, telecom, gas, etc. public companies have faced extreme difficulties in adapting to the requirements of the new competitive environment (Dima 2013), which is why strong legislation and a strong regulatory authority was necessary to help with the transition towards a proper liberal market economy.

Romanian anticompetitive legislation has not had a long history as the first major piece of legislation on the matter was voted in 1996, the law No. 21 on Competition which was inspired by Articles 81 and 82 from the Treaty of Rome, which have now become Articles 101 and 102 in the current treaty. This has represented an important step towards Romania's integration into the European Union and has paved the road towards increased market competition. The main national body responsible with competition policies in Romania is the Competition Council which was founded in 1996 as a result of the Law of competition No. 21/1996 which came into action in February 1997. The Competition Council's main responsibility is to ensure that the national and EU competition laws are applied and enforced, and its activity is aimed firstly at prevention, through supervision and monitoring of industries, and then at correction through fines and other mechanisms that ensure that market competition is not disturbed. The Council has established that there are 14 economic sectors which are essential from the perspective of competition policy (i.e., the banking sector, insurance, media, transportation, IT&C, energy, public utilities, construction, automotive, food, health, liberal professions, etc.) and it has focused most of its attention towards solving and preventing any market issues that impede competition in these areas. In general, most investigations concern infringements of national legislation and are initiated by the Council of Competition.

During the last 5 years, the Romanian Competition Council has issued fines that amounted to more than 138 million euros as shown in Table 1, which represents almost a quarter of the total amount of fines levied since its establishment two decades ago. The average number of new investigations started during the period 2012–2016 was 13, whereas the average number of finalized investigations was a little over 20. In 2016 the majority of the investigations were concerned with horizontal anticompetitive agreements (30.8%) followed by those regarding abuse of dominant power (23.1%) and anticompetitive practices of public administration (15.4%), whereas the finalized investigations were concerned with vertical

Table 1 Summary of the activity of the Competition Council between 2012 and 2016

Category	2012	2013	2014	2015	2016
New investigations	18	12	9	13	13
Finalized investigations	22	19	16	21	25
No. of sanctioned entities	13	37	53	202	163
Sanctions (Euro)	6,774,160	19,297,000	41,506,058	53,891,382	17,065,225

Source: Consiliul Concurentei (2016)

agreements (48%), horizontal agreements (24%) and unannounced mergers (12%) (Consiliul Concurentei 2016).

As seen in Table 2, one of the landmark cases pursued by the Romanian Competition Council during the period 2012–2016 regarded the Romanian electricity industry. In 2015, the Competition Council issued a fine that amounted to 36.8 million euros to Hidroelectrica SA and ten of its trading partners for vertical and horizontal agreements. The Council concluded that these anticompetitive agreements regarding the production and trading of electricity had a damaging effect for competition and for the process of market liberalization due to the fact that they blocked the access to the market for other electricity suppliers and producers. According to the recent evaluation performed by the Bucharest University of Economic Studies (Consiliul Concurentei 2017), this intervention had an impact of approx. 155 million euros according to the European Commission methodology. Moreover, the Competition Council has also had a strong presence in the retail sector, with more than five major interventions which, in total, have created total savings amounting to approx. 66.61 million euros (Consiliul Concurentei 2017). Among these interventions, the 2014 sanctions against four mega retailers (Metro, Real Hypemarket, Selgross Cash & Carry and Mega Image) which totaled 34.2 million euros came as a result of the Council's investigations into price setting for resale of goods and for unlawful behavior during promotional campaigns. The Council has also investigated multiple instances in which public auctions have been rigged or when state companies acted in unlawful ways such as in the case of the Romanian National Lottery Company and its slot-machine and video-lottery suppliers which were fined with 3.7 million euros for an uncompetitive contract which stipulated that the Lottery Company could not have other suppliers and because the suppliers did not comply with the requirements of the contract, in spite of the Lottery Company having paid the commission for the whole period.

A recent OECD investigation at the request of the Romanian Government into the competition policies in three of the 14 main economic sectors (transportation, food processing and construction) has identified no less than 227 potential regulatory restrictions that could affect competition in these sectors and has generated a list of 152 specific recommendations. Moreover, the report estimated that the benefits obtained from increased competition in these sectors would arrive at a figure of 434 million euros (OECD 2016). The Romanian Competition Council has already taken these recommendations into consideration and has established a

Table 2 Top antitrust fines issued by the Council of Competition between 2012 and 2016

Year	Rank	Companies	Fines	Anticompetitive actions
2012	1	CONDMAG, INSPET, MOLDCOR and T.M.U.C.B.	5.6 million euros	Horizontal agreement, bid rigging
	2	Plastidrum, Signature Semnalizare, Swarco Romania, Swarco Heoscont Stressenmarkierung and Eleftherios Kokkinakis	670.000 euros	Horizontal agreement, bid rigging
	3	DO-Fi South-East Holding GmbH Austria	240.00 euros	Unannounced merger
	4	National Union of Bailiffs of Romania	120.000 euros	Horizontal agreement
2013	1	SC Arctic SA, SC BSH Electrocasnice SRL, SC Electrolux Romania and others	10.6 million euros	Horizontal agreements, actions of the public administration
	2	SC Transport Sportours International SRL, J.P. Saner and Sohn GmbH and San Swiss Ams AG	6.3 million euros	Horizontal agreements
	3	National Lottery Company, SC Intralot Sa, Integrated Lottery Systems	3.7 million euros	Vertical agreements
	4	SC Agis Computers SRL, SC Gemini SP SRL, SC Maguy Impex SRL	1.9 million euros	Horizontal agreements
	5	Vita Zahnfabrik H. Rauter GmbH & Co. KG Germany, SC Dentotal Protect and four others	101, 386 euros	Vertical agreements
2014	1	Mega Image SRL, Metro Cash & Carry România SRL, Real Hypermarket România SRL, Selgros Cash&Carry România SRL	34.2 million euros	Vertical agreement
	2	Dafora SA, Foraj Sonde SA Craiova, Foraj Sonde SA Târgu Mureș and Upetrom 1 Mai SA	2.8 million euros	Horizontal agreement
	3	Brand Programing network SA, BV McCann-Erickson SRL, Group Media Operations SRL and others	2.8 million euros	Horizontal agreement
	4	Pelicanul Grup Taxi SRL, Pelicanul Grup Internațional Filiala București, Meridian Taxi SRL, Meridian Taxi Plus SRL and five others	500,000 euros	Horizontal agreement
	5	Rovasag Prod SRL and E85 Impex SRL	23,000 euros	Horizontal agreement
2015	1	SC Hidroelectrica SA and ten of its commercial partners	36,9 million euros	Horizontal and vertical agreements
	2	SC Tinmar Ind SA, SC Planoil SRL and SC Planoil Industries	3.7 million euros	Horizontal agreements

(continued)

Table 2 (continued)

Year	Rank	Companies	Fines	Anticompetitive actions
	3	SC Deutek SA and its distributors	1.3 million euros	Vertical agreements
	4	SC Lykos SA and Zipper Data SRL	990,000 euros	Horizontal agreement
	5	SC Policor SA and its distributors	750,000 euros	Vertical agreements
2016	1	Canal Sear Services SRL, Black Sea Pilots SRL, Maritime Pilot SRL, Black Sea services SRL, Compania de Remorcare Maritima Coremar SA, Logistic Remo Services SRL and Compania Nationala Administratia Porturilor Martime SE Constanta	4.9 million euros	Abuse of dominant position
	2	Porta KMI Romania SRL and 24 distributors	3.3 million euros	Vertical agreements
	3	Ariston Thermon Romania SRL and 15 distributors	2.9 million euros	Price fixing, vertical agreements
	4	Albalact, Simultan SRL, Dorna SA, Lacta SA and Deltalact	1.9 million euros	Horizontal agreements, auction fixing
	5	Viessman SRL and 10 distributors	1.2 million euros	Vertical agreements

Source: Consiliul Concurentei (2012), (2013), (2014), (2015), (2016)

series of five strategic objectives for the period 2017–2020 which include: (a) improving the enforcement of competition regulations, with an emphasis on the 14 key economic sectors; (b) expanding their activity to other economic sectors such as digital industries in which innovation has to be fostered; (c) streamlining their activities in order to make better use of their resources; (d) increasing accountability and predictability by providing more timely information in regards to their investigations; and (e) focusing their expertise on ensuring that state aid is used efficiently (Bedros 2017).

4 The Nexus of Competition and Innovation

Innovation, the main force behind economic development and improved access to better products and services, is regarded as the result of the market competition between businesses. However, the relationship between competition and innovation has remained a contested topic among specialists in economy, business and law.

The traditional view is that there is an inverted-U relationship between the two: opening up industries to competition leads to increased levels of innovation as businesses struggle to maintain their competitive advantage, but as competition increases beyond a certain optimal level, the incentives for innovative behavior begin to decrease as it becomes increasingly difficult to obtain higher profits from innovation and innovation eventually reaches a standstill (Chung and Fung 2017). In order to maintain the optimal level of competition in an industry, competition policies contain both antitrust laws which are meant to protect competition by penalizing behaviors deemed to have a negative effect on the ability of industry players to compete (e.g., predatory pricing, horizontal collusion, monopolies, allocation of territories, price fixing, etc.) and intellectual property rights laws which protect innovation by granting the possibility of obtaining increased returns from investments in research and development.

Competition law and its enforcement are pivotal elements of a pro-competitive policy mix (Bucirossi et al. 2011). Competition policy plays a major role in the organization of the markets as Damro (2006) suggested. This is related to establishing a market in order to safeguard economic freedom; maintaining a competitive order to increase economic efficiency, technological and economic progress; maintaining free and fair competition and prohibit restrictive practices of companies and unfair advantages through various subsidies; and supporting small and medium size enterprises (Borberly 2006).

The Treaty of Rome considered the competition policy a fundamental policy pillar ensuring a smooth functioning of the common market undistorted by the arrangements of Member States (Wilks 2005). Articles 2 and 3 EEC (European Economic Community), or Articles 3 and 4 TFEU (Treaty of the European Union), which define the objectives of the Union, and are therefore said to reflect its political-economic constitution, considering that the effective protection of free and competitive markets may crucially depend upon a credible, institutionalized commitment to competition at the supranational level. The Treaty established four objectives to fulfil the establishment of a single market in the European Economic Community (EEC, denominated currently European Union, EU): a customs union, the progressive harmonization of legislation between member states, the establishment of the four freedoms of movement for goods, services, capital and labor and a unified system of economic competition rules (Colomb and Santinha 2014). In order to enhance the ability of the EEC to develop the Single Market, competition policy principles were laid down in the Treaty of Rome in 1958, in Articles 81–89 of the Treaty of the European Union (TEU), and in Articles 101–109 of the Treaty on the Functioning of the European Union (TFEU). Monopolies, cartels, vertical mergers, and other restrictive business practices and types of anticompetitive behavior were seen as threats to the Single Market. The evolution of EU competition policy is a positive element of economic integration. European Competition Policy has been one of the great achievements of European Integration. The complex set of EU economic and competition policies developed over several decades has had a major influence on economic activity, investment flows, human mobility and the behavior of private and public actors in the EU (van Ravesteyn and

Evers 2004). However, there are several areas of competition policy that remain challenging, especially in terms of their economic impact on consumers, markets, and firms (Röller 2011).

There is a continuous tension between the intellectual property rights legislation (which protect innovation) and antitrust legislation (which protects competition) and the main apple of discord is the amount of profit which business can be allowed to enjoy as a result of their market activities. In other words, excess profit margin is currently a coin with two sides: from the perspective of certain scholars, it is a sign of innovation, efficiency, efficacy and business acumen, but, for others it is in fact a sign of a lack of competition, of monopolies, of free market inefficiencies (Tilford 2008). On the one hand, those who argue that big profits are a sign of market weakness follow in the footsteps of Arrow (1962) who did much to re-establish the view that competition is necessary for innovation by arguing that monopolistic businesses have less incentives to innovate in the absence of competition. The backbone of his theory is the so-called "Arrow effect" or the "replacement effect" which arises when a monopolistic business discovers that the introduction of an innovative product has not generated enough additional market share because the business already occupies the largest portion of the market and thus reduces its spending on research and development (Baker 2008). Moreover, certain scholars argue that businesses situated in leadership positions on the market are seen as likelier to entertain the possibility of behaving less competitively by forming cartels or vertical agreements (Tilford 2008), which is why stringent antitrust laws are necessary in order to prevent a drop in the levels of market competition.

In fact, Baker (2008) argues that current antitrust laws foster innovation in four different ways: (a) by preventing agreements between industry players that will not lead to innovation; (b) by reducing the number of horizontal agreements or mergers that will reduce the number of competitors and thus also the number of likely innovators; (c) by raising the costs for setting standards which would make it more difficult to introduce new products; and (d) by challenging monopolist positions which make it difficult for smaller businesses to enter the market. These mechanisms are especially important for disruptive startups which can benefit from the protection of antitrust laws by filling complaints when restrictions are being placed on their business by incumbent companies. For example, the ride-sharing company Uber filled a complaint with the European Commission claiming that the national legislation in Spain, France, and Germany are restricting their market access by protecting local businesses and thus infringing on EU competition laws (Laugher and Kalmanowicz 2015). Besides international antitrust legislation, disruptive businesses can also take advantage of national legislation and Litan (2016) argues that these are effective mechanisms which foster entrepreneurship and innovation especially in the case of small start ups.

Moreover, the results from a number of research studies prove the positive correlation between pro-active or effective competition policies and productivity growth and consumer welfare (Polder et al. 2009), long-term growth (Dutz and Hayri 1999) or employment growth (Friesenbichler et al. 2014). Analyzing the impact of various competition policy measures on growth, Dutz and Vagliasindi

(2000) considered that effective or pro-active competition policies can influence the business environment, encouraging mobility and efficient allocation of resources and can generate less concentrated market structures (Friesenbichler 2014). Another benefit it that efficient competition policies contribute to lower transaction costs and thereby increase firm dynamics which justifies market-oriented reforms (Böheim and Friesenbichler 2014).

On the other hand, there are numerous scholars who argue that antitrust laws do little for innovative companies and for the improvement of the wellbeing of consumers through access to better and cheaper products because they have been built on a biased understanding of the inner workings of innovative corporate behavior (Larouche 2013). These scholars view excess profit margin as a necessary incentive for businesses to continue to invest in innovation. From this perspective, competition policy and its negative view of monopolies, which today mostly arise as a result of patenting, is said to minimize the incentives that businesses have for investments in research and development programs because it limits the future economic benefits that they can extract from having spent what economists call sunk money on producing a novel product or service (Jacob 2013). Thus, those who argue that competition policies diminish innovation follow the tradition begun by Schumpeter (1976, p. 106) who warned that limiting the possibility of monopolistic or oligopolistic business to reap financial benefits from innovation will reduce their ability to take future risks and to innovate: "It is hence a mistake to base the theory of government regulation on the principle that big business should be made to work as the respective industry would work in perfect competition". This was the type of argument used by Microsoft in its antitrust case with the FTC concerning the bundling of Internet explorer with its operating system: Microsoft argued that the fact that it has a great deal of static market power is in fact a motor for its R&D investments and thus has a positive impact on the level of innovation in the software industry, whereas the authorities focused on the limitations that this bundling posed on the ability of other industry players to introduce their own products on the market (Dima et al. 2009).

Thus, it is clear that there is much to be done in order to improve the impact that competition policy on fostering innovation and to adapt it to realities of modern industries in which competition is more dynamic and more unpredictable than at the time when most of these regulations were designed. The scientific literature abounds in examples of ways in which competition policies could be improved in order to accommodate specific types of innovations (see Haucap and Heimeshoff (2013) for Internet-based innovations) or specific types of innovators (e.g., startups (Litan 2016), pharmaceutical and technology driven companies (Jacob 2013), etc.). Moreover, there are also some general consideration regarding the type of improvements that can be made to enable competition policy to foster innovation. For example, Chung and Fung (2017) support the idea that regulatory agencies should start focusing less on horizontal and vertical anticompetitive agreements and instead reorient their resources towards enforcing regulation against lateral anti-competitive practices which might hinder the appearance of potential disruptors which do not intend to compete directly with the incumbent businesses, but laterally such as Airbnb and the hospitality industry or Uber and the taxi industry. This paradigm shift would require regulatory agencies to enhance their definition of a relevant market and to supplement the SSNIP test and other traditional market definition tools with extended analyses of the larger ecosystem (OECD 2015).

While some scholars argue that competition policy should be adapted to current innovation trends, others argue in favor of less implication of competition regulation agencies in matters which concern innovation. For example, Ibáñez Colomo (2015) argues that EU competition law has been traditionally based on concerns with static market competition (i.e. changes in the market structure) and that the effects of anticompetitive practices on innovation have been considered either indirectly (i.e. when market strength is thought to lead to a reduction of innovation, but this is not the main concern of the intervention) or directly, but in this cases the ability of EU authorities of establishing harm to innovation is very limited, and the author maintains the view that innovation consideration should not form the basis of antitrust interventions. Moreover, Tilford (2008) argues that the intervention of regulatory agencies usually requires market leaders to share their intellectual property with other industry players in order not to be accused of dominant market position and that this reduces the incentive to innovate and actually damages competition. The same line of thought is followed by Larouche (2013) who investigated the practices of the EU competition agencies and found that they are biased towards public models such as open source and standardization and that these contradict the ideal of "keeping innovation paths open". However, in spite of these scholars' warnings that antitrust regulators are doing more harm than good whenever they try to settle competition cases which are directly concerned with innovation, the current trend appears towards strengthening antitrust legislation and it is clear that innovative businesses have to find ways in order to protect themselves from antitrust risk while also maintain their innovative behavior.

Besides lobbying for policy changes, there are several active measures that can be taken by innovative companies in order not to fall under the incidence of antitrust laws. For example, innovative companies can learn how the send the right behavioral signals to regulatory authorities in order to fend off any worries regarding their position on the market. These signals can come in the form of any of the following competitive actions that have been identifies by Ferrier and Lee (2002): price discounts, promotional campaigns, the introduction of new products, increased internationalization, corporate espionage, infringement of patent law, investments in expansion of production capacity. Moreover, Agnihotri (2015) argues that it is also important for innovative companies to take into consideration the following aspects regarding the dynamic of their competitive behavior: (a) competitive intensity or the frequency with which innovative companies engage in competitive actions throughout a single year; (b) the complexity of competitive actions or the heterogeneity of the competitive actions in which innovative companies engage; (c) attack imitation or the degree to which innovative companies mirror the actions of their competitors; and (d) competitive action speed or the time that it takes innovative companies to initiate competitive actions in comparison to their competitors.

Finally, innovative companies should have in place comprehensive codes of conduct regarding violations of antitrust laws and provide their management teams with extensive training on these matters (Kotzian et al. 2016) in order to enable them to think creatively and find alternative ways of action that will still help the company achieve its strategic objectives, but without attracting the unwanted attention of antitrust regulators. These new managerial capabilities are effective means through which innovative companies can reduce the risk of antitrust law infringement and avoid paying large fines, and to initiate actions that will lead them to maintain their competitive advantage, as was the case of AT&T which, after a failed attempt to buy T-Mobile learnt to make smaller acquisitions that would in the end generate the same result as a large merger or the case of Comcast which managed to avoid fears that the merger will reduce market competition by completing a joint venture with NBC Universal (Soma 2013).

Questions and Activities

1. Explain the concept of "relevant market".
2. What is the structure of banking market in Germany (in the retail currency market)? Is any relationship between the structure of the market and anti-competitive behavior?
3. What kind of agreement is the German banks understanding?
4. Explain the concept of anti-competitive agreements.
5. Discuss the effects of the horizontal agreements on the market.
6. List and explain various types of abuse of dominant position.
7. Analyze the relationship between marketing strategy at the company level and competition policy.
8. Explain the major achievements of the competition policy in Romania.

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The Euro and European Monetary Policy: A Critical View

Cristian Paun

Abstract The fiat money production and European Union's monetary integration is considered to be a big leap in the integration process. The introduction of Euro and the centralization of fiat-money production by European Central Bank was considered to generate many benefits for Single Market, European citizens or business sector. Monetary integration and accession to Euro was linked to specific nominal convergence criteria and became compulsory for any new member. The history of Euro creation and adoption by majority of EU countries was not an easy one. The evolution of the Euro Zone after the introduction of a single currency was not merely positive. The introduction of the Euro was followed later by a significant enlargement, including Eastern European Countries (EEC), thus creating a European Union with "different speeds". The current bailouts of various banks exposed to the Greek or the Cyprus crisis and the constant quantitative easing that significantly expanded the existing broad money (denominated in Euro) emphasize the fiat money features of this currency and the tragedy of commons surrounding this important project for European Union.

The key points of the chapter are:

1. the evolution of the Common Monetary Policy at the level of the European Union;
2. the institutional framework of the European Monetary System;
3. the Euro features and its benefits for EU's stakeholders;
4. the challenges associated to the adoption of Euro by non-Euro countries;
5. the convergence problem in the Euro Currency Area today;
6. the need for more coordination between monetary and fiscal policy at the level of EU's members.

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1 Introduction

European Union is a unique multinational political initiative that includes an increasing number of countries having different stages of development. This project started immediately after the Second World War on the ruins of Europe and was promoted as a liberal project promoting some very strong values such as peace, prosperity and solidarity between countries that strongly fought against each other for decades, finally ruining themselves. In his declaration from 1950, Schuman clearly stated: "*... the setting up of this powerful productive unit, open to all countries willing to take part and bound ultimately to provide all the member countries with the basic elements of industrial production on the same terms, will lay a true foundation for their economic unification. This production will be offered to the world as a whole without distinction or exception, with the aim of contributing to raising living standards and to promoting peaceful achievements*". The removal of trade and investment barriers for specific sectors was the starting point of the whole integration process.

The European Union (EU) project developed gradually. Initially, EU started as a free trade area (FTA) only for some specific sectors, very sensitive and very affected by wars (coal and steel sectors in 1952 and later nuclear energy in 1957) and between only few countries (the six founders). The project created a third community in 1957 through the Treaty of Rome: European Economic Community (EEC). These three communities were, in fact, common sectorial markets that evolved towards the Single Market (1987) and later became the European Union (1992), using a single currency—the Euro (1999). The integration process was continuously developed by adding more and more common policies (e.g. common agriculture policy, common competition policy, common foreign security policy, common environment protection policy etc.), regulations and institutions (e.g. European Parliament, European Central Bank etc.) and by including new member states (Delivorias 2015).

The adoption of the Euro means the introduction of common monetary policy for member states. This new feature of European Union was urged by the monetary uncertainty generated by breakdown of the Bretton Woods Monetary System (created in 1944 and removed in 1971) that imposed a gold-dollar tie of all international currencies: the dollar was officially tied to gold and other currencies were flexible tied to the dollar (a narrow band with relaxed restrictions for further depreciation of local currencies was applied). The solutions to this breakdown were *the adoption of full convertibility* by majority of European currencies and *the setup of a new monetary regional arrangement*s that tied European currencies together in various ways (e.g. European 'snake', 'snake in the tunnel', ECU etc.) for increased monetary stability and for an increased monetary coordination. Secondly, the efforts to adopt the Euro and a common monetary policy were justified by the Single Market requirements (de Haan et al. 2015). Today, the Euro and its institutional framework is seen to be a very interesting experiment that generates some benefits and costs for the countries involved.

Monetary policy and its economic effects are the most difficult things to be explained for regular individuals. Money is not neutral to economy, deeply influencing the structure of production and the general level of prices. When specific measures are applied by monetary authorities, irreversible changes of the economic system are produced (see Hulsmann 2008 about the effects of fiat money production on the general structure of production and general level of prices). Therefore, *the soundness of money and monetary policy are vital for long term stability and a sustainable development of any group of countries commonly sharing a single currency*. The instability of any monetary arrangement is less linked to the natural imperfections of a currency area (e.g. the limited territorial labour force mobility) and more linked to the very relaxed production of money and credit conditions that undermine the credibility and the real purchasing power of a currency (either national or over-national fiat one) (see Baggus 2010).

2 A Brief History of the Euro and Common European Monetary Policy

The monetary cooperation between the European countries started in 1950 with the creation of European Union of Payments that supported its members to restore the convertibility of their currencies. The monetary integration was not set by the initial Treaty of Rome (1957). However, the initial integration initiatives included the creation of the European Fund and Multilateral System of Settlements (EFMSS) for providing "*contracting Parties with credit in order to aid them to withstand temporary balance of payments difficulties in cases where these difficulties endanger the maintenance of the level of their intra-European liberalisation measures and to facilitate the operations of the System of Settlements*" (European Yearbook 1955, p. 215). The fund had an initial value of 441.46 million units of account with a value of 0.888 grams of gold (around 392 tonnes of gold) and 123.54 million dollars paid by the American Government. As in the case of the Bretton Woods System, the creators of this financial facility missed to clearly define the term of 'balance of payments difficulties' letting a lot of space for arbitrarily interpretations of it.

The first step was the Memorandum of the European Commission from 1962 (the Marjolin Memorandum) that proposed for the first time the creation of an economic and monetary union between member states (a more advanced form of integration than the free trade area): "*the creation of a monetary union would become the third phase of Single Market*" (CEE Marjolin Memorandum 1962, article 138). The same initiative recognize the fragility of the Bretton Woods System and the need for the European Countries to enforce their capacities to face increasing global monetary tensions. The memorandum highlighted the potential general benefits for the European Community: "*the introduction of the European reserve currency will significantly facilitate international monetary cooperation and the reforms of the current system*" (Marjolin Memorandum, article

129). However, the memorandum did not clearly explain the features of this common currency and how this currency should be adopted by the member states. The mentions about the monetary union were too general and too vague at that time. As a result of this memorandum, in 1964 was created a Committee of Governors of the central banks of the member states of the European Economic Community in order to facilitate the monetary cooperation at the European level.

The next milestone was the Werner Report adopted in 1971 (soon before the collapse of the Bretton Woods Monetary System) that recognised the delays in terms of the four fundamental freedoms of the European Economic Community (capital, goods, persons and services). This report discussed in more detailes about the features of the monetary union: "*a monetary union implies inside its boundaries the total and irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity rates and the complete liberation of movements of capital*" (Werner Report 1970, p. 4). Since that moment, the report expressed the concerns regarding fiscal harmonizationat at the level of the member states (value added tax, excise duties and specific taxes applied on the capital transfers), the need for a common financial policy and potential distortions in competition. This report clarified the vision about the main features of further monetary union: "*the Community currencies will be assured of total and irreversible mutual convertibility free from fluctuations in rates and with immutable parity rates, or preferably they will be replaced by a sole Community currency; the creation of liquidity throughout the area and monetary and credit policy will be centralized; the monetary policy in relation to the outside world will be within the jurisdiction of the Community; the policies of the Member States as regards the capital market will be unified; the essential features of the whole of the public budgets, and in particular variations in their volume, the size of balances and the methods of financing or utilizing them, will be decided at the Community level and the regional and structural policies will no longer be exclusively within the jurisdiction of the member countries*" (Werner Report 1970, p. 5). However, the position of Germany (insisting on more economic convergence before the adoption of a single currency and on the idea that the monetary union should be the last stage of the whole economic integration process) and the position of France (insisting on more monetary cooperation, rejecting any proposal that would create any new European institution and rejecting the perspective of losing control on their national currency) were irreconcilable at that time. Finally, the plan was adopted and a 10 year schedule for achieving the monetary union was mentioned (by 1981).

According with the provisions of the Werner Plan and accelerated by the breakdown of the Bretton Woods System (august 1971) that highly increased the financial markets' volatility, the monetary integration process started with the European 'snake' system introduced in April 1972 (Basel Agreement) by all member states (nine members from 1973). The 'snake' was an exchange rate mechanism based on bilateral exchange rates kept almost rigid by central banks inside these narrow bands: initially all European currencies were placed in a narrow band of fluctuation against the dollar, of +/− 2.25%, imposed by the Smithsonian Agreement (the '*tunnel*' for European Currencies) and, simultaneously, placed in a narrow band of fluctuation against each others, of +/− 2.25% (the '*snake*'). In 1973, the United States adopted the free exchange rate currency regime (no restrictions and artificial alteration of US dollar exchange rate by central bank). This decision lead to the collapse of the tunnel. After 1973, the exchange rate mechanism was based exclusively on the 'snake' (bilateral narrow bands). Additionally, the European Monetary Cooperation Fund (EMCF) was created, in order to provide the financial support for creating the monetary union. This system was very unstable and, in 1977, only 5 member states of the 9 continued to follow it (Germany, Belgium, Luxemburg, Denmark and Netherlands). The oil crisis of the '70s and the constant speculative attacks on the major European currencies significantly destabilized the monetary arrangements. The Werner Plan and all efforts to adopt the monetary union were out of schedule (Scheller 2004).

The collapse of the 'snake' and the reforms imposed by the Jamaica Agreements (1976) regarding the international financial system forced European member states to reconcile their positions and to move forward in their monetary integration efforts. The 'snake' mechanism was too complex. Therefore, a new exchange rate mechanism replaced the bilateral pivot rates with a currency basket adjusted daily called ECU (European Currency Unit) and firstly introduced on March 13th, 1979. The ECU was only a unit of account and was used for a better control of exchange rate fluctuations (Feenstra and Taylor 2016). Each European currency was included in the ECU in various proportions that changed every 5 years (e.g. the weights for the Deutsche Mark were: 32.98% in 1979, 32.08% in 1984 and 31.94% in 1988). The value of the ECU against the dollar was established as weighted average exchange rate of each national currency included in the basket against the US dollar (Zumaquero 2010).

The stages of the European Monetary Union were accelerated by the adoption of the Single European Act on February 1986 and the Delors Report submitted to the European Commission in May 1986. The Single European Act introduced some very important changes in the Treaty that enforced the achievement of a Single Market. This important act (in fact, this act amended the Treaty of Rome) did not include explicit provisions regarding the introduction of a single currency. The only monetary provisions referred to the European Monetary System and the ECU and to the obligations to consult the Monetary Committee and the Committee of Governors of the Central Banks: "*in order to ensure the convergence of economic and monetary policies which is necessary for the further development of the Community, Member States shall co-operate in accordance with the objectives of Article 104. In so doing, they shall take account of the experience acquired in co-operation within the framework of the European Monetary System (EMS) and in developing the ECU, and shall respect existing powers in this field*" (Single European Act 1987, Article 102a). Following the Single European Act and the Werner Plan, The Delors Report is the next milestone in the monetary integration. The report is important because it stated the need for independence of a new European Central Bank and recalled from the Werner Plan the three main conditions to achieve monetary union: "*(i) the assurance of total and irreversible convertibility of currencies; (ii) the complete liberalization of capital transactions and full* *integration of banking and other financial markets and (iii) the elimination of margins of fluctuation and the irrevocable locking of exchange rate parities*" (Delors Report on EMU 1989, pp. 14–15). Despite the fact that the report did not mention a clear schedule for creating the monetary union (except for the starting point of stage one, set to begin no later than 1990), the political role in this particular case is recognized. Monetary union, as other integration features, is a political decision. The value of this report consists also in the identification of *three stages* associated to this process: *stage one* that consists in aiming "*at a greater convergence of economic performance through the strengthening of economic and monetary policy coordination within the existing institutional framework*" (including the preparation and ratification of a new Treaty); *stage two* supposing the setting of "*basic organs and structure of the economic and monetary union would be set up, involving both the revision of existing institutions and the establishment of new ones*" and *stage three* the member states will "*move to irrevocably locked exchange rates and the attribution to Community institutions of the full monetary and economic competences described in this Report. In the course of the final stage, the national currencies would eventually be replaced by a single Community currency*" (Delors Report on EMU 1989, p. 30, p. 33 and p. 35).

These stages started to be implemented in July 1990. The milestones in this implementation were: the ratification of the Maastricht Treaty on the European Union in February 1992; the creation of the European Monetary Institute in 1994, the signing of the Stability and Growth Pact in 1997 that established a set of common rules for a better coordination of EU members' fiscal policies and for pursuing sound public finances that would provide more financial stability; the creation of the European Central Bank (ECB) and the European System of Central Banks (ESCB) in July 1998.

The Euro currency started to be introduced in January 1999. This single currency was set to replace the local currencies of 11 countries (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland that fulfilled the nominal convergence criteria at that moment; Greece introduced Euro in 2001 being the 12th member state to join the Eurozone). The replacement used a fixed conversion rate that was initially set by using the weights of those currencies in the ECU currency basket. These conversion rates were irrevocable. The process of replacing the local currencies with the Euro was finished in January 2002 and the European Central Bank was the sole legal tender for currency of Eurozone members and the responsible for their common monetary policy.

However, the introduction of Euro was not a peacefull process. Some countries strongly opposed this project or opted out with a special status: (i) the case of the United Kingdom that accepted to access the European Exchange Rate Mechanism II (ERM II) in 1990 (as the other 12 countries) but, after very strong speculative attacks on the pounds, decided in 1992 to not participate in this monetary arrangement and negotiated a special status in the Maastricht Treaty regarding this issue; (ii) the case of Sweden that joined the European Union in 1995, it participated in the ERM II but the referendum of 2003 rejected the adoption of the Euro by this country; (iii) the case of Denmark that initially participated to the European

Monetary System (including the 'snake') and that signed the Maastricht Treaty with a condition to keep an opt-out right for adoption of the Euro due in the 1992 referendum that rejected its introduction, that joined the ERM II in 1999 and that rejected again in 2000 the participation of this country to the single monetary area. Finally, we have the case of new members that acceded into the European Union after 2004 from Eastern European Countries. In this case there is no opt-out right for the Euro adoption that is compulsory for them (some of them already adopted the Euro a few years following the integration).

As we can see, the process of adoption of the Euro was very difficult, with many delays and hard negotiations between member states. Moreover, this common policy strongly divided the European Union and emphasized the divergences among the most powerful member states. Finally, we can see that all the Founders (the Six founding countries) strongly supported this initiative and, finally, adopted a common monetary policy and a single currency for them.

3 The EU's Common Monetary Policy and Its Institutional Framework

The European Monetary Union is the result of many political efforts to achieve a common vision on its main features. This currency area is not perfect and not optimal. The European Monetary Union means a set of institutions, specific monetary goals and specific monetary instruments created to provide high stability to a new created common currency with a symbolic name—the EURO. The Euro and its monetary system is a full convertible currency, is a fiat money without any monetary anchor to gold or other valuable assets, is not a natural money but a legal one based on a legal tender politically decided and defended. From this perspective, the transfer of monetary sovereignty to the supranational level is more politically than economically argued. When we replace several fiat currencies with a single one and when we replace several central banks with a single (common) one there are not so many economic arguments to be considered.

The current institutional framework of the Eurozone is very confusing, very bureaucratic and very difficult to be explained to regular people. The main responsibility of the monetary policy is assigned to *the first institutional layer of the EMU—the European System of Central Banks* (ESCB) that was created in 1998. The legal basis for this structure is the Maastricht Treaty and the Status on the European System of Central Banks and the European Central Bank. ESCB includes all the national central banks (NCBs) of the members of the European Union that are inside and outside of the Eurozone. The members that are outside the Eurozone have a different status within the ESCB: *countries with a derogation* (Sweden and the new member states since 2004 to present that did not adopt the Euro yet—Bulgaria, Croatia, Czech Republic, Hungary, Poland and Romania) and *countries with a special status* (the United Kingdom that rejected the Euro and kept the opt-out right and Denmark that is in the ERM II but rejected the Euro adoption by referendum twice). The decision inside ESCB is carried out by the *Governing Council, the Executive Board and the General Council*. The Governing Council is composed by the ESCB Executive Board's members and the governors of the national banks of the countries that adopted the Euro. This structure is responsible *for the elaboration of the EU monetary policy features* and for *the guidelines to implement it by each member of the Eurozone*. The Executive Board of the ESCB is composed by a ESCB President, ESCB Vice-president and four independent members elected based on their recognized experience in the monetary field and this structure *is, in fact, responsible to implement the monetary policy at the level of the European Union* by giving specific tasks to national central banks (Nelsen and Stubb 2014). The *General Council of the ESCB* is composed by a President, Vice-president and all governors of the EU member states' central banks (30 members for EU 28 case). According with the ESCB status, the ESCB General Council *was assigned with the main tasks of former European Monetary Institute* (created in 1994): *to advice the structures of the European Central Bank*, a statistical function, to prepare the annual reports of the European Central Bank, to decide on the standardization of accounting and reporting procedures applied to the national central banks, specific attributions for ECB's capital subscriptions, to establish the conditions for employing people to the ECB and to prepare the conversion rate for countries with a derogation when these countries will decide to adopt the Euro (Olsen and McCormick 2016). ESCB includes also a number of *15 specific committees*: the Accounting and Monetary Income Committee, the Banking Supervision Committee, the Banknote Committee, the Committee on Cost Methodology, the Eurosystem/ESCB Communications Committee, the Eurosystem IT Steering Committee, the Information Technology Committee, the Internal Auditors Committee, the International Relations Committee, the Legal Committee, the Market Operations Committee, the Monetary Policy Committee, the Payment and Settlement Systems Committee, the Statistics Committee and the Budget Committee (Cini and Borragan 2016).

Because there are EU members with a different status on monetary integration, the ESCB was divided into *the Eurosystem* and the ESCB. Despite the fact that the Governing Council of the ESCB was entrusted to establish the the EU's common monetary policy and that the Executive Board of the ESCB was entrusted to implement the EU monetary policy, the ESCB *is not a monetary authority* and the ESCB *has no legal personality of its own*.

The Eurosystem is the *second institutional layer* of the EMU, including the national central banks of all the 19 countries that already adopted the Euro and the European Central Bank (ECB). In fact, the Eurosystem is the monetary authority at the level of the EU. *The Eurosystem is the European System of Central Banks of only those countries that adopted the Euro*. The Eurosystem is composed by only two decisional bodies of the ESCB: the Governing Council and the Executive Board of the ESCB where only those countries that already adopted Euro are accepted. Moreover, the Eurosystem includes the European Central Bank. According with the Statute of the ESCB and the ECB, the basic tasks of the

Eurosystem are: "*to define and implement the common monetary policy of the Eurozone; to conduct foreign exchange operations; to hold and manage the official foreign reserves of the euro zone Member States, and to promote the smooth operation of payment systems*" (European Commission 2008, Article 3). Additional tasks are referring to statistical data collection, financial stability or prudential supervising of banking institutions. We can easily observe that, due to political reasons, not a central bank (the European Central Bank) but a system (the Eurosystem) is carrying out the common monetary policy of the European Union. This is very confusing and could be a clear sign of dilution of the monetary authority that can undermine the response in case of a financial crisis.

The European Central Bank (ECB) *is the third institutional layer of the EMU*. The decision making bodies of this institutions are: the Executive Board, the Governing Council, the General Council and the Supervisory Board. For more confusion, the first three decision making bodies are the same with the bodies of the ESCB (the ESCB Executive Board is, in fact, the ECB Executive Board and so on). The last decision making body is referring to supervising operations on the activity of the European banking sector and it is composed by a Chair, Vice–chair (elected from one of the ECB Executive Board's members), four ECB representatives and national representatives of supervising structures from national central banks. A Steering Committee is preparing the meetings of this structure (McCormick 2015). The European Central Bank is the core of the European System of Central Banks (ESCB) and the Eurosystem (European System of Central Banks that adopted the Euro). The main objectives assigned to the European Central Bank are: a primary objective that is the *price stability of the Eurozone* initially defined as "*a year on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%*" and later changed into "*to maintain the inflation rate below, but close to, 2% over the medium term*" (Issing 2003, p. 46) and the second objective is *to support the general economic policies in the Union* (European Commission 2012, Article 127). A tertiary objective empowers the ECB to mandate the ESCB to "*contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system*" (Transparency International 2017, p. 39]. The European Central Bank was hardly recognized as an official institution of the European Union (2007 by the Treaty of Lisbon).

The national central banks of the EU member states are the *fourth layer of the EMU*. Unfortunately, the adoption of a common currency should consist in a transfer to a supra-national central bank of all functions but the decision was to create an European Central Bank and to keep in function existing national central banks (with minor limitations of their competences). National Central Banks (NCBs) are continuing to play o significant role in the Eurosystem including the following: (i) to execute the main open market operations; (ii) to hold minimum required reserves for deposits of commercial banks and (iii) to hold and to manage a portion of foreign reserves.

The European monetary system has a very complex and very bureaucratic structure with many layers that are interfering among them. The failure to dismantle the national central banks and to entirely transfer the monetary policy to a supranational central bank is clear. This very complex structure is very confusing for regular EU citizen. The very bureaucratic structure is negatively influencing the credibility and the confidence in the transparency and accountability of such important institution (according with the last EU barometers, the confidence in ECB was constantly dropping in almost all Eurozone countries). The primary objective set to the European Central Bank is also questionable: the natural state of prices in an open economy is to be unstable due to existing and changing market conditions (demand and supply sides). The direct control/influences on prices by a central bank is very limited. Despite the two pillars used to achieve this prices' stability (economic analysis and monetary analysis performed on *full set of information* by ECB's Governing Council), the monetary decisions regarding how much liquidity should be available in the Eurozone at a specific time are very discretionary and very subjective (the set of information is never *full* or *complete* and there are severe limitations to predict the future based on past data as a basis for any sound monetary policy). Moreover, the crisis revealed the *problems with the independence* of the ECB from all economic operators (including the saved commercial banks from bankruptcy by fuelling them with cheap money).

4 The Benefits and Limitations of a Single Currency: A Concise Critical View

The credibility is very important for the institution of fiat money (Euro is a fiat money). One of the strongest debate surrounding this particular problem insists on the benefits to adopt a single currency instead of keeping the local ones at the level of European Union. The position of EU's monetary officials classifies the benefits for adopting Euro by looking to various potential stakeholders/users of this single currency: European consumers and the private companies. Some general benefits (such as those referring to the stability and growth of the whole European economic system, the benefits associated to the EU's Single Market, the benefits assigned to the European identity or to the EU's international relations) are also introduced in this particular discussion.

The EU's officials are claiming the following *benefits for EU's consumers* when the single currency is replacing the local ones: an increased market competitiveness; a reduced inflation; higher facilities to the borrowing of money; a decreasing of cost of traveling all over the European Union; more new jobs created; higher economic growth at the level of EU's countries and regions and, finally, more public investments (European Commission).

The adoption of Euro is submitted to increase the *market competitiveness* by an improved transparency of prices at the level of EU's member states. The denomination of market prices in the same currency is submitted to improve the comparability of such prices at the level of EU's consumers. But this benefit is only partially true because the final price in specific place of EU cannot be so easily compared with the same price in a different location. The information about such prices is useless in this case and cannot contribute so much to an improvement in the competiveness of any operator or country. The final price of a good or service is depending on so many other important variables attached to a specific location: the accessibility of this location, the availability of various infrastructure and facilities, the consumers' behaviour, consumers' purchasing power etc. A comparison of the price of a bread in Paris (France) with the price of "bread" in Bucharest (Romania) is not so much relevant and will not contribute so much to higher competitiveness of economic operators from both countries, even when both prices will be expressed in the same currency. So, this claimed benefit for adopting Euro is, at least, very limited. The same with the others of this kind. For instance, *the higher price stability* when a single currency is adopted. In fact, a single *fiat* money will replace more local *fiat* ones, dismantling the monetary competition among them. The existing monetary competition between *fiat* currencies is submitted to improve the price stability that a single one, especially when strong bilateral trade and investments transactions are present (the case of Single Market). Despite the historical data, no one can theoretically argue that European Central Bank will be less inflationary than several local central banks. On the contrary. Higher moral hazard and more inflationary incentives are involved with a more centralized monetary policy. The other benefits in the favour of adoption Euro from the perspective of EU's consumers are also problematic. *The facilitating of increase borrowing of money* is, at least, a bizarre benefit of Euro's adoption baked by the declared policy of European Central Bank to promote cheaper money policy of the level of Eurozone. The cheap monetary policy is, in fact, inflationary and contradicts the previous benefit. Beside the interpretation of this inflationary policy (cheap money and credit), no one can theoretically argue that a supra-national central bank would promote a cheaper money and credit that national central bank ones competing together inside a Single Market. In fact, the major beneficiaries of cheap money and credit policy are not the final consumers but the commercial banks and the state (EU in this case) that are closer positioned to this over-sized money printing machine than regular individuals. The cheap credit and money are distributed by commercial banks (with huge profits) and most of them are addressed to the public entities (including 'private' operators connected to the state through public procurements or public subsidies). By claiming such benefit in the favour of EU's consumers, the officials of ECB is proving a clear misunderstanding of the nature of genuine capital that results only from savings and a misunderstanding of the role of money and credit in the economic system. The reduced *travelling costs* are also introduced to defend the adoption of a single currency. In fact, the travelling costs are including not only the costs of exchanging foreign currencies with local ones. These exchanging costs are today significantly lowered by the use of electronic money. Another similar argument is associated to a *decreased cost for cross border doing business* explained by no foreign exchange risk for businesses located inside Eurozone. It is true that any transaction between two EU's located businesses are submitted to have lowered risk (due to lower foreign exchange exposure). If

European Central Bank will facilitate more cheap money and credit, this will increase the systemic risk and economic risk associated to a weaker (single) currency. A single currency is submitted to be more inflationary than local ones replaced by it. So, the benefit of lower risk associated to all cross border doing business inside Eurozone are negatively compensated by a presumed higher inflation, higher systemic risk, higher economic risk and higher volatility and depreciation of Euro (affecting the international trade outside Eurozone). The last argument is claiming that adoption of Euro *improve the volume (not the quality) of public investments*. This benefit associated to EU's consumer is, at least, bizarre too. No one can theoretically argue that in case of a single currency the public investments will be higher than in case of a couple of local currencies highly tied together inside a very restrictive European Monetary System (ECU based one or ERM 1).

The adoption of Euro is presented to produce some specific *benefits for business* sector too. The EU's officials are indicating the following benefits: improved cross-border business opportunities; better borrowing condition, better business planning and higher investment rate; improved access to capital resources and, finally, increasing the volume of international trade (European Commission 2017).

The first remark is referring to the smaller number of potential benefits for business sector than in case of consumers. The potential benefits associated to the EU's business sector are again, at least, debatable. The first assigned benefit is *improved cross-border business opportunities* facilitated by the absence of exchange rates inside Eurozone. In fact, due to still existing important countries that are in the Single Market but outside of Eurozone, this benefit is limited. Moreover, the exchange rate between Euro and other international currencies remains and this benefit is limited only to those companies that are locating their business exclusively in the Eurozone. The second benefit assigned to business sector is again *better borrowing conditions, better business planning and higher investments* argued by a reduced volatility and lowered level of long term interest rate induced by sound and prudent management of monetary issues promoted by EU monetary institutions. In fact, this claimed benefit is showing a very limited understanding of the implications of manipulation of interest rate (this artificial lowering of it). An artificial lowered level of interest rate (below its natural rate of interest) is boosting the investments above the natural potential of markets (based on genuine capital produced by savings), is fuelling the entrepreneurial errors and is heating the economy finally accelerating the recession (that will be also higher than natural state of the economy). Therefore, this claimed benefit for business sector, is, in fact, increasing the systemic risk and is significantly reducing the capacity of foresight of entrepreneurs affecting their long term planning abilities. This cheap money and credit policy beyond Euro is creating more entrepreneurial error, destroying the sound part of the whole economy. Euro was claimed to support Single Market and an expansionary policy is against all the actors searching for their more wealth using economic means. The artificial expansion of money and credit is against Single Market principles, negatively altering the structure of production and introducing negative stimulus for economic actors that will be more interested to be involved in the production of (fiat) money instead of producing real goods and services for the Single Market. The next benefit from the perspective of business sector is *improved access to capital market*. This access is difficult to be directly linked with the single currency replacing local ones. The freedom of capital flows is a fundamental pillar of Single Market and consists in higher capital market integration, standardization of financing and investment instruments, higher transparency, less trading costs and reduced entering and exiting barriers. The single currency is marginally affecting all these issues. The last argument is *increasing volume of international trade*. The volume of exports/imports should be marginally influenced by currency and monetary factors. The influence of exchange rate (depreciation) on the volume of EU exports is not clear and depends on the demand and supply's elasticities. It is commonly stated that local currency depreciation helps exports (that are cheaper abroad) and reduces imports (that are more expensive locally) but this effect is very limited. Moreover, this presumed benefit is working in the case of local currencies as well.

The third category of benefits associated to the adoption of a single currency by the EU officials includes some *general benefits* (difficult to be linked to a specific group of stakeholders): sound and sustainable public finance, better government budgeting, more cohesion and more resistance to external shocks, more efficiency due to a bigger size, facilitating the payments inside the Single Euro Payments Area and improved the EU identity for EU citizens (European Commission 2017).

The discussion is very sensitive in this case too. The first general benefit is talking about *a sound and sustainable public finance* facilitated by the single currency and argued by the imposed nominal convergence criteria for acceding in ERM 2 (public deficit not higher than 3% of GDP and public debt not higher than 60%, prices' stability, lower long term interest rate and stable exchange rate). In fact, in the last decade, almost all major countries from Eurozone significantly increased their public debt above 60% (see the case of Germany, France or Italy) due to significant public deficits generated by inflated public expenditures all over the Eurozone. Additionally, countries with significant nominal convergence problems (like Greece, Ireland or Cyprus) have been easily accepted in the Eurozone. These nominal convergence criteria seemed to be futile and insufficient to ensure a long term financial stability for Eurozone. The claimed common fiscal policy is far away from a providential solution in this case. The introduction in the discussion of real convergence is not solving the problem at all. The next general benefit is *the better government budgeting policy* backed by a reduced cost to finance the public expenditures ensured by a low interest rate promoted by European Central Bank. This benefit is difficult to be assigned to a single currency only, being available in the case of local currencies too. Moreover, to presume that a reduced cost to finance public expenditures will conduct to a better government budgeting policy is a huge mistake. The expansionary monetary policy providing an artificial very low interest rate is a clear source of inflation and moral hazard for many Eurozone's governments that significantly expanded their public expenditures, public deficits and, finally, their public debts above any reasonable limit. Today, all biggest 6 countries of Eurozone are very indebted and this is a clear sign of an unsound government budgeting long term strategy. The problem of *cohesion* and *better resistance to external shocks* are contradicted by the still many countries preferring to stay away from Euro (special status countries, largest countries from Easter European side like Poland and Romania etc.). The unconventional solutions proposed by European Central Bank in the last years (quantitative easing, bail-out of the EU banking sector exposed to the public debt crisis etc.) significantly altered this cohesion. The last crisis imported from United States was doubled by an internal one generated by the highly indebted countries and the commercial banks exposed to them and, finally saved by a major quantitative easing. The last general benefit is linked to the *European identity*. The replacement of local currencies by Euro is seen to enforce the beliefs of European citizens in their status. With Euro instead of their local currencies, the citizens of Europe will feel more Europeans than before. This approach is revealing to us a very limited understanding of the nature of money. Money is a medium of exchange used to facilitate the exchanges between us (raw materials, manufactured goods, services, capital, labour etc.). Sound money facilitates the economic calculus and provide a good support for the specialization of everybody. It is irrelevant to assign and to discuss about other attributes to this important vehicle for the markets and their actors. Attributes like local or supranational identity assigned to money has no sense. Initially, anything that served us better for facilitating our exchanges served as money (e.g. commodity money such as gold). Gold as money had no national identity assigned to it. Moreover, a very cheap and inflationary currency will have not a proper identity in this case.

Concluding, the economists have limited arguments in the favour of replacing local fiat currencies by a single fiat one. Both currencies (local vs Euro) have identical fiat money features. The discussion would be totally different if we discuss about replacing fiat money with a gold standard or simply gold as money. Moreover, monetary competition between more local currencies is submitted to improve the soundness of them (similar with the competition in any sector). A single currency replacing local ones means higher monopolistic position for money producer and more power and moral hazard for all actors closed to this money producers (including commercial banks and the governments). The attempt to find relevant benefits in such case is very difficult, if not impossible. Therefore, all the benefits assigned to the single currency (Euro) are, at least, problematic.

5 The Economic Convergence Issue for Eurozone's Members

One of the most sensitive issue when the Euro was created referred to the optimality this currency area and the conditions for the EU member states to be included in this new feature and new phase of this integration process. The proposed conditions were included from the beginning the Maastricht Treaty and were called "nominal convergence criteria" for the EMU including five essential pre-conditions regarding: the inflation (stability of prices is the main objective of the ECB), the long term interest rate, the public debt, the public deficit and the stability of the bilateral exchange rate (later clearly defined). *Inflation* for a country interested to adopt Euro was limited to 1.5 percentage points above that of the three lowest inflation rates of the EMU members (later set to maximum value of 0.7% by the ECB). *Long term interest rate* was set to a maximum limit of 2 percentage points above the average of those three EMU members with the lowest inflation (later fixed by the ECB to a maximum value of 4%). *Public deficit* was set to a maximum limit of 3% of country's GDP and *public debt* to maximum limit of 60% of country's GDP. For *the stability of bilateral exchange rate* the proposal was a mechanism of a fixed band based on a pivot exchange rate (local currency vs Euro) for at least 2 years prior the replacement of local currency by the Euro. These criteria needed more institutional and legal later enforcement for strengthening the fiscal discipline of the Eurozone's countries: *The Stability and Growth Pact* containing some specific measures for limiting the public indebtedness and public deficits introduced by the Treaty of Lisbon (2007); the adoption in 2012 of a new *The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* (simply called *Fiscal Stability Treaty*), that reinforced some provisions of previous Pact (among some of the most important ones are those charging the ECB and other EU's institutions with the power to issue long term debt securities and the introduction of a new concept of deficit—the structural deficit—limited to 1% for countries with public debt to GDP less than 60% and 0.5% for countries with higher public debt to GDP than 60%). This treaty added more indicators assigned to financial stability of a member country (than those five).

The first remark regarding nominal convergence criteria proposed for the Euro's adoption is about the nature of them and the institutions that can directly influence their values. Three of them are directly connected with the central bank's monetary policy: inflation, interest rate and exchange rate volatility. Moreover, all three are also directly interconnected together: inflation with exchange rate volatility (purchasing power parity theory); long term interest rate with exchange rate volatility (interest rate parity theory) and, finally, interest rate with inflation rate (international Fisher effect). The remaining two (public deficit and public debt) are connected with governments but are also indirectly influenced by monetary policy: lower interest rate facilitates the public borrowing boosting the public debt and creates the stimulus for increasing the public deficits. Theoretically, the first and the strongest opponent to adopt Euro is the central bank that will transfer almost all competences to the ECB being "forced" to cut its activities and (well paid) jobs. In this respect, these selection of "nominal" convergence criteria as compulsory conditions to adopt Euro placed under the control or influence of central banks could be an explanation why some "big" Eastern European countries such as Poland, Czech Republic or Romania still prefer to keep their currency outside of Eurozone.

Secondly, the line between the nominal (normative) convergence and the real convergence is purely arbitrary. The limit values set for inflation, exchange rate volatility, public debt, long term interest rate and public deficit cannot be argued by any sound economic theory. These values are simply based on empirical facts. No economic theory demonstrated that a public debt to GDP lower than 60% is better than 40%. The argument in the favour of this idea is the permanent changes of these set limit values (inflation was set today to a value not higher than 0.7% per year; the deficit was divided into structural and cyclical with different limit values etc.) and a constant preoccupation to redefine financial macro-stability and convergence for countries/regions inside this currency area.

Thirdly, there is an inconsistence of all macroeconomic variables included in this category: inflation is a general increase in the level of prices and is approximated by the Harmonized Index of Consumer Prices (HICP) that is an extended but very limited standardized basket of consuming goods & services; public debt is excluding a lot of private debts contracted by companies that are directly connected with the public procurements (the distinction between public and private debt is very sensitive and difficult to be exactly made); long term interest rate is associated with treasury bills rate etc. Moreover, the GDP of a country could be increased by deficits and by public debts and the ratio of them to the GDP could be biased (higher public debt to an increased GDP by higher public expenditures financed by this increased public debt will return almost the same ratio; the same in case of public deficit).

The concept of economic convergence is fundamental in any discussion about adoption of the Euro, about quick adoption versus late adoption of a single currency or about possible imperfections of this currency area. A theory (of Optimal Currency Areas—OCA) was developed and refers to trade liberalization, to the synchronization of business cycles, to the territorial mobility and flexibility of various production factors (capital, labour) and about fiscal integration and coordination. A catching up process is recommended before introduction of the Euro. The convergence is defined as "*the synchronization of business cycles, i.e., correlation of unanticipated shocks that would reduce the need for individual countries to retain their own monetary policy*" (Frankel 2004, p. 14). The distinction between nominal and real convergence is not so clear. Nominal convergence is something normative and is associated to legislation or agreements assumed by countries or regions. Normally, specific indicators are proposed for estimating this nominal convergence (the same in the Euro's case). The real convergence is not defined in the connection with explicit indicators: we can talk about real convergence of incomes, real convergence in the field of innovation and technology, real convergence in terms of trade or production etc. The economists make the distinction between *long run and short run real convergence*: "a long-run view of real convergence implies the narrowing of differences in the structural conditions of different countries (or regions), thus allowing the achievement of similar performances of real variables; or, more precisely, a catching-up—in the transition period—of backward countries, in terms of standard of living, productivity, etc." and "*a short-run view of real convergence stresses, on the contrary, the business cycle features of (comparative) economic growth of different countries*" (Marelli and Signorelli 2010, p. 8). Three types of convergence have been mentioned in this respect: (i) absolute (unconditional) convergence: "per capita incomes of countries that are identical in their fundamental structural characteristics converge to one another in the long run independently of their initial conditions" (ii) conditional convergence defined as: "per capita incomes of countries that are identical in their fundamental structural characteristics converge to one another in the long run independently of their initial conditions" and (iii) "club" convergence defined as "*per capita incomes of countries that are identical in their fundamental structural characteristics converge to one another in the long run, provided their initial conditions are similar as well*" (Galor 1996, p. 1). The common element of all these types of convergence is per capita income (or GDP). The differences consists in the importance of initial conditions and in the relevance of structural features (economic growth rate, technological shifts and changes or shifts in the consumers' preferences).

Additionally, the "*beta*" convergence associated to the catching up process of less developed regions or countries due to the diminishing returns associated to invested capital in the developed countries compared with the less developed ones and the "*sigma*" convergence is the process of reduction of the dispersion of real per capita income between different economies" (Solow 1956). The Beta convergence is a necessary but not sufficient condition for the sigma convergence and it is due to the random shocks that determine (Young et al. 2008).

The theory of optimal currency area failed to provide a clear image on the convergence. The large and various forms of convergence *are very confusing* and *do not offer useful insights* about the necessity to converge before adoption a new supra-national currency that will replace the local currency. Historical perspective reveals *that the monetary competition always existed with or without this convergence*. Moreover, the gold or silver were universal money used and recognized all over the world. The shifts between one commodity money to another was only dictated by market conditions and not by politically defined criteria. If in the case of gold used as universal (global) money the problem of convergence was irrelevant, why this problem should be relevant in case of Euro? The shifts between gold (universal money) and tobacco (local money) was not problematic and was not based on any economic convergence conditions. Additionally, the idea of convergence in a Single Market (or globalized world) is counter-intuitive and is against the principles and benefits of economic integration: this process is based on specialization in production of goods and services and improved capacity to sell them at the level of single market. This type of convergence (e.g. in terms of structure of production, business cycles) is against this integration process. Why countries will be interested to be integrated in a group of identical or similar countries that always converge one to another?

The necessity of economic convergence before the monetary integration is, at least, debatable if we see this argument from another perspective: in the case of a country using a local currency, we can find regions or territories that have different development level and that diverge for a specific period of time and the stability of that local currency would not be significantly affected. If this differences, in terms of economic development or economic growth, are not problematic for a local fiat currency, why should be for a currency area using a single currency? The differences between regions or territories inside of a country have the same (ir)relevance as in the case of Euro and countries/regions all over the Eurozone. In fact, the issue of "convergence" assigned to the Euro currency area fuelled the actions in terms of "cohesion". A lot of specialists and officials are wrongly considering that *the monetary and financial stability will be increased by equalizing the income and development degree between various countries and territories using the same currency* (the Euro in this case). The optimality of a currency area is not improved by any convergence or cohesion political program, on the contrary. The Optimal Currency Areas (OCA) theory is talking about market integration facilitating trading between members (understood as removing the trade barriers and tariffs), about increased factors mobility (labour, capital, natural resources) and about fiscal reductions (Mundell 1961). The OCA theory refers to the openness of economies participating to such monetary arrangements and possible asymmetric shocks if this openness is missing (McKinnon 1963). The convergence and cohesion are wrongly introduced in the discussion of becoming a member of a currency area and merely justified the specific social policies, the increased redistribution and the interventionism promoted today by a lot of the EU institutions and officials (Glavan 2004). In fact, the increased redistribution and interventionism is against the real convergence and contradicts the OCA's prerequisites (e.g. higher market integration, lower trade & investments barriers etc.).

The multiple methodologies corresponding to the various and multiple forms of "convergence" (e.g. real & nominal vs. beta & sigma vs. conditional & absolute convergence) make very difficult any attempt to measure the performance of a country in this respect. All these methodologies are returning confusing results and are very theoretically inconsistent. Any public policy based on such problematic methodological framework is submitted to fail. Moreover, measuring the distance between countries is different than the distance between territories, regions, cities, group of individuals or individuals (e.g. Bucharest region is above the EU average in terms of GDP per capita and economic convergence).

Concluding, the convergence issue has a limited relevance for the monetary stability or for keeping a country outside of a monetary area. The distinction between various types of convergence (e.g. nominal vs. real) is purely arbitrary without any theoretical background or justification. The idea of convergence was wrongly connected with the idea of the cohesion between countries and the regions and fuelled the redistributive policies at the level of the EU. In fact, the convergence is merely seen as a political argument for keeping some countries outside of the monetary club and for creating more sophisticated tools for the state intervention controlled by the politicians and always returned in their own benefit.

6 The Need for a Fiscal and Monetary Coordination at the Level of EMU

The Euro, the EMU and the monetary policy of the ECB are seen today not independent from the fiscal policy. The consumption could be stimulated by the cheap money and credit policy. The taxation of labour versus taxation of consumption is seen to influence the employment (Burgert and Roeger 2014). The capital and capital accumulation is also stimulated by an expansionary monetary policy. The taxation of capital versus taxation of labour is seen to influence the investments and employment (European Commission 2016). The increase in the taxation of capital determines a relocation of it elsewhere and a cut of taxes on the invested capital deprive the public budget from important resources to be spent for the welfare state policies (Rademacher 2013). The government provided a massive support to the banking sector by purchasing their toxic assets and by providing the necessary capital for keeping their activity alive (Kollmann et al. 2012). The latest developments in the Eurozone after 'subprime' crisis and 'public debt' crisis followed now by the perspective of Brexit fuelled the discussions around the capacity of the European Union to issue its own treasury bills or bonds or the standardization and unification of fiscal system at the level of member states (e.g. a standard and unified VAT for all EU members) (Allard 2013; Corsetti et al. 2016).

The modern economies are asked for an optimal combination between the fiscal and the monetary policy. The public expenditures are no longer financed only by taxes or only by inflation. Keynesians always argued for the limitations of monetary policy to solve the economic recession by reducing the interest rate in order to stimulate the (public) investments (due to high liquidity preference) and provided arguments for an efficient alternative to the monetary policy—fiscal policy (more public expenditure that should compensate the reduction of private investments during crisis). The Keynesian economics is based on the strong correlation between the taxes and the inflation (the IS-LM model is depicting the relationship between the aggregate demand targeted by the fiscal policy and the interest rate altered by the monetary policy). Nowadays, it is generally accepted that the fiscal policy and the monetary policy together would improve the effectiveness of public intervention in the market. The difference between fiscal and the monetary policy consists in: [i] the principles and objectives that are set for them (the aggregate demand, full employment or economic growth for fiscal policy versus the price stability for monetary policy); [ii] the policy instruments that are used to achieve such objectives (the inflation versus the taxation and the government expenditures) and [iii] the institutions that are responsible for the implementing such policies (central banks versus Ministry of Finance in the most cases).

The impact of fiscal policy on monetary policy is commonly assigned to the influence of the public deficit and the public debt on the long term interest rate and its countercyclical effect (Montoro et al. 2012, p. 19). Additionally, according with the neoclassical economists, an expansionary fiscal policy (increase of taxes and/or government expenditures) exercises inflationary pressures that could determine the central banks to fail to achieve its goal of the prices' stability. If the fiscal policy is dominating the monetary policy and "*if the fiscal authority's deficits cannot be financed solely by new bond sales, then the monetary authority is forced to create money and tolerate additional inflation*" (Sargent and Wallace 1981, p. 2). If the interest rate paid by the government will be higher than the real economic growth rate, the central banks will forever fail to achieve the objective set for their monetary policy (monetary base growth rate or inflation rate). On the other hand, if the monetary policy is dominated by the fiscal policy, "*the monetary authority can permanently control inflation in a monetarist economy, because it is completely free to choose any path for base money*" but the fiscal authority has difficulties in projecting a public budget based on a combination between Treasury bonds and seignorage income paid by the monetary authority for the money production (Sargent and Wallace 1981, p. 104).

In the same way, the monetarists argued for the financing of the government's expenditures by using the taxes and the creation of money (that is viewed as an issue of securities not bearing an interest rate and having no maturity and it is not condemned if it is 'properly' used). But the monetarists pleaded also for a governance without any other possibility than money to issue alternative interest bearing securities such as the Treasury bills, bonds or notes. In accordance with the monetarist approach, the relationship between the monetary and the fiscal policy could be described as follows: "*…deficits or surpluses in the government budget would be reflected dollar for dollar in changes in the quantity of money; and, conversely, the quantity of money would change only as a consequence of deficits or surpluses. A deficit means an increase in the quantity of money; a surplus, a decrease*" (Friedman 1948, p. 4). Moreover, they considered that the central bank and not the Treasury should administrate the public debt operations for achieving a higher economic stability (Friedman 1968, p. 102). Monetarists recognized the limitations of monetary policy to peg the interest rate and the unemployment rate for more than a limited period of time and assigned a significant role for this policy in providing a stable background for the economy by operating "*as a surrogate for the gold standard, if it pegged exchange rates and did so exclusively by altering the quantity of money in response to balance of payment flows without sterilizing surpluses or deficits and without resorting to open or concealed exchange control or to changes in tariffs and quotas*" (Friedman 1968, p. 13) and by protecting against an explosive government budget that "*threatens unprecedented deficits, monetary policy can hold any inflationary dangers in check by a slower rate of monetary growth than would otherwise be desirable. This will temporarily mean higher interest rates than would otherwise prevail to enable the government to borrow the sums needed to finance the deficit-but by preventing the speeding up of inflation, it may well mean both lower prices and lower nominal interest rates for the long pull*." (Friedman 1968, p. 14).

It is clear that we are facing with a dilemma in the economic theory (according to mainstream): the monetary and the fiscal policy should substitute or dominate each other or should be used as complementary policies? The general opinion is that the monetary and the fiscal policy should be used as policy substitutes: when one is expansionary the other one should be contractionary. When the government is increasing the taxes or is reducing the public expenditures (contractionary fiscal policy), the central banks should lower the interest rate, should reduce the required reserve rate for demand deposits or should print more money to buy more commercial banks' securities (and the opposite). The government is submitted to act anti-cyclical: to increase taxes during economic boom and to reduce taxes during the economic recession.

None of these policies are neutral to the economic system. Any tax or any tax exemption is influencing the profitability of real entrepreneurs. The redistribution of the income (through the fiscal system) is influencing the production structure (the income taken from "rich" people to be granted to "poor" people will be used in accordance with the preferences of the beneficiaries of this scheme). The level and the structure of prices will be affected in accordance. As Rothbard clearly wrote: "*(t) here is no such thing as a "neutral tax"—a tax that will leave the market free and undisturbed—just as there is no such thing as neutral money. Economists and others may try to approximate neutrality, in the hopes of disturbing the market as little as possible, but they can never fully succeed*" (Rothbard 2009, p. 170). Any new quantity of money that is printed by the central banks or that is multiplied by the commercial banks (that are borrowing money from demand deposits through fractional reserves system) will redistribute the purchasing power from the existing users of the existing money to the first users of the new created money. Therefore the prices (including interest rate) and the production structure will be altered by an expansionary monetary policy. The creditors will also be affected by this unanticipated inflation because they borrowed capital with a different purchasing power than they will receive at the maturity. According to Mises (Mises 1998, p. 428–429), "*(i)nflationary or expansionist policy must result in overconsumption on the one hand and in malinvestment on the other. It thus squanders capital and impairs the future state of want-satisfaction. The inflationary process does not remove the necessity of adjusting production and reallocating resources. It merely-postpones it and thereby makes it more troublesome. Inflation cannot be employed as a permanent policy because it must, when continued, finally result in a breakdown of the monetary system.*"

Concluding, the modern economic systems are combining expansionary monetary policy (cheap money and credit) with high and very progressive taxation in order to finance the increasing welfare states. The European Union and its monetary system is doing the same. The correlation between fiscal and the monetary policy has the most negative effect on the real economy. The financial sector and the public sector are slightly replacing the real production of goods and services. The specialist claiming for strengthening this correlation at the level of the European Union are against the Single Market objectives and are contradicting the optimal currency area hypothesis.

7 Concluding Remarks

The European Monetary Union is a unique endevour that is far away to be ended. This initiative contributed to the development of the European Union but, also, strengthened the state interventionism and boosted the welfare state in the almost European countries. The centralization of the money production removed the monetary competition and fuelled an increased moral hazard. The benefits of Euro adoption for consumers and business sector are, at least, questionable. The convergence requirements are arbitrarily set and are not necessary when a local fiat money is replaced by another supra-national fiat money (and keeping the same features). The institutional framework of the Euro remained very bureaucratic, with many layers, including the former local central banks that are kept as a key element of the whole monetary system. The stability of the Euro is today affected in the same way as it is affected in the case of the other international currencies (dollar, pound etc.). The creation of the European fiscal union (EFU) and the increased correlation between the fiscal policy and the monetary policy is not a miraculous solution to solve the increasing instability of the Eurozone.

Questions and Activities

1. Explain why a Common Monetary Policy is vital for the Single Market?
2. How monetary integration evolved at the level of the European Union?
3. Analyse the *special status* of countries that are still outside of the Eurozone? How different is the case of non-Euro Eastern European Countries?
4. Explain and comment the main benefits associated to Euro for the EU-members?
5. Why convergence is relevant for the stability of a fiat single currency as Euro is?
6. By considering their features, how different is Euro than local currencies replaced by it? How important is monetary competition in this case?
7. Analyse how many EU members (Euro and non-Euro) are fullfilling all nominal convergence criteria. Please comment the result.
8. Please reveal why monetary policy should be coordinated with fiscal policy. Why EMU needs a common fiscal policy in this case?
9. How Euro can contribute to more united Europe?
10. Can you explain the differences between monetary stability, financial stability and macroeconomic stability?

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Fiscal Policy of the EU: Implications for Romania

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Abstract The economic and fiscal crisis which started in 2007–2008 triggered a significant change in the economic governance at the European Union level, particularly at the fiscal policy level. The paper analyses the evolution of the EU economic governance regulation, starting with the Maastricht Treaty from 1992, focusing on the more recent regulations outlined in the Treaty on Stability, Coordi nation and Governance (TSCG), particularly on the Fiscal Compact. The paper assesses the impact of the Fiscal Compact in Romania, pointing out the major consequences it has on the conduct of the fiscal policy and on the capacity to stabilize the business cycle. The study concludes that the space for maneuver of the fiscal policy in Romania will be much lower than in the past. Possible solutions to this constraint include the acceleration of the absorption of EU funds and the increase in public spending efficiency.

The key points of the chapter are the following ones:

1. to understand the main changes in the EU economic governance regulation starting with 1992
2. to understand the provisions of the Fiscal Compact
3. to understand the impact of the Fiscal Compact in Romania
4. to clarify the concept of Medium Term Objective (MTO, structural budget balance)
5. to identify solutions on how to cope with the constraints from the Fiscal Compact

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1 Introduction

It is well known that successful monetary unions in history are those that have combined the monetary union with the fiscal one (e.g. U.S., Canada, Germany and Switzerland). From this point of view, the Euro area, with a common monetary policy and no common fiscal policy is a unique and an unprecedented form of a common monetary union.

According to Bordo (2010), and Bordo et al. (2013), there are couple of required characteristics for a successful monetary union:

- a common monetary policy with an independent central bank that has the main goal price stability;
- free trade and free movement of production factors;
- a common fiscal policy, strong fiscal rules, with member states keeping some fiscal independence, but fiscal discipline driven by the markets; "no bail-out" rule of member states by the federal government;
- a strong mechanism to address asymmetric shocks (e.g. automatic stabilizers such as unemployment benefits and progressive income taxation, as well as financial transfers among members).

The European Monetary Union has a common monetary policyimplemented by ECB, but there is no fiscal union—although some authors, like Jonung (2010), argue that the EU has a fiscal union through the Stability and Growth Pact. The member states have almost the full ability to conduct their independent fiscal policy. There is a common budget, but the EU's budget is only around 1% of GDP. There are no fiscal stabilization policy tools and no fiscal transfers are made between member states to deal with asymmetric shocks.

It is also well known that the labor market in EU is more rigid and much less mobile than in federal states like the U.S. and Canada.

Consequently, it is also largely agreed in the literature that the European Monetary Union does not satisfy the optimum currency area criteria.

The economic and fiscal crisis which started in 2007–2008 led to significant economic implication at the global level, which triggered a necessary reaction at the policy making level.

Some authors (Eyraud et al. 2017) show that some of the fiscal problems faced by the European Union members, particularly by the euro area members, were driven by distorted political incentives. Using real-time data, they found evidence on fiscal policy biases (especially procyclicality), excessive deficits, and compositional distortions. Also, they argue that fiscal rules at the EU level failed to avoid these biases, more political and public support being needed to make them more successful. Moreover, the strong cross-country fiscal spillovers should be considered given the trade linkages, confidence effects, the high degree of financial market integration, and the common monetary policy of ECB (see also Georgiadis 2015 and Beck et al. 2016). For instance, a deterioration in public finances in one member country can be translated in higher funding cost for the other member states as well.

In the European Union, and particularly in the euro zone, the crisis triggered an increasing awareness about the need to improve the economic governance framework to move closer to a fiscal union.

The economic (including fiscal) governance at the EU level has been changed and updated during the last 25 years, trying to keep the pace with the historical developments.

2 Evolution of EU Economic Governance Regulation

The discussion about common economic governance at the EU level started back in 1992, when the EU Member States signed the Maastricht Treaty, which introduced the euro as a single currency and set a limit for the public debt and budget deficit at 60% of GDP, respectively 3% of GDP.

In 1997–1998, a reinforcement of the Maastricht Treaty was done through the Stability and Growth Pact (SGP), the EU Member States agreeing to strengthen the surveillance and coordination of national fiscal and economic policies. At that point EU introduced the medium-term budgetary objective (MTO) rule—a budgetary position in medium term “close to balance or in surplus”. Basically, the EU Member States committed to take corrective fiscal-budgetary measures to reach their budget objectives from the convergence programs, and to correct excessive deficits as quickly as possible. The European Commission could now decide to launch an excessive deficit procedure when the deficit of a member country exceeds 3% of GDP.

In 1999 the corrective arm of the Stability and Growth Pact (SGP) was introduced. The objective is to “deter excessive general government deficits” and, if they occur, to force their correction.[1] The excessive deficit over 3% of GDP shall be considered exceptional and temporary “when resulting from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government, or when resulting from a severe economic downturn.” Also, the excess over 3% “shall be considered temporary if budgetary forecasts as provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.”[2] The severe economic downturn was considered only if there is an annual fall of real GDP of at least 2%.

The European Council recommendation was intended to “establish a deadline for the correction of the excessive deficit, which should be completed in the year

[1]COUNCIL REGULATION (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.

[2]COUNCIL REGULATION (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.

following its identification unless there are special circumstances."[3] Some sanctions can apply, usually as a non-interest-bearing deposit. This deposit shall comprise a fixed component equal to 0.2% of GDP, and a variable component equal to one tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3% of GDP (Heipertz and Verdun 2010).

In 2003, EU finance ministers rejected the European Commission's recommendation to initiate sanctions against France and Germany for breaching the Stability and Growth Pact's rules. The Commission took the European Council to the European Court of Justice.

In 2005, it was decided to end the "one-size-fits all era", as the EU lawmakers amended the Stability and Growth Pact (SGP) to better consider individual national circumstances and avoid a "one size fits all" approach. At the same time, the surveillance and coordination were strengthened, and the excessive deficit procedure was clarified and accelerated.

In 2010, the first "European Semester" exercise came in place. The goal of the European Semester is to have a better coordination of the EU member countries economic policies throughout the year and address the economic challenges facing the EU. The ultimate scope of the European Semester is to ensure sound public finances (in order to avoid excessive public debt), to prevent excessive macroeconomic imbalances, to stimulate structural reform, to create more jobs and growth, and boost investment. Every year, the European Commission elaborates an in depth analysis of the Member States budgetary, macroeconomic and structural reform plans. Then, the European Commission issues country specific recommendations for the next 12–18 months, and assesses the progresses of each country towards the "Europe 2020" targets.

In 2011, a collection of six new laws, known as the "six-pack" is agreed, being then followed by the 2-pack that further improves budgetary surveillance in the Euro area (every country using the euro must submit its draft budget to the Commission by mid-October, and if the Commission considers this may not satisfy the single currency rules, it may request it be revised).

In the "six-pack" regulations the EU Governments should:[4]

- Operate public accounting systems that comprehensively cover all areas of revenue and expenditure, which must be subject to internal control and independent audits. In particular, Member States shall publish cash-based budget data and a detailed reconciliation table showing the methodology of transition between cash-based data and data based on the ESA standard.
- Make the fiscal data publicly available. Those for central and state government and the social security sector must be supplied monthly and those for local government quarterly (Council Directive 2011/85/EU).

[3]COUNCIL REGULATION (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.

[4]COUNCIL DIRECTIVE 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

- Ensure their fiscal planning is based on realistic macroeconomic and budgetary forecasts, using the most up-to-date data. These include latest European Com mission forecasts and, where relevant, those from independent organizations. Member States shall specify which institution is responsible for producing macroeconomic and budgetary forecasts and shall make public the official macroeconomic and budgetary forecasts prepared for fiscal planning, including the methodologies, assumptions and relevant parameters underpinning those forecasts. At least annually, the Member States and the Commission shall engage in a technical dialogue concerning the assumptions underpinning the preparation of macroeconomic and budgetary forecasts (Council Directive 2011/85/EU).
- Operate specific fiscal rules to help ensure the overall government budget complies with European rules. The aim is to avoid excessive public deficit or debt. Independent organizations carefully monitor compliance with the rules (Council Directive 2011/85/EU).
- Establish a credible, effective medium-term budgetary framework that includes a 3 year fiscal planning horizon. This contains multiannual budgetary objectives, projections of major expenditure and revenue items and assessment of the long-term sustainability of public finances (Council Directive 2011/85/EU).
- Ensure consistency and coordination of all accounting rules and procedures across all areas of government activity (Council Directive 2011/85/EU).

In March 2012 a significant change in the EU economic governance was approved, the Fiscal Compact act being passed. The Euro zone Member States agreed to make the goal of balanced budgets part of their national constitutions and future euro area members agreed to do so once they adopt the common currency. The Fiscal Compact act is part of the treaty known as the Treaty on Stability, Coordination and Governance (TSCG), which was enacted in January 2013 (European Commission, "Timeline: The Evolution of EU Economic Governance").[5]

The Treaty on Stability, Coordination and Governance (TSCG) is intended to strengthen the economic and fiscal pillar of the euro area and of the European Union in general, by setting specific fiscal rules in the so called Fiscal Compact, to increase the coordination of the policy making, and to improve the economic governance.

The Treaty on Stability, Coordination and Governance (TSCG) is mandatory for the euro area members, and voluntary for the non-euro area members of the European Union. The countries signing the Treaty are expected to run balanced budgets or in surplus. This rule is met when the structural balance of the general government reaches the country-specific medium-term objective (MTO) as defined in the Stability and Growth Pact with a limit of 0.5% of GDP. In case the public debt is lower than 60% of GDP and the risks in terms of long-term sustainability of

[5]https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/timeline-evolution-eu-economic-governance_en

public finances are low, the medium-term objective can go up to 1.0% of GDP. If there are deviations from this MTO, an adjustment mechanism shall be triggered automatically.

The structural budget rule should be implemented in the national legislation through provisions of binding force and permanent character, preferably at the constitutional level.

Also, when the ratio of public debt to GDP exceeds the 60% reference, the contracting party shall reduce it at an average rate of one twentieth per year as a benchmark.

In December 2012 was presented the Four Presidents' Report "Towards a Genuine Economic and Monetary Union", which provides a roadmap for the completion of the Euro area. The focus of the report is on strengthening the economic governance at the European Monetary Union level, in particular on the implementation of a Banking Union for the euro area through the Single Supervisory Mechanism, new rules on bank resolution and recovery, and on deposit guarantee scheme. The process is organized in 3 stages. In stage 1 (2012–2013), the objective was to ensure fiscal sustainability and break the link between banks and sovereigns (one of the main causes of the sovereign debt crisis). In stage 2 (2013–2014), the objective was to complete the integration of the financial framework (through the setting up of a common resolution authority) and promote sound structural policies.

In stage 3 (after 2014), the objective was set to improve the resilience of the euro area through the creation of a shock-absorption function at the central level. This will be done through an insurance system set up at the central level, and by increasing the coordination of decision-making on national budgets, in particular in the field of taxation and employment.

In February 2013, the "two-pack" was passed by EU lawmakers which approve legislation for the euro area countries to prepare their budgets according to common standards and a common timeline. Moreover, the draft budget will be submitted to the European Commission and to the other EMU Member States.

In 2014, a review of the Six-Pack and Two-Pack rules was prepared in order to improve transparency and simplicity.

In 2015, the Five Presidents'[6] Report "Completing Europe's Economic and Monetary Union" was prepared, being intended to deepen the Economic and Monetary Union in three stages. The report established 3 stages to fulfil its targets:

– in Stage 1 or "Deepening by Doing" (1 July 2015–30 June 2017) the objective was to reach sound fiscal policies at national and euro area level and completing the Financial Union, by using existing Treaties.
– in Stage 2, or "completing EMU", the objective is to make the convergence process more mandatory, including the setup of a common euro area treasury.

[6]Jean-Claude Juncker, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi, and Martin Schulz.

– in Stage 3 or final stage (at the latest by 2025) the objective is to reach a deep and genuine monetary union.

The Five Presidents' Report proposed to complete four Unions: Economic, Financial, Fiscal, and Political. In order to reach the Fiscal union, the report proposed in Stage 1 to set-up an advisory European Fiscal Board which would coordinate and complement already existing national independent fiscal institutions (Fiscal Councils). The European Fiscal Board will provide an independent evaluation and analysis at European Union level on how the fiscal policy perform vs the rules and targets established in the new EU fiscal governance.

In Stage 2, the plan is to establish a common macroeconomic stabilization function to address the shocks which cannot be properly addressed at the national level. To reach that objective, some instruments will be considered, such as the European Fund for Strategic Investments.

3 The Relationship Between Public Finances and Economic Development

High budget deficit translates usually into higher debt. Recently, the interest of economists and policy makers on the public finance situation and its impact on economic growth has increased once again, as the global financial crisis triggered a significant increase in public debt worldwide. It is well known from the literature that a low level of public debt seems to be beneficial for economic growth, but in the long run the increasing public debt could become detrimental for the economic growth. Reinhart and Rogoff (2010) used a sample of 20 advanced and 24 emerging market economies for a long historical data series (1790–2009) to assess the relationship between economic growth and public debt. They found a difference of 2 pp for developed economies (and 1.6 pp for emerging economic) in median economic growth rates between low debt and high debt countries. They concluded that there is a debt turning point at 90% of GDP, beyond which the impact of public debt becomes negative on growth.

Égert (2015) used a formal econometric testing for the Reinhart-Rogoff dataset to see whether public debt has a negative nonlinear effect on growth if public debt exceeds 90% of GDP. He detected that the negative nonlinear relationship between debt and growth, but he showed that the effect materializes at much lower levels of public debt (between 20% and 60% of GDP).

Caner et al. (2010) detected a threshold of 77% of GDP for the public debt for developed markets, beyond which each additional pp of debt costs 0.017 pp of annual real growth. For emerging economies, they estimated a threshold of 64% of GDP for the public debt, beyond which each additional pp of debt costs 0.02 pp of annual real growth.

Cecchetti et al. (2011) detected the threshold at 85% of GDP. Checherita and Rother (2010) estimated also the turning point at about 90–100% of GDP.

Using a dataset for 25 EU countries, Mencinger et al. (2014) found a statistically significant non-linear impact of public debt on GDP per capita growth rates with a threshold between 80% and 94% for the Old Member States and about 53% for New Member States. Also, Égert (2012) found a tipping point for debt with a range between 20% and 60% of GDP.

Dincă and Dincă (2015), explored also the relationship between the ratio of government debt to GDP and the per capita GDP growth rate for a sample of 10 New Member States of EU for the 1999–2010 period. They found a significant non-linear relationship and a debt turning point at around 50%.

The channels through which public debt will be a drag for long-term growth are multiple, some of the most important being the following (see for instance the seminal paper of Balassa 1988):

– if public debt increases, at some point there would be a need to hike taxes to service the debt which will be negative for growth through the crowding out of the private investment by reducing disposable income and saving;
– increasing public debt increases the probability of default and thus increases the long term sovereign yields possibly in a non-linear form (see Modigliani, 1961). Increasing long term yields are negative for investments;
– policy makers (especially in countries with week institutional set-up) can decide to fight with increasing public debt just inflating prices, and high inflation has a negative effect on long term growth.

4 Impact of the EU Fiscal Governance Regulations in Romania

The general goal of the Treaty on Stability, Coordination and Governance (TSCG) is to strengthen fiscal discipline by requiring that national budgets are balanced or in surplus. This requirement is met if annual structural deficit does not exceed 0.5% of GDP. If the public debt is significantly below 60% of GDP and risks in terms of long-term sustainability of public finances are low, the structural deficit may reach up to 1% of GDP.

Also, there are automatic penalties and provisions for better enforcement. Member States are obliged to introduce the “target for a balanced budget” in their national legal systems, preferably at the constitutional level. The deadline for fulfilling this obligation is 1 year after the entry into force of the Treaty.

As of today, there are 25 Contracting Parties to Treaty on Stability, Coordination and Governance (TSCG), 22 being formally bound by the Fiscal Compact (the 19 euro area Member States plus Bulgaria, Denmark and Romania).

Romania notified the ratification of the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (TSCG) in November 2012. The Treaty was enforced by national legislation starting with 1st of January 2014. The main relevant national legislation is the Law on Fiscal and Budgetary Responsibility

No 69/2010 (LFBR), amended by Law No 377/2013 which is amending and supplementing the LFBR adopted on 23 December 2013.

The Law on Fiscal and Budgetary Responsibility sets a general framework for fiscal budgetary policy conduct in Romania. The medium-term objective (MTO) and the correction mechanism defined in the Law on Fiscal and Budgetary Responsibility are consistent with the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (TSCG). Law on Fiscal and Budgetary Responsibility also sets a system of policy response if public reaches specific thresholds, respectively 45%, 50%, 55% and 60% of GDP, including measures such as public sector wage freeze. The monitoring institution is the Fiscal Council, an independent authority within the Romanian Academy.

Recently, significant discussions focused on the new fiscal pact, which was thought by initiators as a decisive solution to the problems of the euro area. At the conceptual level, the new agreement does not bring much novelty, it only introduces an automatic correction and penalty mechanism in case of slippages. The 3% of GDP threshold for budget deficit and 60% of GDP for public debt have been in place for a long time, being created under the Maastricht Treaty of 1992. The Stability and Growth Pact (1997) also established that the medium-term structural position of the budget to be on balance or in surplus ("close to balance in surplus"). The new fiscal compact introduces a structural budget deficit target of maximum 0.5% of GDP.

The fiscal pact is a major step forward, introducing an automatic mechanism to correct fiscal slippages, thus contributing to increased fiscal policy discipline and better coordination at the EU level. But can the new fiscal pact be considered sufficient to ensure the smooth functioning of the monetary union (the euro area)? The answer is probably not.

When discussing about the impact of the fiscal compact on Romania, we should clarify first the difference between headline budget deficit and its cyclical and structural components.

The 0.5% of GDP threshold set by the new fiscal compact applies to the structural budget deficit. As the structural budget deficit is a technical term, less familiar to the general readership, some clarifications/explanations are required (see for instance Mourre et al. 2014).

The actual budget deficit (the difference between actual budget expenditures and revenues) can be divided into two components, a cyclical one and a structural one:

Effective budget deficit = Cyclical budget deficit (automatic stabilizers) + Structural budget deficit (discretionary policies)

The evolution of budget revenues and expenditures is influenced both by the evolution of the volume of economic activity (by the economic position on the economic cycle) and by the "discretionary" decisions of the policy maker.

Budget expenditures and revenues have several components that are influenced by the economic cycle. Regarding budget revenues, most of their components record cyclical variations. Taxes such as social security contributions, corporate income tax, value added tax, income tax, or excise duties are heavily influenced by the position in the economic cycle—recession or "boom".

Budget expenditures are weakly influenced by the economic cycle, with the exception of unemployment benefits and payments.

The components of budget revenues and expenditures that are influenced by the economic cycle act as "automatic stabilizers", contributing to smoothing the economic cycle and lowering the volatility of GDP, with a beneficial impact on long-term economic growth potential. Automatic stabilizers can act on both the revenue side and the spending side of the budget. Regarding the revenue side, if the economy is on the downside part of the economic cycle (in recession), budget revenues decrease, and fewer taxes are being collected (these being driven by economic activity). This decline stimulates aggregate demand, thus contributing to GDP growth. If the economy is in a "boom" period of the economic cycle, budget revenue increases cyclically, which makes agents' revenues fall, thus contributing to limiting the increase of aggregate demand.

If we consider the budget expenditures, automatic stabilizers usually act through the unemployment benefits system. Thus, if the economy is in recession and the unemployment rate rises, the increase in unemployment benefits stimulates aggregate demand, and in the event of an economic boom, the decrease in these aids limits the expansion of aggregate demand. Thus, automatic stabilizers act as a "brake" for economic activity when GDP is above its potential level, or as a "stimulus" for economic activity in times when the GDP is below its potential level. Thus, GDP is automatically "forced" to stabilize at its potential level.

The mechanism described above is more powerful as the tax system is more progressive. Structural budget deficit is the fiscal position when GDP is at its potential level, i.e. when the economy is midway between an economic "boom" and a recession. The change in the structural deficit from 1 year to another reflects discretionary fiscal policy decisions (the "fiscal impulse"). The magnitude of the cyclical budget deficit is due to the output gap and the semi-elasticity of revenues and expenditures to the change in the volume of economic activity (estimated by econometric methods). Output gap represents the actual percentage deviation of actual GDP from its potential level, the potential level of GDP representing the GDP level at the "normal" use of production capacities, without generating inflationary pressures. Potential GDP is determined by fundamental factors such as the organization of the economy, the level of physical and human capital, the productive capacity of the economy because of technology and demographic factors affecting the workforce, etc. A key element in determining cyclical and structural deficits is potential GDP. This is not a directly observable variable and it is determined by various econometric methods (data filtering techniques, production functions), each method having advantages and disadvantages.

When the actual GDP is above the potential (positive output gap), there is a cyclical budget surplus and the actual deficit is lower than the structural deficit. When the actual GDP is below the potential (negative output gap) there is a cyclical budget deficit and the actual deficit is higher than the structural deficit.

Figures 1 and 2 show that when the actual GDP was above the potential, the authorities had a pro-cyclical fiscal policy, i.e. the structural budget deficit increased even though GDP was above its potential level (especially in

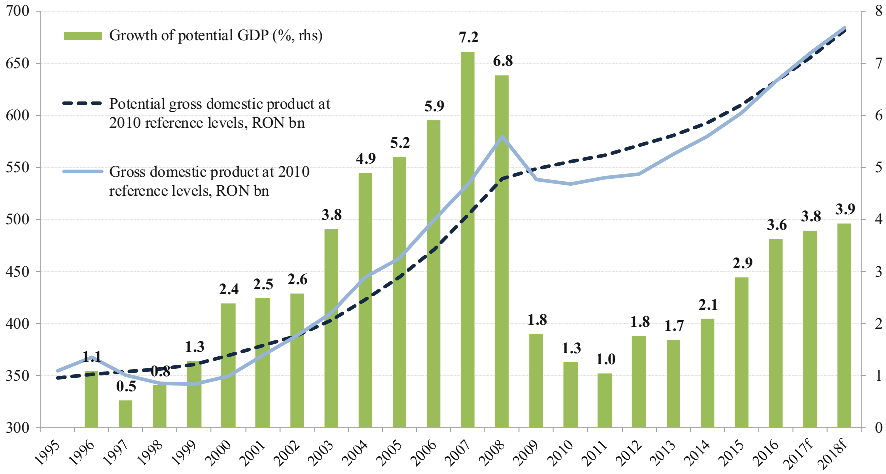


Fig. 1 Actual GDP growth, potential GDP and potential economic growth in Romania. Source: Author's own illustration based on data from AMECO database and European Commission

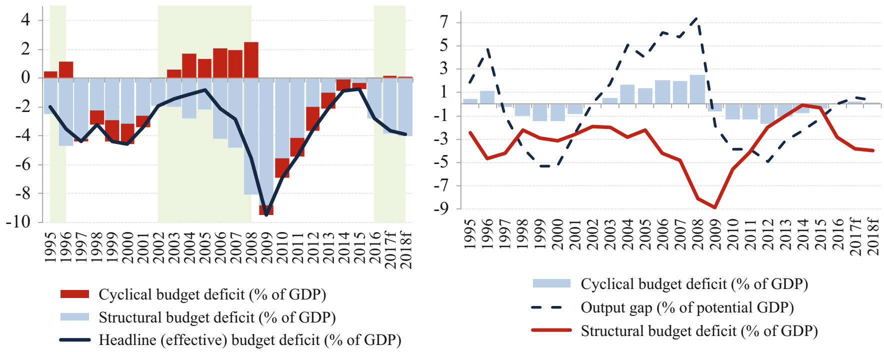


Fig. 2 Evolution of the actual, cyclical and structural budget deficit. Source: Author's own illustration based on data from AMECO database, European Commission, and author's calculation. Note: Shaded areas indicate periods in which the output gap is positive (actual GDP above potential GDP)

2006–2008, but also in 2016–2018). Permanent (structural) expenditures were committed during these periods based on temporary (cyclical) revenues. Thus, the automatic stabilizer function of the cyclical deficit (automatic stabilizers) was canceled by the pro-cyclical discretionary policy.

The new limit for the structural deficit imposed by the European fiscal pact will require very strict control over public finances in Romania, with clear advantages, but also disadvantages. Romania had in the past a pro-cyclical discretionary fiscal policy, with lack of discipline, accentuating macroeconomic imbalances rather than mitigating them. Thus, the structural deficit increased unnecessarily when GDP was

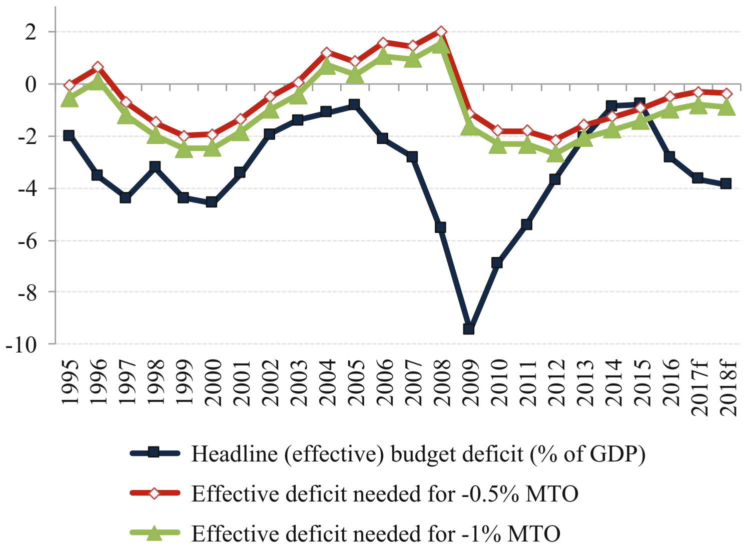
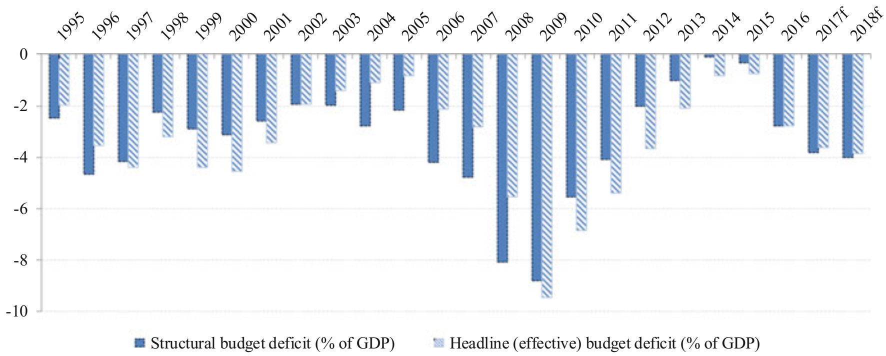


Fig. 3 Evolution of effective budget deficit in the context of the rule of the fiscal pact. Note: deficit recalculated based on the relationship: $-0.5\%/-1\% +$ cyclical deficit (% of GDP). Source: Own calculations based on European Commission estimates

above potential, thus offsetting/canceling the action of automatic stabilizers. The new rule limiting the structural deficit to 0.5%/1% of GDP will almost result in the impossibility of practicing pro-cyclical fiscal policies and a pronounced fiscal discipline, which for a country like Romania, given the negative track record in using discretionary fiscal policy (see Dumitru and Stanca 2010; Canagarajah et al. 2012), can be a significant advantage.

If the rule had worked in the past, a simple calculation (see Fig. 3), though not entirely correct, shows that, for example, in 2008 when GDP was above potential, Romania would have had to have a budget surplus of more than 2% of GDP instead of a effective budget deficit of −5.5% of GDP. In fact, over the period 2003–2008, Romania should have had budget surpluses, GDP being above its potential level at that time, and the structural budget deficit of only 0.5% of GDP would have forced the actual budget balance to turn to a surplus.

The disadvantage of the new European fiscal rule for Romania is that the existing maneuvering space to stimulate the economy during recession periods will be very low (see also Iancu and Olteanu 2015). In the case of Romania, the structural deficit limit of 0.5%/1% of GDP (MTO) will most likely be reached before the actual public deficit reaches 3% of GDP. Romania would be allowed to run budget deficits of 3% of GDP only in extreme crisis periods (with negative gap of more than 8%, given the cyclical balance semi-elasticity to the output gap of only 0.34). In addition, in the 2009–2010 recession, actual budget deficits could not have exceeded 2% of GDP. In medium and long term (over a full economic cycle), the



	Last business cycle (2000-2016)	Last 2 business cycles (1995-2016)
Annual average of the effective budget deficit (% of GDP)	**-3.3**	**-3.3**
Annual average of the cyclical component of the budget deficit (% of GDP)	**0.0**	**0.0**
Annual average of the structural budget deficit (% of GDP)	**-3.3**	**-3.3**

Fig. 4 Evolution of the actual and structural budget deficits. Source: Author's own illustration based on data from AMECO database, European Commission, author's calculation

average actual deficit is equal to the average structural deficit and the average of the cyclical deficit is 0 (see Fig. 4).

By assuming a maximum structural deficit of 0.5%/1% of GDP, Romania assumes the obligation that the actual budget deficit, as an average during an economic cycle (and the average for a long-term horizon) to be at most 0.5%/1% of GDP, which would mean a much lower budget deficit/"maneuver space" than historical standards (3.3% of the average structural deficit over 1995–2016).

Also, the ability of the government sector to contribute by automatic stabilization to the mitigation of economic cycle fluctuations is relatively low in Romania compared to other European countries. The size of automatic stabilizers in Romania is the second lowest among European countries. Automatic stabilizers are the most effective, as expected, in countries such as Netherlands, Denmark, Belgium, France, and Sweden, countries where taxation has a strong progressivity character.

Due to weak automated stabilizers (see Fig. 5), Romania would need the possibility to apply more discretionary fiscal stimuli (greater structural deficit) in times of recession to help the economy get out of recession sooner and return it to potential. As the literature shows, the size of automatic stabilizers is closely linked to the tax system (progressive or flat tax) and to the share of the government sector in GDP (Figs. 6 and 7).

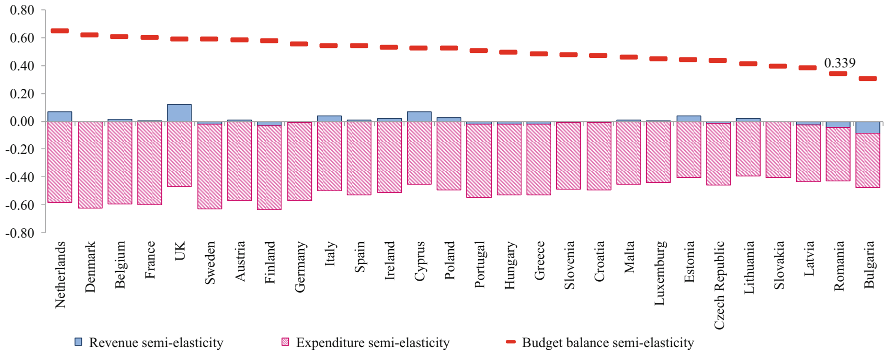


Fig. 5 Revenue/expenditure and budget balance semi-elasticities to the output gap. Source: Author's own illustration based on data from AMECO, own calculations

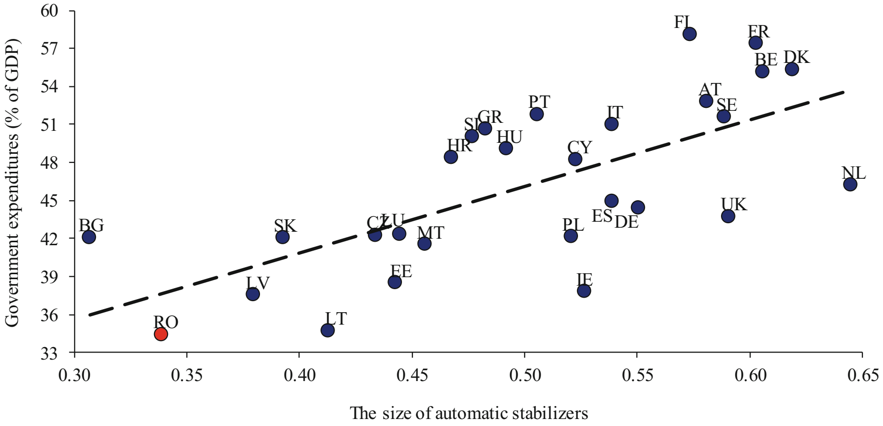


Fig. 6 Size of automatic stabilizers versus government spending. Source: Author's own illustration based on data from European Commission and AMECO database

Empirical studies tend to find a positive relation between the size of the Government (expenditure to GDP ratio) and per capita income only for some countries and certain time periods (see Arpaia and Turrini 2008; Wahab 2004; Martinez-Mongay 2002). Based on theoretic foundations, when the government sector is relatively small, long-term economic growth could be stimulated by providing more public goods. However, the marginal increase is positive but decreasing with the size of the Government. At some point, continuing to increase the size of the Government the growth effect becomes negative.

Clearly, Romania needs in the future to increase the effectiveness of automatic stabilizers, the cap imposed to the structural deficit requiring stronger automatic stabilizers. In addition to increasing government intervention in the economy, a questionable solution according to the embedded ideological trend, there are some

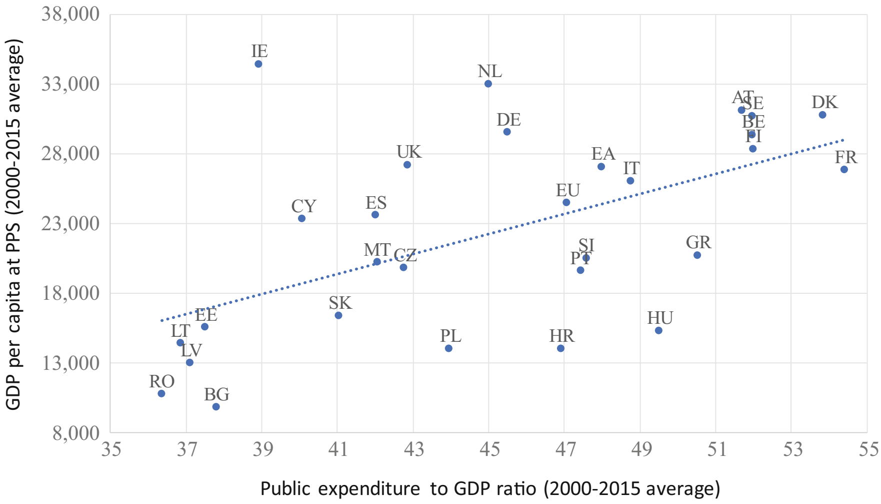


Fig. 7 Size of Government vs GDP per capita. Source: Author's own illustration based on data from European Commission and AMECO database

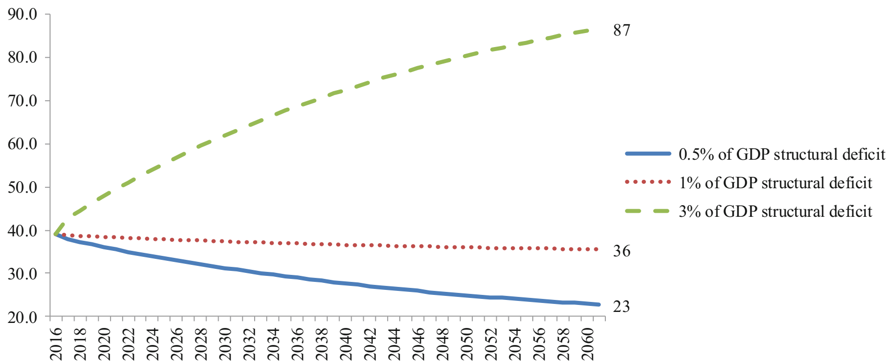


Fig. 8 Public debt trajectory simulation. Source: own calculations

other methods identified in the literature by which automatic stabilizers can be grown (see Thomas Baunsgaard and Steven A. Symansky, Fiscal Stabilizers, IMF, 2009).

By assuming a target of a maximum structural deficit of 0.5%/1% of GDP, Romania assumes the obligation that the effective budget deficit, as a mean over a long-time horizon, should be maximum 0.5%/1% of GDP, which will mean in terms of primary balance (budget deficit before interest payments on public debt) a primary budget surplus (public debt interest rates are now around 1.5% of GDP). This will force the reduction of public debt (see also Edoardo Campanella 2011). In the medium and long term, the 0.5%/1% of GDP limit for the structural deficit leads to a fall in government debt (as a % of GDP, see Fig. 8).

In this context, should Romania reduce its public debt so much in the long run, given that the country has one of the lowest public debts in the EU? The literature suggests that up to a certain threshold, public debt accumulation can stimulate economic growth. On the other hand, the current level of public debt in Romania tends to become relatively high given the limited absorption capacity of local financial markets (see Fig. 9).

In the context of the fundamental change in the fiscal policy approach in the coming years because of the new fiscal pact, the fiscal-budgetary policy room for maneuvering will be much lower than in the past. Moreover, the reduced efficiency of automatic stabilizers is an additional constraint for Romania. In this context, some solutions should be identified to stimulate the economy even in the context of a much more limited space for discretionary fiscal policy.

A first solution to this is the absorption of EU funds. This is an enormous stimulus Romania can have in the economy, which is crucial in the new context of limited discretionary fiscal policy space and low size of automatic stabilizers. The potential for multiplication of own budget expenditures for projects funded by EU funds is much higher than for projects funded entirely from own resources. With only 5% co-financing for EU-funded projects, one own monetary unit of budget deficit can be multiplied in budget expenditure of 20 monetary units (the absorption of EU funds only impacts on the budget deficit with the co-financing part, the money received from EU being reflected on both revenue and expenditure), against a 1:1 equivalent in the case of fully locally funded projects. According with IMF (2017), an increase of EU funds absorption to close to 95% in the 2014–2020 financial package would imply in the case of Romania an increase in the potential growth to about 4.5% (more than 1.5 pp acceleration).

Unfortunately, so far, Romania's performance in terms of absorption of EU funds is relatively poor (see Figs. 10 and 11). Romania must have as a high priority the urgent and substantial increase in the absorption of EU funds.

Besides the absorption of European money, the new budget constraints imposed by the fiscal pact also force Romania to spend much more efficiently the public money. With the same budgetary resources, limiting the budget deficit forces Romania to achieve far greater effects in the economy by spending public money. Efficiency reserves on the expenditure side are very high. For example, Romania had one of the largest allocation for investment expenditure as a percentage of GDP (and the second highest as a percentage of total budget budget) among all EU countries during 1995–2016, but the results were modest, with Romania still the weakest in terms of road infrastructure quality (Fig. 12). This example clearly shows that money was spent inefficiently (see Dumitru and Stanca 2010).

Also, Romania should identify and focus more on 'growth-enhancing' types of expenditure, although in practice this assessment is difficult to make (see Barrios and Schaechter 2008). In general, all public goods that addresses market failures can be growth enhancing. In practice, this can be done for instance through public investments which can raise labour and capital productivity.

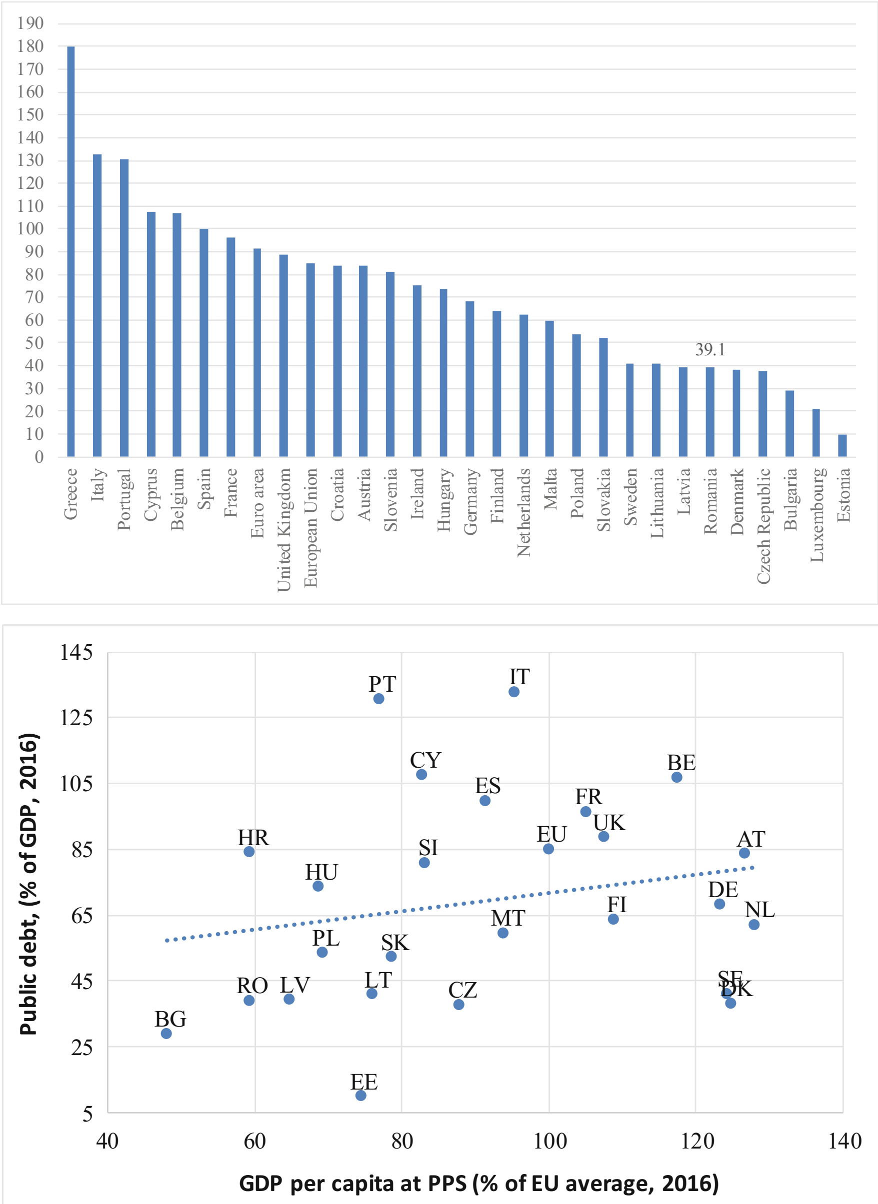


Fig. 9 Public debt (% of GDP, 2016) versus GDP per capita. Source: Author's own illustration based on data from EUROSTAT

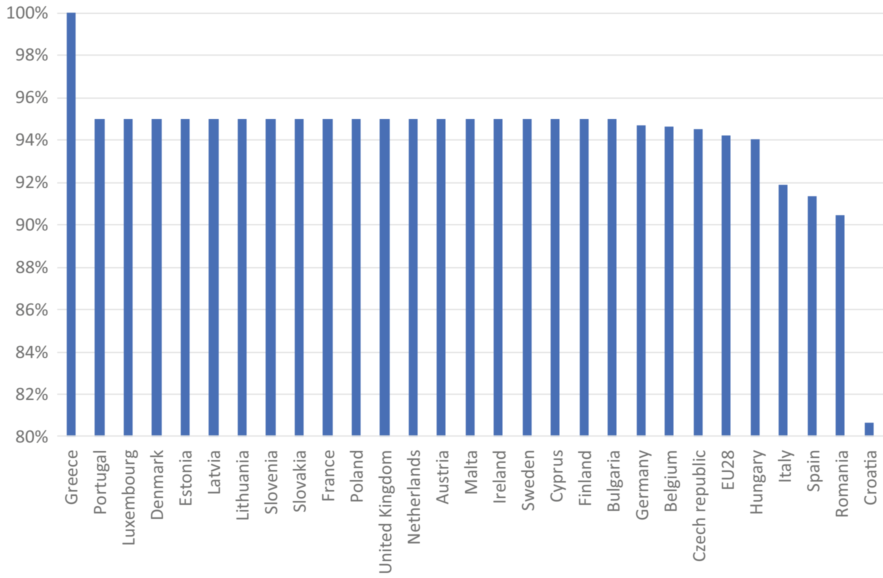


Fig. 10 European Commission payments as of 2016 to member countries under 2007–2013 budgeting program (% of total allocation)

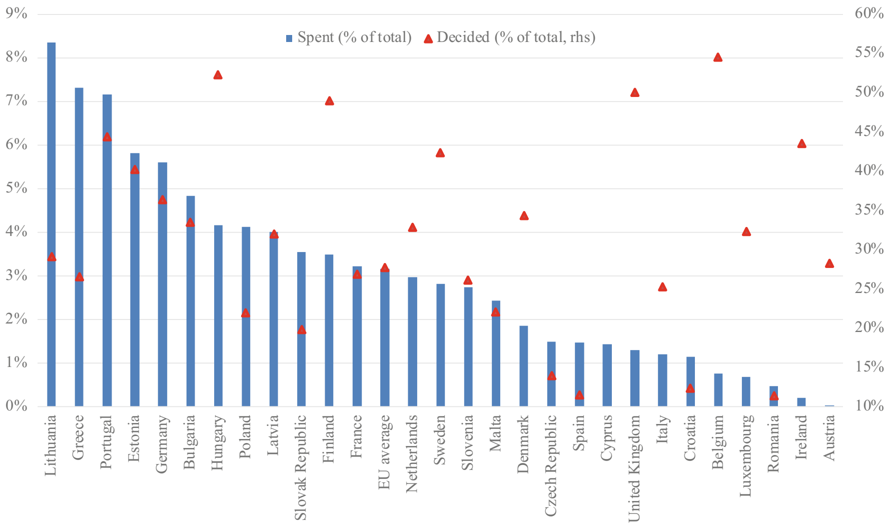


Fig. 11 European Commission payments as of Feb 2017 to member countries under 2014–2020 budgeting program (% of total planned allocation). Note: Planned—Total budget of the programme; Decided—Financial resources allocated to selected projects (project pipeline); Spent—Expenditure reported by the selected projects. Source: Author's own illustration based on data from European Commission

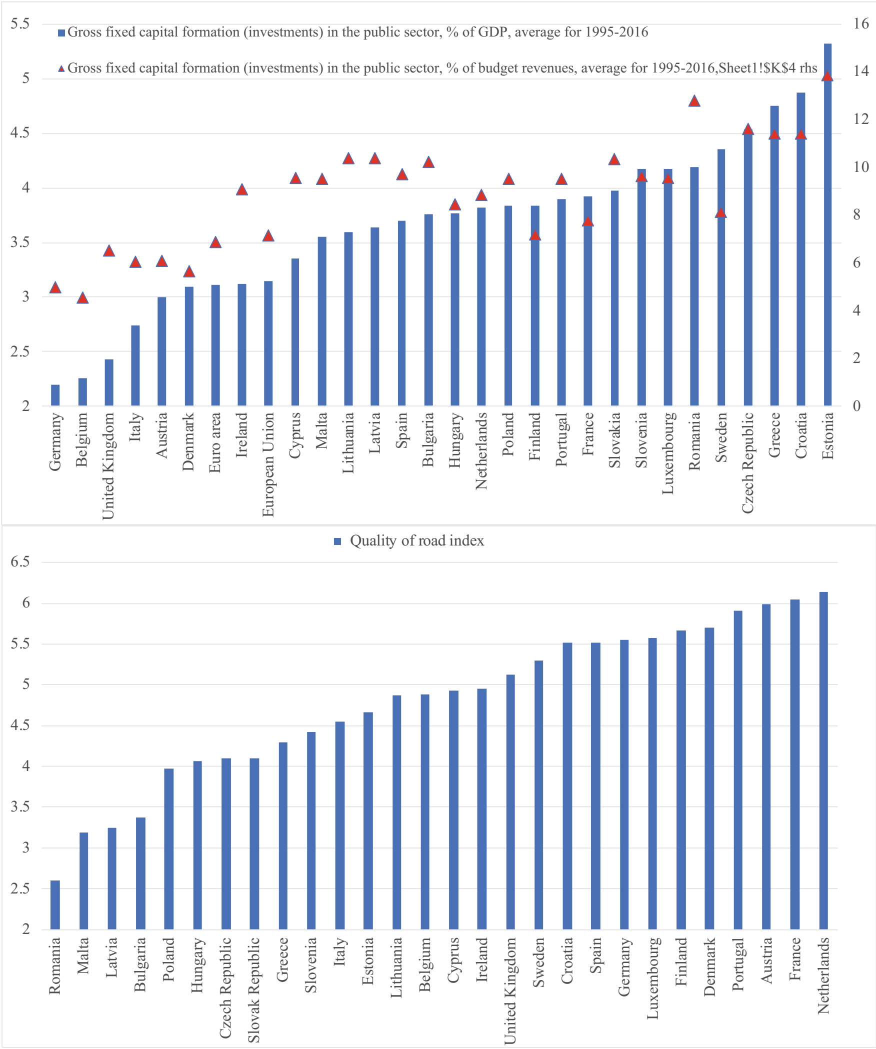


Fig. 12 Expenditure on investments and quality of roads. Source: Author's own illustration based on data from EUROSTAT, World Economic Forum, The Global Competitiveness Report 2016–2017

However, in empirical studies the impact of public investments to growth was found to be mixed (in some studies the impact was found positive, in some other the evidence in non-conclusive).

Also, public transfers and public consumption are typically estimated to negatively impact growth. In some empirical studies spending for education, healthcare, R&D and public infrastructure are found to be growth enhancing. Romania spends

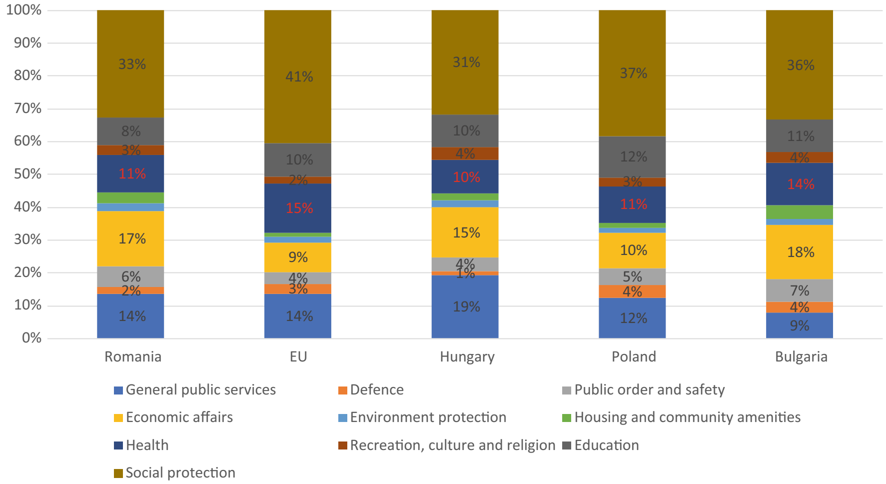


Fig. 13 Expenditure structure by function (averages for 2012–2015). Source: Author's own illustration based on data from EUROSTAT

too little for education and healthcare compare with the European averages, both as % of GDP but also as % of total budget spending (Fig. 13).

Questions and Activities

1. Explain why the European Union needs a fiscal union?
2. Explain the medium term objective set in EU economic governance regulation
3. Why can the business cycle affect the budget balance?
4. What are the consequences of the cap for the structural budget balance set in the Fiscal Compact?
5. Explain the concept of structural budget balance.
6. How will Romania be affected by the Fiscal Compact and why?
7. How can Romania cope with the impact of the Fiscal Compact?

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The European Energy Union (EEU): From Dream to Reality

Adrian Tantau, Holger Berg, and Maria Alexandra Maassen

Abstract The European Energy Union represents a desiderate that is analysed in this chapter. The chapter starts with the evolution of the energy sector and the transition to a society, where the renewable energy sources will play a significant role for the future sustainability strategies on a global scale. This is a response to the objective of the long-term decarbonisation of the European energy system and to the new EU strategies 2020, 2030 and 2050. The chapter further introduces the role of energy security, energy efficiency and competitiveness within the concept of European Energy Union. Furthermore, the main statistical indicators are presented in the energy sector for the case of the European Union with explanation of certain correlations and their meaning for the evolution towards a sustainable development for EU member states.

The key points of the chapter are the following ones:

1. Understanding the concept of the European Energy Union (EEU)
2. Analyzing the European Union priorities in the energy field
3. Identification of the importance of energy security in the EEU
4. Role of energy efficiency and competititveness in the EEU
5. Understanding the main statistical indicators in EU

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1 Introduction

The energy sector has encountered a broader diversification in the past decade than ever before, renewable energies have significantly improved their share in production and financial gains capturing the attention of the regulatory institutions. These renewable energy sources, such as wind, solar, biomass and water, emerge as main sources of sustainable energy for the future. Most likely, they will replace the traditional, less environmentally preserving energy sources of coal and petrol. However, energy policies still need to evolve accordingly to provide the financial and regulatory support of energy markets, as well as for their producers and consumers. To date, no global scheme towards renewables is emerging, and also the development in Europe is unclear. Policies towards strengthening renewable energies compete with those that still subsidize fossil fuel, and renewable energies are liable to market externalities of non- or under-priced carbon emissions.

The main objective of this chapter is to analyze the European Union's energy policy with regard to the EU as a business environment. Secondary objectives refer to:

- Understanding the status quo of European energy policy and the concept of the European Energy Union and identification of their main advantages and disadvantages,
- Identifying the role of energy security, energy efficiency and competitiveness within the concept of European Energy Union,
- Understanding the importance of the main statistical indicators in the energy sector in the European Union.

These aspects will offer a broad insight into the evolution of the energy sector, which is constantly contributing to major innovations in technology and renewable sources development, counteracting the high pressure from limited energy resources, increasing energy needs of populations and industries.

2 Energy Policy in the EU and the European Energy Market

All member states of the European Union (EU) have their own policy for energy supply and production, specifically with regard to a transition to an energy system based on renewable energies. However, the individual nations' approaches towards this are very heterogeneous in terms of scope, speed, transition paths favoured, etc. (REN21 2016; Ellenbeck et al. 2015; Szulecki et al. 2015, compare also IEA 2016). The reasons for this can be found in very diverse perceptions on how to ensure energy security, introduce decarbonisation and maintaining the interests of the respective state's present energy system. There is hence no unified European energy market as of today, but a fragmented, albeit intertwined and partially linked system of national markets and energy systems in all areas of energy supply (electricity, heat, cooling etc.) (European Commission 2015). Current (2014) energy production and consumption in the EU are given in Fig. 1.

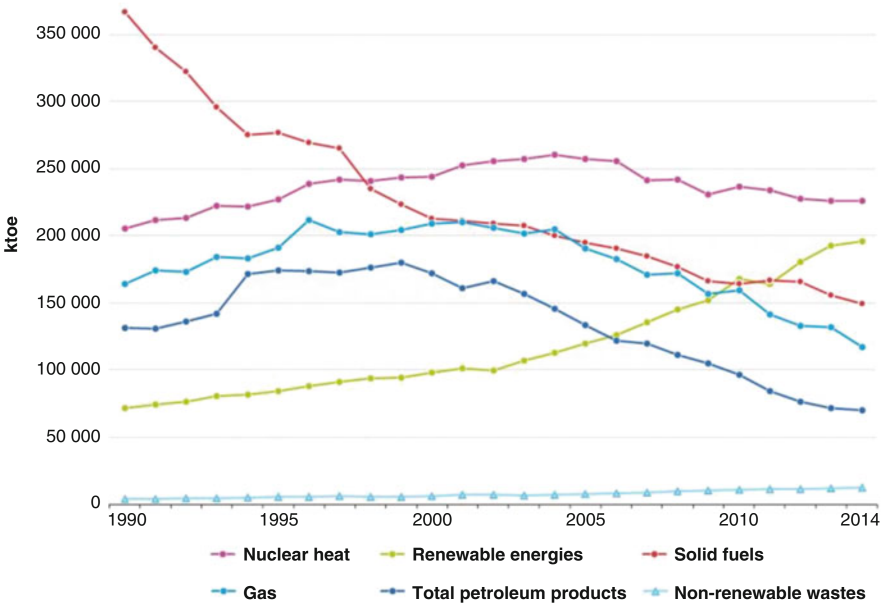

Fig. 1 Primary energy production, EU 28 1990–2014. Source: Eurostat

While the figures do show a positive trend, they also indicate that there is still a long way to go until a climate neutral energy system will be reached.

The EU and its member states have set substantial goals for future development and integration of the energy sector. A major overarching target is the long-term decarbonisation of the European energy system(s) (Ellenbeck et al. 2015; European Commission 2015). This is directly linked to other goals, namely ensuring energy security and creating a climate friendly, i.e. CO_2-neutral, energy system to fulfill the European climate and sustainability strategies (ibid.). The creation of a common market and thus integration of the national markets is another hallmark strategic goal to reach this (Ellenbeck et al. 2015). However, for these aims to be met other measures are yet required; these concerns intensified efforts in improving the share of renewable energies, the establishment of a common trading system, compatible, linked and smart European grids, the promotion of energy efficiency etc. (see e.g. Deloitte 2016, Newbery et al. 2016). In its approaches to change the energy system, the European Union has developed strategies regarding 2020, 2030 and 2050. These strategies are linked to the goals mentioned and a complementary Energy security strategy exists as well.

Goals affiliated with the 2020 strategy are a reduction of greenhouse gases by at least 20%, an increase of renewable energy within the Union's energy mix to at least 20% of consumption, as well as the improvement of energy efficiency of at least 20% (all goals to be reached by 2020, European Commission 2010). The 2030 strategy has further reaching goals, which include a 40% reduction of Greenhouse gas emissions in comparison to 1990, a share of 27% of renewable energy, a 27% increase of energy efficiency, which can be raised to 30% dependent on progress made, and completing an internal energy market. This goal is measured by realizing an energy interconnection of 15% between EU countries by 2030 (European Commission 2014a, b). The 2050 strategy relates to a roadmap and scenarios that project the development of the energy system and GHG emissions. Its main concern is the realization of the EU's GHG–reduction goals for 2050 of minus 80% to minus 95%. This analysis concludes that the decarbonisation of the system is both feasible and in the long run potentially even cheaper than maintaining the present system. Core ingredients of reaching such a status are the further rollout of renewable energies and significant improvements in energy efficiency. Moreover, timely investments into energy-related infrastructure are demanded, noting that an important share of the European infrastructure needed replacement, which could be used to install low-carbon technologies. Lastly, an integrated European solution promises a more efficient and thus cheaper transformation than one based on the actions of single countries (European Commission 2011). Consequently, several different policy instruments have been developed and are being used to different degrees and shares in the member countries. Some important measures among these are: Feed-in tariffs, Feed-in premiums, Quota obligations with tradable green certificates, Loan guarantees, Soft loans, Investment grants, Tax incentives, Tendering schemes, Training, Education and Support for start-ups and innovation (Climate Policy Info Hub 2016; RES Legal Europe 2012). In its analyses and impact assessments until today the European Commission acknowledges considerable advances already, stating the decoupling of GDP-growth and greenhouse gas emissions has already seen some success (e.g. European Commission 2015): "The EU economy is currently the most carbon efficient major economy in the world. It has been particularly successful in decoupling economic growth and greenhouse gas emissions. Between 1990 and 2014, the combined gross domestic product grew by 46%, while total greenhouse gas emissions decreased by 23%. The EU is one of only three major economies that generate more than half of its electricity without producing greenhouse gases." (European Commission 2015, p. 3)

However, as the Commission acknowledges in the same document 27% points of energy production are created through nuclear power, which is not intensive in GHG emissions but has a lot of other problems. Given the findings above, it can be seen that the EU has ambitious goals but a truly unified approach on the side of the member states that would actually produce the energy transformation aspired to be completed by 2050 has yet to be reached. The European Energy Union is a most decisive component for accomplishing these goals.

3 The European Energy Union (EEU): Framework of a European Energy Market

As pointed out the EU does not resemble a coherent market or system in terms of energy production, distribution and sales. Policy makers across the EU are faced with differential systems of energy production (technologies and resources), distribution (e.g. layout and functionality of grids), and consumption. They therefore also pursue very different, and partially competing or even contradicting policies for their respective states (Ellenbeck et al. 2015).

It is the European Energy Union's declared goal to change this and to work as a hub that integrates and coordinates the national policies to arrive at a more effective shared approach. It is therefore embedded in and linked to other EU policies that seek to improve sustainable energy and resource production and consumption (European Commission 2016a, b, c). In this the EEU stands in a long history of energy oriented policy within the EU. Important milestones of these are among others the European Coal and Steel community, which indeed represents one of the pillars the EU was founded on, the European reaction to the oil crises and the energy strategies.

The EEU was funded out of concern for systemic risks for European energy security, specifically with regard to potentially unsafe energy supply. It was proposed in 2014 by then Polish president Donald Tusk and was quickly regarded as a chance to evoke fundamental change for European energy policy (Zachmann 2015). Another motivation came from a review process concerning the results of European energy and climate policy of the previous decade. The investigation showed that the European Union had not succeeded in meeting its alleged goals. Much to the opposite, the internal market seemed to be more fragmented than ever before. This became even more obvious, when the suggestions made by several member states for the content and goals of the EU turned out to be diverse and contradictory (ibid., Szulecki et al. 2015).

However, being in place today and being part of the EU priority "EU and Climate" the European Union's goals are set as follows: "A EEU will ensure that Europe has secure, affordable and climate-friendly energy. Wiser energy use while fighting climate change is both a spur for new jobs and growth and an investment in Europe's future" (European Commission 2016a, b, c). The Energy Union's strategy hinges on five key dimensions: Creating security, solidarity and trust, establishment of a fully integrated energy market, enhancement of energy efficiency, climate action to decarbonise the economy as well as efforts in research, innovations and competitiveness to support and spur the transformation of the current energy systems (ibid., see also Andoura et al. 2015). In this, it stands in close relation to the energy strategies for the next decades mentioned above.

If the EU will succeed in achieving its goals through these strategies remains to be seen. The first two evaluations conducted by the Commission itself are optimistic (European Commission 2015). However, the prevalent state of rather uncoordinated national energy systems and markets remains as one the greatest obstacles. Member states have very different strategic perspective on the Union's goals based no their own situation with regard to resource possession, industry needs and structure, state of transformation and supply security, etc. However, this is not the only challenge.

Others refer to the closeness of many states to their present energy utilities that fear the threat of a unified market. Also, the realization of a real Energy Union would require massive investments into infrastructure in terms of grids, ports, pipelines, etc. which are as of yet not well-integrated (James 2015). Bureaucracy is another hampering factor in the Union's progress slowing the emergence of an effective Union further down. In an evaluative article the Guardian also points toward inconsistency in the strategy itself, e.g. the plan would favour renewable technologies but relies on fossil fuels for energy security (see Guardian 2015 also on other issues named here). Moreover, the role and potential of nuclear power remains unsolved between the states to date (James 2015). Hence, in an overview paper Zachmann (2015, p. 3) formulates five key challenges for the EU to be solved:

1. Ensuring security of supply—refers foremost to independence from Russian natural gas. This is particular challenge for many eastern member states that to date heavily rely on this energy resource and its constant supply.
2. Counteracting a growing renationalisation of energy and climate policy—induced by the member state's self-interests these heavily deviate due to different energy system conditions (see above).
3. Executing the sustainable transformation of the energy system—an issue that does not just concern energy production but also consumption, affiliated, behaviour distribution, etc., and therefore is a tremendously complex task.
4. Lowering energy demand and thus improving energy efficiency—earlier efforts towards this goal. The diverse climatic and natural conditions of the member states could indicate that strategies based on subsidiarity could work best.
5. Maintaining (and establishing) a competitive energy industry in global comparison—as the costs of energy provision differ drastically on a global scale the EU is required to ensure its competitiveness as a location for businesses.

How and if these goals are met and if the challenges are eventually overcome will be seen in the coming decades. It is to be assumed that climate change, resource scarcity, and volatile resource and energy prices could raise the pressure on the EU and its members, potentially strengthening the position of the EU. However such progress still needs to be assessed, and viable indicators are required.

How to remove barriers for a single energy market in Europe is a question that has to be answered based on clear measures that have to been achieved in Europe. The main measures consist in market opening, upgrading, and integrating the energy network and empowering the consumers.

4 Role of Energy Security, Energy Efficiency and Competitiveness in the European Energy Union

The goal of EU is to give to EU consumers a secure, sustainable, competitive and affordable energy. Nowadays, the EU has energy rules set at EU level, but in practice each state has its national regulatory framework. Figures 1 and 2 already showed that there is a need for a fundamental transformation of European energy

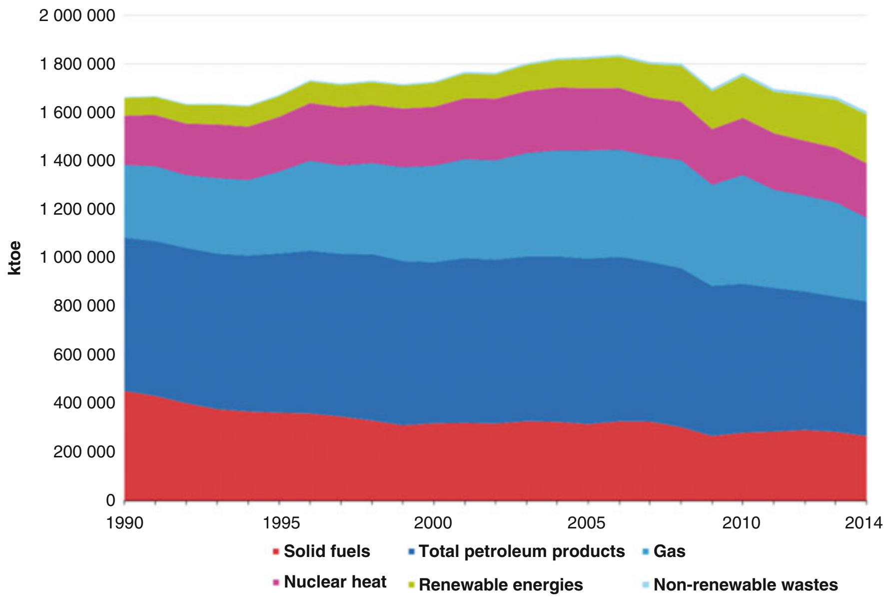

Fig. 2 Gross inland energy consumption EU-28, 1990–2014. Source: Eurostat

system with some progress made. But a secure energy market, more competition and to increase market efficiency through a better use of energy generating facilities across the EU and to produce affordable prices for consumers in some parts of the EU is still lacking but will be required for a functioning renewable system. These issues are presented in an overview in this chapter.

4.1 Energy Security

Energy security represents a main pillar of European Union's Energy Policy and for the Energy Union Strategy (EU 2016a, b, c).

The analysis of energy security based on scientific principles has its roots in 1975 in USA where high levels for the energy consumption and also for the oil imports were registered. The main objective of research studies in that period was to identify the possibilities to increase the energy security in USA in order to reduce the large amount of oil that was imported (Elkind 2010).

In parallel, the International Energy Agency (IEA) was established in Paris in 1974 as a response to the oil crisis that started in 1973. The IEA is nowadays also playing an important role in the global energy security system.

Based on this point of view energy security is first defined as the continuity of energy supplies relative to demand (Winzer 2011, for further input insight also see Narumon et al. 2007, and Sovacool 2011). In this traditional approach, energy security includes energy availability. Availability means that the energy has to be not only produced but also transformed and transported without infrastructural disturbances to the end users (Jonsson et al. 2015). From a technical point of view the reliability of the energy infrastructure is then a main indicator for its security (see Augutis et al. 2015 on indicators and components of energy security). Regarding fossil fuels the availability and finite nature of these resources need to be taken into account (Jonsson et al. 2015).

Concerning energy security in the EU three main problems have to be solved. The first energy security problem in Europe is that an increasing dependence on energy imports from non-members countries is registered. In 2014, 53.5% of gross inland energy consumption of the EU was imported, compared with 40% in 1980 and 43.1% in 1995. The dependency is very high for petroleum and related products (87.4% in 2014) and for natural gas (67.4% in 2014) (Table 1).

The second problem of energy security of the EU is that imports were procured only from few external suppliers (Eurostat 2016a, b, c, d, e; EU 2016a, b, c, see Table 2) and the third one is related to energy prices in EU that are higher than the prices in e.g. USA due to higher energy taxes resulting in (at least hypothetical) competitive disadvantages.

This third problem is reflected also in a second pragmatic definition of energy security that is promoted by the IEA: According to the IEA "energy security is defined in terms of the physical availability of supplies to satisfy demand at a given price" (IEA 2015). Close to this definition there are also specialists that view energy security through its impact on the economy and on consumer welfare. In this

Table 1 Energy import dependency at the EU level (Source: EU (2016))

	1995	2000	2005	2010	2013	2014
Solid fuels	21.5	30.6	39.4	39.5	44.1	45.6
of which hard coal	29.7	42.6	55.7	57.9	64.5	67.9
Petroleum and products	74.1	75.7	82.1	84.5	87.4	87.4
of which crude and NGL	73.0	74.4	81.3	84.6	88.0	87.9
Natural gas	43.4	48.9	57.1	62.2	65.2	67.4
Total	43.1	46.7	52.2	52.6	53.1	53.5

Table 2 Imports of crude oil and of gas at EU level in 2014 (EU 2016)

	Oil import (from total of 494,241 kton)	Gas import from total (11,796,884 TJ-GCV)	
Russia	30.4%	Russia	37.5%
Norway	13.1%	Norway	31.6%
Nigeria	9.1%	Algeria	12.3%
Soudi Arabia	8.9%	Quatar	6.9%
Kazakhstan	6.4%	Not specificied	6.5%
Irak	4.6%	Lybia	2.1%
Azerbaidjan	4.4%	Nigeria	1.5%
Algeria	4.3%	Trinidad &Tobago	0.9%
Other non-EU suppliers	18.8%	Other non-EU suppliers	0.7%

approach energy insecurity is defined "as the loss of welfare that may occur as a result of a change in the price or availability of energy" (Bohi et al. 1996, in Winzer 2011). The concept of energy security defined by IEA and also the concept of energy insecurity defined by Bohi, includes next to the availability of the energy from a technological perspective, also the availability of energy from a social perspective (Le Coq and Paltseva 2009). In this approach the affordability aspects of energy and the functioning of an energy system is analysed based on the energy prices and their volatility. At EU level the concept of energy poverty is conceptualized to come into effect when the income level of a family can sustain only the minimum amount of its energy needs. This minimum amount could consist in the energy for cooking, lightning or other basic needs (Lidell et al. 2012; Moore 2012; Price et al. 2012).

Also for companies a high price of energy presents a real disadvantage in the competition with other producers from states where the energy price is lower. And hence a reduced price for energy is an important factor that contributes to the investment decisions.

Today's energy security package has to be seen in the light of the new global and universal agreement on climate change, adopted by world leaders on 12th December 2015 in Paris (CO21). The main goal of this agreement is to have a global response to the threat of climate change and to limit the global worming below 2 °C above pre-industrial level. There is also an optimistic scenario which estimate that there is a need for measures in order to limit the temperature increase to 1.5 °C. Through this global agreement clean energy is promoted as a necessary factor to reduce the climate change process and is also seen as prerequisite of a sustainable environment (UNFCCC 2016). For this—as in the EEU goals—there is therefore a need of transformation from conventional fossil fuels to low-carbon alternatives in parallel to an increase of energy efficiency.

Based on this assumption a third definition of energy security is promoted as "provisioning of uninterrupted energy services in an affordable, equitable, efficient and environmentally benign manner (Narula and Reddy 2016). This approach is effectively implemented by the EU due to the objectives for reducing greenhouse gas emissions by 80% by 2050 (EU 2011a, b, I, II).

With regard to these three definitions for energy security specialists consider energy security as a multidimensional concept integrating elements such as security of supply, security of demand, energy affordability and energy poverty, environmental protection, geopolitical aspects and energy revenues (Jonsson et al. 2015).

The main principles for increasing the energy security are based on planning of a security margin. This could be obtained through the development of the energy production capacity or through increasing the energy storage capacity that could be used for crisis situations, or through expanding the interconnections between national energy networks (Yergin 2006).

In order to increase energy security the European Commission is promoting a new Energy Security Strategy since 2014 (EU 2014). The main measures that are promoted in the EU are the diversification of energy suppliers and supply routes (specially new infrastructures for gas and LNG), increasing the emergency stocks for oil and petroleum products and increasing competitiveness on the energy markets (market integration for power and gas). In parallel, there is a need seen for the diversification of energy options, the transition to renewable energy and to explore unconventional resources. All these policies and measures will have to be supported by improvements in the power infrastructure with new interconnections and new structures as gas reverse flows, smart grid, demand responses and other potential solutions. Another dimension of energy security is the promotion of a low energy intensity strategy that is focused on improving energy efficiency in buildings and appliances (Strambo et al. 2015, p. 4). Energy efficiency also means a reduction of energy consumption in the industry and to find ways for cleaner production in the manufacturing industry. It will be addressed in the following paragraphs.

4.2 Energy Efficiency

In general, improvement of *energy efficiency* means using less energy to provide the same result. From a general quantitative perspective energy efficiency represents the ratio of useable output of a process to the total energy input into that process or, using a more simple way to define it, energy efficiency is service output divided to energy input.

Every improvement in energy efficiency potentially represents a reduction of greenhouse gas emissions but also an improvement in energy security supply.

Promotion of the efficient use of energy in EU has its roots in the oil crisis in the 1970s. In the specific context of a high increase of oil prices it was necessary to reduce the dependency on oil that was imported. The response of EU Policy generated structural changes of the economies and enabled member states to perform a relative decoupling of economic growth from energy consumption (Filippini et al. 2014). In order to achieve a desired energy efficiency, the EU devised important documents regarding energy efficiency. One is the Energy Efficiency Directive (EED 2012/27/EU). The Energy Efficiency Directive from 2012 was a direct response to increase the energy efficiency with 20% by 2020 compared to projections by saving of 20% of the EU primary energy consumption. In the Directive, the primary energy consumption was defined as the gross inland energy consumption by excluding the energy consumed for other purposes then producing useful energy (non-energy use) (EU 2012).The process of increasing energy efficiency in the EU was continued with the decision of European Council in October 2014 that set energy targets for 2030. The target for increasing the energy efficiency was set at 27% (European Council 2014). This process has to be supported by national energy efficiency targets that are defined in a comparable, transparent and verifiable manner. However, the reality has to be seen differently because there was not fixed a precise definition that could be used in order to have a proper monitoring process on an EU level and the situation is that the EU members are using different metrics regarding energy efficiency. Another inconvenient fact regarding the process of monitoring energy efficiency is a result of the reduced number of studies in different countries in this field. Most of the studies to date are focused only on a specific technology or on a certain sector or from a geographical point of view, mostly on emerging or developing countries (Knoop and Lechtenböhmer 2016).

Another factor that has to be taken into account for achieving the EU energy efficiency target for 2030 is the energy efficiency national potential. In energy efficiency potential studies we distinguish between: technical, economic and achievable potential. The technical energy efficiency potential represents the ideal scenario which add all energy efficiency measures that can be implemented taking into account technology limitations. The economic energy efficiency potential represents the fraction of the technical potential that is effective from a cost perspective. The achievable energy efficiency potential is a fraction of the economic potential that can be achieved taking into account the infrastructure and the social and market limitations.

For promoting energy efficiency in EU member states instruments such as performance standards, financial incentives, informative programs and labelling were introduced. Moreover, new performance standards were implemented such as insulation standards for buildings, performance standards for electrical products, heating systems and high efficiency (condensed) boilers with a long lifetime which were also supported by financial incentives.

The adoption of measures for increasing energy efficiency has to take into account the discrepancy between a market with perfect competition and the actual market conditions in EU. This gap is explained in economic theory by concepts of market failure (Sorrell et al. 2004).

4.3 The EU Energy Market and Competition

Market failures or market imperfections can be identified e.g. in the form of imperfect competition, information imperfections or asymmetries, incomplete markets, non-priced externalities, etc. In this approach barriers to energy efficiency may be also classified as market failures.

The EU energy market is a market with specific differences from state to state. High levels of concentration are registered in Bulgaria, Cyprus, Estonia and Malta. On the other side Germany, Italy, Finland, and the Netherlands have relative low levels of market concentration. Increasing the competition on the energy markets especially in EU members where concentration is high could lead to a higher productivity. In the scientific literature, the increasing of competition has impact on three main dimensions: within firms, between-firms and innovation (CMA 2015). The within-firm effect represent the difference between the most efficient behaviour that a company can achieve and its real behaviour in practice. This effect demonstrates that competition induces pressure on managers and they have to be more efficient. The between-firms effect enable the reallocation of market shares from inefficient to efficient companies. Through competition the more efficient companies are increasing their market share, while inefficient firms are forced to exit the market. The innovative effect is explained through the technological improvements and the creation of new products and services as a result of a new competition intensity. The innovation process can improve the quality, can reduce the costs or can open new markets. The stronger the competition is companies are more motivated to innovate to be more competitive.

A further reality is that the EU electricity and gas markets for wholesale and for retail are very concentrated. Therefore, the end-user prices are strongly regulated in many countries (EU 2016a, b, c). In order to improve the functioning of the retail market and thus erase further market failure, there is a need to provide consumers with the possibility to control their energy costs. For example, many households in EU have too little possibilities for choosing their energy suppliers. There are also households which are depending on their energy bills due to energy poverty. Therefore, energy powerty is defined as a income level that is sufficient only to sustain the bare minimum energy needs (Barnes et al. 2010) or as powerty and lack access to modern forms of energy (Modi et al. 2006). This concept is relative to the needs that a consumer might have regarding to its electrical and heating needs.

The Commission is looking on instruments that could promote market liberalization further in order to improve the functioning of energy markets. This objective could be achieved through continuing the integration process of the EU energy markets based on expanding the market connections capacities between the EU states.

5 Economic Indicators in the European Energy Union

5.1 Definition of the Main Energy and Economic Indicators in the European Union

Energy efficiency plays a crucial role in contemporary society and business environment. Since the 1973 oil crisis, that imposed an oil embargo on major global regions, such as the United States of America, the United Kingdom, Netherlands, Japan and Canada, leaving them in a major lack of energy sources and increasing drastically the price of oil (Venn 2013), more focus was concentrated on developing new energy sources and energy security strategies.

Since then monitoring of the energy efficiency development has been supported by several energy and economic indicators, which are also published on the main sources of public economic information regarding different regions of the world, such as Eurostat for the European Union or the International Energy Agency for global energy data.

The following energy indicators are considered as some of the main factors for monitoring the evolution of the energy field and efficiency, also published annually by specialized institutions, such as Eurostat: energy intensity, energy dependence, market share of the largest generator in the electricity market, electricity prices depending on type of consumers, primary energy production by type of energy, primary production of renewable energy:

(a) Energy intensity is defined as the ratio of the gross inland consumption of energy to Gross Domestic Product (GDP) calculated for a calendar year (according to the European Environment Agency).

Practically, energy intensity measures energy consumption per unit of activity in each field. A high level of energy intensity of a sector implies more energy is consumed per unit of activity. Energy intensity is one of the most important indicators of observing the evolution of energy efficiency depending on factors such as: the degree of industrialisation, size of a region, number of households, industries, etc.

A country that is economically productive and uses energy efficiently, will tend to have a lower energy intensity, and thus be more energy efficient, than a land which *ceteris paribus* is consuming a high amount of energy through producing inefficiently and, thus, has a high energy intensity.

Overall, the energy intensity of the European Union has decreased by 30% from a level of 172,9 since 1995 until 2014 (Eurostat 2016a, b, c, d, e). As shown in Fig. 3, countries such as Germany, Finland, Denmark, Sweden, the United Kingdom, the Netherlands have a low energy intensity, and therefore a low consumption of energy per GDP. On the opposite, Bulgaria is at the extreme peak of high energy intensity with an indicator of 445,2, the highest of the European Union in 2014, followed by Estonia with 390,5.

(b) Energy dependence, which refers to the degree of dependence of a country or region to imports of energy. The calculation formula provided by Eurostat is:

Energy dependence = (Net import of energy)/(Sum of gross inland energy consumption plus bunkers.)

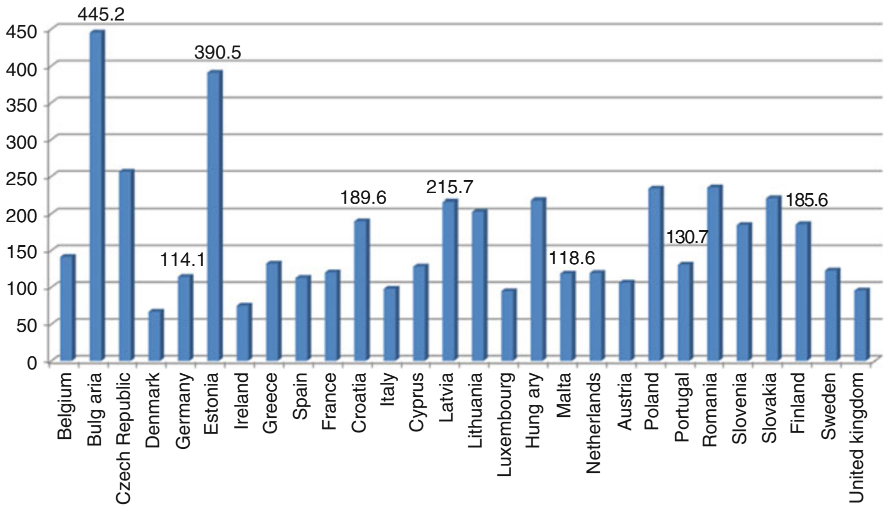

Fig. 3 Energy intensity of the economy in the European Union 2014 (Gross inland consumption of energy divided by GDP (kg of oil equivalent per 1000 EUR)) (Source: Eurostat 2016)

This indicator is significantly important to monitor the dependence of certain economies on imports of energy as traditional energy sources of energy are concentrated in certain geographical areas and are becoming more scarce in time. If a country is highly dependant on energy imports this often implies that the dependant economy is more exposed to price volatility and additional conditions or standards from the of energy exporters.

(c) Market share of the largest generator in the electricity market – % of the total generation is defined as the market share captured by the largest generator of the electricity market of the total production.
(d) Electricity prices depending on type of consumers, such as individuals or industrial consumers. Electricity prices of industrial consumers benefit often from discounted prices in comparison to household consumers as revealed by Eurostat data of recent years (Eurostat 2016a, b, c, d, e).
(e) Primary energy production by type of energy meaning the exploitation of energy sources, like in coal mines, but not the transformation from one energy source to another.
(f) Primary production of renewable energy measures the primary production of renewable energy sources depending on the type of renewable energy source, including e.g. wind, solar PV, geothermal, biomass and hydropower.

Since more than a decade ago the production of renewable energy, from sources such as: wind power, solar power, water, geothermal energy, tidal energy, biofuels, has become a main element of development globally as the need for sustainable energy sources increased drastically.

The 20-20-20 objective of the European Union imposes sustainability standards to be reached by the members of the European Union until the year 2020, so that progressively the traditional, environmental damaging sources of energy are replaced by renewable, non-polluting energy as mentioned in Sect. 1.

As a consequence, the following indicators in the field of renewable energy represent the monitoring tools for the development in the production and consumption of renewable energy globally: share of renewable energy in gross final energy consumption, electricity generated from renewable sources, the greenhouse gas intensity of energy consumption, primary production of renewable energy, final energy consumption in households by fuel.

(a) Share of renewable energy in gross final energy consumption defined as the ratio of renewable energy consumed and the gross final energy consumption. The consumption of renewable energy sources from the final gross energy consumption has developed in the last years and has reached even 50% in some countries, such as in the case of Sweden (52.6%), the country with the largest share of renewable energy in final energy consumption (see Fig. 4).

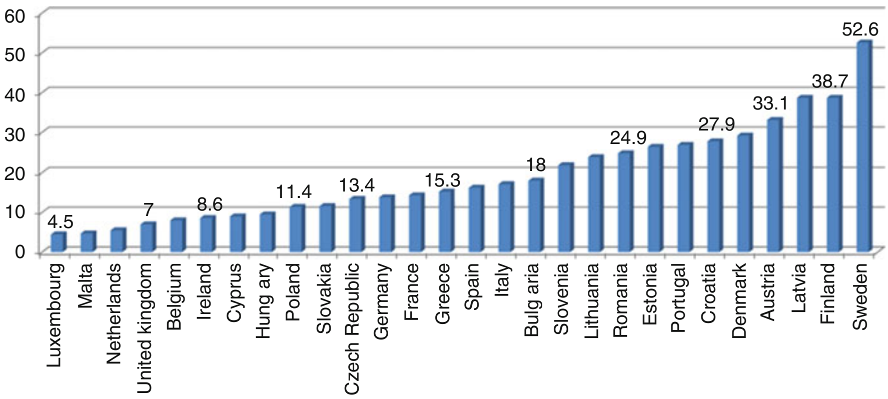

Fig. 4 The share of renewable energy in gross final energy consumption in 2014 in the European Union in ascending order (Source: Eurostat 2016)

At the opposite side, Luxembourg (4.5%), Malta (4.7%), the Netherlands (5.5%) and the United Kingdom (7%) have the lowest levels of this indicator.

(b) Electricity generated from renewable sources measuring the electricity from renewables and the gross national electricity consumption for a calendar year.

(c) The greenhouse gas intensity of energy consumption is "the ratio between energy-related greenhouse gas emissions (carbon dioxide, methane and nitrous oxide) and gross inland energy consumption" as defined by Eurostat.

(d) Primary production of renewable energy includes the production of renewable energy from the exploitation of primary renewable energy sources, including wind energy, solar energy, hydropower, biomass, geothermal energy.

(e) Final energy consumption in households by fuel shows the percentage of consumption of types of fuels, such as gas, electrical energy, renewable energy, solid fuels and derived heat in final household energy consumption. This indicator is significantly important for measuring energy intensity of households and for the future improvement of energy efficiency newly builds and households.

The economic indicator that is mostly used in correlation with the energy indicators is the gross domestic product (GDP). The GDP comprises the financial value of the finished goods and services produced within a specific period, usually a quarter or a year. Furthermore, GDP per capita is the GDP divided by the number of citizens of a population within a country.

In orthodox economics living standards of a country are assumed to be better the higher the GDP and GDP per capita. The GDP per capita allows even a better comparison of the situation of different countries as the population size is also taken into consideration.

In the European Union Luxembourg is considered an exception with a high GDP per capita in 2015 although the population number was reduced. This can be explained by the developed financial sector. As for the rest of the European countries, the highest values of GDP per capita were found in Ireland (55,000

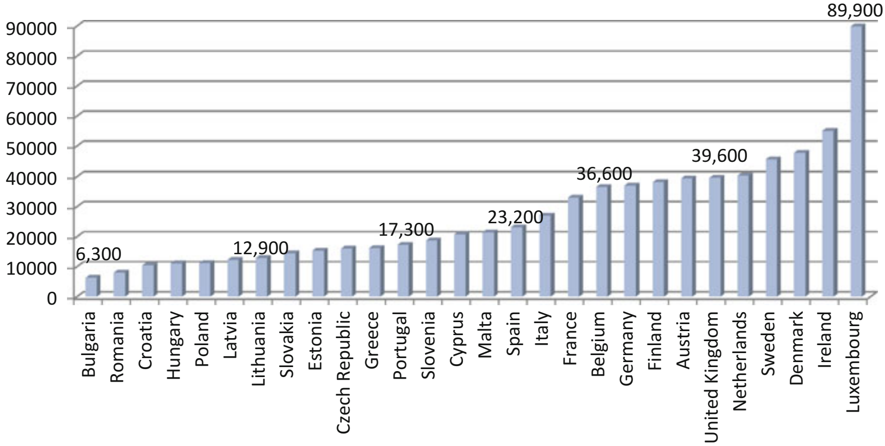

Fig. 5 GDP per capita in the European Union 2015 (Source: Eurostat 2016)

Euro/capita) and Denmark (47,800 Euro/capita), while the lowest value of this indicator was attributed to Bulgaria (6300 Euro/capita) (Fig. 5).

Another key economic indicator is the knowledge economy index (KEI) that shows a country's capability in the sense of being prepared to compete in a knowledge-based economy. This indicator is calculated as an average based on four factors: Economic Incentive and Institutional Regime, Innovation and Technological Adoption, Education and Training, Information and Communications Technologies Infrastructure (World Bank 2012). The importance of the knowledge economy index is emphasized by the speed of innovation, technology development, increased educational standards, that pressure the countries' economies to compete more and more in knowledge based markets in several activity fields.

5.2 *Correlations of Energy and Economic Indicators in the European Union and Their Impact-Methodology*

The energy and economic indicators can be analysed individually or in correlation with other factors, that can show their direct or indirect proportional dependence, as well as positive, negative or no correlation. For example, while some of the economic indicators can have high values for some countries, the energy indicators of the same countries can be decreased, meaning they have a negative correlation.

Linear dependence of two factors is calculated based on the Pearson coefficient.

The formula for calculation of the Pearson coefficient is:

$$\frac{E[(X - E(X))(Y - E(Y))]}{\sigma X \sigma Y}$$

Table 3 Type of correlations (Source: Aerd Statistics 2016)

Correlation	Positive	Negative
Weak	0.1 to 0.3	−0.1 to −0.3
Average	0.3 to 0.5	−0.3 to −0.5
Strong	0.5 to 1.0	−0.5 to −1.0

Where E(X) and E(Y) represent the variables of the variables X and Y, and the denominator elements are the standard deviations of the X and Y variables (Meissner 2014). The Pearson coefficient shows the linear correlation between two variables, for example, X and Y.

A positive correlation denotes when a factor is increasing, the other factor is also increasing. A Pearson coefficient of 0 means no correlation. Correlations measured through the Pearson coefficient can have different levels between −1 and 1 (Aerd Statistics 2016), indicating weak, average or strong correlations, as shown in Table 3.

For the following case study the EU were taken into consideration, namely: Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxemburg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom.

The values of the five indicators that were included in the correlations' analysis were taken from Eurostat and referred to: gross domestic product of a country per capita in PPS index (GDP) (expressed in index where EU28 = 100); RWE is the share of renewable energy in gross final energy consumption; the energy intensity (EI) of a country is the gross inland consumption of energy divided by GDP (kg of oil equivalent per 1000 EUR); the greenhouse gas emissions (GE) (CO_2 equivalent) in thousands of tones, knowledge economy index (KEI) is an indicator of the World Bank, that measures a country's ability to compete in a knowledge based economy, thus to produce, adopt and spread knowledge (Eurostat 2016a, b, c, d, e; World Bank 2016).

The relevance of the analysis is to determine possible correlations between the selected economy and energy indicators, in order to observe possible directions of development of the inquired variables, possible causes and measures that could be taken into consideration for future development.

5.3 Correlations of Energy and Economic Indicators in the European Union and Their Impact-Findings

By using the Pearson coefficient to determine correlations between the five selected economy and energy indicators, the following results were obtained, as shown in Table 4. The three main correlations that were found were between: GDP per capita and energy intensity, GDP-KEI and KEI-EI.

As the study of Nichifor et al. (2013) showed, GDP per capita and energy intensity were negatively correlated with an index of −0.55. This implies

Table 4 Correlations between GDP, EI, RWE, GE, KEI 2011 (Source: Nichifor et al. 2013)

	GDP per capita in PPS Index (EU28 = 100)	RWE or Share of renewable energy in gross final energy consumption (%) in 2011	EI or Energy intensity of the economy Gross inland consumption of energy divided by GDP (kg of oil equivalent per 1000 EUR) 2011	GE or Greenhouse gas emissions – total emissions • 1000 tonnes of CO_2 equivalent	KEi or Knowledge Economy Index
GDP	1				
RWE	−0.15195	1			
EI	−0.5533	0.105464	1		
GE	0.074496	−0.23522	−0.28689	1	
KEI	0.595015	0.166902	−0.57911	0.197468	1

European Union countries with a high GDP had a low energy intensity, and thus are more energy efficient in consumption of energy, while European Union countries with a lower GDP tended to have a high energy intensity and are less energy efficient in their consumption.

İn the cases of Estonia, Slovenia, Bulgaria, for example, the energy intensity was high, the highest level being in Bulgaria from the 28 selected countries. This implied that these countries tended to consume energy more inefficiently and thus have a high energy intensity.The tendency was that countries with a higher GDP had a lower energy intensity, thus being more efficient. The countries with a lower GDP tended to have a higher energy intensity, thus needing to make more efforts in the following periods in order to decrease energy intensity consumption.

In comparison to this negative correlation the GDP and KEI were positively correlated, meaning EU countries with a high GDP and thus high living standards tend to have a higher KEI, meaning they are more prepared to compete in a knowledge based economy.

For example, countries like Germany, Denmark, the Netherlands, Sweden were countries with a high GDP and a high KEI, while countries like Romania, Bulgaria, Greece, Latvia had lower levels of both GDP and KEI.

The KEI-EI correlation (−0.579) also indicated countries with a higher knowledge economy index tended to have a lower energy intensity level, thus, being more energy efficient in consumption. On the contrary countries with a lower KEI level tended to have a higher energy intensity.

Correlations may be used to determine the evolution of linear dependence of two factors in a certain period and thus, they can also be used to establish strategies to improve economic, energy, political strategies weaknesses in order to improve the less developed parts of a region’s or country’s economy, especially in the key fields relevant for the mid-term or long-term future.

6 Conclusions

The EU is still far way from a unified energy market. However, the challenges faced make stronger efforts towards integrated strategies almost mandatory. Steps that have to be fulfilled in order to intensify the process of a unified energy market are: to transform the energy supply to a sustainable one, to reduce resource dependency, to ensure energy security and reliability, and to maintain competitive energy prices. The EEU may be the decisive institution to realize this mandate. However, in the first instance it will have to align the member states. These will have to arrive at a shared position of what the European energy future could look like in practice in order to achieve the energy and sustainability goals set. Acknowledging the different existing infrastructures, energy economies and path dependencies will thus be a first step in this line. However, given the pressures mentioned above, this should be a short step to ensure the attractiveness of doing business in Europe from the energy side.

Energy security, energy efficiency and competitiveness are main objectives of the European Energy Market. The new approach regarding energy security is more complex and is a response to the energy needs of this generation and those to come but also a signal to insure a clean energy for the future generation. In this context, energy efficiency and competitiveness on the market are responses that will increase the energy security.

The monitoring of energy efficiency has been supported by several energy and economic indicators. For the EU, Eurostat is publishing each year the values for the main energy indicators in EU as: energy intensity, energy dependence, market share of the largest generator in the electricity market, electricity prices depending on type of consumers, primary energy production by type of energy, primary production of renewable energy. Promotion of renewable energy in Europe is supported by new indicators: share of renewable energy in gross final energy consumption, electricity generated from renewable sources, the greenhouse gas intensity of energy consumption, primary production of renewable energy, final energy consumption in households by fuel. They will allow for an improved and systemic management approach for more security, efficiency and competition to ensure the most important long term goal: a climate friendly energy system which is sustainable in all three ways: economic, environmental and social.

Questions and Activities

1. What is the European Energy Market (EEM)?
2. Which are the EU objectives that have to contribute to the new EEM?
3. Which are the key challenges for the Energy Union that have to be solved?
4. What does a high level of energy security in Europe mean?
5. Which are the main advantages of high energy efficiency for the EU?
6. How can improve the energy efficiency the energy security in EU?
7. Explain the energy security impact on the EU economy.

8. Which are the main indicators for the energy field in the EU and what is their importance?
9. Which indicators could contribute to the promotion of renewable energy in the EU?
10. Characterize the relationship between Energy indicators and GDP.
11. Can you determine the degree of energy poverty through a ratio to GDP?
12. Study alternative indicator sets. What are their additional implications for the energy future beyond GDP?

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EU Policy for Digital Society

Thierry Burger-Helmchen and Georgeta-Madalina Meghisan-Toma

Abstract This chapter focuses on the main steps towards a digital society at the level of the European Union's countries. The first subchapter entitled "EU Digital Single Market Regulatory Frame" provides information about the Digital Single Market Strategy for Europe. The subchapter entitled "ICT Sector Influence on EU-28 Economic Growth" underlines the main influences of ICT sector (ICT demand and ICT supply, national corruption and lifelong learning as moderating variables) on GDP. The subchapter "EU-28 Digital Divide" focuses on the main elements that create digital gap between the countries of the European Union. Reading the full chapter, the students will understand the progress of EU-28 countries towards a digital society and economy, together with the effort of the European Commission to create proper regulatory frame. This study is a necessary tool for the students, focusing on the main elements that need to evolve in order to reach a single digital market.

Key points:

1. To analyse the steps towards a digital society within EU-28 countries;
2. To understand the EU Digital Single Market regulatory frame;
3. To assess the relationship between economic growth and ICT sector;
4. To draw attention on the digital gap between the states of the EU-28;
5. To raise awareness towards further developments of the digital society.

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1 Introduction

The Internet developed fast during the recent years, bringing many implications within the society. In the knowledge-based society, Internet is the most dynamic media means (Salman and Abd.Aziz 2015). Information and communication technologies (ICTs) are "at the core of this fast-changing economy" (Van Laar et al. 2017). Moreover, any area of professional or private life "has been overlooked by the web-based technologies" (Wang and Tucker 2016).

Level of Internet access led to a whole new rage of services. On the other hand, digital divide inequalities are closely linked to ICT access, together with the purpose the individuals use the ICT access. A series of analysis emphasizing the digital divide have been drawn (Vicente and Lopez 2010; Cruz-Jesus et al. 2016; Vicente and Novo 2014; Çilan et al. 2008; Várallyai et al. 2015).

Many authors studied the connection between ICT development and economic growth. Cisco (2003) uses the longitudinal approach of time series analysis to explain the positive effect of the investment in ICT on the UK economic growth (1992–2000). Two years later, Chu (2005) reveals the correlation between the profit of the IT companies from New Zeeland and the economic growth of the country (1987–2001).

Another method of analysis is the cross-sectional approach on multiple countries. Northrop (2002) underlines the connection between IT infrastructure, social infrastructure and economic factors. OECD analysis (2008) on 19 countries emphasizes the GDP growth's impact on broadband technology penetration.

Other authors combined both methods in their analysis on the connection between ICT investment and GDP growth. Jin and Cho (2015) made use of panel data on a 13th years length of time (1999–2012) on ICT and GDP indicators from 128 countries.

2 EU Digital Single Market Regulatory Frame

The European Cohesion Policy is designed to reduce "gaps between development levels in the various regions" (Miron et al. 2009). In the Digital Single Market Strategy for Europe (2015) adopted by the European Commission, the digital single market is defined as "*one in which the free movement of goods, persons, services and capital is ensured and where individuals and businesses can seamlessly access and exercise online activities under conditions of fair competition, and high level of consumer and personal data protection, irrespective of their nationality or place of residence*". (European Commission, A Digital Single Market Strategy for Europe, 2015)

In order to facilitate the adoption of the digital single market, the Digital Single Market Strategy for Europe (2015) focuses on (European Commission, A Digital Single Market Strategy for Europe, 2015):

- *Better online access for consumers and businesses across Europe:*

- Online sales harmonised legislation by Legislative proposals for simple and effective cross-border contract rules for consumers and businesses" (2015) and Review of the Regulation on consumer protection cooperation (2016);
- Improvement of price transparency in cross-Europe delivery services, by Measures in the area of parcel delivery (2016);
- Limitation of markets geo-blocking, by Legislative proposals to tackle unjustified Geo-blocking (2015), Competition sector inquiry into e-commerce, relating to the online trade of goods and the online provision of services (2015);
- Updating the copyright framework, by Legislative proposals to reform the copyright regime (2015), Review of the Satellite and Cable Directive (2015/2016);
- VAT general reform, by Legislative proposals to reduce the administrative burden on businesses arising from different VAT regimes (2016);

• *Creating the right conditions and a field for advanced digital networks and innovative services:*

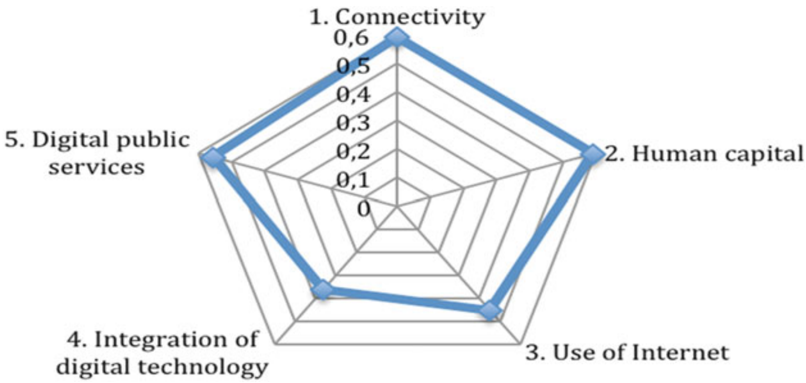
  - Development of Telecoms Single Market package, by "Legislative proposals to reform the current telecoms rules" (2016);
  - Review of the Audio-visual Media Services Directive (2016);
  - Creating fitted legislation for online platforms, that limits illegal content on the Internet, by Comprehensive analysis of the role of platforms in the market, including illegal content on the Internet (2015);
  - Adoption of the Network and Information Security Directive, by Review of the E-Privacy Directive (2015) and Establishment of a Cyber security contractual public-private partnership (2016);

• Maximising the growth potential of the digital economy, by:

  - Launch of the European Cloud initiative, by Initiatives on data ownership, free flow of data and on a European Cloud (2016);
  - ICT standardisation, by Adoption of a priority ICT Standards Plan and extending the European Interoperability Framework for public services (2015);
  - Development of digitally skilled employees and e-government, by New e-Government Action Plan including an initiative on the "once-only" principle and an initiative on building up the interconnection of business registers (2016).

The importance of the Digital Single Market Strategy comes from the great potential to the growth of the European Digital Economy, due to the fact that 90% of the jobs will require a certain level of digital skills, in the nearest future (European Commission 2017).

The main purpose of the European Union member states is to become digital economies and societies. Digital Economy and Society Index (DESI) ranks each EU country, depending on five elements: Connectivity (25%), Human Capital (25%), Use of Internet (15%), Integration of Digital Technology (20%), Digital Public Services (15%).



Graphic 1 EU 28 performance in DESI 2016 (Source: authors' compilation after European Commission Digital Economy and Society Index Report, 2016)

Digital Economy and Society Index of the European Union 28, by aggregate scores was 0.519 (2016), 0.498 (2015) and 0.456 (2014). European Union registers a slow progress of the DESI 2016. The main dimensions of Digital Economy and Society Index of EU-28, for the year 2016, are resumed in Graphic 1.

Connectivity *refers to Internet connection*. The EU-28 Connectivity aggregate score is **0.591** for the year 2016. The sub-dimensions of Connectivity have the following weighted scores for EU-28 countries (2016):

- Fixed broadband (21.8% of 33%): Fixed broadband coverage; Fixed broadband take-up.
- Mobile broadband (11% of 22%): Mobile broadband take-up; Spectrum;
- Speed (18.6% of 33%): Next Generation Access (NGA) Coverage; Subscriptions to fast broadband.
- Affordability (7.62% of 11%): Fixed broadband price.

The three main objectives of the European Union for the year 2025, focusing on the importance of Internet connectivity for the Digital Society, are (http://europa.eu, accessed 22.01.2017): Gigabit connectivity for places driving socio-economic developments; 5G coverage for all urban areas and all major terrestrial transport paths; access for all European households to internet connectivity offering at least 100 Mbps.

Human capital *represents on one hand, the skills of consumers in order to use the service and, on the other hand, the skills of workforce to provide digital goods and services*. The European Union-28 Human Capital aggregate score is 0.591 for the year 2016. The main sub-dimensions of EU-28 Human capital have the following weighted scores for EU-28 (2016):

- Basic skills and usage (29.2% of 50%): Internet users; Basic digital skills.

- Advanced skills and development (29.9% of 50%): Information-communication technology (ICT) specialists; Science, Technology, Engineering and Mathematics (STEM) Graduates.

The European Commission proposes several actions for new Skills Agenda for Europe (European Commission Press Release, 2016): strengthening the foundation of basic skills; key competences and higher, more complex skills; making vocational education and training (VET) a first choice; focus on digital skills; early profiling of migrants' skills and qualifications; better information for better choices; more work-based learning and business-education partnerships.

Use of Internet *represents the main ways to make use of the Internet service: consumption of online content, communication and transactions.* The European Union-28 Use of Internet aggregate score is 0.453 for the year 2016. This score is calculated by taking into consideration the weighted scores for EU 28 countries (2016) for the following sub-dimensions:

- Content (14.6% of 33%): News; Music, videos and games; Video on demand.
- Communication (10.1% of 33%): Video calls; Social networks.
- Transactions (20.6 of 33%): Banking; Shopping.

Beginning with June, 15th 2017, as foreseen in the Telecom Single Market Regulation, the consumers, travelling to European Union's countries, will pay the same amount as they pay at home, for their calls, SMS and Internet data (European Commission 2016).

Integration of digital technology *underlines the efficiency of business digitalization and e-commerce option.* The European Union-28 Integration of digital technology aggregate score is 0.362 for the year 2016. This score is calculated as the weighted average of two sub-dimensions at the level of EU-28 countries (2016):

- Business digitization (21.6% of 60%): Electronic information sharing; Radio-frequency identification (RFID); Social Media; E-invoices; Cloud.
- E-commerce (14.6% of 40%): Small and medium-sized (SME) enterprises selling online; E-commerce turnover; Selling online cross-border.

According to the European Commission, there are 33 sectors within the European Union economy that "are considered copyright-intensive, accounting directly for over 7 million jobs, or 3% of employment in the EU" (European Commission Press 2017).

The main objectives of EU copyright proposals are: more cross-border access to content online; wider opportunities to use copyrighted materials in education, research and cultural heritage; better functioning of copyright marketplace (European Commission 2017).

Digital public services *refer to the interaction of the businesses and citizens with the Public Administration, using digital technologies.* The European Union-28 Digital public services aggregate score is 0.554 for the year 2016. This score is calculated as the weighted average of two sub-dimensions at the level of EU-28 countries (2016):

- E-government (55.5% of 67%): E-government users; Pre-filled forms; Online service completion; Open data.

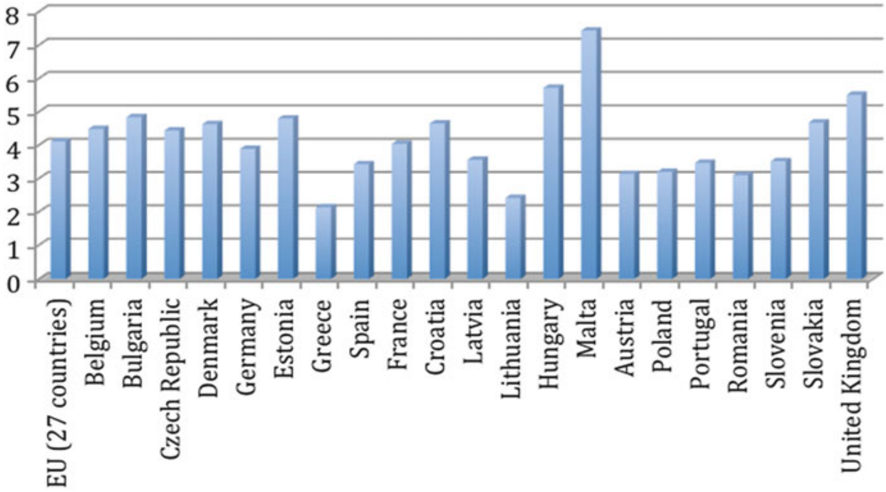
As the online platforms play a central role, the European Commission intends to reinforce the trust and security in digital services and in handling of the personal data, through new EU Data protection rules (European Commission 2017).

3 ICT Sector Influence on EU-28 Economic Growth

Information, Communication and Technology Sector has an important role in European economic growth. The percentage of EU's ICT sector in GDP was 4.10% in 2010 (Graphic 2). According to several authors, "*it is expected that 60% of the EU economic growth is due to ICT contribution*" (Cruz-Jesus et al. 2016).

In our analysis, we used the cross-sectional approach on 28 European Union countries, focusing on ICT and GDP indicators, based on correlation function. We also introduced two moderating variables (national corruption and lifelong learning) assumed by economists and sociologists to influence the connection between ICT and GDP (Table 1).

According to the results from the Table 1, *the effects of the development of the ICT industry (ICT demand and ICT supply) are very close linked to the European Union countries' economic growth* (Pearson coefficient, Sig.). The digital economy



Graphic 2 Percentage of the ICT sector on GDP (2010) (Source: authors' compilation after Eurostat, 2016)

Table 1 Correlation between ICT variables and economic growth in European Union-28 countries

Variables		GDP (Pearson coefficient)
Moderating variables	Corruption Transparency Index	0.649[a] (sig 0.000)
	Lifelong learning (%)	0.514[a] (sig 0.005)
ICT demand	Internet use by individuals (%)	0.695[a] (sig 0.000)
	Enterprises having purchased online (at least 1%)	0.456[b] (sig 0.015)
ICT supply	Level of Internet access-households (%)	0.722[a] (sig 0.000)
	Households with broadband access (%)	0.710[a] (sig 0.000)
	Enterprises with broadband access (%)	0.434[b] (sig 0.021)
Observations (no.)		28

[a]Correlation is significant at the 0.01 level (2-tailed)
[b]Correlation is significant at the 0.05 level (2-tailed)
Source: Data analysed with SPSS 20.0 software for Windows

and society follows two directions: *production of digital technologies* and *uptake and usage of digital technologies by businesses and individuals* (Eurostat 2016).

Based on the obtained results, some recommendations should be made:

- *There is a strong connection between economic development (GDP) and ICT supply (Level of internet access-households, Households with broadband access, Enterprises with broadband access)* (Table 1). More than half of the European Union's households have Internet access (80%) and broadband access (78%). The lowest values of Internet access-households and Households with broadband access were registered in Bulgaria, while the highest levels were in Luxembourg. The EU-28 average for Enterprises with broadband access is 95% (2015), while full broadband access can be explored in countries such as Netherlands, Finland and Lithuania (Table 2).

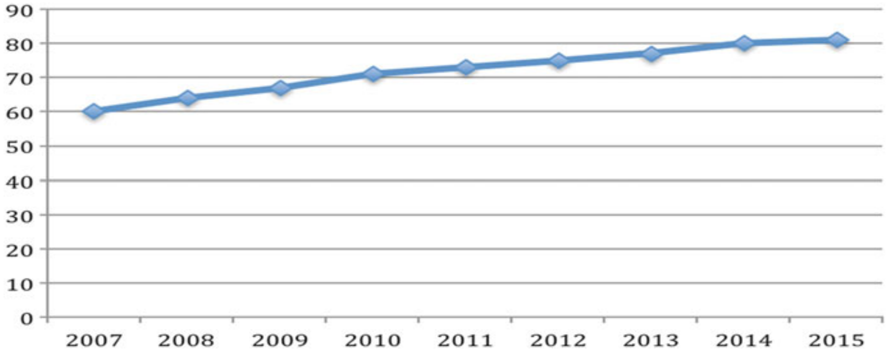
EU-28 is on its way to reach 100% Internet access and broadband access for households and enterprises till 2020. European Union countries should be ready to respond to the future demand and offer next generation communication networks (Mobile Communications Journal 2016).

- *There is a strong connection between economic development (GDP) and Internet use by individuals* (Pearson coefficient 0.695; sig. $0.000 < 0.01$). The lowest values of Internet use by individuals was registered in Bulgaria (60%) and Romania (62%), while the EU-28 average of internet use had an ascendant trend, from 60% (2007) up to 81% (2015) (Graphic 3).
- *Lifelong learning is closely linked to Economic growth* (Pearson coefficient 0.649; sig. $0.000 < 0.01$). A percentage of 45% of Europeans do not have digital skills (Mobile Communications Journal 2016). Romania is the country with the

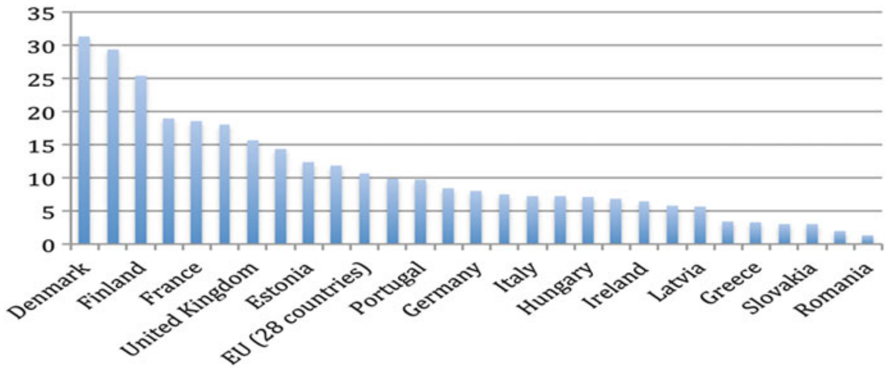
Table 2 Descriptive statistics of ICT supply indicators (2015)

		Level_of_internet_access_households (%)	Households_with_broadband_access (%)	Enterprises_with_broadband_access (%)
N	Valid	28	28	28
	Missing	0	0	0
Mean		80.2857	78.2143	94.7857
Minimum		59.00	59.00	76.00
Maximum		97.00	95.00	100.00

Source: Data analysed with SPSS 20.0 software for Windows



Graphic 3 EU-28 Internet use by individuals-% (2007–2015) (Source: authors' compilation after Eurostat, 2016)

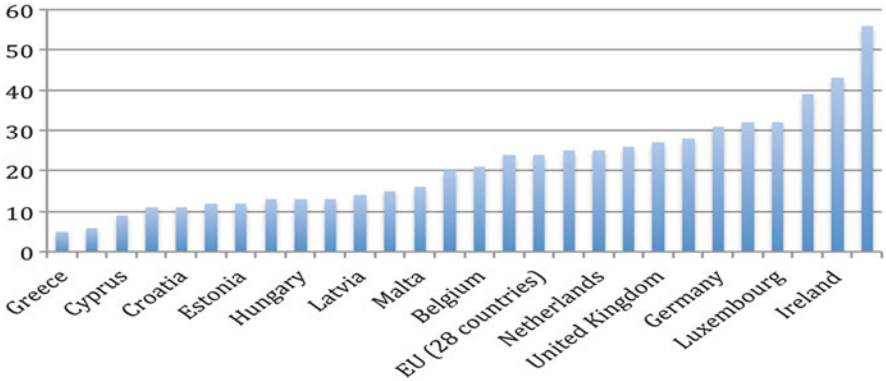


Graphic 4 EU-28 Lifelong learning-% (2015) (Source: authors' compilation after Eurostat, 2016)

lowest percentage regarding Lifelong learning with only 1.3%, compared to the average of EU-28 of 10.7% (Graphic 4).

European Commission should focus more on training and competences' development for a digital economy and society.

- *Online commerce represents an opportunity for European Union's enterprises,* even though only 16% of SMEs sell online (Eurostat 2016), despite the fact that the costs associated with the staff "is the third most significant expenditure for a retailer" (Dabija et al. 2011). In this case, the efforts of the enterprises should be "primarily targeted to ensure high returns for equity providers (shareholders), in order to increase their wealth" (Cîrciumaru et al. 2010; Buşe et al. 2007). However, the companies are encouraged to use forecasting, as a "tool o strategic management" (Constangioara et al. 2009). The EU-28 average percentage of the enterprises having purchased online was 24% (2015) (Graphic 5).



Graphic 5 Enterprises having purchased online % (2015) (Source: authors' compilation after Eurostat database, 2016)

Table 3 ANOVA analysis-model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	.983[a]	.967	.964	1.78561

[a]Predictors: (Constant), Internet_use_by_individuals, Households_with_broadband_access
Source: Data analysed with SPSS 20.0 software for Windows

Table 4 ANOVA[a] analysis

Model		Sum of squares	df	Mean square	F	Sig.
	Regression	2302,004	2	1151,002	360,997	.000[b]
1	Residual	79,710	25	3188		
	Total	2381,714	27			

[a]Dependent variable: Level_of_internet_access_households
[b]Predictors: (Constant), Internet_use_by_individuals, Households_with_broadband_access
Source: Data analysed with SPSS 20.0 software for Windows

Countries like Greece (5%) or Bulgaria (6%) are expected to register progress, due to new legislation that the European Commission proposes regarding the online commerce (European Commission, A Digital Single Market Strategy for Europe, 2015).

The next step in our research consists in using ANOVA analysis *to estimate the level of influence of the independent variables on the dependent variable*.

Within the current research, the *dependent variable is Level of Internet access-households*, while *the independent variables are represented by: Internet use by individuals, Households with broadband access.*

The two dependent variables explain the Level of Internet access-households in a percentage of 98.3% (R square) (Table 3).

The ANOVA table confirms that the two models are significant (Signification = 0.000) (Table 4).

Table 5 ANOVA analysis-coefficients

Model		Unstandardized coefficients		Standardized coefficients		
		B	Std. error	Beta	t	Sig.
1	(Constant)	1.335	3.062		.436	.667
	Households_with_broadband_access	.677	.090	.640	7.499	.000
	Internet_use_by_individuals	.324	.075	.366	4.289	.000

[a]Dependent Variable: Level_of_internet_access_households
Source: Data analysed with SPSS 20.0 software for Windows

Internet use by individuals has a significant and positive effect on the Level of Internet access-households ($t = 4.289$, $p < 0.01$). Also, *the variable Households with broadband access has a significant and positive effect on the Level of Internet access-households* ($t = 7.499$, $p < 0.01$) (Table 5).

We created a *model of significant and positive effects of the independent variables (Internet use by individuals, Households with broadband access) and the dependent variable (Level of Internet access).*

4 EU-28 Digital Divide

Following the analysis made before, *we developed a model, adding more digital divide variables to the ones previously approached: Internet use, Connection to the Internet and computer use, E-government, E-commerce. The units of the analysis focus on the EU-28 countries* (Table 6).

The correlation matrix *reveals that all the elements are correlated, underlying the fact that they are measuring the same phenomenon: the adoption of ICT services.* However, we can observe that some pairs of variables register very high values of correlation levels (Pearson coefficient > 0.9). The percentage of *Individuals regularly using Internet* (1) has a correlation of 0.929 with the percentage of *Individuals using Internet for finding information about goods and services* (4), a correlation of 0.909 with the percentage of *Individuals using Internet for Internet banking* (5), a correlation of 0.968 with the percentage of *Individuals using internet for sending/receiving e-mails* (13) and a correlation of 0.954 with the percentage of *Individuals using Internet for ordering goods or services* (16) (Table 7).

Factor analysis *will define the correlations' structure between variables, by determining the common factors.* The KMO value is 0.903, representing acceptable factor solutions (Table 8).

This last one-dimensional solution allows us to explain 86,428% of the variance (Table 9).

We can observe that out of the 17 variables, eight of them are highly correlated (correlation more than 0.900) (Table 10).

Table 6 Digital divide variables

	Variables	Code
Internet use	Individuals regularly using Internet	E_use (1)
	Individuals using the Internet for looking for information about education, training or course offers	E_education (2)
	Individuals seeking health-related information	E_health (3)
	Individuals using Internet for finding information about goods and services	E_info_goods (4)
	Individuals using Internet for Internet banking	E_banking (5)
	Individuals taking part in online consultations or voting	E_voting (6)
	Individuals using the internet for doing an online course	E_course (7)
	Individuals using internet for looking for a job or sending a job application	E_job (8)
	Individuals using internet for selling goods or service	E_sell (9)
	Individuals using internet for uploading self-related content	E_upload (10)
	Individuals using internet for downloading software	E_software (11)
	Individuals using internet for participating in social networks	E_social (12)
	Individuals using internet for sending/receiving e-mails	E_mail (13)
Connection to the Internet and computer use	Individuals using mobile devices to access internet on the move	M_internet (14)
E-government	Individuals using the Internet for interaction with public authorities	E_governance (15)
E-commerce	Individuals using Internet for ordering goods or services	E_commerce (16)
	Individuals using Internet for ordering goods or services from other EU countries	E_commerce_EU (17)

Source: Data analysed with SPSS 20.0 software for Windows

This model has an acceptable internal coherence (alpha = 0.960). There is not possible to improve alpha by eliminating other items (Table 11).

According to the research made, the main drivers of digital divide across Eu-28 countries are (Table 12):

- The frequency of Internet usage (with variations from 52% to 97% usage rate at the level of EU-28);
- Use of Internet for finding information about goods and services (with variations from 26% to 84% at the level of EU-28);

Table 7 Pearson correlation coefficient

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	1	.569[a]	.794[a]	.929[a]	.909[a]	.657[a]	.664[a]	.723[a]	.577[a]	.549[a]	.721[a]	.704[a]	.968[a]	.882[a]	.881[a]	.954[a]	.700[a]
2		1	.677[a]	.504[a]	.452[b]	.801[a]	.575[a]	.694[a]	.465[b]	.598[a]	.808[a]	.559[a]	.477[b]	.615[a]	.583[a]	.566[a]	.630[a]
3			1	.831[a]	.697[a]	.731[a]	.580[a]	.740[a]	.597[a]	.606[a]	.862[a]	.674[a]	.751[a]	.753[a]	.779[a]	.729[a]	.599[a]
4				1	.855[a]	.618[a]	.558[a]	.690[a]	.657[a]	.502[a]	.686[a]	.612[a]	.923[a]	.814[a]	.856[a]	.894[a]	.557[a]
5					1	.585[a]	.621[a]	.712[a]	.569[a]	.465[b]	.643[a]	.608[a]	.894[a]	.727[a]	.897[a]	.848[a]	.572[a]
6						1	.681[a]	.699[a]	.550[a]	.484[a]	.850[a]	.475[b]	.608[a]	.605[a]	.635[a]	.675[a]	.634[a]
7							1	.692[a]	.281	.456[b]	.592[a]	.541[a]	.613[a]	.668[a]	.634[a]	.627[a]	.492[a]
8								1	.655[a]	.645[a]	.813[a]	.687[a]	.621[a]	.757[a]	.788[a]	.736[a]	.496[a]
9									1	.266	.639[a]	.353	.558[a]	.557[a]	.520[a]	.659[a]	.258
10										1	.670[a]	.603[a]	.460[b]	.577[a]	.525[a]	.456[b]	.438[b]
11											1	.626[a]	.623[a]	.702[a]	.738[a]	.669[a]	.645[a]
12												1	.656[a]	.746[a]	.585[a]	.632[a]	.587[a]
13													1	.810[a]	.833[a]	.930[a]	.639[a]
14														1	.769[a]	.863[a]	.701[a]
15															1	.834[a]	.624[a]
16																1	.634[a]
17																	1
Observations																	28

[a]Correlation is significant at the 0.01 level (2-tailed)
[b]Correlation is significant at the 0.05 level (2-tailed)
Source: Data analysed with SPSS 20.0 software for Windows

Table 8 KMO and Bartlett's test

Kaiser-Meyer-Olkin measure of sampling adequacy		.903
Bartlett's test of sphericity	Approx. Chi-square	333,966
	df	28
	Sig.	.000

Source: Data analysed with SPSS 20.0 software for Windows

Table 9 Total variance explained

	Initial eigenvalues			Extraction sums of squared loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6914	86,428	86,428	6914	86,428	86,428
2	.371	4635	91,064			
3	.307	3837	94,901			
4	.186	2323	97,224			
5	.087	1089	98,313			
6	.074	.924	99,237			
7	.045	.565	99,803			
8	.016	.197	100,000			
Extraction Method: Principal Component Analysis						

Source: Data analysed with SPSS 20.0 software for Windows

Table 10 Component matrix

	Component
	1
Individuals_regularly_using_internet	.986
Individuals_using_internet_for_information_about_goods	.956
Individuals_seeking_health_related_information	.849
Individuals_using_internet_for_internet_banking	.920
Individuals_using_mobile_devices_to_access_internet	.890
Individuals_using_internet_for_interaction_with_public_authorities	.921
Individuals_using_internet_for_ordering_goods_or_services	.951
Individuals_using_Internet_for_email	.958
Extraction Method: Principal Component Analysis	
a. 1 components extracted	

Source: Data analysed with SPSS 20.0 software for Windows

Table 11 Reliability statistics

Cronbach's alpha	N of items
.960	8

Source: Data analysed with SPSS 20.0 software for Windows

Table 12 Drivers of digital divide for EU-28 (2015)

	N	Minimum	Maximum	Mean	Std. deviation
Individuals_regularly_using_internet	28	52.00	97.00	76.0714	11.62032
Individuals_using_internet_for_information_about_goods	28	26.00	84.00	61.3571	14.54804
Individuals_seeking_health_related_ information	28	27.00	67.00	47.5000	11.35129
Individuals_using_internet_for_internet_banking	28	5.00	86.00	47.5000	23.41810
Individuals_using_mobile_devices_to_access_internet	28	26.00	80.00	57.4643	14.90832
Individuals_using_internet_for_interaction_with_public_authorities	28	11.00	88.00	49.5000	19.14758
Individuals_using_internet_for_ordering_goods_or_services	28	11.00	81.00	48.3571	19.90573
Individuals_using_Internet_for_email	28	43.00	91.00	67.9286	13.70841
Valid N (listwise)	28				

Source: Data analysed with SPSS 20.0 software for Windows

- Use of Internet for seeking health-related information (with variations from 27% to 67% at the level of EU-28);
- Use of Internet for Internet banking (with variations from 5% to 86% at the level of EU-28);
- Use of mobile devices to access internet on the move (with variations from 26% to 80% at the level of EU-28);
- Use of Internet for interaction with public authorities (with variations from 11% to 88% at the level of EU-28);
- Use of Internet for ordering goods or services (with variations from 11% to 81% at the level of EU-28);
- Use of Internet for sending/ receiving e-mails (with variations from 43% to 91% at the level of EU-28).

5 Conclusions

In all stages of their life, people interact with digital technology: at work (e-mailing, professional networking, telecommunications); as citizens (digital education, digital health systems, unique digital counter); as private individuals (interaction with e-shops, e-banks), making use of digital devices. However, regardless of this interaction, there is still a digital gap between the countries of the European Union.

As a further development within the nearest future, the "*non market sectors such as financial, health, education and even government services have become more prone to the positive growth effects from ICT*" (European Commission 2013).

Despite the diversity of cultural clusters, Europe should be seen "as a homogenous region" (Dima and Vasilache 2013), with the member countries being "subject to the multilateral surveillance procedures" (Marcu 2008).

Questions and Activities

1. Define the term "digital single market".
2. Explain the main influences of ICT sector on economic development.
3. Which are the main elements that we can use in order to assess the evolution of ICT sector of a country?
4. Which are the main measures to eliminate the digital gap between EU countries?
5. Take one EU country and assess the digital gap.
6. Take one driver of digital divide at the level of EU and find solutions for further improvement.
7. Take one EU country and analyse the level of Internet access in rural and urban areas. What solutions would you propose for increasing the level of Internet access in both areas?
8. What measures should be taken in order to determine the EU's enterprises to use a wide variety of ICT services?

9. What measures should be taken in order to determine the EU's population to use a wide variety of ICT services?
10. Propose concrete strategies for further adoption of EU digital society.

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Social Entrepreneurship Across the European Union: An Introduction

Christine Volkmann, Simona Irina Goia (Agoston), and Shahrazad Hadad

Abstract Social entrepreneurship has become an indispensable part of the economy and it is now regarded as the driving engine of social economy. The present chapter presents a short introduction into social entrepreneurship (key definitions, concepts and theory) in order to create the setting for detailing the emergence and development of social entrepreneurship in various countries within the European Union. The next sections provide insights into the scale and legislative, social and economic framework regarding social entrepreneurship at the level of the European Union and across some of its member states in an attempt to establish whether social entrepreneurship is harmonised both from the standpoint of regulatory bodies and practitioners. Moving on, we get the readership familiarised with different initiatives of social entrepreneurship at academic level but also at the level of practitioners and regulatory bodies. The closing section presents one case study from a European country in order to improve the understanding of the idea and the implementation of social entrepreneurship in the European Union and to underline the potential challenges that might arise within this context.

Learning goals

Upon completing this chapter, you should be able to accomplish the following:

– to explain the meaning of social entrepreneurship and its potential contribution to the sustainable development of the (European) society;
– to identify the drivers of social entrepreneurship;
– to understand the role of social entrepreneurship in societies, economies and politics;

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- to depict the main characteristics of social enterprises using concrete examples;
- to present an overview of the development and scale of social entrepreneurship at European level and in various member states;
- to analyse various initiatives, legal forms and existing legislative frameworks in the member states;
- to understand future trends and possible developments of social entrepreneurship in the European Union;
- to be able to critically analyse social entrepreneurship from various perspectives and to apply the theoretical terms from this field in a practical context.

1 Introduction

The economic and social developments over the last years, including the 2008 global financial crisis, have led to an increasing importance of social aspects in the context of entrepreneurial initiatives. An increasing number of researchers, decision makers and business people have started to question the way in which businesses contribute to the creation of added social value for society and foster sustainable development on an economic, environmental, social, human and cultural level. Traditional economic theories emphasize the idea of profit maximization, while other aspects, such as the social dimension and ethics are treated as less important (Friedman 1970). Commercial business models largely focus on the idea of increasing profit, but this does not implicitly lead to a better standard of living, collective wealth and to a sustainable development of society (Zahra et al. 2009). Particularly with regard to the need for a more sustainable development within societies the United Nations has created a "new agenda that aims to end poverty, promote prosperity and people's well-being while protecting the environment by 2030" (United Nations Development Programme, 26.01.2016). This universal call to action is commonly known as the Sustainable Development Goals (SDGs). The 17 goals include such aspects as decent work and economic growth, sustainable cities and communities, quality education, and the fight against poverty. Based on these goals important questions can be raised. Are we facing a paradigm change in which the principles of entrepreneurship have to be rewritten considering the human and social development tendencies? Can social entrepreneurship represent a driver of systemic social change? Will social entrepreneurs play a major role within the process of "moralisation of markets and society", which is researched by some scholars in the field? (Agoston 2009; Goia 2016; Nicholls 2006; Skillen 2008; Stehr 2007).

According to Pârvulescu (2017) the current political and economic model/type of governance, whose underlying principles were set centuries ago, might be challenged, considered obsolete and no longer responding to the needs of societies. In a society of ever increasing social and economic complexity and rapid technological development, many people are searching for alternative solutions to address social challenges efficiently. An increasing civil engagement (especially in the

European countries from the Eastern bloc, which were "silent" so far) and the rise of participative democracy and capitalism can be observed. Different movements (such as Indignados in Spain, #Rezist in Romania etc.) are not necessarily bound to a left or right-wing ideology, but express a need for social and political change. Therefore, the political and economic systems will have to reinvent and redefine themselves, to innovate and, to find solutions.

A widening gap between social classes in many developed countries, as well as current social and environmental challenges (e.g. massive migration towards Western Europe, increasing xenophobia and discrimination, racism and violence against certain ethnical groups, global warming, depopulation of certain areas etc.) are a result of the incapacity of some governments to meet the social needs of their citizens. Impressive stories of dedicated and visionary entrepreneurs who through their business models address unmet social needs and whose main goal is to help others, are a source of inspiration in markets where traditional forms of capitalism are questioned and some classical businesses are struggling to rebuild their reputation and legitimacy (Bornstein 2004; Pless 2012). Dey (2013) argues that social entrepreneurship represents a tool of the neo-capitalist theory, which advocates the disengagement of state from the social welfare arena. According to this theory private entities can better address social issues in most of the cases.

Within this broader framework social entrepreneurship will probably gain importance, as its underlying principles are in line with the current societal trends. Thus, as a response to a rather unsustainable way of doing business and fierce debates in civil society, social entrepreneurship has developed considerably in the last years and more and more initiatives have emerged at European level, both on academic, institutional and on private level.

2 Social Entrepreneurship: Key Concepts and Theories

Social entrepreneurship is often connected with the personality and ambitious ideals of successful heroic entrepreneurs and not defined per se, but sometimes compared to and differentiated from traditional, commercial entrepreneurship (Agoston 2014a; Dacin et al. 2011; Dufays and Huybrechts 2014). Possibly the main difference between social and commercial entrepreneurs resides in the motivation of the founders. While commercial entrepreneurs are motivated mainly by the perspective of achieving monetary gain, social entrepreneurs engage in fields of activity where they can have a positive social impact while addressing social problems. They engage in such fields as education, health, culture, environment, human rights and, poverty alleviation, which do not promise large profit margins. Their motivation can be seen as diverse, directed at social responsibility and ethical impetus, and characterized by the willingness to share credit and cross disciplinary boundaries (Blank 2012; Bornstein 2004; Harbrecht 2010).

The social entrepreneur by Bosma et al. (2015) is portrayed as a highly educated individual. Across Europe he is a predominantly male, young change maker between 18 and 34 years of age and tends to have lower household incomes as compared to commercial entrepreneurs. According to Huybrechts and Nicholls (2012) social entrepreneurship is not a discrete sector, not a synonym for social business, not a new form of Corporate Social Responsibility, not the only model for social innovation. There are also voices which state that in an “ideal and moral” society there should be no clear cut distinction between social and commercial entrepreneurship, as the general purpose of businesses should consist in creation of social value and increase of quality of life in general (Musa 2017). Therefore, this distinction should slowly vanish and social entrepreneurship should become the main stream. Whether supporters of social entrepreneurship that embrace these views are visionaries or just naive idealists, only the future can tell. Additionally, corporate social entrepreneurship is a concept closely linked to social entrepreneurship and it can be used as a framework of analysis for the activities of corporations and as a business development strategy in order bring value to society by increasing local development, creating transformational innovation and finding new markets (Hadad 2015).

The field of research is still in a theory building phase, social entrepreneurship searches for its identity; its conceptual boundaries have not been reached yet and no unitary definition is widely accepted (Andersson and Ford 2015; Bacq and Janssen 2011; Dacin et al. 2010; Short et al. 2009; Zahra et al. 2009; Gauca and Hadad 2013). On the other hand, it seems that social entrepreneurship theory lags behind its practice and the theoretical advancement faces impediments (Dacin et al. 2010; Mueller et al. 2015; Santos 2012).

According to Huybrechts and Nicholls (2012), among the main drivers of social entrepreneurship we can find: (1) major changes in socioeconomic, political and cultural contexts across the world, (2) the rise of global connectedness and the rise of social media that foster better interactions between the social entrepreneurs, (3) the redefinition of the role of the state by emphasising a more managerialist function of the state, and (4) the under-financing of social organisations by the state which has led to a more entrepreneurial approach in order to attain financial sustainability. The drivers are national-context dependant so we can notice social entrepreneurship emergence in different areas based on the current social problems and needs of a country. For example, in Germany due to increasing influx of immigrants and refugees, recent initiatives are often aimed at this target group, on the other hand, in Romania social entrepreneurship is oriented towards poverty and vulnerable groups, such as the ones represented by the Roma people. Social entrepreneurship in The Netherlands addresses environmental issues due to extensive/intensive agriculture, while Spain is characterised by multi-stake holder ownership and proliferation of cooperatives, etc.

The underlying principles and broader ideas of social entrepreneurship take shape within social enterprises. These represent the core elements or basic cells in which the theoretical framework is used to consider the social impact of business action and real social value is generated. Some of the main features of social enterprises are illustrated below in Table 1 based on the example of a German social enterprise, Querstadtein. Berlin anders sehen (Querstadtein. Discover Berlin

Table 1 Features of social enterprises

Characteristic of social enterprise	Querstadtein
Social mission	The social mission is twofold: on the one hand, it refers to the integration of homeless people in society (through training, the development of new skills and self-esteem they again become independent) and on the other hand it is meant to raise awareness of this systemic social issue and to overcome prejudice through social dialogue
Social innovation	Weaknesses are transformed through social innovation into strengths, namely: the extensive experience on the streets represents the starting point of the guided tours. The (former) homeless persons are main characters in their own play
Engagement of the target group	The solution is not external, but developed by the beneficiaries themselves. Through training, counselling and direct interaction with participants (former) homeless people develop new skills and regain self-esteem, which increases their further employability and integration chances on the labor market and in society, offering a long-term oriented, sustainable solution
Hybrid character	Financial (material) resources have a hybrid character: earned income from sales of tickets and public funds (e.g. Bundeszentrale für Politische Bildung/National Center for Political Education), funding from various foundation (Auerbach Foundation), European and national funds (Lokales Soziales Kapital/local social capital), donations from private persons and companies (e.g. accounting system by Myobis, print of promotional material by Druckerei Bunter Hund, Audio-guide Systems offered by Meder CommTech GmbH), awards and scholarships (Robert Bosch Foundation, Social Impact Startup, Engagementpreis etc.), partnership with the online shopping website *boost* (a certain amount from the shopping goes to Querstadtein without increasing the price for the customer, https://www.boost-project.com/de/shops?charity_id=3066 &tag=blbspt). The human resources are also hybrid: there are several full-time paid employees, but also many volunteers are involved in the project.
Scalability	Querstadtein developed its portfolio and meanwhile they also offer guided tours by refugees (e.g. Neukölln from the newcomer perspective, From Damascus to Berlin Mitte, The Kurdish Neukölln). They aim also at developing thematic workshops and speeches. Teambuilding and training programs for companies could also be developed. The social franchise could as well be an option for scaling. Thematic tours and extending the existing tours in other neighborhoods represent also an opportunity for growing

Source: own illustration based on Goia (2016), Suciu et al. (2014)

differently, http://querstadtein.org/en). This social enterprise was established in 2012 in Berlin and offers "alternative" city tours where the tour guides are trained (former) homeless people. The participants have the chance to discover the city from another perspective and at the same time listen to various impressive life stories.

The next section briefly presents some general observations on the particular characteristics of social enterprises, which are: *the central role of their social mission*, *social innovation*, *the engagement of the target group in the problem resolution*, *hybrid character*, and *scalability*.

a. Probably the main characteristic of social enterprises, which is also widely accepted by researchers, consists in the defining and *central role of their social mission*. They do not focus on wealth creation, as their primary mission consists in creating and sustaining social value (Austin et al. 2006; Dees 1998; Huybrechts and Nicholls 2012; Short et al. 2009; Zahra et al. 2009). However, *performing economic activity* and implicit *market orientation* represent a prerequisite for social enterprises according to most of the scholars (Defourny 2001; Nicholls and Cho 2006). The extent to which this commercial activity ensures sustainability and independence from third parties varies from country to country and depends also on local conditions. For instance, due to existing framework and incentives, in countries like the UK, Finland or Italy many social enterprises succeeded to obtain at least 50% of the necessary resources from earned income, while in other countries a considerably smaller part of the income comes from own economic activity (e.g. Austria, Poland) (European Commission 2015).
b. The idea of *social innovation* is central in the research of some thought leaders in the field. Mair and Marti (2006, p. 37) state that social enterprises engage in processes involving "innovative use and combination of resources to pursue opportunities to catalyse social change and/or address social needs". Social entrepreneurs intervene in markets where states and public services often fail to meet existing social needs and claims. Thus, they try to correct market failures by challenging the classical way how social problems were approached and by engaging private actors in the problem's resolution (Dees 1998; Light 2006a; Lyne 2014; Nicholls and Murdock 2012).
c. The *engagement of the target group in the problem resolution* represents also a characteristic of social enterprises. It was observed that it is more likely that a solution (in form, of a social enterprise) is sustainable and addresses the roots and not only the symptoms of a social issue when it is internalized and accepted by the community. Therefore, social enterprises do not aim at imposing own solutions in a top-down manner, but at helping people to identify the best solution for them and implementing it. Most social entrepreneurs rely on the subsidiarity principle when tackling social issues (Goia 2016).
d. Most of the social enterprises exhibit a *hybrid character*. The hybrid character is systemic: it refers to the financing sources (earned income from own commercial activities, but also donations, sponsorship, state aid etc.), as well as to the human resources (social enterprises rely indeed a lot on volunteers, but they have also paid employees) and even to the form of organisation (in some countries some mixed legal forms are stipulated in the legislation, which contain elements both from the for-profit and non-profit sector and in most of the cases address quite well the juridical needs of social enterprises) (Goia 2016; Huybrechts and Nicholls 2012; Neck et al. 2009).

e. *Scalability* is of utmost concern for many social entrepreneurs, but not in the traditional way: while commercial businesses often aim at maximizing shareholder value, social enterprises aim at maximizing the social impact. Social enterprises do not seek a sustainable competitive advantage, but a sustainable solution to the social issue and therefore cooperate closely with other actors from the field, which also includes the replication of the business approach of others (and not necessarily own organisational growth). In general, economies of scale do not apply in the case of social enterprises, as their services and products often require big adaptations to local peculiarities (Heinecke and Mayer 2012).

However, within the context of growth strategies of social enterprises, at a conceptual level, the following paradox appears: social entrepreneurs aim at scaling their business in order to scale their social impact, but their ultimate goal eventually resides in the complete resolution of the problem addressed, which implicitly and indirectly leads to their extinction, as they no longer have a reason to exist and continue their activity. Therefore, we can deduct that social entrepreneurs conduct a "self-reduction scaling strategy".

Closely related to the previously mentioned features of social enterprises, but also depending on the legal form selected, are the *multi-stakeholder governance* and *reinvestment of profits* (totally or partially) with the goal of maximizing the social impact. Thus, social enterprises operate in a commercial form and generate profits which are reinvested in their social mission (Alter 2006). The multi-stakeholder approach refers both to the organic structure of social enterprises, which is shaped by various groups of stakeholders and to the decision making process within social enterprises, which is highly democratic and participative in most of the cases, various opinions of interested actors are taken into consideration in the attempt to reach a consensus (Agoston 2014b; European Commmission 2015). Several researchers also mention the importance of accountability and measurement of performance, i.e. social/environmental impact (Nicholls and Cho 2006; Stone and Cutcher-Gershenfeld 2001; Hadad and Gauca 2014).

3 Mapping the Scene of Social Entrepreneurship

3.1 Existing Initiatives in the Field of Social Entrepreneurship

Ever since Muhammad Yunus was awarded the Nobel Peace Prize in 2006 for the microcredit theory, the importance of the social entrepreneurship field has grown exponentially. Social entrepreneurship has become an autonomous scientific field, specialized scientific journals (e.g. Journal of Social Entrepreneurship, Social Enterprise Journal, Stanford Social Innovation Review etc.) were established, famous universities around the world introduced new courses on this topic in their curricula and set up dedicated research centres (e.g. Columbia Business

School in New York, Harvard Business School, Stanford University, HEC Management School—University of Liege, ESADE—Ramon Lull University, Freie Universität Berlin, Leuphana University Lüneburg, Utrecht University). In the meantime, social entrepreneurship is taught in more than 100 universities around the world (Dahle 2004; Huybrechts and Nicholls 2012; Jiao 2011).

Several bibliometric researches prove that social entrepreneurship is a newly emergent field, of current concern: after reviewing the scientific literature in 2009 only 152 articles on social entrepreneurship were identified, the first one being released in 1991 (Short et al. 2009). According to Granados et al. (2011) more than 83% of the scientific papers in this field were released in the time period 2005–2010. A few years later, the study conducted by Păunescu (2014) on articles indexed in Thomson Reuters ISI Web of Knowledge during the period 1966–2014 revealed that 65% of the articles which contain "social entrepreneurship" in title appeared in the period 2009–2014. According to Bosma et al. (2015) in the last five years more than 500 new articles on social entrepreneurship with an interdisciplinary character appeared in a variety of different disciplines.

Academic and professional networks emerged and various foundations offer support and consultancy in the field (e.g. EMES Research Network for Social Enterprise, Social Enterprise Knowledge Network—SEKN, Social Enterprise Alliance—SEA, NeSsT, Ashoka, Schwab Foundation for Social Entrepreneurship, Skoll Centre for Social Entrepreneurship).

On the other hand, various successful social enterprises were developed, such as Dialogue in the Dark, Discovering Hands, Auticon, Atelierul de Panza, Romano Boutiq, Querstadtein or Über den Tellerrand kochen (cooking outside the box)—which foster the integration of people with disabilities and from vulnerable groups. Furthermore, several urban gardening projects, e.g. the famous Prinzessinnengarten in Berlin, stores which promote fair trade (see also International Fair Trade Certification Mark) and sustainable consumption such as Original Unverpackt, as well as organisations active in the field of recycling and upcycling like Ateliere Fara Frontiere/Remesh, Asociația Mai Bine/REDU, Recicleta, Uleiosul, Upside Down, and organisations which reinforce traditions and prevent their extinction such as Village Life, Mesteshukar ButiQ and many others were established.

Within their corporate social responsibility strategy, private companies developed several projects which foster social entrepreneurs by offering them financial resources but also other types of support, such as counselling, space and, the expertise of their employees. In this respect the project Fabricat in Tara lui Andrei (Made in Tara lui Andrei) sustained by OMV Petrom in Romania and the competition for Social Enterprises launched by NeSst Romania with the support of UniCredit Bank and Unicredit Foundation can be mentioned. The Ready for Finance programme implemented by Deutsche Bank in cooperation with the Social Impact Lab is a successful project developed in German-speaking countries. The Social Impact Lab and SAP have been partnering to support and build the capacity of young entrepreneurs with a social mission through the project Startery. Many of the aforementioned projects include, besides financial support offered to the rising social enterprise, a co-working space, coaching and mentorship by one of the company's employee and in some cases even by the top management.

In general, social entrepreneurship and civic engagement are encouraged more and more. Various competitions such as Deutscher Engagement Preis in Germany or Social Impact Award in Romania honour citizens who have innovative ideas with a social impact. Legislation dedicated to social entrepreneurs and diverse economic and financial support schemes and mechanisms have been launched at European and national levels in some states. Therefore, supported by various initiatives, the social entrepreneurship field has become more and more popular and appealing, attracting public attention and generating fierce debates and controversy (Brooks 2009; Dacin et al. 2011; Dahle 2004; Defourny and Nyssens 2010; Hill et al. 2010; Mair and Noboa 2006; Yunus 2010). As observed by Mair (2010) we can even state that Social entrepreneurship has become "trendy" nowadays.

The European Union recognized the importance of social enterprises in creating jobs, enhancing local development and overcoming social exclusion (CIRIEC 2012), which lead to the development of initiatives that help create a beneficial ecosystem for social enterprises not only during their start-up phases, but also throughout their lifecycles (e.g. Social Business Initiative adopted in 2011 and the 2013 Regulation regarding the European Social Entrepreneurship Investment Funds). At European level, social economy represents a priority and Member States have been asked to develop, and some actually developed, a coherent strategy and the framework necessary for stimulating social entrepreneurship (Rodert 2012).

At the level of public policies, supporting social entrepreneurship can take different stances: (a) better access to financing; (b) offering fiscal incentives; (c) increasing visibility for the sector through attestation of social enterprises based on clear criteria; (d) introduction of social entrepreneurship courses in school curricula; (e) support for social enterprise incubators; (f) redesigning public acquisitions to favour social enterprises; (g) financing research on social entrepreneurship; (h) developing specific support schemes; (i) introduction of special regulations regarding the legal form of social enterprises; (j) specific human resources policies (European Commission 2013; Martins et al. 2013; Rodenbaugh 2011).

3.2 Legal Framework and Scale of Social Enterprises Across Europe

Social enterprises address unmet social needs with (more or less) market-based approaches, aiming at sustainable solutions. In an attempt to classify social enterprises, the literature highlights several variations of the same idea (Alter 2007; Dees et al. 2001), as summarized also by Volkmann et al. (2012) in the following illustration (Fig. 1).

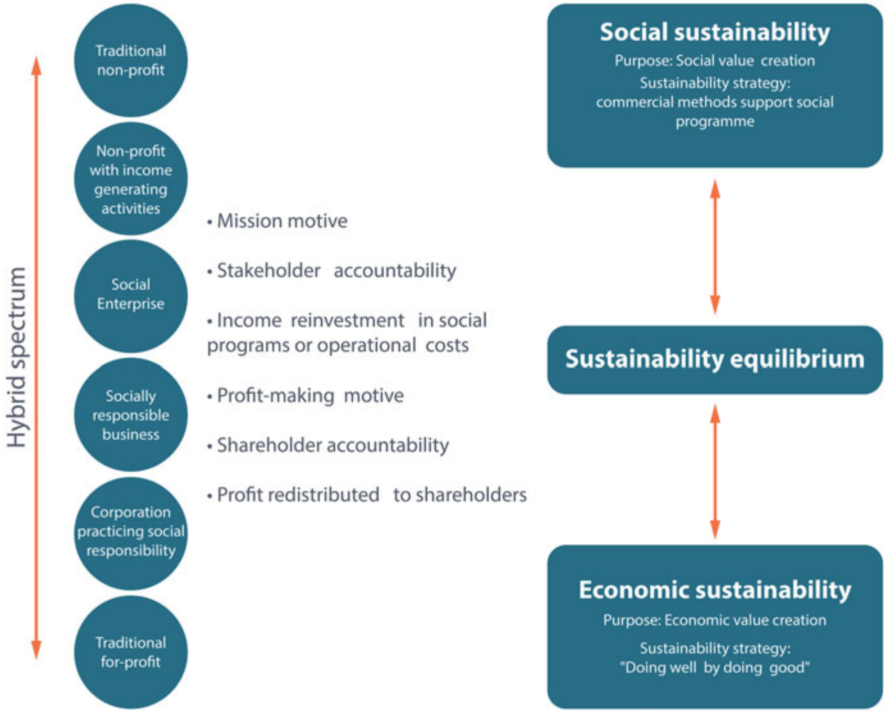

Fig. 1 Social enterprise typology and dual value creation (Source: Authors' own representation based on Volkmann et al. 2012)

Depending mainly on their market orientation, social enterprises can be located on a diametrically opposed scale starting from purely philanthropic (non-profit enterprises, which aim at generating a high social return) and going towards purely commercial (for-profit enterprises striving for a maximum financial return) (Dees et al. 2001). Alter (2007) places social enterprises on a continuum which has at its left end (traditional) non-profit enterprises and at its right end (traditional) for-profit enterprises, including a hybrid category in between. However, most of the social enterprises operate as hybrid models, which embed both for-profit and non-profit elements and are located between these two extremes (Goia 2016).

Social entrepreneurship developed quite differently in continental Europe compared to the Anglosphere of the United Kingdom and the USA. While in continental Europe the welfare state and the church historically played an important role in addressing social issues and social enterprises do not necessarily focus on commercial activities, in the Anglo-Saxon sphere social enterprises tend to take over traditional functions of the public sector and deliver public welfare goods by adopting a commercial market oriented approach (Huybrechts and Nicholls 2012). In some countries (e.g. Czech Republic, Finland, Italy and, UK) social enterprises earn more than 50% of their income on the market, while in others (e.g. Hungary, Ireland and, Slovakia) it is less than 35% (European Commission 2015).

Not only researchers and scholars are lagging behind the fast development in the practice of social entrepreneurship (Santos 2012), but also policy makers. For instance, in some countries specific legal forms were established, but in other countries social entrepreneurs should adapt to the existing framework and decide to run the social venture either as non-profit or for-profit organisation. In the present section we will present some of the most common legal forms used by social enterprises. However, legal issues refer also to new forms of financing (e.g. crowdfunding) which are not properly regulated, social impact reporting (no clear cut indicators and reporting standards are set) or taxation of certain social enterprises, which due to the challenging context in which they operate and the social groups they address struggle to identify the right way of setting their fiscal duties (see also the case study at the end of this chapter).

Most of the social entrepreneurs do not like bureaucracy and just want to pursue their goals. However, the decision regarding the legal structures of the social venture is very important, as most likely it will have long lasting consequences. Social entrepreneurship takes shape under various forms and we do not want to condition its acknowledgement upon the adoption of predefined legal forms, as it might be too tight for its own good (Light 2006b).

According to the European Commission (2015) social enterprises comprise:

– *legally recognised social enterprises* (if legal forms designed for social enterprises or social enterprise legal status exist in the country where the organisation is incorporated)
– *de-facto social enterprises* (entities which exhibit the features of social enterprises, as defined by the EU definition and which can perform under a wide variety of organisational and legal forms such as associations, foundations, WISE, cooperatives, mainstream enterprises etc.)

Many social entrepreneurs opt for a non-profit form, as they can access special funds, subsidies, receive donations and sponsorships, have a special status in relation with authorities and are more legitimated and trustworthy from the viewpoint of stakeholders. Most of the non-profit-organisations are either *associations* or *foundations*. In general, both of them can perform economic activities, as long as this is explicitly stipulated in their incorporation document. The main difference between associations and foundations consists in the fact that an association is a sum of individual forces directed towards a common goal, while a foundation relies on a patrimony dedicated to the fulfilment of a certain goal (Institutul de Economie Socială 2017).

However, profit making represents a strong incentive for innovation, lying at heart of business ventures, whereas associations and foundations in most of the countries have constraints on profit-making and capital (Mueller et al. 2015).

One of the common for-profit legal forms used by social enterprises is a *limited liability company* (European Commission 2015). In this case there are no restrictions regarding distribution of dividends, but at the same time there is no "protection" on the free market in form of fiscal incentives, access to special funding etc. Due to the relatively low productivity in some social enterprises (for instance when disadvantaged groups are involved) and the cost reduction pressure, some social enterprises do not manage to be highly competitive on the market in the absence of external support.

Some social enterprises opt for a double structure: they establish a non-profit and a for-profit entity and the money gained in the for-profit entity flows into the projects of the non-profit entity. At the same time, depending on the context, either one or the other entity is used as main vehicle of the social mission. However, there are several disadvantages of the aforementioned double structure, such as double bureaucracy and the risk of mission creep - the risk of deviating from the core activity (social).

The *work integration social enterprises, or WISEs* represent a common form of expression of social entrepreneurship in Europe. They employ low skilled workers from disadvantaged social groups and offer them the prerequisites in order to be further integrated on the labour market. Therefore, WISEs represent in some cases "transition employers" for certain categories of people which offer them special working conditions, assistance and training with the ultimate purpose to be reintegrated on the free labour market (Institutul de Economie Socială 2017). Most of the WISEs are active in fields such as: manufacturing, packaging, cleaning, waste collecting and recycling, maintenance of green spaces, etc. In Romania the concept of WISE is implemented in the form of sheltered units, where at least 30% of the employees are persons with disabilities. Romanian sheltered units are exempted from the payment of income tax, if 75% of the saved resources are reinvested in the development of the company. Another advantage offered by the state is represented by the following provision: in Romanian commercial companies with more than 50 employees at least 4% of the total number of employees should be persons with disabilities. If this share is not reached, there are two options: the first one is to pay a fine representing 50% of the salaries (minimum wage) of the persons with disabilities that should be employed in the company and are not, or to buy products and services produced by sheltered units amounting to the sum owed to the state budget. The second option is of course preferred by many companies, as they can benefit from the products and services purchased from sheltered units. In this way, through the legal provisions the Romanian state fosters the development of sheltered units providing them new market opportunities (Institutul de Economie Socială 2017).

In some countries *specific legal forms for social enterprises* were developed. Among these the following can be mentioned: Community Interest Company (CIC) in the United Kingdom, community limited liability company (gGmbH) in Germany, Social Purpose Company in Belgium, Social Cooperatives (Types 1 and 2) in Italy, and L3C organizations and B Corps in the US. Most of them have to fulfil a number of criteria such as creating benefits for the community—there are certain constraints on the distribution of dividends (reinvestment of the profits) or assets in case of selling or failure (asset lock—the assets of the organisation will pass to another organisation with a similar social mission in case of selling, failure or dissolution)—and producing a stakeholder report on the social impact generated on a regular basis (Copenhagen Business School 2014).

According to a CIRIEC Report on Social Economy (2012) the main legal forms taken by the social economy enjoy some specific tax treatment: for instance, countries like Portugal, Italy and Spain have consolidated special tax regimes backed by recognition of the social role of the social enterprises in their constitutions, while other countries are scaling back their existing specific tax treatment.

Marks, labels and certification systems for social enterprises represent another form of recognizing the social purpose and granting access to special funding and legal facilities. They are not particularly widespread across Europe, but have been implemented in four European countries: in Finland and the United Kingdom we have a social enterprise mark, while in Germany we have the “wirkt” (it works) stamp and in Poland the Social Economy certificate (European Commission 2015).

In a report on social entrepreneurship in 29 European countries released by the European Commission in 2015 it is shown that organisations which meet the definition of the social enterprise can be found in all countries. However, due to the lack of standardisation and common classification combined with a lack of systematic evidence at national level, it is difficult to have an accurate record of social enterprises across Europe. As illustrated in Fig. 2, several countries have institutionalised the concept of social enterprise either by creating tailor-made legal forms for social enterprise and/or a transversal legal status” (European Commission 2014, p. 3).

At international level, depicted in Fig. 3, most of the social entrepreneurial activities can be found in Australia and the US, followed by Sub-Saharan Africa. Eastern and Western Europe exhibit similar figures, close to the average at international level.

The movement of social entrepreneurship in Europe is dynamic, diverse and encapsulates the drive for new business models that combine economic activity with social mission, and the promotion of inclusive growth. A proof of the increasing size of the social economy in Europe can also be derived from the CIRIEC Report on Social Economy (2012), which shows that social economy directly provides over 14.5 million jobs, accounting for 6.5% of total EU employment. Especially in the new member states European funding with its special schemes for social economy played a major role in the process of establishing and developing social ventures.

Concerning the scale of social entrepreneurship across Europe, Western European economies are characterised by a prevalence of more than five workers engaged in a social venture (46%) whereas in Eastern Europe social enterprises with more than five employees score 34%. On the other hand, in Eastern Europe, social entrepreneurship has higher growth expectations in the following five years (56%) compared to Western European enterprises (44%). At the same time, although volunteering was not very popular in Eastern Europe, social enterprises in this area rely more on volunteers as compared to Western Europe (59% vs 46%) (Bosma et al. 2015). The growth is debatable in terms of translating into actual growth since social entrepreneurship is context dependent. The European

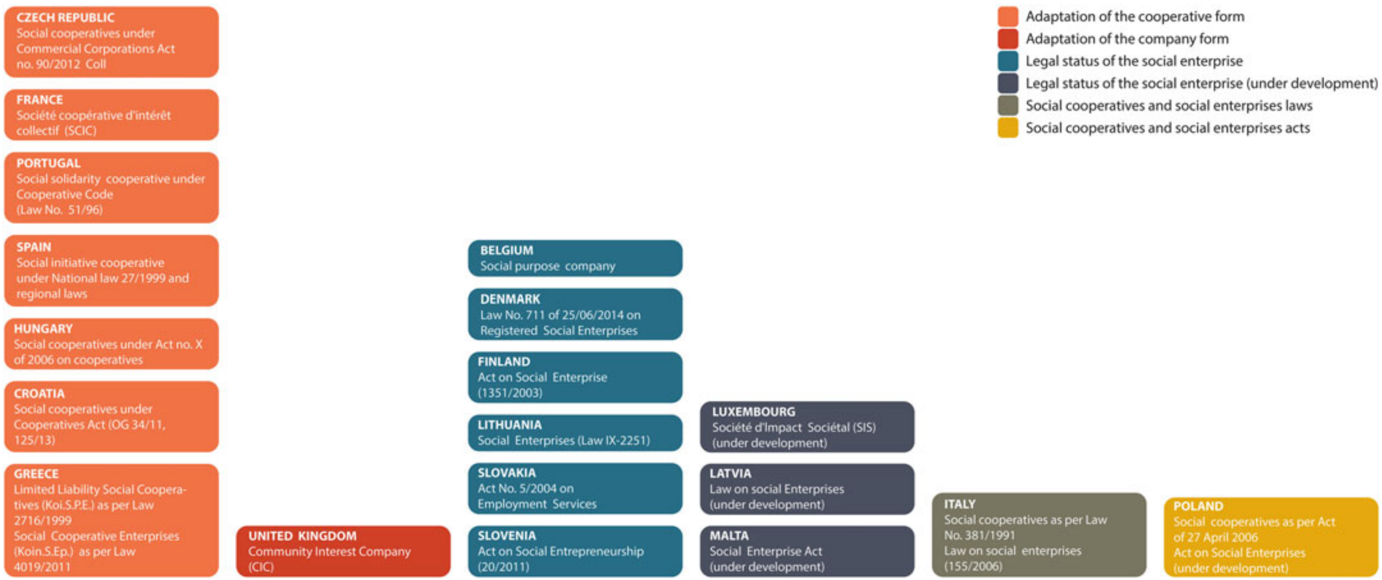

Fig. 2 Countries with specific legal forms or statutes for social enterprise (Source: Authors' own representation based on European Commission 2015)

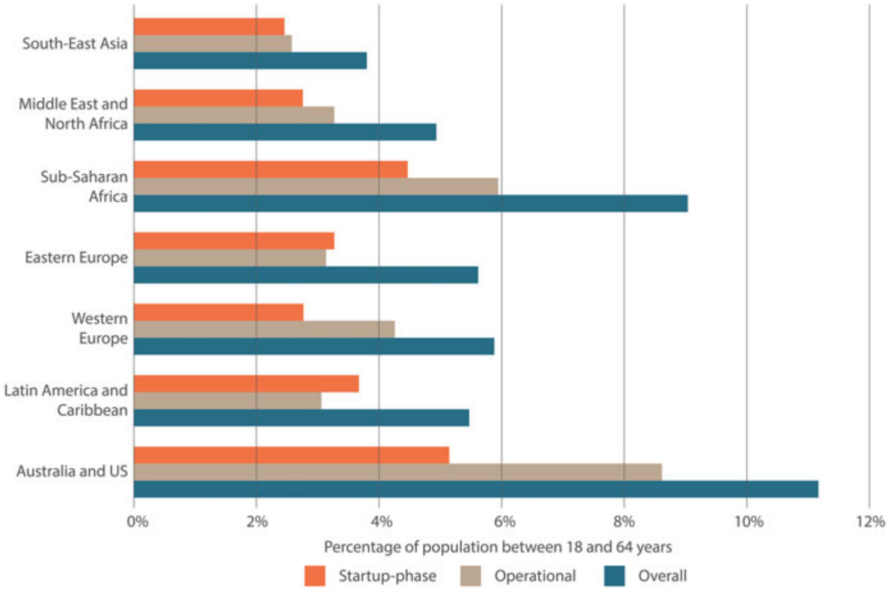

Fig. 3 Social entrepreneurship worldwide (Source: Authors' own representation based on Bosma et al. 2015)

Commission (2015) has attempted to estimate the magnitude of the social entrepreneurial phenomenon and according to national estimates the number of social enterprises in countries in the EU ranges from around 40 in Croatia, to 105,000 Germany, to 248,000 in the UK.

Therefore, there is evidence and a consensus that social entrepreneurship gains momentum and will further develop in Europe, including the emergence of new forms of social enterprises and new legal frameworks adapted to their needs (European Commission 2015).

4 Conclusions

Social entrepreneurship has grown exponentially across Europe and it is still expected to develop since it has been rendered to be dynamic and diverse. Though a unanimous definition of the concept has not yet been reached, evidence of the existence of social entrepreneurship can be found all across Europe. However, social entrepreneurship has been agreed upon to display the following main characteristics: primacy of social mission, social innovation, hybrid character, involvement of the target group in solving the social problem, and scalability, as previously illustrated throughout the present chapter and in the following case study. Social entrepreneurship is translated into practice by means of social actors embedded in the following types of organisational entities: associations, foundations, limited liability enterprises, cooperatives, work integration social enterprises and the list may continue. Moreover, social entrepreneurship has undergone a ternary development by becoming a field of study in universities, being embraced by practitioners and by consistently attracting the attention of researchers.

Social entrepreneurs usually adapt to the legal existing forms of the respective countries in which they act, but in some regions new specific legal forms have already emerged which better address the needs of social entrepreneurs. At the same time different programmes, policies and incentives are under development at both EU and national level conjointly with specific targeted schemes for supporting the actors of social economy. Social and economic challenges and trends bring forth the fact that this phenomenon is gaining both traction in the academic field and momentum in the practice community by transferring the financial and managerial burdens from the state to private entities which are more likely to develop sustainable solutions for social problems.

Questions/Assignments

1. Please write in maximum of 100 words your own definition of social entrepreneurship. Exchange notes with your colleague and compare his/her contribution with yours (peer assessment). What are the main common features/ differences?
2. Conduct extensive research in order to assess the scale of social entrepreneurship across the European Union and identify the outliers.
3. Outline the profile of the social entrepreneur by conducting field research among real social entrepreneurs. Compare your findings with the literature and with the findings of your colleagues. What are the common features and the differences?
4. "Social entrepreneurship is not compatible with the concept of homo oeconomicus". Explain why this statement may have been made. Do you agree with it? Please justify your answer.
5. What are the main characteristics of a social enterprise? Please identify your own example of social enterprise and explain how its business model reveals the traits of a social enterprise. You can use your electronic devices, if available.
6. "The current way of doing business is obsolete and has to be reinvented." Explain and comment upon this statement in the light of the challenges faced in recent times at political, economic, social and environmental level.
7. Give examples of measures/programmes developed in your country either by public institutions or private initiatives meant to foster the development of social entrepreneurship.
8. Should structures of the sharing economy such as Airbnb, Uber, Nod Makerspace (co-working space) be considered part of the Social Economy? Please work in teams of 3–4 persons. Some of the teams will provide arguments sustaining the aforementioned statement and the other teams will provide

arguments against it. A small debate will take place between the pros and cons teams.

9. "All social enterprises across Europe should have a social enterprise mark". Provide at least two arguments to sustain this idea and two arguments against it.
10. Give examples of at least two legal forms specially designed for social enterprises in various European countries and present their main characteristics.
11. List and explain at least two advantages and two disadvantages of selecting a non-profit legal structure for a social enterprise.
12. In your opinion what are the factors which determine the very different stages of development of social entrepreneurship in various European countries? List and explain at least three factors. What is the situation of social entrepreneurship in your country? List and explain two opportunities and threats that social entrepreneurs from your country need to address.
13. What short, middle and long term perspectives for social entrepreneurship do you see in your country? Please explain your answer.

The following case study about Village Life serves to complement the theoretic description of social entrepreneurship in Europe and to deepen the understanding of the main characteristics of social enterprises.

5 Case Study: Village Life Association Romania

Agro tourism is the concept that designates the tourism practiced within the rural environment, which uses the agro touristic household with all its facilities in order to provide different services (accommodation, recreational activities, social events, festivities, production/manufacture and sale of agricultural products) (Darau et al. 2010). Consequently, this type of tourism is one of the most efficient ways in which traditions, customs, exquisite unpolluted landscapes can be revived, capitalized and promoted.

Throughout its history, the Romanian village accumulated various spiritual, moral and cultural values that have lately been forgotten or overlooked, but that can be brought back to the attention of the population. Even though, in Romania over 40% of the population still lives in rural areas, we are witnessing a crisis in which yesterday's villagers have traded their cultural heritage and their environment for the cities and their facilities. This may not be surprising, if we consider the fact that in 2016 over 30% of the population in rural areas lost their jobs. According to the same study, the yawning gap between the rural and urban poverty and social exclusion are considerably high threats for countries like Romania and Bulgaria (Mommaas 2016). The determination of the scale of poverty is based on the socio-demographic and economic characteristics of the area and is reflected by specific indicators such as: the dispersion around the brink of poverty, income inequality index, the relative median deficit and the Gini coefficient. According to these indicators, poverty in Romania has a rather profound character, meaning that for many persons it will be impossible to overcome poverty in the short run. Therefore, social entrepreneurship plays a fundamental role in offering sustainable solutions in the context of poverty alleviation in rural areas (Institutul National de Statistica 2016).

Village Life is a non-governmental organization set up in Romania in 2011 and was inspired by the lack of connection between the countryside and urban areas. In the context of a country having economically disadvantaged and isolated rural communities and, vulnerable regions facing depopulation and lack of perspective, Village Life fills in the gap by bridging villagers and modern citizens, and additionally, sustains the rural development. The basic concept of Village Life is that travellers are hosted in village households where they can learn and participate in various authentic rural activities characteristic for the Romanian countryside (tending animals, learning folk dances and pottery, etc.). The money travellers pay goes into the local economy, aiding to preserve customs, architecture and values and at the same time to improve villagers' lives. The purpose of the project also relates to helping villagers to realize the importance of their heritage, to stimulate communities in which time stopped and to get them in contact with entrepreneurial ideas that could raise their living standards. On the other hand, tourists develop strong relationships with the villagers, and some of them, learn for the first time what life is like in the countryside. The rural space provides a large scope of leisure possibilities, but beyond that, all of the experiences that the tourists are exposed to, teach different groups of people how to change their habits and evolve to build regenerative culture and resilient humanity.

Currently, Village Life Association runs in 4 villages in Romania: Poienita, Costesi, Izvorul Muresului and Sinca Noua. They provide possibilities for both individuals as well as for companies to organize different team buildings or other activities besides work. Companies can support the activities of the NGO by redirecting either a share of their profit tax according to the law or by booking team buildings or other events from the NGO (in Bucharest or in the countryside). Individual persons can fill in a request to redirect 2% of their income tax to support the association's activities and, moreover, volunteers are welcomed wholeheartedly to support the sustainable development of the community by getting engaged in what the association does.

The projects developed by Village Life cover a large spectrum of interrelated initiatives: *Village Life School* trains rural communities to become hosts (for future tourists); *Active for Our Community* develops community based organisms which in the long term will work for the improvement of their community; *Romania—Europe's Community-Based Travel Hub* sets up and developed Romania's first social community based travel enterprise, and *At Home in Your Community* which aims at addressing issues related to living and public spaces in 10 primary rural communities.

In 2012, Village Life won the first prize in the national contest Social Impact Award with "Sezatoarea" project, and in this way their efforts of changing the relationship between rural and urban environments were widely appreciated and acknowledged for the first time. Village Life is also part of NESsT Romania portfolio.

1. Research the context that led to the emergence of Village Life and identify the key drivers in this respect.
2. Analyze in 500 words the existing legal framework for social entrepreneurship in your country.
3. Research the major areas of intervention of social entrepreneurship in your country. How does the state address social issues? Are there also any private initiatives trying to solve similar issues?
4. Identify the characteristics of a social enterprise in the case of Village Life. Explain why Village Life is a social enterprise and document the social problem that the social enterprise is currently addressing.
5. Identify where you would place the social entity on the hybrid spectrum by referring to Fig. 1 (Social enterprise typology and dual value creation) in this chapter.
6. Explain the money flow (and sources of revenue) of this social enterprise and identify the potential issues regarding the taxation system of the company. Design two solutions to address this problem.
7. Is the social enterprise sustainable and self-sufficient? Provide at least three arguments to support your opinion.
8. Identify the scalability potential of the social entity. Which could be the threats and opportunities for developing Village Life at a European Union level?
9. Explain what the social impact of Village Life is and propose a way for the NGO to measure its social impact. Research www.villagelife.ro.
10. Forget all the previous information you have been given about the legal form and country of Village Life. Now you can choose one European Union country (other than Romania) in which you envision Village Life. Which country would that be? Research the legal forms available in that country and propose a legal structure that you consider most suitable for Village Life. Present supporting arguments for your decision.

The present case study was designed based on the information retrieved from the official website of Village Life, www.villagelife.ro. For additional information, you may visit their website.

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The Role of Social Enterprises at European Level

Carmen Păunescu and Roger Evans

Abstract The social enterprise model of business is gaining more and more in popularity since it provides opportunities to combine societal goals with commercial objectives for the benefit of both community and environment. The chapter presents the role played by European Union social enterprises in creating innovation, driving growth and reducing unemployment and poverty. It starts with refining the meanings of social enterprise to have a consistent definition which can be broadly used across all European countries. It further introduces the forms of organization of social enterprises and common fields where they operate together with associated target groups. Furthermore, a financial model for the social enterprise is introduced. The next part of the chapter discusses the ways in which social enterprises can contribute to the economy and what networks and mutual support mechanisms there are for social enterprises at European level. The chapter also brings into the discussion real case examples of social enterprises and their key success factors.

The key points of the chapter are the following ones:

1. To define and understand the characteristics of a social enterprise in European countries
2. To identify and analyse a societal/environmental problem holistically
3. To understand the forms of social enterprises and recognize common fields where they operate
4. To reflect and rethink the roles and the boundaries of the market, the state and civil society

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5. To identify and analyse various financing opportunities for social enterprises
6. To enhance entrepreneurial thinking and confidence in starting a (social) venture

1 Introduction

Social enterprises have gained in importance across European countries in recent years due to their ability to address some of the major challenges that Europe is currently facing (Batko and Bogacz-Wojtanowska 2015; Sepulveda 2015; Goncalves et al. 2016). There is a growing awareness and interest in creating sustainable and inclusive economic growth, creating jobs, preserving the environment and stimulating social innovation.

Social enterprise has its roots in the social economy (Neverauskiene and Moskvina 2011). The social economy is a subset of the wider economy which includes the delivery of social services or working towards the achievement of a social mission. Social economy covers all organizations whose major goal is to serve the community's members rather than to seek profit and who operate through democratic and participatory decision-making processes. Organizations belonging to the social economy include associations, cooperatives, mutual organizations, foundations and social enterprises. Social economy organizations are mainly characterized by (European Union 2013): the primacy of the individual and the social goal over profit; voluntary and open participation based on solidarity and responsibility; democratic decision-making by membership; congruence of the interests of members/users and/or the general interest; autonomous management and independence from public authorities; reinvestment of surpluses in the pursuit of a social mission.

The social enterprise model of business is gaining in popularity since it provides opportunities to combine societal goals with commercial objectives for the benefit of community and environment (Szymanska and Jegers 2016). Social economy enterprises have clear social aims and compete in the marketplace like any other business to achieve an impact. They integrate social responsibility with entrepreneurial spirit, experiment and innovate, proving to be a dynamic and progressive style of business that all other enterprises can learn from.

The chapter starts with refining the conceptual frameworks and definitions of the term "social enterprise", based on specialized literature, national economy legislation and relevant European reports and other documentation. It further introduces the typology of social enterprises and common fields where they operate, following which, a financial model for the social enterprise is introduced. Furthermore, the chapter discusses the ways in which social enterprises can contribute to the economy and what networks and mutual support mechanisms there are for social enterprises at the European level. The chapter ends with presentation of two impactful social enterprises and conclusions.

2 Definitions and Characteristics of Social Enterprises

2.1 What Is Social Enterprise?

The growing recognition of the role social enterprise can play in tackling social and environmental challenges and fostering inclusive economic growth has led to a continually increasing interest in social enterprise across Europe. Despite the large interest in and the emergence of the new inspirational business model of social enterprise, relatively little is known about the manifestation and contribution of this phenomenon in Europe. Scholars argue that there is a paradigm shift in the practice and conceptualisation of social enterprises, as they are increasingly taking a more corporate approach to achieve their outcomes (Mswaka et al. 2016).

The European Commission's Social Business Initiative (2011) definition of social enterprise articulates that a social enterprise is an operator in the social economy whose primary objective is to achieve social impact rather than generating profit for owners and shareholders; an entity which uses its surpluses mainly to achieve these social goals and is managed by social entrepreneurs in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity. Social enterprises seek to maximize the general interest or collective benefit dimension through the pursuit of an entrepreneurial or economic activity. They take a wide array of legal entities that share three common dimensions: social, entrepreneurial/economic, and participatory governance. Entrepreneurial as they use economic tools in the market to sell goods and services which support the achievement of their social objectives, social as they strive to achieve a social impact, and governance, described as open and responsible decision-making and management.

The Fourth Sector Network (2009) defines a social enterprise as a new emerging enterprise found at the intersection of public, private and social sectors and new hybrid organizations are emerging. As Defourny and Nyssens (2010) argue, the notions of social entrepreneur, social entrepreneurship and social enterprise were in the recent past used interchangeably, social entrepreneurship being seen as a process through which social entrepreneurs create social enterprises. More recently though, the notions have been differentiated: "social entrepreneurs" in the United States are individuals launching activities dedicated to a social mission, often in an entrepreneurial way, while in Europe the emphasis is put more on the result of the activities of social entrepreneurs—that is, on the social enterprises themselves, which are usually of a collective, cooperative or associative nature, rather than on the individual social entrepreneurs themselves. Europeans tend to stress the fact that social entrepreneurship is located inside the "third sector" and the notion of social enterprises indicates non-profit entities pursuing the benefit of the community through the provision of goods and services.

However, social entrepreneurship and social enterprise are still relatively poorly defined and understood differently internationally, although many authors, institutions and networks have attempted to clarify these (Loosemore 2015; Sepulveda

2015; Diochon and Ghore 2016; Farmer et al. 2016; Kay et al. 2016). Many closely related names tend to occupy this ground including terms such as social economy, third sector, non-profit sector, not-for-profit, social enterprise, social entrepreneurship and social entrepreneur, some of which are also ill-defined and overlapping.

The term "social enterprise" is defined differently in European countries as there is a large diversity of national economic structures, welfare, traditions, legal frameworks and development pathways of social enterprise. Also, different conceptual frameworks and delimitations are given amongst academics, policymakers and in the public discourse among stakeholders, and there does not seem to be a strong demand for a unique strong definition. The term gained progressive interest as it is perceived as an alternative to combat negative effects of the economy such as unemployment, poverty, lack of education, and poor distribution of income (Goncalves et al. 2016).

Over recent years there has been increasing focus on how social enterprise is conceptualized in different national economies and how their ecosystems differ across countries (European Union 2015b; Hazenberg et al. 2016; O'Shaughnessy and O'Hara 2016; Petrella and Richez-Battesti 2016).

The UK Government (2011), for example, defines a social enterprise as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners". This definition underlines the need for a social enterprise to have primarily social objectives, to involve commercial activities and to reinvest any surpluses generated for its social objectives or in the community.

In Germany, existing conceptual frameworks given for social enterprises emphasise core features like: the social motive/mission of the entrepreneur, the entrepreneurial approach and the need to be innovative—reinventing themselves and their services, the application of democratic decision-making procedures, the need to be active on a competitive market and obtain revenues from trading, the limits on profit distribution. The social entrepreneurs are persons who, as part of their individual civic engagement, found social organizations that address social challenges with innovative and entrepreneurial approaches. A more recent working definition of social enterprise is offered by Jansen (2013: 75) who states that "social enterprises are either new establishments ('social entrepreneurship') or transformations of existing social organisations ('social intrapreneurship') which have a high degree of institutionalisation [. . .] and the corresponding formal governance structures, and contribute to the entrepreneurial development of innovative and scalable blueprints for the mitigation and resolving of social problems."

In France, the Law on Social and Solidarity Economy (2014) refers to "solidarity enterprise with a social utility" as official version of social enterprise in the French context. The "solidarity enterprise with a social utility" combines several features: it is labelled as a 'social and solidarity economy' organisation; it has a limited profitability due to its social orientation; it accepts limits on the dispersion of employees' wages within the organisation; it has a strong emphasis on innovation (both technological and social) which reinforces their ability to achieve social impact.

Italian Law on Social Enterprises (Law no. 155/2006) defines a social enterprise as a private legal entity engaged in regular production and exchange of goods and services having "social utility" and seeking to achieve public benefit purpose, rather than generate a profit. If profit is obtained, this has to be reinvested to achieve the main statutory goal of the social enterprise and cannot be distributed to its members. In addition, the social enterprise has to be characterized through a transparent, open and participatory decision-making process.

In Belgium, the term of social enterprise has traditionally been equated with work integration social enterprise (WISE). In 1995 a law recognizing "social purpose companies" was adopted. "Social purpose company" is a transversal legal status that can be obtained by any commercial company, regardless of its underlying legal form (cooperative or investor-owned), which adheres to certain statutory obligations like: members seek only a limited profit or no profit at all; there is a clear description of the social goals to which the activities of the organisation are dedicated to; the policy for distribution of profits is appropriate to the internal and external purposes of the company; each employee has the right to participate in the company's governance through the ownership of shares.

According to the Romanian Law on Social Economy (2015) a social enterprise is "any juridical entity of private law which undertakes activities which fall under the social economy sphere and which respects its principles." Social economy includes that part of the wider economy which serves the interests of a community or personal non-commercial interests. Social economy principles are: priority of social objectives over profit making; convergence between the interests of the affiliated members and the general interest of the society/community; democratic governance; distinct legal entity, with managerial autonomy and independence from the public sector. Romanian legislation refers to an additional category of social enterprise namely "social insertion enterprise" that must meet additional criteria e.g., 30% of their permanent staff should comprise members of a vulnerable group; 60% of their profits should be reinvested to support the main social objective of the enterprise.

2.2 Core Features of Social Enterprises in Europe

The various definitions given in the previous section articulate that a social enterprise is a business which is engaged in some economic activities (manufacturing and trading) primarily to support a social mission and goal. As such, what differentiates social enterprises from mainstream commercial businesses is that their social mission is core to their success. Therefore, the main objective of social enterprises is to generate a significant impact on society, the environment and/or the local community rather than making profits for stakeholders.

Social enterprises fulfil their mission by tackling the most pressing problems, by providing a social or ecological product or service, or by targeting people in low income markets. Thus, their social goal can be either to create employment, to help local community, or to improve the environment. More specifically, the societal interest of a social enterprise can include the provision of access to quality training and education for disadvantaged people, to provide jobs for people with disabilities or to collect and recycle wastes to improve the environment.

Social enterprises trade in the market for a social purpose, like any commercial business, and make their money from selling goods and services in the open market in order to cover their costs. Any profits made are reinvested back into the business, supporting their social objectives and ensuring maximum benefit to the social purpose (Social Enterprise UK, 2011). So, when they profit, society profits. Social enterprises strive to achieve a social impact rather than only making a profit for their owners or shareholders.

To be successful a social enterprise needs to employ suitably skilled people in all sorts of roles, like for example: sales, administration, customer service, IT, transport, etc., therefore, it provides a wide range of employment opportunities.

The solutions delivered by a social enterprise contribute to the common good, are community-focused, innovative, ambitious, sustainable, and have a mixed impact: social, environmental and economic. They ensure an inclusive economic growth and accelerate innovation while achieving the social goal.

Therefore, social enterprise is a dynamic way of doing business that can transform communities and drive profound and lasting social change. As businesses, which maximize community benefit over personal financial gain, social enterprises deliver solutions that are bigger, better, bolder and fitter (Social Enterprise Scotland 2016): *bigger* since they deliver joined-up social, environmental and economic outcomes; *better* because they are community-focused and sustainable; *bolder* because their independence enables social enterprises to be innovative, and *fitter* because they address explicitly the unmet social needs.

As such, there are broadly speaking three common characteristics of social enterprises, namely (Social Enterprise Academy 2010; Social Enterprise UK (SEUK); Defourny and Nyssens 2010): explicit social, societal or environmental aims, economic activity and social ownership.

Concerning the social enterprise's aim, there is a clear primary social or societal mission/purpose, set out in governing documents, which drives the enterprise and that benefits the society. This explicit social aim is core to the activities, rather than incidental. Any profit that the business makes is reinvested into the purpose of the social enterprise meant to promote the welfare of the community.

Kaplan (2014) suggests that the defining characteristics of European management are cross-cultural, societal management based and interdisciplinary approach. Societal management is viewed as management that takes into account the well-being of society at large and its long-term interests. The concept holds that the enterprise's task is to manage its operations in a way that delivers the desired satisfactions to the target population, and preserves or enhances the consumer's and the society's well-being. Thus, societal management and the social enterprise do inherently and even by definition belong to European management.

To what regards the economic activity, a social enterprise subordinates the financial interests of its investors to its social mission. It undertakes economic risks by engaging in economic activity (activity of production and/or exchange of goods and/or services). The venture will aim to derive a significant portion (more than 50%) of its income from commercial contracts or the sale of goods and services to a market, to achieve the social objectives. The organization may still however generate income from a variety of other sources such as local authority grants etc. Any surpluses generated should be reinvested principally for its social objectives or in the community, rather than distributed to shareholders and owners.

In terms of ownership, a social enterprise is managed in a participatory manner by involving key stakeholders in decision-making processes. There will be organizational autonomy from the State and other traditional for-profit organizations, transparent operations, demonstration and responsible reporting of impacts. The ownership system reflects inclusive governance characterized by democratic, transparent, responsible or participatory principles.

Thus, the core values shared by all social enterprises are: democratic governance, social impact, innovation, profit reinvestment or the central place given to the human in the economy

2.3 The Spectrum of Social Enterprises in Europe

Social enterprises have developed differently in Europe. There is a large variance of models and types of social enterprises in Europe. In some countries, they have a strong presence, are recognized and integrated in public policies, while in other countries they are poorly developed and not well understood. Social enterprises continue to grow across Europe in many and varied general interest activity fields and tackle a variety of needs arising in society.

The term "social enterprise" is not to be understood as one single legal form of organization, but rather as a term encompassing a large variety of models and expressions. Social enterprises all depend on their national legal systems.

The social enterprise sector is very diverse across European countries. The social enterprises in Europe embrace either a distinct legal identity exclusively designed for social enterprises or a wide variety of organizational and legal forms such as work integration social enterprises (WISE), cooperatives serving general or collective interests and with a "public benefit" status, social solidarity cooperatives, development trusts, associations and foundations with a "public benefit" status and commercial activities, private limited liability companies with "public benefit" status, mainstream socio-economic enterprises pursuing an explicit and primary social aim, community interest companies, etc. The following paragraphs summarize briefly these types of organization.

Work integration social enterprises aim to reintegrate vulnerable groups or disadvantaged people into the labour market (e.g. long-term unemployed or disabled people) (Petrella and Richez-Battesti 2016).

Social purpose companies are enterprises that combine a social purpose with commercial/economic activity, set up to create employment for those most severely disadvantaged in the labour market.

Development trusts are businesses created to provide integrated employment to people with disabilities and disadvantages. They are umbrella organisations under which different regeneration activities can take place.

Intermediate labour market companies. These organizations provide training and work experience for the long term unemployed and other disadvantaged groups. The aim is to assist these groups to re-enter the labour market through the provision of paid work together with high quality training, personal development and active job-seeking.

*Community business*es are social enterprises that have a strong focus on local markets and services. They are trading organisations which are set up, owned and controlled by the local community and which aim to be a focus for local development and ultimately create self-supporting jobs for local people.

Credit unions/cooperatives are finance cooperatives that help people save and borrow money. They also provide access to community finance initiatives.

Charities trading arms. These organizations enable charities to meet their objectives in innovative ways such as restaurants, shops and fair trade companies.

Associations and foundations are formally organised private entities with autonomous decision making processes and whose surplus cannot be appropriated by those creating, controlling or financing them. Associations and foundations usually operate under the legal form of 'non-profit organisations'.

Mutual societies are found as mutual aid associations for employees or for pensioners. The purpose of these organisations is to support and assist their members by granting loans at low interest rates; in addition, mutual aid units for pensioners also provide social, cultural and touristic services. The latter also allow beneficiaries of social benefits and the members of their families to become members.

A *cooperative society* is defined as an autonomous association of natural and/or legal persons, established by their free consent, with the purpose to promote the economic, social and cultural interests of the cooperative members, being owned jointly and controlled in a democratic manner by its members, according to the cooperative principles.

Protected units are defined as economic operators, public or private, with their own financial administration, where at least 30% of the total employees that have individual labour contract are people with disabilities. Accredited protected units can be of two types: (a) with legal personality; (b) without legal personality, with its own financial administration, in the form of sections, workshops or other structures organised within economic operators, public institutions or NGOs, as well as those set up by an authorised disabled person, under the legal framework, to run independent economic activities.

2.4 Social Enterprises Sectors of Activity and Target Groups

The social enterprises cover a wide range of activities, namely: welfare; health; social care; education, instruction and professional training; environmental and eco-system protection; development of cultural heritage; social tourism; academic

Table 1 Fields of operation for social enterprises

Field of operation	Examples
Work integration	Social and economic integration of the disadvantaged and excluded people, such as: sheltered employment, training and integration of people with disabilities and unemployed people;
Social services of general interest	Long term care for the elderly and for people with disabilities; education and child care; employment and training services; social housing; health care and medical services;
Personal social services	Health, well-being and medical care, professional training, education, health services, childcare services, services for elderly people, or aid for disadvantaged people;
Other social and community services	Counselling, youth outreach, micro finance, temporary housing for homeless etc.

Table 2 Sectors of activity for social enterprises

Sector of activity	Examples
Local development of disadvantaged areas	These include social enterprises in remote rural areas, neighbourhood development/rehabilitation schemes in urban areas, development aid, and development cooperation with third or developing countries;
Public services	These include maintenance of public spaces, transport services, waste collection, rehabilitation of people who have previously been in prison, etc.;
Land-based industries and the environment	These include social enterprises activating for reducing emissions and waste, recycling, renewable energy etc.;
Other services	These include environmental protection, sports, arts, culture or historical preservation, science, research and innovation, and consumer protection.

and post-academic education; research and delivery of cultural services; extra-curricular training; support to social enterprises. Despite their diversity, social enterprises mainly operate in four fields (European Commission 2016): work integration, social services of general interest, personal social services, and other community services (Table 1).

There are specific sectors of activity in which social enterprises are predominantly active. These include (European Union 2013): local development of disadvantaged areas, public services, land-based industries and the environment and other services (Table 2).

The target groups across Europe's population of social enterprises closely reflect the sectors of activity of those organizations.

A first category of target groups is represented by the *disadvantaged people in the labour market*. These include long-term unemployed, poorly qualified persons, vulnerable workers, which can be of various types: women, people with disabilities, minority ethnic groups, migrants, ex-offenders, etc. The provision of training, skills and job opportunities by social enterprises is targeted at those groups.

Another category include *local community and people in need in local neighbourhoods*. There are social enterprises which address the social, economic and/or environmental needs of a particular local neighbourhood or community. For example, provision of education and training, waste collection, recycling, etc.

Other target groups are represented by the *vulnerable groups within the population and people in need in society*. Social enterprises seek explicitly to tackle social issues through the substantial provision of social services of general interest to vulnerable groups or people in need including children, youth, disability and poor health groups, the elderly, migrants, those in poverty, and those suffering exclusion on a variety of dimensions such as discrimination, housing, finance, etc.

Also, an important target group is represented by the *traditional customers and businesses*. Increased market-orientation of social enterprise through the provision of consumer goods and services introduces new target groups amongst existing consumers and businesses. These are customers who share the social values/mission of the social enterprise and are willing to pay for its benefits and impacts. Such consumers share, for example, their concerns about renewable energy, fair trade, reduced environmental impact, community development, etc.

2.5 Social Enterprises Financial Model

Creation of a social enterprise is a good opportunity for young entrepreneurs who want to test their entrepreneurial readiness and to prove that, without having substantial capital to spare, they are able to enter the business world and create employment, while simultaneously offering a service to the communities in which they live.

Social economy enterprises have the advantage of being able to draw upon best practice in the voluntary sector as well as the entrepreneurial flair that exists in many successful companies and benefit from the financing opportunities that exist for them. Depending upon the national legal framework in which they operate, social economy enterprises have access to multiple sources of financing, namely: grants, crowdfunding, private equity & social investments, credits from suppliers, loans, social impact bonds.

The main revenue streams of social enterprises include, but are not limited to, the following (Hudon and Périlleux 2014): revenue derived from public contracts (extended with governmental agencies), direct grants/subsidies, market based revenue derived from private sources (individuals or private companies), membership fees, subscriptions, donations and sponsorship, and other forms of revenue.

As such, social enterprises extend contracts with public authorities and agencies to receive fees for well-defined public services. The structure of these payments can vary in different national economies in Europe, from direct payment by public authorities to social security systems, voucher systems, or indirect payment through third party intermediaries. Also, public authorities and agencies provide to social enterprises grants for specific project based activity, or employment subsidies which are often made available to WISE as 'compensation' for employing people with impaired work ability.

Social enterprises also make income through the sale of goods and services to other businesses and final consumers, food and beverage sales, catering and canteen services, etc. Other forms of revenue for a social enterprise include income from renting assets (such as property, equipment), penalty payments, income from endowed assets, and non-monetary forms such as in-kind donations (e.g. old IT equipment, food or building material). Volunteering time, especially, has remained an important source of in-kind revenue.

Ensuring financial sustainability of the social enterprise represents a crucial variable for its survival (Jenner 2016). The growing awareness of the importance of accessing alternative sources of funds and developing new funding models has led to more creative approaches in raising money, which include: accessing social investment, using subsidiary businesses to fund work activities, or developing a new social enterprise (Hailey and Salway 2016). However, social enterprises may rely substantially on civil society and volunteering to accomplish their social missions (Child 2016).

In the end, the desired state for any social enterprise is that in which they manage to make a surplus and reinvest all surpluses in the process of their social mission and objectives realization (Szymanska and Jegers 2016).

3 Contributions of Social Economy Enterprises in Europe

3.1 How Can Social Economy Enterprises Contribute to the Economy?

There is an increasing popularity and interest in the social economy enterprise model of business in Europe and across the globe. In Europe, about 3.5 million jobs are provided by social economy enterprises, delivering a broad range of services (European Union 2015a).

The success of social enterprise is the national economy's success. A social enterprise measures its success based on: the return on investment for itself and its donors, social/environmental mission gains and risks, financial sustainability and organizational development gained as a result of the operation of the enterprise. Social entrepreneurship can be a driver for change of mentalities and attitudes, regeneration of communities, neighbourhood renewal, job creation in deprived areas and social reform (Zografos 2007). Social economy enterprises address social needs, improve public services and stimulate commercial enterprises' performance. According to Commission Expert Group on Social Entrepreneurship (European Union 2016), the main possible contributions of social enterprises to global economy can be linked to five key areas: job creation and development, social inclusion, poverty reduction, creation of a community based economy, and gender equality.

Social enterprises depend on people intensive work, their skills and commitment to the social values and mission. They operate in job intensive business areas which enable them to maintain and even create jobs. In addition, “many social enterprises have innovated new ways of discovering, nurturing and matching talents to the right jobs, thus contributing to skills development and the improvement of the labour force’s employability and entrepreneurship in the traditional economy.” (European Union 2016: 11). Thus, social enterprises contribute to high-quality and inclusive job creation and development.

Social enterprises play a key role in meeting social needs with respect to “access to child care, assistance for elderly or disabled persons and the inclusion of vulnerable groups.” (European Union 2016: 11). They contribute to the fight against exclusion and poverty and facilitate the social and professional integration of persons with disabilities or persons in vulnerable situations. Social enterprises are key actors in the provision of services of general and specific interest to all people and, especially, to vulnerable persons. They also address the need for access to housing, healthcare, employment and training, and they contribute to the fight against poverty and poverty reduction.

A key contribution of social enterprise to economy refers to the creation of so-called “community based economy”. Social enterprise mostly look for solutions to local needs, as they are deeply rooted in their origin communities. These solutions can then easily replicated across local territories. “The social enterprises play a key role for local and regional authorities who can directly benefit from the added-value or new ideas, solutions and approaches to unforeseen or unavoidable problems that they create, whether this comes in the form of generating wealth and social connections or the production of new goods and services.” (European Union 2016: 12). Also, social enterprises’ mission and objectives are built on values such as solidarity and equality. As such, they are exemplary in supporting gender equality internally and externally.

3.2 Networks and Mutual Support Mechanisms

Social enterprises trade in all markets to a wide range of customers including: individual consumers, local authorities, government, NGOs, other social enterprises and private businesses. Boosting partnerships between social economy enterprises and public authorities will contribute to safeguarding the public interest and to increasing the efficiency of public resources.

There are several organizations engaged in supporting and/or representing social enterprises and social entrepreneurship at the European level, either focusing on specific segments, or covering the field more generally (European Union 2016). *Ashoka* (http://ashoka.org/) is one of the largest global networks promoting social entrepreneurship and social entrepreneurs with a focus on individuals as changemakers. Ashoka awards have been given to almost 500 social entrepreneurs in Europe and 3300 in the world. The network has increasingly been active in Europe promoting capacity building, cross-sectorial networking and scaling of social enterprises’ impact.

Another organization, *Cooperatives Europe* (https://coopseurope.coop/), represents the voice of cooperative enterprises in Europe. It has 84 member organizations from 33 European countries across all business sectors, promoting the cooperative business model in Europe. Also, *European Network of Social Integration Enterprises—ENSIE* (http://www.ensie.org/) is an organization that supports and represents work integration enterprises in Europe, which constitute an important traditional segment of social enterprises. It covers 19 EU countries as well as Serbia and Switzerland.

Other support networks for social enterprises include: *Impact Hub* (http://scaling.impacthub.net/about/)—a global network of social business and innovation incubators, supporting the start-up and development of social enterprises; *Institute for Social Banking—ISB* (http://www.social-banking.org)—a non-profit association, promoting a socially oriented finance sector through education and research on Social Banking and Social Finance that is responsible: ethically, socially and ecologically, and *Social Economy Europe* (http://www.socialeconomy.eu.org/)—an EU level organization representing traditional social economy entities, namely mutual societies, associations, foundations and cooperatives. It has 13 members from EU-level and national organizations representing various types of social economy enterprises.

4 Impactful Social Enterprises in Europe

There are countries in Europe with a long tradition of doing business in a fair and sustainable way. This evolved from co-operative movement to the new forms of community businesses and co-operatives developed through the 1970s, and up to the inspiring activity of today's social entrepreneurs, characterized through a more inclusive way of doing business and permanet search for new avenues towards social improvement. Internationally, Scotland is one of the world-leaders recognised in the field. Estonia is coming close as part of a growing global movement.

This section introduces two case studies—Alloa Community Enterprises from a country with an established market economy (Scotland) and Tagurpidi Lavka from a country that joined the EU in 2004 (Estonia)—to present the objectives and principles of operation of social enterprises. The case studies allow the identification and understanding of the environment, common areas and problems faced by the analysed companies. The two case studies discussed in the chapter also allow the possibility to prove the validity of this type of entrepreneurship in all countries that are members of the European Union.

4.1 Case of Alloa Community Enterprises in Scotland

Alloa Community Enterprises Ltd (ACE) is a Company Limited by Guarantee with charitable status, launched in 1984, in Clackmannanshire, Scotland, with the help of a £1000 small business grant and one employee. The first venture of the

Table 3 ACE Recycling Group people

ARG people	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Staff	53	42	36	34	42	56	63
Trainees	8	4	10	8	12	18	16
Supported employees	1	1	2	4	6	13	24
Volunteers	0	0	3	4	6	6	5
Homeless clients assisted	250	200	200	220	5	2	3
Retail transactions	0	0	0	1300	2400	2710	2840
Tonnage diverted from landfill	15,500	14,000	14,500	15,000	15,500	15,900	18,300

organisation was to establish a furniture re-use project. In partnership with Clackmannanshire Council's Temporary Tenancy Team, ACE provided second hand furniture packs to over 250 homes every year.

Nowadays, ACE is arguably recognized as the most successful community recycling business in Scotland, employing over 50 people and diverting over 19,000 tons of waste from landfill in 2015/16 (Table 3). The development of ACE beyond the furniture project began in 2000 when they became the first company in Scotland to provide a kerbside recycling service for householders. ACE owns ACE Recycling Group (ARG) which is a Community Interest Company.

As an environmental charity, ACE uses the social enterprise business model, which integrates a blend of activities which are profitable and activities which may be commercially oriented but which need to be subsidised as they are also linked with company's social aims and objectives. Total ARG turnover will be circa £2.1 million by year end March 2017.

The primary objectives of ACE are: to assist with the relief of poverty by the alleviation of unemployment for residents of the Council areas within which they are present; to provide and assist in the provision of training opportunities for local residents and to provide skills that will assist those most removed from employment to become more employable and find work. Another objective regards supporting homeless, transient and low income families with recycled and re-useable furniture packs to ensure a more sustainable home life.

The target groups to which they are committed include: individuals having physical or mental impairment, young unemployed individuals, long and short term unemployed, offenders seeking pre and post release training and work experience, long-term prison inmates seeking to enhance their future employment prospect, and volunteers seeking a rewarding and safe volunteer experience. Some key figures on the company evolvement during the last seven years are shown in Tables 3 and 4.

Minimising their environmental impact and especially the carbon footprint of operations is a key aim of ACE which includes reviewing: fleet operations and costs, the company's actions and, most importantly, reducing handling and transportation of materials as much as possible. Operating a 'closed loop' recycling policy means that, wherever possible, the materials collected are recycled back into

Table 4 ACE Recycling Group turnover, %

ARG turnover	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Kerbside/local authorities	82	37	32	33	47	47	46
C & I and materials	8	20	19	12	19	16	14
Retail	0	0.5	1	6	10	12	12
Glass	3	8	9	9	8	9	7.5
Novelis	4	7	3	5	4	4	2.5
Projects/Funding	3	11	32	33	9	0.5	0
Other income	0	0	6	2	3	11.5	18

their original use. This is seen as the most environmentally efficient method of recycling. Over 95% of the materials collected are reprocessed in Scotland and the UK rather than overseas thus supporting UK jobs and includes: cardboard, paper, plastics, glass, cans, food, tins, small electrical items, textiles, redundant IT equipment, batteries, ink toners and cartridges.

ACE have a proven track record in working with local authorities as recycling partners and have successfully rolled out kerbside collection systems in three authority areas while also operating community bring-site collections, bulky uplifts, and trade waste collections.

As a charity, ACE sets a high priority on making financial returns to the communities within which they work, subject to available surpluses. This is a core part of ACE's overall strategy and is something which local authorities value, differentiating ACE from many of their private sector competitors. The company also ensures that it provides supported employment opportunities within the local communities and engages with local delivery partners also, to add value to their social objectives and activities.

4.2 *Case of Tagurpidi Lavka in Estonia*

The goal of the social enterprise Tagurpidi Lavka is to increase the availability of local food products (of Estonian small farms in particular) to people living in Estonia—especially those living in cities. Moreover, the company aims to make local food products people's preferred choice, so that the consumer habits would be more environmentally friendly and support the local (rural) economy.

Tagurpidi Lavka buys food products from small farmers in rural Estonia and sells them in and around Tallinn through trade fairs, festivals and via an online store, where clients can order products in advance and have them delivered right up to their front door.

The company employs two full-time staff—a warehouse manager and a general manager, while there is also a small team working two days a week in the warehouse and a driver and packaging volunteers will be present during delivery days. In 2015 the company's annual turnover was about 68,000 Euros; the surplus income is used to grow the business and better equip the warehouse.

In summary, the company aims to reduce the environmental burden of the food Estonian people eat and to improve livelihoods and incomes in rural areas. The first is delivered by selling locally produced food, which reduces the transportation distances that food has to travel to reach the customer and also reduces the need for packaging and preservatives for the food to remain edible for long periods of time before it reaches the consumer. The second is achieved by selling food from local farmers and small producers enabling them to maintain their livelihoods and continue living in rural places, it also supports the traditional way of life in Estonian rural areas, which is small farming.

The company provides an information service for clients and the wider public about the advantages of buying and eating local food. To make this service even more environmentally friendly, packaging is reused and as much as possible is biodegradable.

Products are sold via an e-shop, with two "delivery days" per week—Mondays and Thursdays. Orders are collected daily and on the "delivery day" the company's car can drive up to 200 km to pick up products from supplier farms. Many producers however also bring their products to Tallinn themselves. By the evening of the same day all the collected products are organised order by order into the boxes; customers can come to the company warehouse to pick up their order or, for an additional fee, they can arrange for it to be delivered to their home.

There are about 900 food products actively on offer in the e-shop, from about 100 small producers and farms, including—diary, meat, fish, vegetables, berries, fruits, juices, jams, flours, bakery products, etc. while a preference is given to organically grown and produced food products. Handicraft products are also available, for example, woollen socks can be ordered to be knitted especially for you with your favourite colours and foot size.

Over the last 10 years, the number of farms in Estonia has decreased by 60%: 82.800 people (primarily small producers <10 ha) have abandoned or were forced to abandon their farming activities. Small Estonian farmers can't compete with foreign food producers. As a result, farming as a life style choice becomes less and less popular, young people move from rural areas into Estonian (or foreign) cities and Estonian money goes abroad. Some of the key figures on the company development are shown in Table 5.

Tagurpidi Lavka primarily works with small farmers and producers, though a small share of the products made available in Tallinn may come from producers

Table 5 Tagurpidi Lavka activity indicators

Activity indicators	2013	2012	2011	Growth
Number of farmers and small producers whose products Tagurpidi Lavka sells in and around Tallinn	79	59	44	80%
Number of orders received via internet	4681	3601	2686	74%
Number of trips taken to collect and deliver products each week	2	1.5	1	100%

who would be considered large producers in the Estonian context when it is not possible to find those specific products from small farmers or producers.

The company generated an average additional income of 110€ per month for its local farmer suppliers in 2013.

Additionally, two individuals were enabled to start farming activities (producing their own goods and selling via Tagurpidi Lavka). Without Tagurpidi Lavka, these local farmers would have had insufficient market access to even start their activities. Tagurpidi Lavka pays a fair price for the products it sells through negotiation with each farmer and producer and reaching a common agreement bearing in mind the farmer's situation and market prices.

5 Conclusions

Finally to conclude, social enterprise in Europe is a dynamic, diverse and entrepreneurial movement encapsulating the drive for new business models that combine economic activity with social mission, and the promotion of inclusive growth.

The diverse typology of social enterprises across European countries and the importance of values based on social/environmental and entrepreneurial activities ensures that social enterprise will always remain relevant and ready to deliver highly valued services to the globe's neediest communities.

The value of social enterprise is given by the positive difference it makes in a community and by the scalable impact that it has on the lives of people and their communities. It is about the new jobs created, training and volunteering opportunities, and the essential services that are key to people's existence and survival (Holloway 2016). It also is about the confidence created among people more disadvantaged and hope that they will succeed.

Thus, it is important that as a sub-sector of the social economy, social enterprise should not be defined by criteria referencing what companies are (i.e. typology), or limited to specific activities (i.e. employability training), but by the breadth of the sector's activities as evidenced by their values, social aims and intended impact.

Consequently, the paper delivers new insights into the conceptualization and strategic orientation of social enterprises of benefit to both policy makers and practitioners alike.

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Questions and Activities

1. For many years, people in your country and throughout the world have felt that solving major problems like hunger, fighting disease, poverty, education, etc. should be left to government. Do you agree or disagree with this statement? Why?
2. Remember and describe any relevant specific incidents, stages, and changes during your professional career and/or your private life that might affect your decision to found a social enterprise.
3. Describe your motives for starting a social enterprise, that is, why would you chose to start a social enterprise rather than a traditional, primarily financially oriented, company?
4. Discuss the different frameworks and core features of social enterprises. How are they different from commercial enterprises?
5. You are preparing for a meeting with a network of company owners and local government officers to discuss about the potential of social enterprises for economic regeneration and public service delivery in your local area. You researched four definitions of social enterprise that support local development in your area. Discuss these definitions with your classmates and critically look for feedback on your approach.
6. The availability of various non-profit, for-profit and hybrid business models should be viewed by social entrepreneurs as a menu from which they can choose the form that best suits their own business model. Social entrepreneurship relies heavily on an innovative combination of the for-profit and non-profit vehicles. Thus, there is hardly one legal form that adequately fits the whole aims of a social enterprise. Look at the different forms of organization for social enterprises presented in the chapter and comment on the challenges of designing an appropriate legal form for your social enterprise.
7. You are aware now of the role a social entrepreneur plays in society in what concerns solving the social problems that are not addressed yet by governmental institutions. With your classmates, in small groups, select a school-related problem to solve. Create an action plan to address the identified problem following the structure presented below:
   The school-related social problem identified is: ....
   Potential solutions for addressing the problem include: ....
   Key stakeholders involved include: ....
   Specific, measurable steps you can take to implement the chosen solution are:
   ....
   Feedback on implementation plan and opportunities for improvement are looked for from: ……………………………………………………………………..
8. Your country is dealing with major issues of rural development and organic food provision. As social enterprise, what kind of products and/or services will you offer to address these issues? How does your offer help to solve the problem?

9. Create a funding and financial model for a social enterprise at your own choice. How are revenues generated? How can you keep costs at a minimum level? How can you ensure the financial sustainability of your social enterprise?
10. What are the essential groups/partners you need to involve in your social enterprise activities? How did you establish the relationships with your different partners and stakeholders? How do you collaborate with the different partners and stakeholders?
11. How does Alloa Community Enterprises assess its social impact at regional and national level? Who are the beneficiaries and customers of their offers? What is their desired impact?
12. How does Tagurpidi Lavka create change in Estonian society? Who are the beneficiaries and customers of their offers? How does the social enterprise reach its beneficiaries and customers? Assess its contribution to national economy.

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Entrepreneurship of Family Businesses in the European Union

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Abstract Family entrepreneurship as a form of economic activity plays a significant role in enlargement processes, integration and competitiveness improvement policies of the European Union. Family entities in their business strategies must take into account coping with the rules and practices of the European common market and internationalization as well as solve their specific problems related with family relationships and business and multi-generational perspective of functioning. The specific nature of family entrepreneurship requires an understanding of its nature and criteria for distinguishing these entities from other companies. In EU countries, family businesses have dominated the sector of small and medium-sized enterprises but also they play a significant role among large businesses. Family businesses create most jobs and nearly half of GDP, they are also a source of competition and the development of the market mechanism.

The key points of the chapter are the following ones:

1. Nature and understanding of the characteristics of family entrepreneurship
2. Understanding the unique values that family businesses bring to the economy and society of European Union countries
3. Understanding the nature and specificity of the functioning and development of a family business
4. Identification of the role of family enterprises as one of the sources of competitiveness and development of the market mechanism in the economies of the European Union countries
5. Identification of the importance of actions by the EU institutions and the authorities of the EU Member States to the increasingly widespread emphasis on the role and socio-economic importance of family enterprises

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1 Introduction

Stormy and dynamic changes that we are facing in the twenty-first century create new challenges for running economic activity. Conducting a business in Europe must take into account both the processes resulting from changes in the global dimension as well as issues related to European integration and European Union policy aimed at improving the competitiveness of enterprises and ensuring economic growth. The processes associated with establishing and maintaining economic activity do not occur in a void but in specific socio-economic circumstances. Entrepreneurship is the foundation of the economies of European Union member countries. Therefore, to ensure the development of entrepreneurship is one of the key challenges of the modern European Union. In this area a special role is played by family entrepreneurship, which fulfilled an important role in the enlargement process of the EU and is one of the key elements in the integration process.

Family businesses, like other economic entities, in order to ensure their continued operation and development have to adapt their business strategies to changing conditions. The creation, development and functioning of family businesses through the generations is crucial for the development of national economies and the EU economy. Solving both operational and strategic management problems, they have to cope with many issues arising from their family specifics. Family businesses must strive to be as well-managed as the best of their professionally managed competitors. For them, the need for a professional approach to business is more necessary than in case of non-family businesses. By using their specific familist features they can achieve a significant competitive advantage. The influence of the family on the functioning of the company is a common point linking all family businesses, but the individual shape of each of them also depends on their size and the sector in which they operate. Family businesses are the organizations through which one can accomplish both: the objectives of the company—the creation of material goods and the realization of the goal of the family—to ensure happiness.

Long-term perspective of doing business by future generations increases the strength of family entities and, since their foundation, gives them a distinct identity in an increasingly anonymous world of business (Cadbury 2000). Recognizing the importance of this problem, it is necessary to determine what are the main issues and mechanisms of family business and to indicate directions, management methods and means of disseminating know-how regarding expanding knowledge of family business management methods (Chrisman et al. 2003).

Currently family businesses are an extremely valuable component of economic life and enjoy a growing interest on the part of science and economic policy. Research on family businesses allow to explore and extract rules and regularities that can contribute to the development of a specific recipe for success, that non-family entities will also benefit from. Undoubtedly, family businesses have their own peculiar characteristics that underlie their competitive advantage (Hoy 2014).

In the European Union, family businesses are one of the basic economic activities and play a increasingly important economic and social role. In many EU economies they represent their core and amaze with high dynamics of development. Family businesses are a source of economic growth and employment stability; they are also firmly embedded in the local communities in which they operate. In the progressive integration processes in the European Union it is noted that family entities in their business strategies must take into account coping with the rules and practices of the European common market and internationalization as well as solve their specific problems related with family relationships and business and multi-generational perspective of functioning. The specific nature of family entrepreneurship requires an understanding of its nature and criteria for distinguishing these entities from other companies. The common feature of all family enterprises is the fact that the business and the family are related in many aspects, which determines the way the business is managed, strategies and values that the business is using. Among the factors that distinguish family businesses from the general population of all companies, the ones most often referred to are as follows: the ownership structure of the business comprised in the hands of a family, the participation of family members in management, the participation of more than one generation in the functioning of the business entity, and the succession i.e. transfer of the business to the next generation of the family (Herrero 2011; Marjański 2015).

In EU countries, family businesses have dominated the sector of small and medium-sized enterprises but also they play a significant role among large businesses. The role of family businesses in the common market and the EU member states should be considered in the macro and micro scale. Family businesses create most jobs and nearly half of GDP, they are also a source of competition and the development of the market mechanism and have proved that they are able to meet the globalization processes in an increasingly integrating global economy. Family businesses create most jobs and nearly half of GDP, as well as a source of competition and the development of the market mechanism. They can also compete with companies from the most developed countries and have proved that they are able to meet the globalization processes in an increasingly integrating global economy.

During the analysis of the processes of the development of family businesses in the EU, it is noted that they are an interesting example of the relationships that exist between the family having a dominant influence on the business conducted and the business entity as well as the society and the economy, which are the context for the operation of the business. This is due to the fact that in the process of managing a family business in addition to the rational economic arguments the needs and interests of the family and its members are always taken into account. Since the very beginning family-owned businesses have benefited from human resources, intellectual, financial and material capital of the family. The family is also the first and often the only line of criticism and correction of entrepreneur's ideas. Management process is related to taking risks and involving family resources and often requires the acceptance by family members—e.g. the spouse. Family members are involved not only formally, but also informally in the business activity. In addition, family members involved in running the business perform simultaneously several social roles, such as the father and boss of the company, daughter of the owner and employee of the company, which often leads to a number of difficulties. It is therefore important to keep the balance between the interest of the family and the interest of the business and to be aware that family businesses are constantly undergoing change, passing through various phases, and roles of family members involved in running a business are bound to vary.

The importance of family businesses for the EU is also important for the reason that they can be a source of ethical conduct, sensitivity to the needs of other human beings, developing teamwork skills and a sense of community and loyalty. Their functioning also shows ways to combine work and family life. Only in the case of small family businesses there is no complete separation of these two seemingly different forms of the organization of social life, i.e. the family and household, from the form of doing such business as a family enterprise.

The chapter presents the problems of the phenomenon and the importance of family entrepreneurship as a form of economic activity and the role family businesses play in enlargement processes, integration and competitiveness improvement policies of the European Union.

2 Nature of a Family Business

Family businesses are a heterogeneous group of companies, whose separation is made based on a number of criteria basically indicating the relationships between the ownership and management of the company and the family executing the control of this company. Family entrepreneurship is historically the oldest form of entrepreneurship, the first records of which date back to the third millennium BC (Gasoon et al. 1988). The functioning of family businesses is recorded in all historical cultures around the world. Family businesses have become the subject of growing interest of the scientific community as well as the economic policies in the mid 1970s of the twentieth century. Research area of family entrepreneurship has a multidisciplinary character and stands out due to the paradoxes created by the involvement of the family involvement in the business (Sharma et al. 2014).

When analyzing the nature of the functioning and development of family entrepreneurship, it is noted that they are an interesting example of the relationships that exist between the family having a dominant influence on the business conducted and the business entity as well as the society and the economy, which are the context for the operation of the business. This area shows the specifics of family entrepreneurship which make the processes of creating, managing and building strategies differ from other entities. The determining factor is the fact that in the case of a family business in addition to the rational economic arguments the needs and interests of the family as a whole, but also those of its individual members, are always taken into account. The issue of a family business refers mainly of entities controlled by one family but the issues of the relationship between family ties and the organization are broader.

Unique values represented by family businesses such as a long-term horizon of action, a unique organizational culture based on the values promoted by the family stakeholders are more and more commonly recognized and appreciated. These values translate into a high level of trust in family businesses and high quality of services and products offered. An important factor is the high commitment and input in the development of local communities (PARP 2009).

An important issue is the way of understanding a family business because a unified perception and definition of these types of entities has not been reached. The reason for this is the great diversity and multifacetedness resulting from two naturally separate entities, that is the family and the business operating in one organism and the lack of uniform differentiation criteria (Safin 2007). In the literature of the countries where studies on family entrepreneurship are conducted, a universal definition is not provided.

Many researchers present diverse approaches and emphasizing different aspects of the phenomenon of the family business, Lansberg (1983) pointed to the fact that the family executing the control of the company shapes the business in such a manner that family members in companies not owned by the family would as a key factor for the need to identify a research area. Family involvement in the business means that family entrepreneurship is different from the others and there is a need for the separation and research of this area (Miller and Rice 1968).

In the literature of the subject, there is a multiplicity of definitions of a family business trying to explain its socio-economic specifics. It is worthwhile to quote a few examples:

- We deal with a family business 'when at least two generations of one family have a significant influence on company policy and objectives' (Donnelley 2002).
- Family business can have any legal form, the capital of the company is wholly or in decisive part in the hands of the family and at least one family member has a decisive influence on the management or holds the managerial function, with the intent to permanently maintain the venture in the hands of the family (Frishkoff 1995).
- Family business is managed with the ownership supervision of the family and (or) managers with the intention of forming and (or) continuing the vision of the company by the coalition controlled by members of one or more families in a way that allows the maintenance of the vision between the generations (Chua et al. 1999).

In broad terms, the concept of the family business is recognized by Marjański in the context of the family and the business: 'The family business is the economic organization based on family ties and relationships, which tends, in the future, to permanently sustain a decisive influence on the business through participation in the ownership, management and responsibilities with the intention of passing it on to future generations'. Another group of definitions shows the concept of business oriented at supervisory and ownership criteria. For Sułkowski a family business is: an 'economic entity of any legal form, in which a family succession occurred, or: at least two family members work together in this company; at least one family member has a significant influence on the management; family members have a significant or majority stake in the company'. A similar approach is proposed by Jeżak: 'Family business is an economic entity in which the family has a dominant share in its ownership structure, key business decision making process and performing supervisory functions—with the intention of long-term development and with future generations in mind' (Więcek-Janka 2013).

The differentiation of family business definitions is associated with adopting multiple criteria of 'familism' (Litz 1995). These include, among others, the issues of: ownership, management, family succession and self-awareness of the family business (Sharma 2004; Handler 1989). M.C. Shanker and J.H. Astrachan point out that the term family business is located on the continuum. The broadest definitions take very general and vague definition of a family business based on the criteria such as: control over strategic decisions and the intention to leave the company under the control of the family. Slightly narrower family business definitions indicate that: the founder or his descendants run the company, which remains under the ownership control of the family members. On the other hand, narrow definitions require, in addition to these criteria: direct involvement of the family in the management of the company of more than one person in the family and the multigenerational company (Astrachan et al. 2002).

A multi-criteria definition indicated: 'family business is a business controlled and/or managed with the intention of shaping and implementing the vision of the company by the members of a family or small group of people from several families in a way that is potentially sustainable for all generations of the family or families' (Chua et al. 1999, 22). The differences in the understanding of family businesses are therefore significant but we always have to deal with a significant group of economic entities playing a significant role in the economy.

Family businesses are an example of the occurrence of the relationship between family ties and an economic entity related with the issue of social trust, dominant patterns of power in small groups, social roles, mechanisms of governance, the rules of succession, the issue of nepotism and many others. Family businesses are an example of diverse relationships between: the family that controls the company, economic organization, society and the economy which are the context for the functioning of the organization. In any family business there are people working, who are united by bonds much stronger than a business relationship.

Using the definitions of family businesses and the available research and literature on the subject, one can point out a few characteristics of a family business which are important from the point of view of management practices that allow to show their essence:

- interdependence of family ownership and the family business;
- participation of the family in the ownership of the business;
- participation of the family in the management of the business;
- participation of the family in the employment and family-based system of human resource management;
- awareness of the family nature of the business;

- strategies and methods to carry out the succession;
- striving to preserve the family nature of the business by transferring the ownership and management to the next generation;
- familist organizational culture;
- merging the objectives of family and business in the implemented strategy of the company.

These features have different degrees of tension and do not always occur together in family businesses. Thus they form a kind of a continuum, ranging from entities representing a high level of intensity 'familism' and ending with the entities characterized by only weak 'familism' features.

3 Specific Character of Family Entrepreneurship

The functioning of each family business is based on constant interdependence of business and family that controls the company. It is a source of some advantages, but also limitations. An effective solution is to use family ties to strengthen the competitiveness of the family business. The interdependence of businesses and families is based on the importance of the founding family, which initially finances the business, supplies it with human resources and the idea to conduct business, is involved in the decision-making process. Equally important, however, is the reverse impact, i.e. the influence of the business on the family. The company is becoming a way of life of family members, which means that they often mix up professional and private categories. The authority is transferred from the company to the household and vice versa. Family members, mostly successors, have a fixed career path in the form of the acquisition of management and ownership of the company. Business becomes a source of income for the family, but most of all: the binder, object of pride, identity and prestige. The relationships between the family and the company are shown in Table 1.

The functioning of the family business is based on two different logics: emotional logic of caring for the loved ones and business logic which is based on limited economic rationality. For example, the long-term prospect of running the business and the will to pass it on to the next generation means that the company's growth

Table 1 Relationships between the family and family business

Influence of the business on the family	Influence of the family on the business
Centre of family life	Source of founding ideas
Professional career path	Source of key human resources
Source of income	Source of founding finance
Source of power and influence	Decision and controlling centre
Object of pride and identity	Foundation of corporate culture value
Family binder	Source of nepotism
Rational component of activity	Emotional component of activity

Source: Authors' own

strategy is spread over generations. Most family businesses are managed from the perspective of the owner, not a hired manager. There is also a parallel planning process for the development of the enterprise and the family. Family social capital is created on the basis of family values.

Family businesses draw from family financial, human and intellectual resources. The entrepreneur often consults business ideas with the family, which is the first, and usually the only one line of criticism and correction of new ideas. The process of setting up a business involves taking a risk and involvement of family financial resources, which usually requires the acceptance of family members (e.g. the spouse). They are also formally or informally employed to perform a variety of works for the new organization. In most cases family members are also the trusted 'business council', which supports strategic decision-making. As the business expands, a degree of family involvement in the business is usually determined. Some family members are directly involved in the business, while others deal with other occupations and engage in the family business operations indirectly. In the long term, the business can become a 'family treasure' which generously repays the family for their commitment during the founding stage. It is important, however, not to undermine the fragile balance between the interest of the family and the interest of the company.

One of the most important features of family businesses is the desire to maintain the continuity of generations in management or ownership of the economic entity. This means creating and implementing succession strategies that will allow efficient transmission of power to the younger generation. These strategies take the planning or emergent form. Planning strategies are characterized by the use of formal tools of succession in the form of: determining career paths and education of successors, legal documents formalizing the succession and organizational documents forming the order of succession. Emergent strategies are intuitive and not formalized. The family or managers identify and encourage the successor to prepare to take over the business. The proper conduct of succession is a challenge for administrators, successors, family and the entire company.

Family businesses, which by their nature are often long-lived, in many cases, take a leadership role in their local communities. Behind every company there is a particular family, which is known in the local community. And it is the family that becomes the guarantor of the quality of products and services offered by the company, since the negative opinion about the activities of the company is transferred to the family. The common perception is that it is the family that is most often associated with persistence, trust, reciprocity, good relations with relatives and provision of assistance in difficult situations. These features are naturally transmitted to the family-run company. The reputation and image of the company is associated with the honour of the family, and customers see a particular family through the company. In many cases the local community is not only a place of running business, but it is often also the family residence for generations (Szul 2013). The owners of family businesses attach more importance to the image and reputation than institutional investors, which extends the perspective of business and gives their business partners a stronger guarantee of the stability of the company (Surdej and Wach 2010).

Running a family business means that it grows into the local community which translates into a sense of responsibility for the environment. Studies confirm that companies operating in the market for a long time are much more likely to engage in philanthropic activities for the local community. This is particularly more evident in developed countries with well-established tradition of family entrepreneurship than developing countries (Credit Suisse 2012).

Distinguishing features of family businesses is that in their activities they are based on ethical principles and values, often stressing that the business cannot exist without values. These family relationships are a source of ethical behaviour and the expression of particular sensitivity to the needs of others and teamwork skills, a sense of community and loyalty. In case of companies with a multi-generational tradition values are their cultural heritage. Principles and values are an extremely valuable element of the organizational culture of family businesses and the strategic objectives of the family business.

An analysis of the dimensions of the organizational culture of family businesses indicates the formation of a specific configuration depending on which generation runs the business. The most characteristic is the organizational culture of enterprises controlled by the first generation, in next generations family identity may be reduced in favour of professionalization. Significant differences are observed in the degree of familism of family business related to e.g. the size of the entity, type of activity, personality manager and many other factors (Sułkowski and Marjański 2011).

It turns out that the changes resulting from globalization and European integration as well as increasingly progressive internationalization of the activities of family businesses do not cause negative changes in the observed principles and values manifested in the good quality of products and services, a high level of trust, honesty, willingness to hard and persistent work and the pursuit to satisfy the stakeholders. With regard to family businesses it can be assumed that they are the type of businesses where values occupy a position equivalent with profit making. In fact, it is difficult to talk about family businesses which would operate solely for the purpose of generating profit. Multigenerational perspective of the operation involves the transfer of the company in the hands of well-trained successors and stable operation of the company in the long term perspective.

Family company means also creating a team whose members come up to their responsibilities willingly and with work ethic. Working with family members, in the team, where one likes to stay and work results give the joy of its effects are all undoubtedly important features that distinguish family businesses.

4 Family Businesses in the European Union

One of the key achievements in the process of European enlargement and integration was the development of family entrepreneurship in the new countries that are members of the EU. Currently, the EU family businesses dominate the sector of small and medium-sized enterprises, but also play a significant role among large businesses. Large family businesses are increasingly visible also in the countries that joined the EU after 2000. It is estimated that in Europe, family businesses account for over 60% of all businesses, both large and small, and employ approx. 50% of total employment (European Commission 2009). Family businesses create most jobs and half of GDP, they are also one of the sources of competition and the development of the market mechanism.

The special role of family entrepreneurship is evident in small and medium-sized enterprises, which represent 99.8% of all companies operating in the European Union and create approx. 67% of jobs in the private sector, make up 60% of the value-added industry, which makes them a very important link in the economy. Micro-enterprises play a special role representing as much as 92.1% of European businesses (Putting Small Business First 2008). It seems that the role of family businesses within the common market and the individual EU member states should be considered in the macro and micro scale.

Family businesses in the European Union member states have different traditions in historical perspective, e.g. in Germany and Italy entrepreneurship family is well established, and origins of many companies often date back for many generations before, and in the countries where market economy has been developing since the changes begun in 1989, there are few companies with multi-generational past. As can be seen Europe's turbulent history has left its mark on family businesses as well. At present there are more than 14 million family businesses in Europe that make up 60 million jobs that are present in all industry sectors and company sizes. For example, 40% of big European corporations in Germany and France are family businesses (KPMG 2015).

Despite such a significant share in the EU economy, family businesses were not sufficiently recognized by the EU institutions and rarely appeared in the adopted policies and programs. The question of supporting the development of family businesses became a subject of political discussion in the European Union in the mid 1990s of the twentieth century, but only the first decade of the twenty-first century has brought concrete solutions (Wach 2013).

An important EU document is a report by Mandl, which comprehensively discusses the functioning of family businesses in Europe in terms of their economic and institutional impact. The report also formulates recommendations to encourage to take action to support family businesses:

- to develop and adopt an operational definition of the family business;
- to conduct research and promote the research results on family businesses;
- to create and appreciate organizations representing the interests of family businesses on EU-level;
- to undertake training for entrepreneurs and successors in the area of planning and carrying out the succession;
- to reduce or eliminate taxes on inheriting enterprises;
- to facilitate access to finance allowing to maintain control over the family business;
- to raise awareness and finance the implementation of family supervision of the business;

- to support education in the area of entrepreneurship and management focused on family businesses;
- to support businesses that accumulate profits;
- to conduct image campaigns for family businesses (Mandl 2008).

In 2009 the European Commission published a second and so far the last report of the expert group relating to family businesses. European Commission experts raised the issues of definition, which are important because of the possibility of conducting comparative analyses and the application of uniform criteria for funding. Also the challenges faced by family businesses were pointed out and publications of the Commission that may be useful for family businesses were indicated, e.g. the support for young entrepreneurs, the problems of succession and the organization of the entrepreneurship week. These recommendations were not addressed directly to family businesses and the Commission's experts recommended the adoption and implementation of a uniform definition of the family business by Member States. The definition of a family business indicates an economic entity, regardless of its size, in which:

1. the majority of vote is held by the individual person(s), who founded the company or acquired shares or owned by family members or direct heirs;
2. majority vote can be direct or indirect;
3. at least one representative of the family or relative is involved in the management of the company;
4. in the case of listed companies family businesses are the ones where the founding family or a family, which acquired the shares in the company or their descendants have at least 25% of the votes resulting from their capital.

The report calls on the European Commission to promote and disseminate information about family businesses by publishing examples of good practice and encourages the governments of the Member States to support family businesses through the use of various instruments available, e.g. tax policies. The authors of the report as a document edited by I. Mandl show the key role which the organizations and other bodies representing and supporting the interests of family businesses they have to meet (European Commission 2009). The need to develop family entrepreneurship is referred to in the Entrepreneurship 2020 Action Plan (Entrepreneurship 2013) pointing to the challenges to be taken in promoting the entrepreneurial spirit. However, in 2015, a group in the European Economic and Social Committee was established, whose task was to prepare an opinion on family businesses (Klimek and Lipiec 2015).

The EU Member States have a number of regulations relating to family businesses in a variety of often specific documents. Legislative solutions applied in individual EU Member States refer to the possibility of supporting family entrepreneurship in very different degrees. Actions taken have led to increasingly widespread attention of EU institutions and the authorities of the EU Member States on the role and socio-economic importance of family enterprises.

The need to take measures aimed at creating the best possible conditions in which entrepreneurs and family businesses could thrive is increasingly frequently pointed to. Determining the size of the share of family businesses in the economy is difficult and based on the results of research or estimates, which are based on the research process adopted in the definition of a family business. By now, the family business category does not function in the European statistics (Eurostat) (Opinion 2015).

Despite the proposals submitted in the European Union there is no single universally applicable definition of the family business. These entities are often defined differently depending on the subject of research as well as political and economic interests guiding conducted research and analyses. The European Commission recognizes the important role of family entrepreneurship in the European Union economy and takes measures to create a favourable environment conducive to the development of family businesses. As the main challenges for family businesses, the European Commission sees:

- the need to raise awareness of the needs of family businesses and their contribution to the economy and society;
- addressing tax and financial issues;
- the importance of early preparation of succession processes;
- ensuring governance order in family-enterprise relations;
- attracting and retaining qualified employees;
- education in the area of family entrepreneurship highlighting its specificity.

An important prerequisite for actions to support family entrepreneurship is the fact that many companies lose the family character because of the lack of a successor or non-implementation of the strategy of succession. Succession is also a long-term process that requires many years of preparation for the successor to take over the ownership and the managerial function. Currently, small and medium-sized family businesses are entitled to all the support available to this sector. The European Commission promotes business environment for families with children, helps disseminate information and fosters the exchange of best practices between the EU countries. The EU also encourages national governments to accept tax and business laws that are friendly to family businesses and to support entrepreneurship education. In many documents of the European Commission, for example, Small Business Act (2008) or Cosme program the role of the family businesses and the need to use their full potential is emphasized (ec.europa.eu).

The problems that arise in the functioning of family businesses result from the lack of ability to adapt to market changes and the lack of stable legal frameworks taking their specificity into account. Too little attention is given to ensure favourable conditions for their development and to ensure their continuity by carrying out a successful succession.

Other barriers to the development of the companies result from the issue of limited managerial skills and lack of perspective thinking and focus on the current activities by entrepreneurs. They are reflected in the weakness in the management system and the division of labour in the enterprise, inability to build a vision, mission and strategy of the company that would take into account the objectives of the company and the family.

A slowdown in the development of family businesses is also influenced by their specificity resulting from the conflicts in the family, including the intergenerational ones, difficulties in reconciling work and time devoted to the family, performing simultaneously many roles, e.g. the management company, being the husband and father (Jaskiewicz et al. 2013). The most common reasons for conflicts in family businesses result from the following functional areas: business and family, family and ownership, ownership and the business as well as disturbance of the model of the family by the appearance of people from the outside in the company. In the process of the development of the business it is necessary to take into account the life cycle stages of both the family and the company.

New extremely valuable aspect in the entrepreneurship of family businesses is the increase of the level of internationalization. An increasing number of family businesses are looking for opportunities to expand into foreign markets seeing new opportunities with a view to growth. Studies show that the decisions of entering the foreign markets are more often due to entrepreneurial attitudes rather than to exhausting the possibilities of action on national markets (Daszkiewicz 2014).

5 Summary

Contemporary economy in the European Union is characterized by high dynamics of changes in economic conditions and the diversity of functioning actors. It turns out that family businesses cope best in these difficult conditions. Currently they constitute the largest and most rapidly growing group of economic entities. The role of family businesses in the European Union is still gaining importance. It is widely recognized they are characterized by a large contribution to the economy in the dimension of the European community, individual member states as well as economies and local communities. Attention to the development of family entrepreneurship in the EU is part of the efforts to increase the competitiveness and dynamism of the economy, providing more and better jobs and a higher level of social cohesion. Modern family businesses, regardless of where in the EU they operate, must be well prepared to benefit from the opportunities of globalization, the acceleration of technological change and the opportunities offered by the functioning in the common market.

Despite the lack of a uniform definition of the concept of the family business, there is consensus as to the fact that it is conducting business at the interface between family life and business. It can be said that the management of this type of entity is distinguished by specific features associated with the ownership, management, and identity, which is based on values and family ties. It can be assumed that in most cases they face challenges related to the specifics of the SME sector and, like any other economic entity, must face market challenges conducted with running a business.

Family businesses are distinguished by a number of specific features, peculiar only to them, in the areas of ownership and management, family involvement in running the business and the issue of a successful succession and maintaining business continuity during the generational change. The specificity of the family business includes both the sphere of management and social relations, and includes mainly:

- problems and conflicts arising from the family nature of the business;
- the effectiveness of the succession strategy;
- the ability to design and implement a strategy including both the goals of the ownership family and the objectives of the company;
- problems related to the stages of development, growth and professionalization of the family business;
- problems of financing the enterprise;
- psychological and social problems associated with the founder, the successor and family members working in the enterprise,
- management of the employees who are not the ownership family members.

The effectiveness of the operation of the family business is determined by maintaining the balance between the family involvement in business activities, the values of the family members and the realization of its objectives. It is necessary to keep the special nature, organizational culture and individual characteristics contributed to the entity by both family members and non-family employees in the vision, mission and strategy. It is necessary to maintain a long-term perspective on the functioning of the company on the market, taking into account the values and needs of all stakeholders of the family business.

Research results show that the level of knowledge and experience of managers in terms of understanding the specificity and acquiring skills to solve specific problems of the family business is limited. It is necessary to build a system to support the development of family businesses, including support and advice to enable them coping with their specific barriers and problems in the process of their development (Sułkowski and Marjański 2015). It can be said that the impact of familism on the entrepreneurship of family businesses is a special feature that distinguishes them from non-family entities and always determines their strategic behaviours.

Questions and Activities

1. What is the nature of a family business and the criteria for distinguishing it from all economic entities?
2. What are the characteristic features of a family business?
3. Can you discuss the unique values characterizing family businesses?
4. What are the relationships between the ownership family and the company?
5. What is the significance of succession and maintaining the continuity of the business despite changing owners' generations for a family business?
6. What is the importance of family businesses in the economy of the European Union?

7. What are the activities of the European Commission related to the need to promote and development of family entrepreneurship?
8. Why is ensuring the development of entrepreneurship one of the key challenges faced by the European Union today?

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The Effects of European Integration in the Tourism Industry: Consequences of the Last Accession Waves

Luminiţa Nicolescu and Maria-Irina Ana

Abstract Tourism is one of the sectors that have been favoured by the creation of the EU and each new country that acceded helped the Union increase its competitiveness in tourism. According to official statistics, the number of international inbound tourists in the New Member States of the EU increased, on average, three times and in many cases this is partly a consequence of the European Union accession and market oriented policies. However, most of the tourists travelling in Europe choose Western destinations, as they are not aware of the New Member States' tourism potential or have a wrong perception about these countries. Moreover, considerable research has been devoted to tourism in Western Europe, while rather less attention has been paid the New Member States. With these in mind, this chapter provides an examination of tourism in the New Member States of the European Union in the context of European integration.

The key points of the chapter are the following ones:

1. to discuss the main EU policies in the tourism industry
2. to analyse the New European Union Member States evolution in tourism
3. to highlight the effects of European integration for the tourism industry in Europe
4. to identify the main future challenges for the tourism industry in the EU

1 Introduction

The history of European integration illustrates the objective to create a political, monetary and economic union. Nowadays Europe benefits from European integration on various levels, one of the domains with most remarkable gains being trade of services. In this respect, tourism is one of the service industries that was highly affected by the evolution of the integration process. In the last decade new waves of

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economic integration took place in Europe (2004, 2007, 2013), enlarging the economic space towards the Central and Eastern part of Europe. Consequences have been manifested for the tourism activity, at the whole region level, as well as at sub-regional and country levels. Furthermore, an industry able to improve socio-economic welfare, tourism has been used as a reliable tool to accomplish the ultimate goal of integration and cohesion.

In this context this chapter envisages to study the impact of European integration for the tourism industry in Europe with emphasis on the last accession waves. In order to reach this objective, the chapter will be structured as follows: it will start with a presentation of European policies and EC directives designated to the tourism industry, as maintaining the upward trends in tourism has become one of the top priorities for the European Commission in cooperation with Member States and the European Parliament, in the light of forecasts estimating that Europe's market share decreases by 2030 in favour of Asia and the Pacific region (Debyser 2014). The chapter continues with an analysis of the evolution of the tourism activity in the European Union, research that has a double character: a comparative one by posing face to face Old Member States with New Member States and a longitudinal one, as time series data is analysed in order to identify trends in the tourism industry and to characterize the impact of European integration on this service activity. Data such as EU arrivals and overnight stays, imports and exports in the EU in travel are looked at in order to characterize the evolution of tourism at regional level, but also at country level. As a particular case study Romania is studied more in depth. Therefore, the main research questions the chapter tries to answer are: What impact did the European accessions have on the tourism industry in the New Member States? How European policies in tourism affect the sector? Which countries performed best in the EU in the period 2007–2015 from the tourism sector perspective and what trends could be identified? How did European Union tourist flows evolve in the context of the European integration and new EU accession waves?

2 EU Policies Regarding Tourism and the Context in the EU Documents

Despite the fact that European legal basis for the tourism sector is still evolving, the European Institutions have recently started to focus on the tourism sector, as according to the World Tourism Organization (UNWTO Annual Report 2015, 2016b) the European Union is currently the largest tourist region in the world, accounting for 40.3% of the total international tourist arrivals and 29.6% of international tourism receipts in local currencies (Europe's market share in international arrivals is 51.2% and 35.8% for international receipts). Analysing the European tourism, the most relevant features that seem to depict and influence the actions to be taken in this industry are: it is a very fragmented sector, dominated by the private sector and more accurately by family-owned SMEs, it is highly diversified and there are rare cases of cohesion and coordination, it is intensively segmented and quite sensitive to seasonality, and last, but not least, there is an increasing interest for nature friendly tourism, as tourists have become more environmentally aware (Bâc 2012). The importance of tourism for European integration was acknowledged for the first time on 10 April 1984, when the Council invited the Commission to make proposals on this sector (European Parliament 2004), with the purpose of improving the Internal Market. Even though only broad guidelines, norms and strategies were approached then, the resolution was important because it brought into Member States' attention the idea of a tourism policy, it at least recognised tourism as an action per se and made it an additional tool meant to serve the purpose of European integration (Morata 2002). It was not until the Maastricht Treaty in 1992 (also known as the Treaty on European Union) that "tourism" appeared for the first time in a legislative Act, namely the 3rd Article of the Treaty of Maastricht, which was dealing with "measures in the sphere of energy, civil protection and tourism" (General Secretariat of the European Council and the Commission 1992, p. 13). Only limited really integrative developments took place afterwards, as the industry was only pointed as one among the others.

Albeit, not even the Treaty of Lisbon (2007) recognised "tourism as a standalone policy" (Debyser 2014, p. 3), but there were at least taken measures meant to help decision-making process run faster and easier. The new section for tourism was introduced under the Article 195 of the Lisbon Treaty (Title XXII) and aims to promote a competitive tourist sector, creating a favourable environment and exchanging good practices.

Starting 2001, there has been a series of policy initiatives published in Commission Communications, which set various objectives and priorities for tourism at EU level. These worked as guidelines for the development of the tourism sector.

European Union has to face quite a lot of challenges in tourism, as for example to remain competitive in the world since forecasts predict downturns by 2030, to be able to adapt the tourism products to new tourist preferences and purchasing behaviour, but also to the demographic changes (apparently, the elderly population, people over 65, will reach 20% of the total EU population by 2020) or to the ever-changing information and communication technologies (European Commission 2010a, p. 9). Political, social and environmental security, as well as socio-cultural sustainability and safety of food and accommodation are also mentioned among the main challenges for tourism in the European Union (Bâc 2012), together with seasonality, taxation and regulations in the tourism sector, administrative burdens or difficulty of finding and retaining skilled staff (Fouloy 2015).

In order to cope with all the challenges, the European Commission designed a new framework called "Europe, the world's No. 1 tourist destination – a new political framework for tourism in Europe", in line with the aims provided by the Lisbon Strategy, "which foresees a new competence for the EU in the tourism field, changes the institutional context for the European tourism and offers the opportunity for a political initiative from the Commission in the field of tourism" (DG ENTR – Tourism Unit 2010). This new policy set four main priorities: "to stimulate competitiveness in the European tourism sector, to promote the development of sustainable, responsible, and high-quality tourism, to consolidate Europe's image as a collection of sustainable, high-quality destinations, to maximise the potential of EU financial policies for developing tourism" (European Commission 2010b, p. 7). In line with the goals of the Europe 2020 Strategy, this policy was adopted by the European Parliament in September 2011. The other European Institutions were also asked to develop and encourage specific tourism programmes, emphasizing the need to support the micro, small and medium sized enterprises (SMEs). Additionally, the European Parliament highlighted the importance of high-quality tourism and the regional quality branding, suggesting the Commission to work on developing agro-tourism, eco-tourism, gastro-tourism, but also cultural, historical, industrial and natural heritage within the EU. This new framework actually represents a continuation of the ideas, orientations and objectives set by the 2007 Agenda, while also reflecting the new status of tourism industry, as it was specified in the Lisbon Treaty.

Various initiatives have been designed to promote European tourism in low seasons and tourism from emerging countries, focusing on regions such as South America, India or China as target markets. Furthermore, in November 2012, a Communication on "Implementation and development of the common visa policy to spur growth in the EU" was published, seeking not only to increase the number of tourists from countries outside the European Union but also to "make it easier for EU citizens to be joined by their non-EU family members and travel within the EU" (European Commission 2012a, p. 4). Consequently, Schengen Area's rules and regulations have been eased, in order to facilitate tourists flows, as according to a European Tour Operators Association report, "21% of potential tourists from emerging markets (outside of Europe) abandon their plans to travel to Europe due to slow processing of visas" (Debyser 2014, p. 6).

The Cohesion policy is another instrument that supports the Travel and Tourism industry, but this rather focuses on less developed European regions and countries, in order to help them catch up with the other EU members, so that the economic, social and territorial discrepancies to be reduced as much as possible. A set of European Principles for Quality Tourism was also developed and put in place by the service-providers that wanted to promote themselves by providing a quality guarantee. These principles cover four areas, namely Human Resources training, cleaning and maintenance, information availability and consumer satisfaction policy.

Among the most important projects and initiatives that have taken place lately are the following:

– "EDEN", European Destinations of Excellence, a project launched in 2006, which aims to develop models across the EU, disseminate "best practice", while promoting sustainable tourism. There are annual national competitions and a "destination of excellence" is chosen for each participant country, all the winning destinations being then promoted as a European brand. The visibility for emerging, non-traditional European areas is greatly increased by this initiative and, furthermore, "through the selection and promotion of destinations, EDEN effectively achieves the objective of drawing attention to the values, diversity and common features of European tourist destinations" (European

Commission 2016). Since its launch in 2007 EDEN has become a successful European initiative which led to the selection of 140 destinations of excellence and the establishment of the EDEN Network. Thanks to the EDEN award, promotional and networking activities, multiple benefits have been witnessed by local economy, stakeholders and visitors of the EDEN destinations. The impact of the initiative is measured not only in terms of increased profile of the destinations or tourist flows, but also in regards to development and increased activity directly motivated by the award. The funds for this program expired in 2011, but the Commission launched a new initiative—the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)—, based on the same principles, which enabled the parties involved to achieve the initial pilot project's main objectives. The Commission has contributed (mostly financing-wise) to the development of cultural routes meant to help tourists both European and non-European citizens to discover European heritage and how people in Europe have lived since ancestry. For instance, a route of astronomical sites has been created in Greece, Spain, Portugal, Italy and Bulgaria, with the aim of creating a tour package within the countries mentioned, to attract new visitors with an interest in astronomy and strengthen existing partnerships. This project cost approximately EUR 200,000 and 75% was covered by EU funds from the COSME program.

– Calypso—"tourism for all"—, a 3-year action launched in 2009 that promoted social tourism, targeting seniors, youths aged 18–30, people with disabilities and families on low incomes. The project also encouraged low-season holidays and attractively priced tourism intra-EU packages (European Commission DG Enterprise and Industry 2011). Under this initiative, with a budget of 1 million Euro, the Commission funded 10 bilateral or multilateral projects, that focused on exchange models while supporting travel among the travel groups. These lead to the creation of the B2B eCalypso platform that is currently a place of reference for the whole community of European social tourism stakeholders.
– "Cycling Routes" took place from 2009 to 2011, period in which the European Commission awarded various grants to projects supporting the development and promotion of cycling routes across Europe—EuroVelo routes (European Commission 2012b). 15 cross-border routes were already implemented and it is expected that the entire network will be completed by 2020 and will total over 70,000 km. These cycle routes connect the whole Europe and comprise 42 countries, combining European history, culture and sustainable tourism. EU contributed EUR 2 million from the COSME program for the development of this initiative.
– "50,000 Tourists" Initiative launched by the European Commission in 2011, which aimed at increasing tourist exchanges between the EU and South America, encouraging collaboration mainly between governments and airlines. 25,000 Argentinians, Brazilians or Chileans were supposed to come to the EU from October 2012 until March 2013, while 25,000 EU residents to travel to Argentina, Brazil or Chile during May 2013–October 2013 (Almendros 2013). The European Commission has played the role of facilitator and coordinator and has

particularly invested in communication activities. Over 170 packages have been created by the European partners and several airlines and other partners took part in promoting the project. The majority of these itineraries included tours of two European countries or more. Duration was ranging from under 1 week to over 2 weeks. These proposals were grouped under the following themes: Cultural and Historic heritage, Natural heritage, Religious tours, Food and wine, and Educational—Language courses. According to the European Commission (2016), the uptake of this project was not entirely satisfactory particularly due to the lack of commitment from the South American Countries. Also in terms of quantitative assessment some difficulties were found in monitoring and reporting on bookings. Despite general incremental booking volumes, figures did not show if the bookings related directly to the "50,000 project" or to the packages offered under the project but rather referred to general tourism flows from South America. Some partners have been unable to provide data on bookings due to commercial sensitivity, to the cost of setting up a specific monitoring mechanism, or simply due to the lack of a direct link of bookings with the project. The lessons learned from this project are, however, still used to design possible cooperation activities with those countries and others as well.

All the initiatives mentioned did not have, however, a significant importance to the tourism sector, as their budgets were not that large and a rather few number of regions were involved. Yet, it can be stated that European Institutions (especially the Directorate General "Enterprise and Industry" within the European Commission) struggle to maintain and improve European Union's attractiveness as a touristic destination, being increasingly aware of the importance of tourism for the economy as a whole.

In conclusion, cooperation among Member States themselves, but also between these and the European Union bodies can still be improved. There is currently no genuine tourism policy, but rather a set of actions at national level, a meta-policy, and this is perceived as one of the main weaknesses of the EU tourism industry (Halkier, EU and Tourism Development: Bark or Bite, 2010). EU bodies gives guidelines, develops pilot models and methodologies designed to be effective on a EU-scale, to assist the policymakers, the designed bodies at national and sub-national level and then call for proposals are published. EU tourism policy remains to a large extent an issue of national institutions. Furthermore, it is influenced by various sectorial policies, for example regional development, environmental, agriculture or enterprise, and impacts other EU policies as well, such as visas, education and culture, maritime and fisheries or rural development. It can therefore be stated that the grand theory of European integration, the neo-functionalism, is valid for the tourism sector and that this sector is a useful means to social and economic cohesion, regional development, and European territorial cooperation. This idea is also supported by Halkier (EU and Tourism Development: Bark or Bite, 2010, p. 93), who states that "tourism is still a rather low-profile area of EU activity in terms of grand statements and dedicated policy programmes, but that at the same time adjoining policy areas with extensive European regulation or intervention have had major impacts on tourism-related developments". Main pillars of a common EU policy in the tourism field may aim for an improvement in quality of services, improved border formalities, a higher care for protection against the bankruptcy of small tour operators, better environment protection and increased corporate social responsibility, and last, but not least, diversified micro marketing strategies (Chindris-Văsioiu and Tocan 2014).

The following sections look at how the European integration and as part of it EU tourism policies and actions affected the tourism sector in the New Member States, integrated after 2004.

3 Context and Methodology

As per the latest reports from UNWTO (UNWTO Annual Report 2015, 2016b), international tourist arrivals worldwide hit its peak in 2015, with 1184 million overnight visitors, more than half of them being accredited to Europe, which reached a total of 609 million arrivals, 27 million more than in the previous year. As far as the international tourism receipts are concerned, Europe saw the largest increase in absolute terms, also accounting for 41% of worldwide international tourism receipts (the indicator refers to expenditures undertaken by international inbound visitors, including payments for international transport). These boosts can be to some extent explained by the exchange rates shock, the dollar's strength versus most European currencies. Chinese and Americans, the top spenders in international tourism were and still are more likely to take into consideration visiting Europe, whilst Europeans have been less interested in leaving the continent. Of the whole Europe, roughly 80% of the total arrivals in 2015 were reported within the European Union, out of which approximately 15% can be attributed to the New Member States of the European Union (NMS-13).

The New Member States of the European Union are considered to be the states included in the last three waves of accession. These are, in chronological order, the following: Malta, Cyprus, Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia, Hungary (2004), Bulgaria, Romania (2007) and Croatia (2013).

The main source of information for the present study was Eurostat database, from which indicators have been extracted and analysed. In order to evaluate the effects of European integration in the tourism industry, most specifically the consequences of the last accession waves, the following indicators were considered to be the most relevant:

- Number of arrivals and overnight stays, which refer to EU-28 visitors entering the economic area of the countries taken into consideration. Data for number of arrivals include tourists and same-day non-resident visitors, while the overnight stays correspond to the number of nights spent by guests, non-resident tourists in all kinds of accommodation establishments. The arrivals of same-day visitors spending only a few hours during the day (no overnight stay, the date of arrival and departure are the same) at the establishment are excluded when measuring the overnight stays. Data comprises the overnights spent in hotels, holiday and

other short-stay accommodation, camping grounds, recreational vehicle parks and trailer parks (World Tourism Organization 2016a). Furthermore, the number of arrivals or trips and the number of visitors is different, as a person can make several trips to a country during a given period and this is counted each time as a new arrival. Thus, the data on incoming tourists refer to the number of arrivals, not to the number of people traveling.
- International transactions—imports and exports—Exports refer to all the goods and services tourists consume while abroad. Tourism imports are represented by the expenses tourists undertake while travelling abroad. Incoming tourists represent tourism exports, and outgoing tourists represent tourism imports.

The selection of these indicators has been made after reviewing existing research papers related to this topic and based on availability of data, considering that statistical databases are not always up-to-date or complete, especially in the developing countries. The number of arrivals and the overnight stays, are a good reflection of a destination popularity, of tourism performance and impacts, exports and imports in travel may be a sign of economic development, while clearly reflecting changing trends in destination preferences, as well as the influence of exchange rates fluctuations (Dupeyras and MacCallum 2013). The impact of European integration on tourism will be sketched analysing data longitudinally, time series serving the purpose of identifying general trends. Furthermore, a comparison between Old Member States (OMS) of the European Union and New Member States of the European Union is conducted. Data was collected mainly from Eurostat, and the missing information was filled with figures and statistics from the World Tourism Organization. Statistical analysis is the main quantitative research method used and the qualitative review of the statistics gathered together with case studies, historical research and observations proved suitable complements to our endeavour.

4 Main Statistical Findings

This section analyses the tourism statistical indicators presented previously and the way they evolved in time mainly for New Member States. Some general level comparisons are also conducted between Old Member States and New Member States.

4.1 EU Arrivals and Overnight Stays

Compared to 2007, the number of arrivals in the European Union coming from the whole Europe in 2015 rose by 18%, from approximately 708 million to roughly 880 million persons.

Figure 1 illustrates year-by-year the NMS-13 countries evolution of EU arrivals and overnight stays from 2007 to 2015. Most of the countries saw their numbers increasing in terms of EU arrivals, indicating that the EU accession contributed to

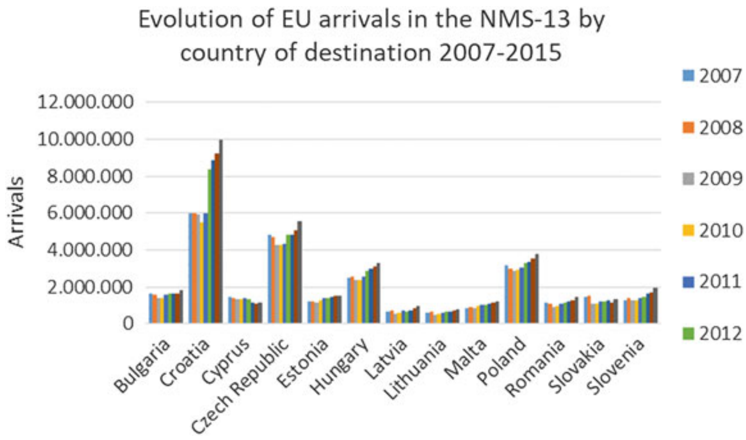

Fig. 1 EU arrivals evolution by country of destination 2007–2015 (Source: Authors' conception—based on data from Eurostat)

the tourism industry in the area considered. The most impressive rise was reported by Croatia, where the number of non-resident tourists in 2015 went up by 67% compared to 2007. The only countries that faced decreases were Cyprus, down 18% and Slovakia, 6% less tourists. European Union citizens, members of the Old Member States, the main importers of tourism from the New Member States, felt more secure and were more willing to visit the countries in the Central and Eastern Europe once these were declared eligible for the EU accession despite the previous negative perception about the countries in the area (Druvaskalne and Slara 2006). Most of the incoming tourists in the period 2007–2015 in the New Member States were from Italy, Spain, France, Germany and UK. The New Member States that received the highest number of tourists from the European Union from 2007 to 2015 were Croatia (~66 million arrivals), followed by Czech Republic (~43 million arrivals), Poland (~29 million arrivals) and Hungary (~25 million arrivals).

At the same time, tourists originating from the New Member States started to travel more, mainly to neighbouring countries and regions. Among the New Member States countries, those who travelled the most to the EU in the period from 2007 to 2015 were the citizens of Poland—approximately 47 million tourist arrivals, Czech Republic—32 million, Romania—22 million and Hungary—20 million. In regards to the trips made to the NMS-13 area, the top looks as follows: Poland 14.1 million tourist arrivals, Czech Republic 12.2 million, Slovenia 9.4 million.

In what regards the number of overnight stays in the region, in 2007 EU residents made almost 1000 million trips for holiday purposes, out of which 24% abroad. 55% of them were trips of 1–3 nights, as city breaks started to gain popularity. The number of overnight stays is, as predicted, in a tight relation with the number of arrivals. The overnight stays from the EU-28 in the NMS-13 increased by 30% in 2015 compared to 2007. This might be explained by the fact that Central and

Eastern Europe (CEE) was a new, unexplored and unknown region for many European Union citizens. This supposition was confirmed by a study made by the European Commission (2003) when it was revealed that 75% of all EU citizens did not travel outside the European Union borders. Considering that none of the New Member States were part of the European Union in 2003, the EU accession can be seen as one of the main motivating triggers for the increasing number of intra-EU overnight stays and intra-EU tourist arrivals. Additionally, changes in transportation markets, faster border crossing procedures (European Commission 2011), and the tourism policies strengthening contributed to the significant increase in incoming tourism in the NMS-13. According to Eurostat statistics (2016), the capital cities of the New Member States were the most popular attractions for the EU citizens and, over the whole period, tourism in most of the countries considered had a strong seasonality component, taking place during summer.

4.2 International Transactions in Travel: Imports and Exports in the EU

When it comes to international transactions in travel, we looked at imports and exports, as these allow for a deeper understanding of tourism evolution in the context of EU enlargement waves, representing tourists' expenses for travel purposes. For both exports and imports increases were reported over the 2002–2015 period, indicating that the integration took place and was significant enough to influence the general trends in travel.

Among the Old Member States, the countries that influence the most the net balance in travel are Germany and Spain. Germany is a categorical net importer of tourism (German citizens are the ones who travel the most among the EU Member States), while Spain is the biggest net exporter in the EU-28 (Spain is the most visited country in the EU). As far as the New Member States are concerned, the only one that over the years remained a net importer of tourism is Romania, while the country with the largest number of incoming tourists and the biggest net exporter of tourism is Croatia. Looking at absolute figures, the top countries from the Old Member States in terms of exports are Spain France, Italy and UK. The New Member States that stand out from the amount of exports point of view are Poland, Croatia, Czech Republic and Hungary. Starting with 2004 (until 2009) when most of the New Member States entered the EU, the exports in travel in the Central and Eastern Europe significantly increased. It looks like most of the overnight stays in the EU were reported by Germany, UK, Italy, Belgium France, Austria, Czech Republic, the Netherlands and Poland. In 2015 exports in travel in the New Member States were 82% larger than in 2002, while for the Old Member States these went up by only approximately 47%. In absolute terms, exports in the NMS-13 in 2015 were in amount of 42.9 thousand million and in the OMS-15 almost seven times higher,

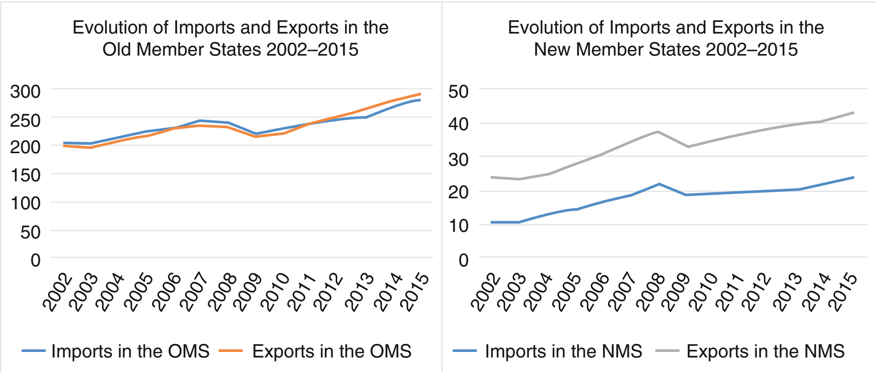

Fig. 2 Evolution of imports and exports in NMS and OMS 2002–2015 (Source: Authors' conception—based on data from Eurostat)

292.1 thousand million. The travel imports reported by the NMS-13 doubled in 2015 compared to 2002, while in the OMS the number of residents that went abroad and spent money there as tourists rose by only 37%. The difference can be explained by the fact that the openness of Western European countries to Eastern European countries coupled with curiosity and eagerness to visit, acted as a strong trigger for people from Central and Eastern Europe to visit Western Europe, while the prolonged unfavourable image that people in countries from Western Europe had about Central and Eastern European countries act as a break factor for those. Among the NMS-13, the countries that imported travel services the most by acquiring accommodation, food and beverage services, souvenirs and any other processed goods, as well as internal transportation services (international transportation is calculated separately) were Poland and Czech Republic, the countries with some of the highest standards of living and average wages in the NMS (together they summed up half of the imports in the entire CEE region), while from the OMS-15 three of the countries, namely Germany, UK and Spain accounted for 50% of the entire amount of imports.

The New Member States experienced a more accelerated growth in terms of imports compared to the Old Member States, where an unsteady tendency can be observed throughout the time period analysed. This can definitely be attributed to the EU accession from the NMS perspective, as border crossing procedures were eased, the idea of a European identity became more popular among youth, the desire and openness for travel increased and GDP improved (approximately 12% gain in the GDP per capita in Central Eastern Europe seemed to be directly related to being part of EU—Campos et al. 2014). Figure 2 exhibits best the information presented above. In order to make it easier for the reader to find the information and

Table 1 Imports in travel EU-28 2002–2015 (in 1000 million EUR)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Belgium	12.8	13.4	13.1	14.3	14.8	15.7	16.4	17.9	17.1
Denmark	6.5	6.6	6.5	6.8	7.2	7.5	7.6	7.9	8
Germany	60.6	61.9	58.2	58.9	61.7	64.9	64.7	70.2	69.9
Ireland	6.3	7	5.6	5.4	4.8	4.6	4.6	4.8	5.1
Greece	2.5	2.7	2.4	2.2	2.3	1.8	1.8	2.1	2
Spain	14.4	13.8	12.1	12.7	12.3	11.9	12.2	13.6	15.7
France	27.9	27.9	27.5	29.2	32.3	30.4	31.9	36.7	34.6
Italy	19.9	20.9	20	20.4	20.6	20.5	20.3	21.7	22
Luxembourg	2.5	2.6	2.6	2.7	2.7	2.8	2.9	2.9	3
Netherlands	13.9	14.8	14.8	14.8	14.7	15.7	15.4	15.4	15.8
Austria	7.7	7.7	7.7	7.7	7.5	7.8	7.7	8.1	8.2
Portugal	2.9	2.9	2.7	3	3	2.9	3.1	3.3	3.6
Finland	2.9	3.1	3.1	3.3	3.5	3.8	4	4	4.3
Sweden	9.1	9.2	8.1	9.2	10.1	10.9	11.6	11.9	13
United Kingdom	52.2	46.8	36.1	37.7	40.7	44.5	44	47.7	57.1
OMS total	242.1	241.3	220.5	228.3	238.2	245.7	248.2	268.2	279.4
% change	5	0	−9	4	4	3	1	8	4
Bulgaria	1.3	1.6	1.3	0.9	1	1	1.2	1.4	1.5
Croatia	0.7	0.8	0.7	0.6	0.6	0.7	0.7	0.6	0.7
Cyprus	1.1	1.1	0.9	0.8	0.9	1	0.9	1	1
Czech Republic	2.6	3.2	2.9	3.1	3.3	3.3	3.5	3.9	4.4
Estonia	0.5	0.6	0.4	0.5	0.6	0.6	0.7	0.9	0.9
Hungary	1.9	2.2	2	1.8	1.8	1.5	1.4	1.5	1.7
Latvia	0.7	0.8	0.6	0.5	0.5	0.5	0.5	0.5	0.6
Lithuania	0.8	1	0.8	0.6	0.6	0.7	0.8	0.8	0.9
Malta	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Poland	5.7	6.6	5.2	6.5	6.1	6.8	6.7	6.7	7.2
Romania	1.1	1.5	1	1.2	1.4	1.4	1.5	1.8	1.9
Slovakia	1.1	1.5	1.5	1.5	1.6	1.7	1.8	1.8	1.9
Slovenia	0.8	0.9	0.9	0.9	0.8	0.7	0.7	0.7	0.8
NMS total	18.5	22	18.4	19.1	19.4	20.2	20.7	21.9	23.8
% change	10	19	−16	4	2	4	2	6	9
Imports total	260.6	263.3	238.9	247.4	257.6	265.9	268.9	290.1	303.2

Source: Authors' conception—based on data from Eurostat

understand the facts presented, we gathered all the data regarding imports in EU-28 in Table 1 and exports in EU-28 in Table 2.

In order to identify which countries the residents of the New Member States preferred and where the tourists in the New Member States were coming from, we looked at the number of overnight stays and arrivals by both country of destinations

Table 2 Exports in travel EU-28 2002–2015 (in 1000 million EUR)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	13.6	14.7	13.9	14	14.3	14.7	15.2	15.7	16.4
Belgium	8	8	8.5	8.6	9.1	9.7	10.1	10.5	10.8
Denmark	4.4	4.3	4	4.4	4.9	5.1	5.4	5.7	6
Finland	2.1	2.2	2	2.3	2.7	3	3	2.8	2.3
France	39.6	38.5	35.5	35.5	39.3	41.8	42.6	43.8	41.4
Germany	26.3	27.1	24.8	26.2	27.9	29.7	31.1	32.6	33.3
Greece	11.3	11.6	10.4	9.6	10.5	10.4	12.2	13.4	14.1
Ireland	4.4	4.3	3.6	3.1	3	3	3.4	3.7	4.3
Italy	31.1	31.1	28.9	29.3	30.9	32.1	33.1	34.2	35.6
Luxembourg	2.9	3	3	3.1	3.5	3.9	3.9	4.1	3.9
Netherlands	9.7	9.1	8.9	9.6	9.7	9.7	9.7	9.8	10.4
Portugal	7.4	7.4	6.9	7.6	8.1	8.6	9.3	10.4	11.5
Spain	42.1	41.9	38.1	39.6	43	43.5	45.5	49	50.9
Sweden	4.4	4.3	4	4.4	4.9	5.1	8.1	8.9	10.2
United Kingdom	28.2	24.6	21.7	24.4	25.7	29.1	31.5	35.2	41
OMS total	235.5	232.1	214.2	221.7	237.5	249.4	264.1	279.8	292.1
% change	3	−1	−8	4	7	5	6	6	4
Bulgaria	2.6	2.9	2.7	2.7	2.9	2.9	2.9	2.9	2.8
Croatia	6.7	7.4	6.4	6.2	6.6	6.8	7.2	7.4	7.9
Cyprus	2	1.9	1.6	1.6	1.8	2	2.2	2.1	2.2
Czech Republic	5	5.3	5	5.4	5.5	5.5	5.3	5.2	5.5
Estonia	0.8	0.8	0.8	0.8	0.9	1	1.2	1.4	1.3
Hungary	3.4	4.1	4.1	4.3	4.2	3.9	4	4.4	4.8
Latvia	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.7	0.8
Lithuania	0.8	0.8	0.7	0.7	0.9	1	1	1	1
Malta	0.7	0.7	0.6	0.8	0.9	1	1.1	1.1	1.2
Poland	7.7	8	6.4	7.2	7.6	8.5	8.6	8.9	9.5
Romania	1.2	1.4	0.9	0.9	1	1.1	1.2	1.4	1.5
Slovakia	1.7	1.8	1.8	1.9	2	2.1	1.9	1.9	2.1
Slovenia	1.5	1.8	1.7	1.9	2	2	2	2.1	2.3
NMS total	34.6	37.4	33.2	34.9	36.8	38.4	39.3	40.5	42.9
% change	13	8	−11	5	5	4	2	3	6
Exports total	270.1	269.5	247.4	256.6	274.3	287.8	303.4	320.3	335

Source: Authors' conception—based on data from Eurostat

and country of origin. Data on how much the tourists from each country spent in the country of destination is hardly available and will not be analysed. Only countries from the European Union were taken into consideration in this analysis. Table 3 summarizes the findings.

To sum up, in all EU destinations, the majority of arrivals originated from intra EU markets, the highest number of trips being made by residents of Germany, followed by France, UK, Italy and Spain. Concerning the New Member States, the

Table 3 Preferred countries of destination and main sources of tourists for the NMS-13

NMS	Country of destination	Country of origin
Bulgaria	Greece	Germany
Czech Republic	Italy	Germany
Estonia	Finland	Finland
Croatia	Italy	Germany
Cyprus	Greece	UK
Latvia	UK	Germany
Lithuania	UK	Germany and Poland (approximately the same number of tourists)
Hungary	Italy and Austria (approximately the same number of tourists)	Germany
Malta	UK	UK
Poland	Italy	Germany
Romania	Italy	Germany and Italy (approximately the same number of tourists)
Slovenia	Croatia	Italy
Slovakia	Czech Republic	Czech Republic

Source: Authors' conception—based on data from Eurostat

residents of Poland, Czech Republic, Croatia, Hungary and Romania reported the largest number of trips. Furthermore, several trends have been identified. One of the most easily noticed tendency is that residents of the EU tend to travel most often to neighbourhood destinations, mainly as a consequence of geographical and cultural proximity. This can also be explained by the fact that approximately 15% of the total trips were for business purposes according to Eurostat, this number increasing yearly. Additionally, "sun, sand and sea" tourism is considered to be the main reason for travel in the EU, followed by visits to relatives, family or friends (European Commission 2015). During summer, there is a common practice among Europeans to travel to the seaside, spend time with their families and friends, and rest for maximum 2 weeks. In order to cut costs, Europeans prefer to rent an entire private home, share a car and travel to countries with friendly climate in their proximity, such as Greece, Croatia, Italy, Bulgaria, Spain or Romania. Transit accommodation can also be a reason for tourist from Eastern part of Europe (Bulgaria, Romania) travelling by road to the Western part of Europe.

To conclude, the impact of European integration for the tourism in the NMS was very visible with positive and increasing evolutions for tourism as depicted by all studied indicators: number of both incoming and outgoing tourist increased for these countries, as well as the value of international transactions in travel and the material base in the tourism industry. Factors such the growing use of Euro that encouraged travelers to go to the Euro zone countries without worrying about exchange rates (Akerhielm et al. 2003), deregulation of international air transport and the expansion of low-cost airlines, event particularly prevalent in Europe (Sharpley and Telfer 2015), increasing competition that enabled product offering innovation, the IT and its use in e-tourism (Weiermair 2003), the Europeans increasing openness to tourism and especially to unique destinations or the availability of natural resources are considered to be among the important factors that contributed to the development of tourism in the New Member States area. On the other hand, Hudman and Jackson (2003, p. 25) consider that the most important factors influencing tourism are leisure time, affluence (the populations has gained a better standard of living), and mobility, idea supported also by Chindris-Văsioiu and Tocan (2014), who found that changing practices of work (more remote-based jobs, less full-time basis contracts) and increasing level of stress and pressure of time also influenced the number of trips taken by Europeans and the destinations they are choosing with the purpose to "escape" through holidays or to successfully combine work with rest.

5 Case Study: Romania

In this section Romania is more thoroughly looked at from the tourism industry evolution point of view, in an attempt to characterize in more detail, the EU accession's effects.

On January 1, 2007 Romania, the 12th largest country in Europe (according to population) became a Member State of the European Union. Despite its natural beauties potential, Romania is still not a very popular tourist destination in Europe.

According to the official data from Eurostat, most of the incoming tourists in Romania are from Europe (approximately 90%), while 60.33% are EU residents. Germany, Italy, France, Hungary and Italy are the main sources of tourists for Romania, accounting for more than half of all tourist arrivals reported in Romania from 2007 to 2015. However, if we look at the number of persons and not the number of arrivals (the same person can visit Romania more times and will be counted each time), most of the tourists that entered Romania from 2007 to 2015 were from Hungary (15 million persons), Bulgaria (9.2 million persons), Germany (4 million persons), Italy (3.2 million persons) and Poland (2.4 million persons), these five countries accounting for 46% of the total number of international tourists that visited Romania during the timeframe considered, 50% of the total number of European tourists and 77% of the total number of EU-28 tourists. The fact that the largest number of incoming tourists are residents of Hungary and Bulgaria reinforces the idea that geographical and cultural proximity are among the most important factors that influence consumers buying behaviour. All data is presented in Table 4. For tourists from Hungary the visit of relatives and friends was also one main motivation for travelling to Romania, that has a minority of Hungarian nationality citizens.

According to INS (the Romanian National Institute for Statistics) data, in top preferences of the EU tourists, Bucharest and other major cities in Romania, among which Constanţa, Timişoara, Cluj-Napoca and Braşov rank first, representing roughly 76% of the total number of EU residents that visited Romania from 2007 to 2015, most of them being business tourists. These cities are also the largest contributors to Romania's GDP (Bucharest—20%, Constanta—11%, Timisoara 10.1% Cluj-Napoca

Table 4 Number of tourists from EU in Romania 2007–2015

Continent and origin country for foreign tourists	Years								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
	MU: thousands persons								
Total	7722	8862	7575	7498	7611	7937	8019	8442	9331
Europe	7289	8410	7203	7098	7180	7473	7526	7815	8678
European Union	4811	5566	4799	4456	4391	4673	4719	4996	5346
Austria	218	210	180	177	193	218	200	202	180
Belgium	43	44	37	42	50	47	48	55	47
Bulgaria	818	1115	877	786	797	944	1136	1209	1524
Croatia	:	:	:	:	:	:	12	22	22
Cyprus	13	11	8	8	10	9	7	9	7
Czech Republic	110	135	101	80	80	96	90	84	85
Denmark	18	17	13	11	14	14	12	15	12
Estonia	4	6	4	4	4	4	5	7	6
Finland	10	10	9	8	11	7	7	7	6
France	184	183	150	131	153	150	136	147	129
Germany	473	522	443	395	381	439	448	470	438
Greece	104	118	90	71	83	77	76	72	63
Hungary	1743	1950	1836	1735	1546	1547	1443	1495	1661
Ireland	14	15	11	10	13	13	11	17	14
Italy	398	433	375	331	352	340	332	355	324
Latvia	3	4	4	4	4	4	6	6	8
Lithuania	7	10	10	9	9	11	10	12	16
Luxemburg	2	1	1	1	1	1	1	2	2
Malta	1	1	1	2	2	3	2	3	2
Netherlands	79	80	67	66	78	76	71	78	65
Poland	191	277	223	238	250	301	300	308	355
Portugal	16	16	20	47	47	41	53	62	46
Slovakia republic	120	148	114	98	84	100	100	97	109
Slovenia	29	37	35	23	17	19	23	21	20
Spain	70	71	67	63	77	74	64	76	57
Sweden	25	24	19	24	26	25	22	25	26
United Kingdom	118	128	104	92	109	113	104	140	122

Source: Authors' conception—based on data from the Romania National Institute of Statistics

9.8%, Brasov 9.5%) and, according to Forbes Magazine (Panait 2015), the cities mentioned were in top cities for business in Romania in 2015. The mountains tourism in Romania is also of interest for the EU tourists, accounting for 7% of the total number of persons. This form of tourism together with city tourism are the only forms of tourism that experienced a continuous, yet steady growth in the period analysed. The arrivals attributed to balneo-tourism, sun, sea and sand tourism and even to the Danube Delta region fluctuated throughout the timeframe considered, and together they account for 5% of the total number of EU tourists. Most of the tourists from the

EU travel to Romania by car, followed by air transport, water transport and rail transport.

As far as the Romanian tourists' preferences are concerned, roughly 70% of them chose to travel within EU in the period 2007–2015, the numbers reported showing an ascendant trend with the sole exception of year 2009, when Romanian tourism was strongly hit by the financial crisis. 32% of the total number of outgoing tourists from Romania went from 2007 to 2015 to neighbouring countries, namely to Greece, Bulgaria and Austria. The proximity of the first two markets, Greece and Bulgaria, reachable by car, the main mean of transport Romanians choose for their holidays—77% according to the National Institute of Statistics Romania (2017) but also the relative low prices are the main explanations for this high proportion of Romania's travel imports (23%). Greek and Bulgarian sea coast, as well as Bulgarian and Austrian ski resorts are Romanians' prime holiday destinations and good examples of "best practices in tourism". Spain and Italy were also present in Romanians' top of choices, but in these countries a significant number of departures were for business purposes. Given the fact that there is a large number of Romanians working both in Italy and Spain visiting relatives and friends can be another motivation to visit these countries.

2007 reports show that tourism (both domestic and international) accounted for 4.8% of GDP and 5.8% of the jobs available in Romania (Blanke and Chiesa 2009). This industry was the second most important sector for Romania, after trade. By 2015, tourism industry increased its share to GDP, reporting a 5.1% total contribution to Romania's Gross Domestic Product that year. However, the official participation of tourism at the total jobs available decreased to 5.4% in 2015, as a large percentage of the employees have seasonal jobs and work without contracts (Iorga 2014).

Above all, the main advantage of Romania's accession to the EU has been the existence of European Structural and Cohesion funds, which have had a significant contribution in the process of developing tourism industry in Romania, mainly by providing the opportunity to increase tourism offerings and infrastructure, but also improve human resources skills and capabilities. Yet, free circulation of EU citizens has been another important factor that helped the tourism sector. In the first year after Romania's accession, the number of tourists from EU increased considerably, but afterwards started to fall at a steady pace. This slow decline could be linked to the economic crisis, considering that approximately 70% of the total number of international incoming tourists reported in 2007 were business-related (Niculescu 2008), while in 2009 business tourists represented roughly 55% of the total number of international arrivals according to the National Institute of Statistics. From 2010 on, when the crisis ameliorated, on the basis of European accession, business travel arrivals and receipts increased steadily, reaching 58% of the total number of international arrivals and 60% of the total receipts in 2015, surpassing all the other types of tourism, including leisure tourism, where the largest contribution (approximately 60%) is brought by tourists that come to Romania for shopping and clubbing (National Institute of Statistics 2016).

In what regards Romania's national tourism policy, according to the latest report Romania sent the European Commission (The National Authority for Tourism, 2016), the key missions in tourism refer to applying best practices identified in countries with well-developed tourism to the organization of the Local Tourist System (there are county tourist associations in various locations considered key-regions for Romanian tourism, such as Sibiu, Brașov, Prahova, Covasna, Harghita, Mureș, Constanța or Bucovina), decentralising the authorising activity, align the Romanian touristic products and offerings to European and international level, trends and practices, and also promoting and capitalizing on agricultural, creative industries or IT products and services that are seen as competitive advantages of Romania. There are also several institutional cooperation that aim to boost domestic and international tourism, such as common programs for student camps in low seasons (in collaboration with the Ministry of Education), for the recovery of the skilled labour force in SPAs (with the Ministry of Health), for developing heritage tourism (with the Ministry of Culture), as well as initiatives meant to increase the number of pensioners who can receive tickets for appropriate SPAs and medical centers (with the Ministry of Labour, Family, Welfare and Seniors) or strategies for facilitating the visa procedure for tourists (in partnership with the Ministry of Foreign Affairs). Furthermore, several fiscal measures have been adopted in order to encourage the entrepreneurs in the tourism sector to invest in qualitative services and facilities—exemption for profit tax for 5 years for investments in spa services and for 3 years for any new investment in tourist facilities or the remission of tax on reinvested profit if the investments are meant to improve tourists facilities are some relevant examples. Given the increasing interest the European Union gives for sustainable tourism, Romania offers fiscal benefits for tourist accommodation establishments that obtain the eco label. Last, but not least, diversification of the tourism offer, protection of the cultural and natural heritage, improving the sustainability and quality of tourism offer, as well as developing responsible tourism practices are considered a priority for Romanian tourism sector, while connectivity and transport, bureaucracy, demographic and climate changes are indicated as having a low importance for the industry.

Romania attended all the EDEN (European Destinations of Excellence) editions and seven destinations have been designated as European Destinations of Excellence, namely: Horezu in 2008 (local intangible heritage and theme tourism), Apuseni Nature Park in 2009 (theme tourism and protected areas), Geoagiu-Băi in 2010 (theme aquatic tourism), Alba Iulia and Buzău Land in 2012 (regenerated physical sites and theme tourism for the first location and theme rural tourism for the second area mentioned), Jurilocva in 2013 (theme accessible tourism) and Mărginimea Sibiului in 2015 (theme tourism and local gastronomy).

Despite all these, the relatively slow improvements made by Romania in the tourism industry and the fact that business tourism represents such a large percent of the total international tourists in Romania may be explained by the rather low involvement of the Government in this industry, mainly in what regards financing related issues. Currently, in 2017, Romania does not have a Ministry of Tourism any longer, the National Authority for Tourism being the one currently representing Romania's interests in the tourism field, and, even though the turnover from tourism activities was roughly EUR 2 billion in 2015, the budget allocated by the

Government for tourism promotion in Romania was only 0.1%, meaning EUR 2 million according to the president of the National Authority for Tourism (Bădulescu 2017).

6 Conclusions and Main Future Challenges

European tourism industry was highly influenced by the European integration process and by the new waves of European accession. The main conclusions drawn based on the analysis conducted in the period 2007–2015 reflect the following:

(a) As an overall trend tourism activity increased in the analysed period in both Old Member States and New Member States of EU, even though at different paces with the New Member States registering higher levels of increase for most of the studied indicators. These evolutions reflect on the one hand the fact that there was an initial gap between the two groups of countries with the Old Member States having more developed tourism industries and on the other hand the fact that the New Member States are catching up and try to fill in the existing gap benefiting of the opening of new markets and of EU support policies. Still most of the New Member States cannot really compete with the Old Member States due to lack of infrastructure, poorer marketing strategies, a smaller degree of international awareness concerning their countries' touristic potential. Therefore, they should focus on individual and unique tourism products and experiences, as a way towards tourism development. In both Old Member States and New Member States the tourism sector was affected during the economic crisis period, but both regions have recovered at present with moderately positive trends. It can be stated that European integration had a positive effect on the development of the tourism industry in Europe.

(b) New Member States seem to have benefited from European Union accession and policies, as touristic markets have opened, the European Commission has been working together with the Parliament and the national authorities since 2007 to provide them guidance, to reduce their vulnerabilities, foster co-operation, increase competitiveness and raise awareness concerning the high touristic potential of this region. The New Member States benefited from the opening of the markets, from the willingness and curiosity of Western European citizens to explore new less accessible countries by then in spite of an existing unfavourable image about the region. The global existing tendency to explore non-traditional tourism destinations, destinations that are considered to be unique, exclusive, where tourists can interact with local people, observe their traditions and look for meaningful experiences, come in favour of the New Member States. Destinations such as Danube Delta, Maramures, Bucovina, Harghita or Prahova regions in Romania, colourful Nida in Lithuania, Dubrovnik, Split, Plitvice Lakes National Park, Mljet Island and Kotor in Croatia, Warsaw and Krakow in Poland, the cosmopolitan cornerstone of the Baltic

Countries—Riga, Latvia, Tallinn in Estonia, the Baroque beauty of Vilnius, Lithuania, Prague or Olomouc, the so-called "undiscovered gem" of the Czech Republic, Ljubljana and Lake Bled in Slovenia can be considered representative for the New Member States touristic potential, since tourists from the Old Member States are becoming more experienced, are no longer that interested in buying standard trips, but rather willing to immerse in local cultures. They therefore find grounds to fulfil these wishes in the New Member States tourism. In the context of the new EU accession waves, adventure tourism, community-based tourism, culinary tourism, agro-tourism or cultural and religious tourism are some of the segments that offer good opportunities for tourism.

(c) As general tendencies in terms of behaviour of the European tourist it was noticed that:

- most of the European citizens prefer to travel to neighbouring countries as geographical proximity, probably higher cultural similarity and reasonable prices are good incentives for such choices
- among the motivations to travel, business tourism accounts for a large proportion of the short stays in European Union. Also visiting relatives and friends that either live, study or work in another European country is another main motivation for foreign tourism in European Union.
- among pure tourism motivations many tourists that travel abroad in European Union choose either seaside and sunshine or visiting cities, mainly the capital cities and historical cities.

(d) The development of the tourism industry is unequal within both groups Old Member States and New Member States and the changes of the last years also differed highly among countries. Considering all the indicators reviewed, the New Member States that performed best from the tourism sector perspective in the period 2007–2015 were Croatia, Czech Republic, Poland, Hungary and Bulgaria. It was noticed that citizens of the richest countries in the region (Poland and Czech Republic) travel abroad the most. The countries among new Member States that attracted the most tourists are the ones situated in geographical proximity of the Central part of the continent and most economically developed (Poland and Czech Republic) and that offer seaside and sunshine (Croatia). Among the Old Member States, the ones whose citizens travel abroad the most are the most economically developed ones (Germany and United Kingdom), while the ones that attract the most tourists are the ones that constitute traditional touristic destinations for both sun and seaside and historical tourism (France, Spain, Italy) followed by Germany and United Kingdom as highly economically developed countries.

(e) The factors that affected the evolution of tourism industry and the development of both incoming and outgoing tourism in New Member States are: the economic crisis, the EU integration, the diversification of tourism preferences of citizens in Old Member States, the easiness to travel from one side of the continent to the other in terms of free movement, the increasing standard of living in the New Member States and higher budgets designated to travelling abroad, the increasing business activities between the two groups of countries with the business travel accounting for a good part of the inter-regional tourism, the increased usage of Euro as an unique currency in 19 of the EU-28 countries, changing social behavior and a general worldwide increasing preference for travel, low-cost airlines expansion and deregulations in air transport.

To conclude, it can be stated that ever since the first year of accession, explicit tourism growth can be connected with European Union integration in both Old Member States and New Member States. The EU accession made a noticeable difference in the tourism industry for New Member States as a group, but in spite of the overall growth there are still countries that did not take full advantage of the opportunity and still have grounds for tourism development.

Questions and Activities

1. What are the main challenges for EU tourism?
2. Does tourism in the European Union consist of a single pattern?
3. Is tourism in the New Member States different from the one in the Old Member States? If yes, how?
4. What are the main objectives and priorities for tourism at EU level?
5. What should be done to improve and promote Romania's tourism? Name at least three different ideas.
6. What are, in your opinion, the strengths and weaknesses of the tourism sector in the New Member States?
7. Which are the main trends in the European tourism?
8. What are, in your opinion, the key factors that affected the tourism sector in the New Member States?

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Sociotechnical Challenges of Transition Economy SMEs During EU Integration

Narasimha Rao Vajjhala and Kenneth David Strang

Abstract Small-to-medium-sized enterprises (SMEs) are the backbone of national economies, in particular, for transition and emerging nations. SMEs contribute significantly to employment generation and innovation in countries that are in transition. However, SMEs face several social and technical challenges as they focus on technological innovation. SMEs face several barriers in technological innovation because of their limited financial, human, and technological resources. The purpose of this study was to investigate the key sociotechnical challenges that the SMEs of a transition economy face during EU integration and then to highlight any critical success factors for overcoming those challenges. Albania was the case study because they recently achieved candidate country status and are progressing toward EU integration. The central research question which drove the study was: What are the key social and technical challenges that SMEs in transition countries, such as Albania, face in the process of EU integration? We extended existing quantitative research by using qualitative data collection. We used in-depth interviews with 20 managers working in 10 medium-sized enterprises in Albania. After analyzing the data we identified five critical success factors for these EU transition-country SMEs. The first factor was the degree of investment made by the SME to introduce information and communication technology and software into the work processes. The second factor was the degree of investment made by the SME to acquire adequate resources to train their employees to use technology. The third factor was the perceived usefulness of the new technology by employees. The fourth characteristic was the level of employee self-efficacy (confidence) in using new technology. The final attribute was the openness attitude of employees towards using new technology. These results should generalize to other SMEs in Albania

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and to future EU transition countries. This study should be of interest to SMEs executives and organizational researchers in transition or developing countries, as well as to socio-economic practitioners in any industry or discipline.

List of Abbreviations

BI	Behavioral Intent
CSF	Critical Success Factors
EU	European Union
GDP	Gross Domestic Product
IDT	Innovation Diffusion Theory
PEU	Perceived Ease of Use [sometimes EU in the context of TAM]
PU	Perceived Usefulness [sometimes U in the context of TAM]
SME	Small to Medium Size Enterprise
TAM	Technology Acceptance Model (TAM2, TAM3 are revisions)
TPB	Theory of Planned Behavior
TRA	Theory of Reasoned Action
TTF	Task Technology Fit
UTAUT	Unified Theory of Acceptance and Use of Technology

Upon reading this chapter, you should be able to:

1. Summarize the national social and economic characteristics of Albania
2. Be aware of what is needed to enter the EU and who are the EU candidate countries
3. Define and apply several contemporary Technology Acceptance Models
4. Understand the social and technical challenges faced by SME's in a Balkan country such as Albania
5. Learn the critical success factors that Albania are using to improve their transition into the EI

1 Introduction

The purpose of this chapter is to investigate the key sociotechnical challenges that the Small-to-medium-sized enterprises (SMEs) of a transition economy face during EU integration. In this chapter, we have taken the example of Albania, which achieved candidate country status and is progressing toward the opening of negotiations for EU integration. The central research question driving this chapter is: What are the key social and technical challenges that SMEs in transition countries, such as Albania, face in the process of EU integration? SMEs form the backbone of the economy in most developing and emerging countries by contributing significantly to innovation and employment (Subrahmanya 2015; Wonglimpiyarat 2015). According to the European Commission annual SME report (2015), 99.8% of all enterprises in the nonfinancial business sector in the European Union (EU) EU28 countries are categorized as SMEs. EU28 SMEs contribute 67% of the total employment and 58% of the value added to the gross economic product of the member countries. The EU is a very successful international trade agreement and socioeconomic cooperation system. Although no other similar system of this complexity exists anywhere else in the world, many other countries have indicated an interest in either joining the EU or developing this type of internation agreement. For example, Canada has recently applied to the EU for special trading privileges, and subject matter experts in African countries have voiced interest in forming a socioeconomic collaboration. Therefore, many stakeholders would benefit from research about the best practices of an EU transition country. That is the focus of this chapter.

The EU currently has several transition economy countries who are in the process of joining, including Serbia, the Former Yugoslav Republic of Macedonia (FYROM), and Albania. These countries were recently awarded candidate country status by the EU (European Neighborhood Policy and Enlargement Negotiations 2016). One of the authors is a subject matter expert on Albania's EU transition, and therefore Albania will be a case study to be examined in this chapter. SMEs play a substantial role in the Albanian economy by contributing to over 81% of employment and 70% of valued added toward the nonagricultural private sector. However, transition economy SMEs are likely to face many socioeconomic and technological challenges as they move toward full EU integration. Thus, the purpose of this chapter is to explore the sociotechnical challenges and best practices that transition economy SMEs are likely to face during the EU integration using Albania as a case study context. This chapter will fill a gap in the literature because there are not many studies in the literature as there are only a few transition economy nations in the world compared with the majority of countries being at or below the developing level. Furthermore, transition economy countries entering a historically successful international trade agreement system—the EU in this case—is novel. For all these reasons, the results of this study will generalize and be of interest to many countries and their government policy makers around the world.

SMEs in transition countries, such as Albania, which is moving from a centrally controlled economic system to a free-market system (Vajjhala and Strang 2014) are likely to face significant challenges in the face of EU integration. The innovative use of technology is an important critical success factor (CSF) for small and big companies (Kurnia et al. 2015). A major challenge for Albanian SMEs would be to match the current level of technological innovation demonstrated by SMEs in the EU. A number of concepts have been developed to examine the ability of an organization strategically to leverage technology, including Technology Acceptance Model, Resource Development Theory, Institution Theory, Diffusion of Information, Technology Organization Environment, as well as National Culture (Lee et al. 2007; Rizzuto and Reeves 2007; Rizzuto et al. 2014; Strang 2012).

Subrahmanya (2015) defines technological innovation as the implementation of a product with improved performance characteristics capable of delivering enhanced services to the customer. SMEs in developing countries face substantial difficulties in accessing the financing and funding required for growth and technological innovation (Wonglimpiyarat 2015). Ahmad (2012) identified some of the numerous problems that SMEs face in developing countries, including lack of technical knowledge, managerial skills, lack of access to adequate technologies, and lack of training. Considering the importance of limited financing, SMEs have to be careful on any technological innovation, including technology-related investments as a failure of implementation of technology could have drastic consequences impacting the survival of these enterprises. Hence, understanding the factors that influence the acceptance and implementation of technology is entirely necessary for the organizational leadership of these SMEs. This chapter will explore the key factors affecting the acceptance of new technologies in an SME. The objective of this chapter is to develop a technology acceptance and implementation framework that could be applied to SMEs in EU candidate countries, such as Albania. The purpose of this framework is to create a model for technology innovation that can be used by SMEs in the candidate countries seeking EU integration. This framework should also help SMEs as well as other entities in the EU that intend to collaborate with SMEs in candidate countries.

This chapter starts with an introduction and overview of Albania as a candidate country seeking EU integration. The significance of SMEs in the Albanian economy with a detailed summary of the key business sectors is covered in this chapter. The challenges that Albanian SMEs are facing in the process of EU integration with an emphasis on sociotechnical challenges are explored in this chapter. The sociotechnical situation typical of most transition economies, especially the Balkan countries, is discussed in this chapter. The key models on technology acceptance, including the major technology acceptance models—Technology Acceptance Model (TAM), TAM2, and the Unified Theory of Acceptance and Use of Technology (UTAUT)—are explored in this chapter to examine whether any of these models could address the challenges faced by Albanian SMEs.

1.1 Candidate Countries Seeking EU Integration

According to the Treaty on the European Union, any European country can apply for membership to the EU provided the country meets a particular set of important criteria for accession (European Commission 2016). These vital criteria include the requirement that the countries should have stable democratic institutions with respect for the rule of law and human rights. The aspiring candidate country should also have a functioning market economy with the capacity for coping with competition. A total of 35 different chapters, including transport, energy, and environment are negotiated separately (European Commission 2016).

The EU has 28 European countries listed as members of this political and economic partnership. The history of the EU dates back to the early 1950s when six European countries: Netherlands, Germany, France, Italy, Belgium, and Luxembourg formed the European Coal and Steel Community which was later renamed the European Atomic Energy Community. By 2004, another 22 countries joined the Union making it a total of 28 member countries. As of 2017, there are five European countries with candidate country status, namely, Albania, the FYROM, Montenegro, Serbia, and Turkey. Three of these countries, Montenegro, Serbia, and Turkey have started negotiations for accession to the EU while Albania and the FYROM are in the process pending completion of certain reforms, mainly justice reforms.

1.2 Albania as an EU Candidate Country

Along with other Western Balkan countries, Albania started its aspirations to join the EU in early 2000. The formal application for EU membership for Albania was submitted in 2009. However, the negotiation status could not be started as Albania had to undertake reforms and meet EU criteria in 12 key policy areas. The formal candidate status country was granted to Albania is 2014. According to the European Commission (2016) report on the progress made by Albania, the report states that Albania has made modest progress on the reform of its public administration. The report emphasizes the need for Albania in conducting change to ensure an efficient, depoliticized, and professional civil service.

A critical area of policy reform required for Albania to make progress and start negotiations is reform in Albania's judicial system. Albania has made progress on the law on the vetting of judges and prosecutors. The key problem in the Albanian justice system is the slow pace of justice administration and the prevalence of corruption across the Albanian judicial system. However, the report also states that Albania has made modest progress in the fight against corruption. The adoption of the law on whistle-blower protection and action was taken on cannabis plantations provides some evidence of reasonable progress in the fight against corruption. Albania has also made modest progress in developing a functioning market economy. Progress was also made in the fight against informality in the economy with an implementation of the law to check informality and penalizing businesses that encourage informality. Reforms in the electricity sector have also to some extent helped companies recover in the electricity generation and distribution sector. However, the financial sector in Albania is moderately weak as the banking sector, in particular, is crippled with nonperforming loans and slow credit.

Albania has shown continual progress in economic growth since gaining candidate country status. Albania's GDP growth was 1.8% in 2014 and 2.8% in 2015 and has been accelerating ever since. Foreign Direct Investment has increased in the last decade, and foreign exchange reserves have also grown significantly since acceptance of Albania as a candidate country.

1.3 Overview of SMEs in EU and Albania

One of the common methods of determining whether an enterprise can be categorized as an SME is by checking the three criteria, namely, the size of the firm regarding the number of employees, turnover, and the balance sheet total. For example, according to the European Commission (2016), if a firm has less than 250 employees and a turnover of fewer than 50 million euros or a balance sheet total less than 43 million euros, then the company can be categorized as a medium-sized business. If the company has less than 50 employees and a turnover of fewer than 10 million euros or a balance sheet total less than 10 million euros then the firm is categorized as a small-sized firm. If the firm has less than 10 employees and a turnover of fewer than 2 million euros or a balance sheet total of fewer than 2 million euros then the company is categorized as a microsized business.

However, these factors need not necessarily be the only factors to be considered while classifying firms as SMEs. For example, a firm may meet these criteria but might have larger access to resources because of links to a larger enterprise, then in such a case, the firm may not meet the criteria for identification as an SME. Apart from the categorization as either micro, small, or medium-sized firms, SMEs can also be classified into three categories (European Commission 2016), namely, autonomous, partner, and linked enterprise. Autonomous enterprises are either completely independent or have minority partnerships, often less than 25% of other enterprises (European Commission 2016). In partner enterprises, the holdings of other partner firms are in the range of 25–30% whereas, in the case of linked enterprises, the holdings of other enterprises are over 50% (European Commission 2016).

In the 28 countries that are part of the EU, SMEs formed 99.8% of all enterprises in the nonfinancial business sector and employed over 90 million people forming 67% of total employment (European Commission 2016). SMEs include microsized, small-sized, and medium-sized enterprises. 93% of the total SMEs in the EU countries were microsized companies. Most of the SMEs in the EU countries are centered in five key sectors, namely, manufacturing, construction, business services, food services, and retail trade.

2 Technological Innovation in SMEs

According to Bo and Quiyan (2012), SMEs have been the key source of technology innovation and transformation. Technological innovation in SMEs is essential for SMEs to be competitive. According to Sağa et al. (2016), innovation is a major driver for economic growth and improved standards of life and has benefits at both micro- and macrolevel for companies. At the microlevel, companies can achieve a sustainable competitive advantage and at a macrolevel, the companies can bring benefits for the company. Parrilli and Elola (2012) mention four different types of organizational profiles among SMEs operating in the EU, namely, traditional organizations, Taylorism, lean production, and discretionary learning. Apart from these, Parrilli and Elola (2012) also describe four types of innovation modes, namely, low learning, Science and Technology Innovation (STI) mode, innovation based on the learning by doing (DUI) model and the combination of both DUI and STI modes. In the STI mode, the drivers for innovation include human capital and research as well as development. The DUI approach emphasizes innovation by learning, doing, and using.

While SMEs are actively involved in technological innovation, most of the SMEs lack the complementary assets, including manufacturing facilities, distribution channels, and international contacts for exposure to the global market (Sağa et al. 2016). Technology acceptance is another challenge for SMEs seeking to introduce technological innovations into their existing business operations. According to Yu and Tao (2009), technology acceptance models can be applied to SMEs as the decision-making in most of the microsized and small-sized enterprises is quite similar to decision-making at the individual level. The decision-making at microsized and small-sized firms is mainly limited to a few key decision-makers because of the small size, hence the application of technology acceptance models, which largely explored technology acceptance at the individual level, is valid to these firms as well.

2.1 Discussion on Existing Technology Acceptance Models

Some of the prominent models that explored the behavioral intention of users in using technology include Innovation Diffusion Theory (IDT) (Rogers and Shoemaker 1971), Theory of Reasoned Action (TRA) (Fishbein and Ajzen 1975), Multi-Attribute Model Learning Theory (Onkvisit and Shaw 1994; Schiffman and Kanuk 1994), Theory of Planned Behavior (TPB) (Ajzen 1991), Task–Technology Fit (TTF) Model (Wu and Chen 2017), Combination of Models (Nysveen et al. 2005), TAM (Davis 1989), TAM2 (Venkatesh and Davis 2000), TAM3 (Venkatesh and Bala 2008), and UTAUT (Venkatesh et al. 2003). TAM is one of the widely used models for explaining the user's behavioral intention in using a technological innovation (Davis et al. 1989; King and He 2006; Mortenson and Vidgen 2016). The TAM model is based on five main elements, namely, perceived usefulness, perceived ease of use, attitude toward using, behavioral intention, and the actual system use (Zhao and Zhu 2010). Perceived usefulness refers to the individual's subjective assessment of new technology in a specific task-related context (Chen et al. 2017). The TAM model, which is primarily based on the TRA involves two key predictors, namely, the Perceived Ease of Use (EU) and the Perceived Usefulness (U) as well as a dependent variable, namely, Behavioral Intention (BI) (King and He 2006). The TRA emphasizes that the attitude of an individual has a social influence on behavior and the outcome of a person's behavior depends on the nature of one's behavior system (Chaczko and Alenazy 2014).

The TAM2 model evaluates the impacts of three interrelated social forces, namely, subjective norm, voluntariness, and image on an individual facing the choice of either accepting or rejecting a new system. According to Venkatesh and

Davis (2000), the subjective norm is defined as the perception of a person influenced by how the people important to the person perceive the new system. For example, if the people around the person view the new system favorably and have a positive outlook toward the new system then the person using the new system is likely to adopt the new technology. Subjective norm is also the direct determinant of behavioral intention in both TRA and TPB (Venkatesh and Davis 2000). While subjective norm had a significant influence in mandatory settings, the importance of subjective norm in voluntary settings cannot be ascertained. Voluntariness deals with the behavior of the user to accept a technology because of the belief of the user that the new technology will facilitate his work and is of benefit to the user. The image is the third force contributing to the user's technology acceptance behavior based on the social normative influence to maintain a favorable image within a reference group (Venkatesh and Davis 2000).

The extended technology acceptance model, also referred to as TAM2 (Venkatesh and Davis 2000), identified critical influence factors outside the two factors identified by TAM, namely, perceived usefulness and perceived ease of use. The external variable in this model involved social influence processes, such as subjective norm, voluntariness, and image as well as cognitive instrumental processes, such as output quality, job relevance, result demonstrability, and perceived ease of use (Tang and Chen 2011). TAM3 dealt with technology acceptance from a managerial viewpoint and focused on how managers can make informed decisions about interventions that can lead to greater acceptance and effective utilization of information technology. According to the findings of the TAM3 model (Venkatesh and Bala 2008), there are four determinants of perceived usefulness and perceived ease of use, including individual differences, social influence, facilitating conditions, and system characteristics (Tang and Chen 2011).

The TTF model is another model used for examining the impact of information technology on performance, usage impact, and also the match between task and technology characteristics (Wu and Chen 2017). This model is based on the underlying principle that task–technology fit can be achieved only when there is a balance and match between task and technology characteristics and this could either positively or negatively influence the performance of the user as well as the utilization of the technology by the user.

2.2 Technology Acceptance in SMEs

Information technology innovations provide organizations with the opportunity to improve performance and efficiency, but these gains could be adversely affected by the unwillingness of users to accept the new technological innovations. Several models were developed by researchers seeking to understand the factors influencing the technology acceptance behavior of individuals. The TAM (Davis 1989) is one of the most widely used and accepted technology acceptance models. SMEs, in particular, with their limited human, financial, and technological resources cannot afford any loss of performance or efficiency. Hence, understanding the factors that contribute to the acceptance or rejection of technology is quite important for organizational leaders in SMEs.

2.3 Limitations of Existing Technology Acceptance Models

There are several studies on information technology adoption but there are limited studies and research on the interventions that can lead to increased technology acceptance and the use of information technology (Venkatesh and Bala 2008). One of the limitations of the technology acceptance models, including TAM and UTAUT is that these models rely on voluntary environments where the users can decide on the usage of the system (Howard et al. 2017). However, in several cases, the settings are not necessarily voluntary and are mandatory whereby the users need to use the new information systems to perform their job function. In such situations, the user intention does not fundamentally affect the actual user behavior (Howard et al. 2017).

3 Challenges Faced by Albanian SMEs in the Context of EU Integration

Technological innovation includes interaction between corporate strategy, external market, and internal organization. Many factors influence the extent of technological innovation in SMEs, including human resources, behavioral, and development factors. One of the key problems with technology innovation in SMEs is the lack of sufficient capital and independent innovation staff (Bo and Quiyan 2012). This is particularly true for SMEs in transition as well as developing countries where SMEs often face limited technological and financial resources. As such, SMEs face some social and technical challenges in pursuit of technological innovation. According to Sağa et al. (2016), companies are facing increasing pressure to speed up their innovation processes because of an accelerated pace of innovation because of which companies are relying increasingly on knowledge and technology insourcing. Companies are facing several social and technical challenges because of changes in the innovation landscape. Acceptance of the introduction and implementation of new technology as a result of changing the political and economic climate and closer realization of integration with the EU is a key challenge for Albanian SMEs. In the context of European integration, Albanian SMEs have to be prepared for modernization and increased use of advanced technology to ready themselves for competing with their European counterparts. In such a case, SMEs need to be prepared for meeting the social and technical challenges associated with acceptance of new technologies by their workforce.

3.1 Social Challenges in Technology Acceptance

Strang and Vajjhala (2017) emphasize that in addition to the organizational cost of technology resistance, there is also an opportunity lost dimension. Addressing the social challenges in technology acceptance is quite important to address the issue of technology acceptance. Strang and Vajjhala (2017) applied the TAM3 model to study technology resistance in business students. They drew a small sample of supply chain management students ($N = 65$) to investigate if and why emerging entrepreneurs would resist technology. They explored if the TAM3 model could precisely predict technology resistance associated with a new learning management system (LMS). They acknowledged that there were only a few studies in the literature using TAM3 to examine technology resistance for an LMS in higher education, so their work was unique in that regard, although the sample was drawn from a developed country—the USA and not an EU transition nation. However, their analysis is applicable here. They used an a priori instrument to capture the TAM3 factors and they revalidated TAM3 for their sample (reporting Cronbach alpha reliabilities over 0.7). A unique aspect of their study was that they tested actual student behavior by capturing grade as the dependent variable in a TAM3 model. Their work illustrates that the TAM3 instrument works well with younger multicultural participants, and it may be used to predict actual performance. They could develop a statistically significant multiple regression model with a large effect size that required very few factors, yet they were able to capture 56% of the variance on BI and 49% of the variance in actual performance.

More specifically, Strang and Vajjhala (2017) found that emerging entrepreneur perceptions of behavioral intent predicted actual performance. This was a key tenet in the TAM3 model refined by Venkatesh and Bala (2008). Most researchers using TAM3 variations had found this relationship was significant in their models (Abadi et al. 2012; Al-Gahtani et al. 2007; Arpaci et al. 2015; Attuquayefio and Addo 2014; Gangwar et al. 2014; Lian 2015; Van der Schyff and Krauss 2014). Thus we would expect to see this type of result in a case study.

As with previous literature on TAM3 (Venkatesh et al. 2012; Viswanath and Davis 2000), Strang and Vajjhala (2017) determined that perceived usefulness (PU) predicted BI using multiple regression.

Although they did not find perceived resources (PR) were causally related to actual performance, they did observe through regression that BI could be forecasted from PR. Their regression model indicated that perceived ease of use (PEOU) was not related to BI but in regression, they found PEOU significantly impacted actual performance. They asserted that these were two contradictory findings: PU impacted BI but not actual performance yet PR and PEOU predicted actual performance but not BI. Their explanation was that supply chain management students in their sample held stronger initial beliefs that new mandatory LMS technology may not be useful (+PU predicting BI in correlation remembering that the responses were coded as low values were higher beliefs) and this was surpassed by having access to resources (–PR predicting performance) and it helped actual performance despite the students being frustrated with lack of intuitiveness (+PEOU on performance). The lack of intuitiveness (+PEOU) might be due to the LMS lesson structure in Moodle, which does not render well on the iPhone or other personal digital devices commonly used by the supply chain management students.

Another departure from previous literature was that Computer Self-Efficacy, Perceptions of External Control, and Computer Anxiety were not related to either BI or actual performance. This led them to conclude that these young American supply chain students were already confident with technology, they were not anxious, nor were there any lack of control issues. However, we feel the opposite would be likely with Albanian SME employees.

Another interesting finding that Strang and Vajjhala (2017) reported was that perceived enjoyment was strongly related to both BI and actual performance, although the perceptions were opposite between intention versus actual behavior. According to their paper, a multiple regression model revealed that lower perceptions of enjoyment were significantly linked to BI while strong perceptions of enjoyment predicted actual performance. They explained that this was the result of a younger generation of supply chain management students being hedonistic, meaning that they are pleasure seekers, and therefore form positive perceptions of enjoyment prior to and during performance. This larger positive feeling of enjoyment toward mandatory new technology may also account for the lack of any predictive feelings of anxiety, computer self-efficacy, or perceived control issues. Again, we do not believe this result would be likely to be observed from Albanian SME employees.

Strang and Vajjhala (2017) hypothesized that peer influence would impact BI and actual performance, but this did not manifest because the young supply chain management students did not appear to have been impacted by subjective norm pressure in terms of BI or actual performance. In a similar observation, Strang and Vajjhala (2017) determined that two other TAM3 factors were not related to BI or actual performance. Job relevance and output quality were not causally linked to BI or actual performance. They stated this was because the new online course technology environment was not clearly linked to a workplace setting, and therefore respondents did not see any job-related triggers, contrary to what was in the LMS. They also found that positive perceptions of voluntariness was causally related to BI through multiple regression tests and also it was positively related to actual performance based on hierarchical regression. This finding that young emerging American entrepreneurs had positive feelings of voluntariness was interesting because the LMS was mandatory technology. In Albania, many SME employees would view Information and Communication Technology (ICT) and software as mandatory so we feel this will be a relevant factor to consider in our case study. Strang and Vajjhala (2017) found that Results Demonstrability (RES) was causally related to BI from their multiple regression tests but it was not related to actual performance. They were puzzled about this finding. We believe RES would be a relevant factor for Albanian SME employees because results are highly desired for continued employment.

3.2 Method and Case Study

The authors propose to use the *a priori* TAM3 as adapted by Strang and Vajjhala (2017) to qualitatively analyze the CSFs that SMEs in Albania use to overcome the challenges of EU integration. We randomly selected 150 participants from SMEs and then we performed in-depth interviews using the TAM3 items as questions. These medium-sized enterprises were chosen from the four dominant categories representing economic activity in Albania, namely, construction, tourism, ICT, and food processing (Vajjhala and Rojba 2012). The data collected from a previous study by Vajjhala and Vucetic (2016) was used for this study. All the respondents are of Albanian nationality and could speak and understand English. The sample size of 150 participants is based on an 8% margin of error with a confidence level of 85%, and a response distribution of 78.5%. Once the interview results were reviewed (incomplete responses were discarded from this analysis), the final sample was 20 managers from 10 SMEs. Table 1 describes the demographic data and representation.

3.3 Technical Challenges in Technology Acceptance

SMEs face several barriers in adoption of information systems, including financial constraints, lack of strategic planning for information system adoption, and lack of in-house expertise in information systems (Ferneley and Bell 2006). Sağa et al. (2016) present open innovation as a possible logical solution for SMEs, which involves the use of purposive inflows and outflows of knowledge with the intention to accelerate internal innovation and expansion of markets for external use of innovation. Large enterprises have been taking advantage and implementing open innovation as part of their larger organizational innovation process. SMEs need to evaluate the effectiveness of implementation of open innovation as a means to meet the technical challenges associated with technology acceptance. For this reason, we

Table 1 Demographics

Category	Criteria	Representation of respondents (%)
Gender	Male	53.27
	Female	46.73
Age	20–30 years	35.05
	30–40 years	31.23
	40–50 years	22.32
	>50 years	11.40
Experience	1–5 years	24.53
	5–10 years	52.36
	>10 years	23.11

chose the TAM3 framework to guide our qualitative research because it is focused on identifying SME factors that challenge SME's such as adapting to new technology, strategic planning, knowledge creation, and financial health.

4 SME Technology Acceptance Framework—CSFs for Albanian SME Transition into the EU

We organized the qualitative interview data into a database of fields by TAM3 factor. For each TAM3 factor we identified positive responses to SME EU integration challenges (e.g., if the participant indicated their organization was overcoming the barrier) and negative coded factors (where the participant did not think their organization would meet the criterion). We tallied the positive responses to SME EU integration and identified those as the critical success factors, as summarized in Fig. 1 and discussed in more detail below.

The suggested SME Technology Acceptance Framework is for a combination of short-term, midterm, and long-term strategies. The short-term strategies include the establishment of training and workshops for users before initiating a technology change. Before the technology change is initiated, the users must be taken into confidence through a proper set of procedures where the users are informed about the new technology and the reasons for the changes. The information session should be followed by a set of workshops and training where the users are trained about the new technology. The organizational leaders of SMEs are responsible for ensuring that all these procedures for information distribution and training are properly in place before any changes in technology are implemented. The medium-term

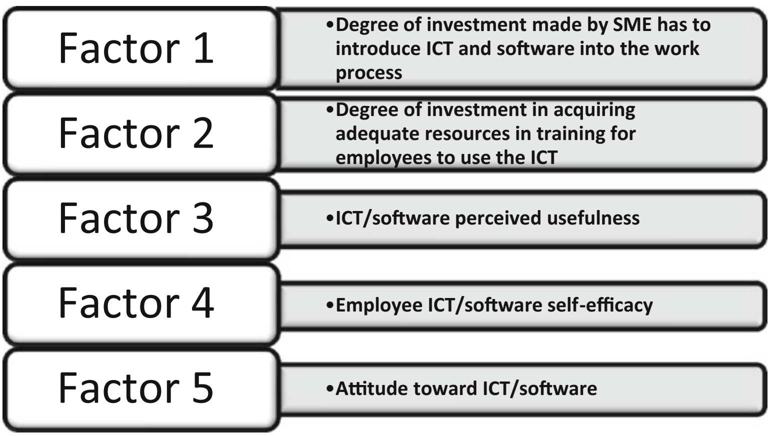

Fig. 1 CSFs in the proposed technology acceptance framework for Albanian SMEs (Source: Authors)

strategies include ensuring that technology changes are planned at different levels in the organization.

Well-structured staff development programs should be included into the short-term and medium-term strategies of an organization. Well-structured staff development programs provide an excellent insight into the individuals with negative attitudes toward technology use and also address key issues related to this negative attitude, such as time management issues, lack of confidence, lack of experience, and lack of incentive (Chaczko and Alenazy 2014). Any changes should be based on feedback from users from previous technology changes. Any changes in existing technology because of organizational needs or emergence of new technology should be planned, and the inputs from different stakeholders should be properly considered. Long-term strategies need to include supportive and persuasive policies that are developed in consultation with the stakeholders who are likely to be impacted by the change. The proposed SME Technology Acceptance Framework is illustrated in Fig. 1. The proposed framework is a combination of five CSFs as identified by the qualitative analysis of the data.

Table 2 describes the results of the qualitative best-practice analysis. Figure 1 illustrates the CSFs of emerging country EU transition. The first CSF identified as a result of the qualitative analysis of the collected data is the degree of investment made by the SME to introduce ICT and software into the work processes. This investment has to be made in a gradual fashion by involving the stakeholders at every step and also training the staff members so that they are prepared to use the software. As the technology acceptance models emphasize, the acceptance of users

Table 2 CSF analysis: Albanian SME transition to the EU

Main types of software employed	Proportion of use (%)
Basic communications—telephone line, mobile phone, fax, etc.	95
Basic information technology—email, MS Office, etc.	98.78
Advanced communications, email, video conferencing, file sharing, websites, etc.	80
Structured technology, intranet, file servers, common database	76.50
Outward technology, e-commerce, e-support	82
Advanced IT, Inventory Management, Customer Relationship Management Systems	64.50
Enterprise Resource Planning, Knowledge Management Systems (KMS)	42
Primary software strategies	
Data entry	98
Communicating and sharing information	85
Producing and editing documents	88
Workflow management	72
Secondary software strategies	
Report generation	78
Institution decision-making	68
Institution projections	65

can be voluntary or be influenced because it is mandatory. Investing in technology, gradually but considerably in planned fashion into the work processes is quite essential for SMEs to minimize the impact of resistance to acceptance of the new technology.

The second CSF deals with the degree of investment made by the SME in acquiring adequate training resources for employees to use the ICT. Training employees is quite critical to ensure that employees adopt a positive attitude in using and accepting new technology. The cost of training might be a key reason why the organizational leadership of some of the SMEs might hesitate to invest significantly. However, the initial costs of training will be offset by the benefits of increased user acceptance in using the new technology. Hence, the organizational leadership of SMEs should consider investing in acquiring resources to train the users in using the new technology. The training of employees needs to be integrated gradually and the users should be given adequate time to assimilate the contents of the training, and their feedback should be incorporated into future training sessions.

The third CSF is the perceived usefulness as perceived by users of the new technology. The perceived usefulness is the degree to which the users of the new technology find the new technology making it easier for them to complete their work-related tasks. This is supplemented by the second CSF as users can appreciate the features of the new technology only after they complete the training.

After the training, the users will understand how the new technology can help them in the work-related tasks. For the users to perceive the new technology as being helpful to complete their work-related tasks, the requirements and expectations of the users should be addressed. The users of the new technology should be included in the process of change from the beginning of the process, starting from the collection of user requirements. The users of the new technology are the main stakeholders in the process of implementation of the new technology; hence they should be included from the start of the process. In this way, the users are likely to have a positive perception of the usefulness of the new technology in simplifying their work-related tasks.

The fourth CSF is the employee ICT/software self-efficacy reflecting the ability of the employees to use the new technology or software. This CSF is one of the direct results of the second CSF related to training of the employees as well as the third CSF associated with the perceived usefulness as perceived by the users of the new technology. The users of the new technology need to be trained and provided the skills required to use the new technology effectively. Users can be easily frustrated with the new technology if they do not have the required skills to use the new technology. Even if the users perceive the new technology favorably as they understand that the new technology will simplify their work-related tasks, the inability to use the new technology effectively could have an adverse impact on the acceptance and use of the new technology.

The last CSF is the attitude of the users to the new ICT or software. This factor deals with how the users cope with the transition from the use of the old ICT or software to the new implementation. The attitude of the users is likely to be influenced by the organizational culture and the way the organization prepares the users to handle these changes. If the organizational culture promotes inclusiveness and considers the users as key stakeholders in major changes in technology, then the user behavior and attitude to the use of the new technology is likely to be positive. A positive organizational climate is essential to promote positive user attitude to utilization and acceptance of new technology.

5 Conclusion

In this study we investigated the key sociotechnical challenges that Albanian SMEs face during their transition into EU integration. We used an a priori model—TAM3—to guide in-depth interviews with 20 managers working in 10 medium-sized enterprises in Albania across four different industries. Our goal was to identify how SMEs were overcoming the factors of adapting to new technology and other socio-economic challenges. We then summarized the most important factors that the managers identified for overcoming the challenge associated with transitioning into the EU system. Albania was selected as our case study because they recently achieved candidate country status and are progressing toward final EU integration.

After analyzing the interview data we identified five critical success factors that the Albanian managers felt were important for transitioning into the EU system. The first CSF was the degree of investment made by the SME to introduce information and communication technology and software into the work processes. The second CSF was the degree of investment made by the SME to acquire adequate resources to train their employees to use technology. The third CSF was the perceived usefulness of the new technology by employees. The fourth CSF was the level of employee self-efficacy (confidence) in using new technology. The final CSF was the openness attitude of employees towards using new technology.

Investment in new technology is an integral part of the growth and development of SMEs. Technological innovation is essential for SMEs to remain competitive and compete with their international counterparts. As Albania is progressing toward European integration, Albanian SMEs need to adopt technological innovation to stay competitive. However, Albanian SMEs are likely to face barriers in the form of resistance to the acceptance and use of new technology. Albanian SMEs cannot afford resistance to acceptance and use of new technology as they have limited financial and human resources. The CSFs identified in this study will help organizational leaders of SMEs prepare for technological innovation. The CSFs identified in this study shall provide the organizational leadership in successfully implementing new technology. This study is limited by the representation of only four sectors and does not include all the sectors of SMEs. The factors influencing the use and acceptance of new technology may vary in other sectors depending on the way technology is used. Future research into this area could include identifying the behavioral aspects that influence the acceptance of new technology. In particular, researchers need to examine the influence of national and organizational culture in the way users perceive changes in the technology. Future research could also explore proper training strategies that would be helpful in implementing new technology.

Questions and Activities

1. In small groups, discuss whether why a country should join the EU.
2. Why would regulations increase when a country joins an international trade union system?
3. What is Behavioral Intent in terms of psychology or research?
4. What would be a useful situation to apply the Innovation Diffusion Theory?
5. What is the difference between Perceived Ease of Use and Perceived Usefulness in TAM (or its variations of TAM2, TAM3)?
6. Are most organizations in Albania larger than 50 employees? How does this impact the economy?
7. That is the difference between the Theory of Reasoned Action and Theory of Planned Behavior? Does it concern additional factors such as perceived control?
8. Who pays for the cost of joining the EU? How is the money raised or created?
9. What is the common language of the EU?
10. Discuss how national culture of a transition economy like Albania impacts the integration into the EU.
11. What were the five critical success factors identified by authors that improve the ability of a country like Albania to transition into the EU?

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From Successful SMEs to Entrepreneurial Society and the Importance of the Entrepreneurial Mindset

Lavinia Rasca, Alecxandrina Deaconu, and Sheb True

Abstract The entrepreneurial activity has been recognized as a major source of jobs and economic development. Most people who start and grow their own businesses around the world are opportunity motivated. Others are motivated by the necessity to earn their living, when leaders of downsizing corporations replace them with technology and lay them off, in their attempt to increase efficiency. On the other hand, the entrepreneurial competence is crucial for corporate competitive advantage. Intrapreneurship is a key factor of innovation. The entrepreneurial society represents the hope of moving economy from stagnation to prosperity. This chapter aims to explain what such a society is, why it is so important to mankind, and how it can be created.

The key points of the chapter are the following ones:

1. Define SMEs as drivers of the economic growth;
2. Uncover the factors that lead to the success of SMEs in general, and in Romania;
3. Define intrapreneurship, a source of innovation, and of corporate advantage, as well as the risks, barriers, and some solutions in fostering it;
4. Describe the characteristics and the importance of the entrepreneurial society, which represents, in the view of researchers, academia, and practitioners, a hope for moving economy towards prosperity;
5. Outline entrepreneurial mindset and its importance, and settle some possible ways to enhance the entrepreneurial mindset and capacity.

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1 Introduction

For many years, Entrepreneurship was considered to represent the creation of startups with a big potential to grow.

Howard Stevenson and Carlos Jarrillo (1990) defined entrepreneurship as being the pursuit of opportunity without regard to resources currently controlled. In the view of this definition which is widely recognized by academia, researchers, and practitioners, entrepreneurship is a process that can be present in any type of organization, despite its size and field of activity; not only in very dynamic start-ups, but also in less dynamic small and medium sized companies (SMEs), in corporations, and in NGOs.

In a world characterized by the acceleration of change, by complexity, and uncertainty, the employee mindset of going at work to do the tasks predefined by leaders has to be replaced with the entrepreneurial mindset. The entrepreneurial mindset means that people should focus on innovation and on identifying new opportunities, taking the risks and the ownership required to pursue these opportunities.

More and more people consider entrepreneurship as a choice for their career. Millennials want to have an impact, to work with passion, and to innovate—statistics show that 40–50% of the students entering in the USA will be self-employed or will freelance at some point in their career (Kane 2016). In addition, more and more leaders aim at transforming large organizations to be more entrepreneurial.

Because entrepreneurship represents an engine of global economic development, the need for creating entrepreneurs and organizations with an entrepreneurial mindset, as well as a desire to move toward an entrepreneurial society is more urgent than ever before. This goal is worthwhile and attainable, so it is important to know and understand how to enhance the entrepreneurial mindset and capacity.

2 SMEs: Drivers of the Global Economic Growth

2.1 Definition and Importance of SMEs

Definition The definitions of SMEs are different from a part of the world to another. Since 2006, Romanian law has set maximum limits in accordance with the requirements of the European Commission: 250 employees, net sales of maximum 50 million euros, and net assets of maximum 43 million euros. In the United States, the Small Business Administration sets limits based on industry, ownership structure, revenue and number of employees, which in some circumstances may be as high as 1500, but typically 500 (Summary of Size Standards by Industry Sector 2016).

Importance In a period when corporations downsize, the SME sector is extremely important and should be encouraged, since it has a big contribution to job creation. The success of corporations in today’s world requires improved efficiency and more value delivered to shareholders. These demands can be met by the rapidly improving technology that is available, but often at the expense of lost jobs. Consequently, unemployment and related societal problems increase. That is why job creation is now the real challenge of the world. Entrepreneurs who start and grow businesses to meet customers' needs and hire people represent an answer to this challenge. 95% of global enterprises are SMEs and they supply 60% of the private sector jobs. In Romania, 2.5 million people work in SMEs. In the last 8 years, the contribution of SMEs in terms of sales and profit has increased as well (Medrega and Anghel 2016).

To fully unlock the potential of the SMEs sector in the world, there is still work to be done, since they face a lot of challenges. In the USA, the rate of new business formation has fallen by 50% since 1978 and globally, more than 90% of the companies fail in less than 3 years (Denning 2016). Romania has 30 SMEs, which is a low number relative to the size of the population when compared to the average number of SMEs that are registered in The European Union, 54 (Medrega and Anghel 2016).

2.2 The Success of SMEs

Definition of SMEs Success Researchers focusing on entrepreneurship and SMEs performance did not reach a consensus in defining the success of SMEs. A company's success in the market is usually associated with performance—the ability to create good actions and outcomes—but some authors acknowledge that SMEs' success should be defined by *intrinsic characteristics*, and *extrinsic characteristics* (Paige and Littrell 2002).

The intrinsic characteristics of successful SMEs are related to the entrepreneur's sense of fulfillment: the sense of being own boss, of being able to follow own passion, and control personal future, of achieving personal goals, of personal development.

The extrinsic characteristics of successful SMEs are, among others, growth in sales, financial returns, number of employees, personal income and wealth of stakeholders. There are debates about profit being a characteristic of success or performance of young businesses. Despite the fact that sales increase, some may have losses in the first years of operations because of the high bargaining power of suppliers and of high costs. Usually, those who want to start own businesses assume a period of losses. Perrez and Canino (2009) claim that a startup can be assessed in positive way if it obtains awareness and reputation and increases its target market.

SMEs Key Factors of Success The success of SMEs is influenced by:

1. *factors referring to entrepreneur's characteristics and capabilities* (*internal factors*), and by
2. *factors related to the external environment of the company*, beyond the control of the entrepreneur (*external factors*) (Rogoff et al. 2004).

1. *SMEs success factors related to the entrepreneur's characteristics and capabilities (internal factors).* Two competencies that lead to the success of SMEs and

that are related to entrepreneurs are: a) *the entrepreneurial competence* and b) *the management competence*. The former is important when the business is small and the entrepreneur has a critical role in management (Capaldo et al. 2004). The latter is particularly important in supporting business growth. *Entrepreneurial competence* is more about their behavior, while *managerial competence* is more about what they should be able to do (Ruth 2006).

a. *The entrepreneurial competence* allows the entrepreneur to observe, evaluate and pursue the best opportunity, and to secure resources in order to launch the business. In the process of starting the business, the entrepreneur: *is driven by certain entrepreneurial motivators*, *is willing to take risks,* and *has the talent and commitment to overcome the challenges in business development*.

   The entrepreneurial motivators are mainly: the need for freedom, which is the desire to decide one's, own goals, methods, and time schedule; the need to increase personal wealth, which leads the entrepreneur to an increased ambition to grow the business and drives innovation in the company; and the necessity which appears when there is a threat of unemployment (Gelderen et al. 2003).

   The willingness to take risks: Entrepreneurs are willing to take more risks than managers, according to the definition of entrepreneurship and to everyday observations. They usually operate in a more uncertain environment and pursue opportunities without regard of resources controlled (Stevenson and Jarrillo 1990). However, the risk they take is calculated. The main risks they face are: growth and change, human resources issues, sales and market development, strategy and business planning, strategies implementation, leadership skills, economic conditions, competitiveness, cash, capital and taxation. Most researchers agree that challenges change as companies grow and move from one step of business development to another.

   Talent and commitment to overcome challenges. Entrepreneurs are inclined and able to overcome challenges, due to their personal background, including family experience, or previous business experience; however, people can acquire and improve appropriate competencies through training, education, coaching, mentoring (Gelderen et al. 2003).
b. *The management competence* is related to formulating superior strategies that fit the venture, to good quality of strategy execution and change, and to innovation for its sustainability and growth. Goltz (2011) suggested that the lack of management skills of the entrepreneur, especially the ones needed in business development (vision, planning, operations, accounting), prevents SMEs success. Business model canvas and business plan are key tools of acquiring the needed resources, and for good execution; however, a critical reason for which SMEs fail shortly after start up is typically related to managerial problems, especially in relation to planning the business development. There is evidence that developing management skills of entrepreneurs contribute to profitability and growth.

2. *SMEs success factors related to the external environment (external factors).* Global Entrepreneurship Monitor, the largest global survey on Entrepreneurship,

using, since 1999, standardized tools to collect data, showed that the new business creation is influenced by the following factors related to the external environment: the availability of financial resources; the existence of public policies supporting entrepreneurship; the presence and quality of governmental programs; the existence and quality of entrepreneurial education and training at all levels; the extent to which research and development create opportunities accessible to SMEs; the presence of property rights, commercial, accounting, and other legal and assessment services and institutions that promote SMEs; the level of market changes year after year and the freedom of new firms to enter the market; ease of SMEs access to resources through communication, utilities, transportation, land or space; social and cultural norms that encourage the actions of SMEs. Experts from developed economies, like those in North America and the EU, usually score higher on these conditions than the ones in less developed regions. In 2014, according to this survey, the best-evaluated component was infrastructure, and the lowest evaluation corresponded to primary and secondary education, government policies and access to finances.

2.3 Key Success Factors of Romanian SMEs

The authors paid a constant attention to Romanian entrepreneurs and SMEs, and monitored the trends in this field. In order to better understand the dynamics of the issues related to the SMEs success, in 2006, and in 2016, they sent the same questionnaires with 28 questions to similar samples of Romanian respondents. The samples met the following criteria: different fields of activity, different size, more than 5 years of activity, doing business in various regions of Romania and abroad. The questionnaire aimed at highlighting the factors that stimulate the launch and growth of SMEs. Twelve questions were related to the internal factors of success, ten to external factors, and six were about some of their socio-demographic characteristics. For each question, the respondent had one or more answers, placed on a four level Likert scale (1—totally disagree, to 4—totally agree). We received 180 filled in questionnaires in 2006, and 169 in 2016.

We also conducted semi-structured interviews with successful Romanian entrepreneurs, in order to find out which factors enabled their success. In 2006, a common project conducted together with Kennesaw State University Coles College of Business, in Atlanta, allowed us to send the same questionnaires to American entrepreneurs with the same characteristics, and to receive 171 filled in. In all the cases, the response rate was bigger than 60%. We present bellow some relevant conclusions of our research.

a) *Key success factors of Romanian SMEs related to the entrepreneur*. Most of the Romanian entrepreneurs believe that their businesses are successful if they lead to the achievement of their personal goals. Taking calculated risk is considered very important for success. 83.4% of Romanian respondents, fewer than the 90.2% of the American ones, reported this in 2006. In 2016, compared to 2006, fewer Romanian respondents considered risk-taking propensity to be

Table 1 Factors of SMEs success in Romania (%)

Topic—what is important for success of SMEs	2006	2016
Achievement of personal goals	87.3	88.7
Calculated risk taking	83.4	73.9
Talent and commitment in marshaling resources	74.8	78.1
Business planning	68.6	79.2
Management competence	93.3	97
Previous experience in marketing, sales, management, communication	55.4	86.9
Expertize in international markets	9	44.9
Expertize in research and development	11	48.5

important, while more of them believed that talent and commitment to managing resources, business planning, management competence, previous experience, expertise in research and development, and in international markets were important. More respondents (86% in 2016 compared with 65% in 2006) reported that strong competition is an important challenge in business growth. So, entrepreneurs were aware that they needed increased competence in order to cope with more experienced companies. However, this lower percentage of entrepreneurs with risk propensity might have a negative impact on starting new ventures. The results of the surveys performed in Romania in 2006 and in 2016 are presented in Table 1.

b) *Key success factors of Romanian SMEs related to the external environment.* Since 2013, EY Romania Business Passport has been one of the most important surveys on Romanian entrepreneurship. In 2016, the survey analyzed the answers of 350 entrepreneurs. 45% of them manage businesses with sales higher than 10 million euros, 45% manage businesses with sales in the interval 1–10 million euros, and 10% businesses with sales lower than 1 million. 73% of the respondents were older than 40 years, and only 1% younger than 29 years. So, they represent a mature sample.

The 2016 Business Passport shows positive trends in entrepreneurship in Romania, compared to the conditions of 2015. In 2016, 66% of the Romanian entrepreneurs believed that in 10 years from now the Romanian business environment would be favorable for entrepreneurship, while in 2015 only 55% believed this; only 5% of the entrepreneurs were pessimistic about their future compared with 19% in 2015. 62% of the respondents considered that the access to financing improved in the last year. 40% of them declared that they would take bank loans in the following 12 months.

Among the multitude of external factors cited by the literature as influencing the SMEs success, we have identified the following six external environmental factors as the most important in determining SMEs success, in Romania: *the regulatory environment, taxation, access to financing, access to skilled labor force, support for innovation, and business opportunities available to SMEs* (Rizea 2016).

3 Intrapreneurship in a Dynamic Society

3.1 Definition and Importance

Definition The concept of internal entrepreneurship refers to the creation of new business ventures within existing organizations. This concept is identified in the literature by several labels, such as corporate entrepreneurship, internal venturing, strategic entrepreneurship and intrapreneurship. While their definitions may vary a little, the central theme among them all is that the diversification of processes, transforming ideas, risk taking, venturing new business units, strategic renewal, new markets and generating new products or technologies (Ackerman and Kern 2013) can be summarized as a task for firms to create innovations (McFadzean et al. 2005). Therefore, for the purposes of this chapter the more common term, intrapreneurship, will be used. As such, an intrapreneur can be described as someone who pursues entrepreneurial activities within a large corporation. He or she isn't the owner, yet assumes both the responsibility and risk for innovative new ideas. Intrapreneurs are capable of creating, identifying and exploiting new opportunities that provide value for the firm.

Importance As mentioned previously in this chapter, there is a call for large organizations to become more entrepreneurial. The motivation for this transformation is very complex. One reason for this is that corporations, after cutting the costs to achieve operational effectiveness, need to focus on strategic growth. They need to launch and sustain new businesses, in order to complement and even replace the maturing technologies and aging portfolio of products and services. In addition, companies compete for hiring talented employees, who are scarce and in great demand. Such good people want to have the opportunity to build new ventures, and chose the employers that make this possible. However, the most important reason is the companies' need to survive and be competitive in an increasingly competitive global environment. İn this changing marketplace, the conventional thinking that trapped leaders in corporations resulted in lost competitive advantage. So, embracing innovation becomes crucial, and innovation requires unconventional thinking and pursuit of a intrapreneurship mentality.

Intrapreneurial activities have been shown to have an overall positive influence on the performance of firms (Bierwerth et al. 2015). Organizations that have embraced intrapreneurship have achieved higher financial returns, increased productivity, more innovation and higher levels of employee engagement. Classic examples of successful intrapreneurial ventures in the U.S.A. include the Skunk Works project at Lockheed Martin which resulted in many innovative aircraft designs, and the development of the revolutionary Macintosh computer at Apple, as well as Post-It Notes by 3M, Saturn by General Motors, Java programing language by Sun Microsystems, Digital Light Processing technology at Texas Instruments, and Gmail and driverless cars at Google (Deeb 2015).

3.2 Risks, Barriers and Solutions

Risks, and Barriers Intrapreneurship is often risky. New ventures launched in corporations face many barriers and many times they fail. Many established organizations still prefer to exploit existing business models, and to achieve quarterly targeted returns through financial engineering, rather than to explore in search of new opportunities.

One reason for corporate inclination to focus on existing business models is the pressure put by capital markets. Capital markets care more about meeting quarterly targets than about what the companies' products and services are, and how they build long lasting relations with customers. Consequently, corporations lack a coherent approach to innovation, and only 20% of R&D has any value (Denning 2016).

Another reason consists in people's characteristics. In corporations, there are still leaders who worry about the fine line between entrepreneurship and insubordination. There are also employees who, despite the incentives provided by leaders for change and innovation, are reluctant to improving their competencies, and suppress new ideas that need new skills. Maintaining barriers to intrapreneurship can be explained by the fact that it is usually difficult to deal with it. Many mavericks persist in defending bad ideas and resist negative answers. A pressure to create too many new businesses is too big, the financial, strategic, and operating discipline are in danger, leading to downfall, and even to economic disasters. The classic example of this kind is Enron.

A third reason is that established businesses provide higher financial return. That is why corporate budgeting favors them and new business are therefore difficult to finance, mostly in difficult times, when they are the first to face cuts of funds. Corporate HR systems are also in favor of established businesses. Those executives displaying operational skills, needed in the mature businesses of corporation, rather than the strategic and entrepreneurial ones, that the new businesses require, are hired and developed.

Some Solutions Long-term success in the globally competitive marketplace is dependent upon a company's ability to change and grow to keep up with the ever-increasing demands of their current and potential consumers, for new and better products that serve their known and unknown desires and needs.

Large corporations have to devote serious attention to combining robust capabilities for exploiting the existing business models with new ones, meant to explore and pursue new businesses. Leaders who want intrapreneurship to flourish have to commit time and resources in order to build a balanced organization. The organization's leadership must take responsibility for setting the tone, and must create and promote a strong cooperative and creative culture that encourages and supports innovation, enabling employees to think outside the box, develop innovative ideas to push the company forward and enables personal growth.

A very important condition toward establishing such an organizational culture is to have the right people, with talent and passion to innovate. A new type of leader is required: those who possess the entrepreneurial spirit themselves, and who understand the critical need to leverage the entrepreneurial spirit of the employees. It is also necessary to have employees focused on driving change and new business, along with those more process-oriented, who work hard to avoid mistakes. In such a way, operational experience and invention will be balanced. Towards these ends, the representatives of the HR function should identify entrepreneurial-minded people: curious, having an ownership mentality, as well as the ability to take calculated risks.

Another condition for creating an intrapreneurial culture in corporations is to motivate employees by rewarding good ideas. Schemes with a wide variety of rewards and recognition encourage innovation. At Google, for instance, developers are not only rewarded financially, but also appreciated by peers for their ideas. Social recognition on platforms represents another motivation scheme that allows colleagues to praise performers online. Recognition of innovative thinking at staff meetings has also a positive impact. Recognition is not enough, employees have to be asked and supported to think through the whole cycle of a suggestion—from the initial idea to its end product.

Also, a condition for building the entrepreneurial corporate culture is to develop employees by exposing them to training, mentoring, coaching. Being better equipped with knowledge and skills, they have more desire and courage to think forward. Also, it is important to encourage them to learn from mistakes, and to ask the right questions.

Last but not least, employees should be allowed to try and fail. This isn't easy, as most leaders in corporation believe they don't have much space for this. They should know that an even greater risk is not innovating at all. A trial and error culture, recognizing that corporate entrepreneurs won't necessarily get right the first time, encourages intrapreneurship. However, in order to avoid never-ending experimentation, open-minded opportunism has to be combined with disciplined planning (Garvin and Levesque 2006).

4 The Transition to an Entrepreneurial Society

4.1 Definition and Importance of the Entrepreneurial Society

Definition The entrepreneurial society is the one in which innovation and entrepreneurship are normal, steady, and continuous, work transitions from bureaucratic practices, management focuses on innovation and new opportunities, generating an entrepreneurial spirit throughout entire organizations. This transition will represent a turning point in human history (Drucker 1985).

Importance After 31 years, Drucker's predictions (1985) were only partially achieved. The entrepreneurial activity, has become popular, applauded by politicians and regarded by the new generations with enthusiasm and hope for a more interesting and prosperous life. As mentioned earlier, entrepreneurship is widely considered as being a source of economic development, and labor opportunities.

Free agents in the form of contractors, freelancers and self-employed workers proliferate. Within more large organizations, leaders started to empower the innovative potential of workers, encouraging a new mindset of ownership, responsibility and autonomy. As a rule, rather as an exception, jobs and careers change quickly from employed to independent roles and the other way around. Driving forces as new demographics, globalization, and quick advances in information technology and communication enable the transition from the employee society to the entrepreneurial society. New technologies, as well as social changes from hostility to acceptance of entrepreneurship open opportunities for those who want to start and grow their businesses (Deeb 2015).

4.2 Risks, Barriers and Solutions in the Way of an Entrepreneurial Society

Risks, and Barriers Despite all the developments presented earlier, the way leading to Drucker's vision (1985) is still very long.

First of all, as mentioned before, there is a decline in SMEs success. Their birth rates decrease, for different reasons. Many people are reluctant to leave safe and well paid jobs, even when they are not satisfied, or totally satisfied with their employers. Some of them are afraid that they will fail in their entrepreneurial venture and they will not find another employment opportunity, in the present difficult labor market. So, many times, people pursue entrepreneurial opportunities only when they are laid off. Others are afraid that they might lose the respect of community, or family members, if they fail.

Meanwhile, making the shift from SMEs to dynamic gazelles is still a challenge (Straub 2016), and this represents another reason of the decline in SMEs success. Many businesses that were launched in hope for fast-growth remain marginal, or they even fail. External factors might be considered responsible; however, the lack of entrepreneurial competence and managerial competence are very important for SMEs stagnation or death.

Failure in large corporations to embrace innovation and intrapreneurship represents another reason for which the brilliant vision of Peter Drucker has not generally happened. Many large corporations are slow to change bureaucracy for innovation and intrapreneurship. Innovation is more focused on cutting cost than on creating new products and business models. In big organizations, to be a promoter of innovation is sometimes dangerous for the own career.

Some Possible Solutions In order to unleash the entrepreneurial potential within people and corporations, some solutions for smoothing the path toward the entrepreneurial society should be formulated. Of course, a better access to financing start-ups and innovation, and assistance in the form of incubators and accelerators are the first that come to people's mind. Nevertheless, developing an entrepreneurial mindset is a very important factor in the transition to an entrepreneurial society.

4.3 Developing the Entrepreneurial Mindset

Entrepreneurial minded persons are passionate, dedicated, optimistic. They are never satisfied with status quo, so they take action in order to address opportunities, rather than over analyzing situations, and waiting for permission. They are ambitious and willing to do whatever it takes to succeed, take calculated risks, and focusing on what it matters. They know how to use own resources and how to secure those they lack, and they pay attention to cash flow. They are confident that their investment in time and money will pay-off. They love challenge, welcome change, and know how to listen. They do not strive to please everybody—being rejected motivates them to work harder (Turner 2015).

Success requires an entrepreneurial mindset in all the parts of the entrepreneurial society. Entrepreneurial mindset is important to succeed personally and professionally. It applies in many contexts: in starting and growing SMEs, in NGOs, governmental bodies, in corporations, etc. It applies to everyone: employees in large corporations, to community organizers, academics, inventors, doctors, lawyers, politicians, musicians, public servants, and so on.

Social changes from hostility to general acceptance of entrepreneurship within each business community and worldwide is of crucial importance. In such way, the fear of failure and lost respect would decrease. Media, schools, successful entrepreneurs, entrepreneurial networks, praise and recognition of entrepreneurial and intrapreneurial success and contributions are of great importance.

Education, training, and mentoring have to be designed and organized in such a way that they contribute to the development the entrepreneurial mindset. Entrepreneurial competencies, as well as the closely related leadership and management ones need to be developed by organizing a variety of programs, at different levels of expertize. These include: self-direction, flexibility and adaptability, risk taking, talent to innovate, critical thinking, and problem solving. People should be taught to see opportunities, marshal resources, and create value. Entrepreneurial mindset must be practiced to be developed, the learning process has to be experiential.

5 Conclusions

The search for solutions to support a more certain, interesting, and rewarding working life of people, as well as the need for economic growth and wealth represent big concerns for academia, consultants, and leaders. More voices plead for the need to develop the entrepreneurial society, as a solution to these desires. Successful SMEs, an entrepreneurial culture in big companies, and people with and entrepreneurial mindset in all organizations represent parts of this solution. In this chapter, we aimed to present characteristics, importance, barriers to be overcome, and some solutions for problems encountered in these parts. Toward this end, we reviewed literature, and performed quantitative, and qualitative research.

We explained the importance of SMEs, that create value for customers and owners, provide working places and better leaving standards both in the developed and in developing economies, as well as in cities and in rural areas. Successful SMEs give entrepreneurs the sense of fulfillment—for instance the sense of being their own boss, of following their own passion, controlling their future, achieving their own goals, of personal development. Among other characteristics, successful SMEs grow in sales, in financial returns, and number of employees. Stakeholders' personal income and wealth do the same. In launching and developing successful SMEs, entrepreneurs need *entrepreneurial competence* (motivation, willingness to take risks, talent and commitment to overcome challenges), and *management competence* (to formulate, execute, and change strategies, to innovate, etc.). The external environment influences SMEs success, as well.

Intrapreneurship, defined as creating new businesses in large organizations, positively impacts firms' innovation and competitive advantage, in the present complex society. As such, we described some conditions for unleashing the entrepreneurial spirit in corporations: combined capabilities—those required by traditional business models and those required by the entrepreneurial ones; a new type of leaders, and a new type of HR function, that promote a culture of innovation and change; motivation systems that allow people to think outside the box, and to be entrepreneurial.

In the entrepreneurial culture, leaders know to combine trial and error with disciplined planning.

The entrepreneurial society is the one in which innovation and entrepreneurship are regarded as normal processes. In the last part of this chapter, we defined the entrepreneurial society, presented its importance, as well as barriers, risks, and some solutions for achieving it. The vision for such a society was developed by Peter Drucker back in 1985, however it is only partly achieved. Among the barriers in the way are the lack of necessary competence, and the bureaucracy that hinders innovation and change. Social support, financing, education, training, and mentoring, as well as the development of the entrepreneurial mindset might be some solutions to overcome them.

Taking into consideration the aspects developed, this chapter might be of interest for current and potential entrepreneurs, including students, for business schools, and training companies, as well as for governmental bodies, in Romania and abroad.

Questions

1. Increasingly, entrepreneurship becomes more important around the world. Why do you think this is the case? Please write a brief report on this topic.
2. Please study the General Entrepreneurship Monitor, and present the key insights it provides about entrepreneurship.
3. What competencies are necessary in order to launch and grow SMEs? Could they be developed? How? Please write a brief report on this topic.
4. If you launch your own business, how will you know that it is successful? Write a brief report on this topic.

5. Would you prefer to be entrepreneurial in a small business, eventually your own, or in a large corporation? Please explain why, in a brief essay.
6. Why would the entrepreneurial society represent a solution for a better, wealthier life? How can the entrepreneurial mindset contribute to the development of the entrepreneurial society? Please, write a brief essay on this topic.
7. Make a list of 10 successful entrepreneurs; explain why you admire them and what you learned from them? Please write a brief report on this topic.
8. A college student asks for your advice. He wants to start an internet-based company that will help high school students to prepare for college entrance exams. A friend who showed his interest to invest in this venture asked him to distance himself from the college before to start the business, in order to have time to devote to this opportunity. What would you tell him to do?
9. A friend of yours is a manager in a big corporation. He is paid well, so he has a good living and he saved 50,000 euros. He likes his job, but he has ideas for new products and the company is not interested. He would like to leave the corporation and to start his own business, but he is not sure that he has what it takes to be successful. What would you tell him if he asks you whether to leave the corporation or not?
10. Make an argument that entrepreneurship is a very important topic and that more entrepreneurship courses should be taught throughout the college curriculum. Write a brief report on this topic.

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The Creative Economy in Romania, a Key Factor of Economic Integration in the European Union

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Abstract The past decades have witnessed the emergence and development of creative economies all over the world. As an impressive transformative force and one of the most rapidly growing economic sectors in today's globalized economy, the creative economy promotes human development, social inclusion, and cultural diversity, stimulates entrepreneurship, attracts a high-quality workforce, and constitutes a pathway to economic success in terms of income generation, job creation and export earnings. The aims of our chapter are to define the concept of creative economy and to analyse the evolution of the Romanian creative economy in the period 2001–2014. In this respect, the methodology is based on the use of the geographic information system software and of the grey level co-occurrence matrix and fractal analysis. The creative economies have proved to be a veritable development vector, showing superior capacity for adapting to structural crises, and contributed to the economic integration of Romania in the EU.

The key points of this chapter are the following ones:

1. to briefly present the emergence of creative economy from a theoretical point of view
2. to define the concepts of creative economy and creative industry
3. to identify the main components of the creative economy

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4. to analyse the evolution of creative economy in Romania in the period 2001–2014
5. to show the role played by the Romanian creative economy in the process of economic integration in the European Union.

1 Introduction

The past decades have witnessed the emergence and development of creative economies all over the world. Creativity lies at the heart of the creative economy and its rising importance is given by the expansion of a knowledge-based economy (Seltzer and Bentley 1999). As an impressive transformative force and one of the most rapidly growing economic sectors in today's globalized economy, the creative economy promotes human development, social inclusion and cohesion, and cultural diversity (UNCTAD 2008; Hajkowicz 2015), stimulates entrepreneurship (Henry 2007; Henry and de Bruin 2011), business and investment (UNESCO 2009), attracts a high-quality workforce (Bakhshi and Windsor 2015), and constitutes a pathway to economic success in terms of income generation, job creation and export earnings (EC 2010; UNDP 2013). Also, the creative economy has shown great resilience during the last economic and financial crisis (Ernst & Young 2014), contributes to overall prosperity and works in synergy with the knowledge-based economy (Veselá and Klimová 2014). Human creativity, skills and talent, and intellectual innovation have become both critical issues on the agenda on economic development and growth, and powerful engines driving the global economy (Araya and Peters 2010).

Therefore, the creative economy requires a proper and sound distribution of its activities within the boundaries of a city, county, region or country by considering various factors (e.g., the quality of the workforce, the characteristics of the territorial system). Also, there is a need to create, implement and develop reliable methodologies to classify, analyse and measure the creative economy (Hui et al. 2005; Higgs and Cunningham 2007; UNESCO 2009; DCMS 2016b).

The turn of the millennium proved to be a turn from hamburgers to software or from physical capital to ideas (Coy 2000). As a result, the 'Old' (Industrial) Economy is increasingly replaced by the 'New' (Creative) Economy, an economy highly dominated by the digital revolution in the use of information, creativity and knowledge. Thus, the creative economy has been the topic of numerous studies, debates and discussions at the global and European levels in the last period (Weckerle et al. 2016).

On the one hand, the features of the creative economy have become a major concern for policy-makers and governments (Kong and O'Connor 2009) as the development of the knowledge-based economy is strongly connected with the creative economy. Governments can play the role of an enabler by implementing coherent policies to provide the right conditions for the flourishment of creative economies within the national frontiers (WEF 2016). The creative economy contributes to the increase of territorial, regional, or national competitiveness and, therefore, leads to economic growth and long-term development. In this respect, it is necessary to identify and analyse the creative elements of the economic system in correlation with other components of the territorial systems. After joining the European Union (EU) in 2007, Romania has decided to carry out fundamental transformations of its national economy through the implementation of deep structural changes in all fields of activity. One of them is related to the way Romania has succeeded in designing and developing a creative economy as a major factor of its economic integration in the EU considering the importance of creativity at the European level (EESC 2013).

On the other hand, the vast amount of literature dedicated to creative economy has demonstrated the ongoing relevance of this subject and, consequently, the increasing interest showed by researchers and organizations from various domains (De Voldere et al. 2006; UNCTAD 2008; Towse 2011; Flew 2012; Howkins 2013; Towse and Handke 2013; Florida 2014). In this regard, the creative and cultural industries obtained revenues of 535.9 billion euros and provided more than 7 million jobs in the European Union in 2012 (Ernst & Young 2014). One year later, the cultural and creative industries worldwide generated revenues of US$2250 billion (3% of world gross domestic product—GDP) and employed 29.5 million jobs from which Europe generated US$709 billion and employed 7.7 million jobs (Ernst & Young 2015). Therefore, there are studies that have highlighted the superior economic performance registered by the territorial or regional systems that encompass creative economies (Stoian et al. 2014; Pintilii et al. 2014). In spite of the fact that the share of the creative economy is not so high in GDP, it generates significant multiplication effects in other parts of the economic system (O'Connor 2000).

The aims of our chapter are to define the concept of creative economy and to analyse the evolution of the Romanian creative economy in the period 2001–2014. In this respect, the methodology is based on the use of the geographic information system (GIS) software and of the grey level co-occurrence matrix (GLCM) and fractal analysis. In the next section the paper briefly presents the emergence of the concept of creative economy and identifies its main components. The third section analyses the creative economy in Romania based on several indicators. Chapter ends with conclusions.

2 Theoretical Framework

Since its emergence, the concept of "creative economy" and its sibling, "creative industries", has generated an appreciable body of literature all over the world that includes various researches about definition and significance, purpose, history, measurement, or impact. Half a century ago, the framework of a new field of study called "cultural economics" was established with the interest shown in the economic analysis of museums and live performing arts (Towse 2011). As the importance of culture in economic development was reaffirmed in the 1960s, the cultural economics or the economics of the arts has become a relevant landmark in the history of creative economy (Towse and Handke 2013). Cultural economics has a point of origin in the works of J. K. Galbraith (1960), W. J. Baumol and W. Bowen (1966) in the United States of America (USA), and L. Robbins (1963) in the United Kingdom (UK) (Throsby 1994). It deals with cultural goods and services that contain a creative or artistic element and express a symbolic meaning. Cultural goods are tangible elements (e.g., digital video disks) whereas cultural services are intangible elements (e.g., musical performances). Some of them are durable (e.g., pictures in museums), others exist for a relatively short period of time (e.g., performing arts). Also, some are final products and/or services (e.g., books) whereas others are intermediate goods and/or services (e.g., discs played on the radio for votaries of music).

The term "creative industries" came into use when the UK Department for Culture, Media and Sport (DCMS) launched its first *Creative Industries Mapping Document* in 1998. The document laid down the list of creative industries as follows: advertising, architecture, art and antiques markets, computer and video games, crafts, design, designer fashion, film and video, music, performing arts, publishing, software, and television and radio. According to DCMS, creative industries are "those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property" (DCMS 2001, p. 5). Thus, the creative industries, with their intense cultural focus, have become a subject of growing interest for policy-makers, governments and international organizations.

The beginning of the twenty-first century was marked by the publication of several mapping studies worldwide such as the UK *Creative Industries Mapping Document* (DCMS 2001), the *Creative Industries in New Zealand* (NZIER 2002), the *Australia Creative Industries Cluster Study* (NOIE 2002), the *Economic Contributions of Singapore's Creative Industries* (Heng et al. 2003) or the *Baseline Study of Hong Kong's Creative Industries* (CCPR 2003). Also, the concept of "creative economy" emerged based on the notions of creative cities, creative class and intellectual property. Published in the late 2000s, the *Creative Economy Report* defines creative industries as "the cycles of creation, production and distribution of goods and services that use creativity and intellectual capital as primary inputs" and creative economy as "a set of knowledge-based economic activities with a development dimension and cross-cutting linkages at macro and micro levels to the overall economy" with creative industries at its centre, embracing "economic, cultural and social aspects interacting with technology, intellectual property and tourism objectives" and fostering "income generation, job creation and export earnings while promoting social inclusion, cultural diversity and human development" (UNCTAD 2008, p. 4). In other words, the creative economy represents "a system for the production, exchange and use of creative products" (Howkins 2013, p. 6) that encompasses the following three main domains at its heart: the media and entertainment industries, the arts and cultural heritage, and the creative business-to-business services (Landry 2003). Later, the *America's Creative Economy Report* (Harris et al. 2013) considered the most common creative industries in the USA such as advertising, culture and heritage, design, television and radio, Internet broadcasting and publishing, or culture and heritage.

As urbanization stimulates innovation, creative economy flourishes in creative cities. Creative cities, such as London and New York, combine the cultural economy and the creative industries (Cooke and Lazzeretti 2008). They are the most suitable urban milieus for culture and creativity (Hessler and Zimmermann 2008) and home to highly educated and affluent residents (Jones et al. 2015). The increasing role played by creative cities in bringing together and augment human capital allow them to develop into places that mobilize and attract creative energies by mixing technology and talent with tolerance (Florida 2005). Creative people need creative cities as they interact in these creative milieus with a multitude of diverse individuals and organizations (e.g., universities). These cities possess the capacity to attract and retain the so-called "creative class" (Van Geenhuizen and Nijkamp 2012).

The continuous economic need for creativity has been expressed by the rise of a new social class, the creative class. The creative class becomes truly global and includes people in science and engineering, music, arts, architecture and design, education, law, business and finance, health care, and related fields. All of them share "a common ethos that values creativity, individuality, difference and merit" and are paid to primarily use their minds (Florida 2014, p. 9). In 2011, the global creative class map was dominated by the European countries such as the Netherlands (46.2% of the workforce), Switzerland (44.8%), Sweden (43.9%), Belgium (43.8%) and Denmark (43.7%) (Florida et al. 2011). In 2015, the European countries, such as Luxembourg (54% of the workforce), Switzerland (47%), Iceland (45%) and Sweden (45%), still dominated the global creative class map (Florida et al. 2015). At the EU level, the number of employees in the creative industries grew from 12,175,055 in 2011 to 14,166,879 in 2014 (Ketels and Protsiv 2014, 2016). In the UK, one of the European countries that contributed to this increase, the number of employees in the creative industries grew continuously from 2,081,000 in 2011 to 2,343,000 in 2013 and 2,900,000 in 2015 (Nathan et al. 2015; DCMS 2016a).

D. DeNatale and G. H. Wassall (2007) wrote a report for the New England Foundation for the Arts, *The New Creative Economy: A New Definition*. In their view, the creative economy includes "occupations and industries that focus on the production and distribution of cultural goods, services and intellectual property" (DeNatale and Wassall 2007, p. 10) and comprises three primary and interrelated components: the Creative Cluster, the Creative Workforce and the Creative Communities (Fig. 1).

The Creative Cluster (industry) deals with both commercial and non-profit organizations; the Creative Workforce (occupation) refers to people; and the Creative Communities (geography) relates to places. Other researchers consider that the creative economy represents the result of the interaction between "a "core" area, in which original creation occurs, and an "extended sphere," which consists of other creative and innovative actors and a multitude of other organizations in the "collocated sphere" (Weckerle et al. 2016, p. 73).

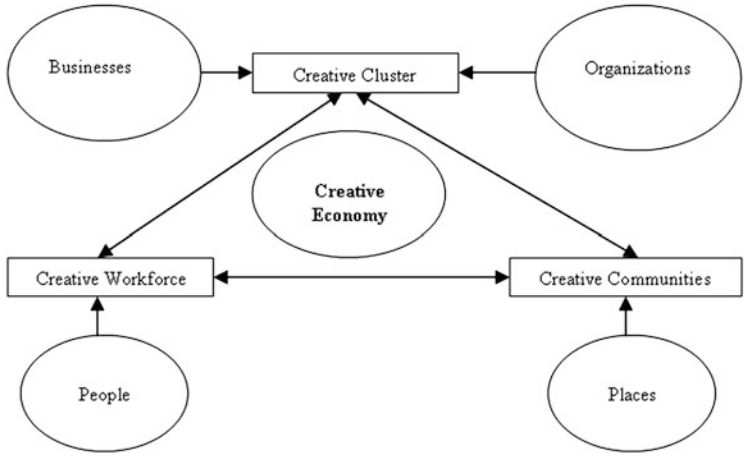

Fig. 1 The primary components of the creative economy. Source: Authors' contribution

As there is no single definition of creative economy several attempts have been made to clarify the concept, especially in the last decade. One of the main issues lies in the use of the word "creative" instead of "cultural". Most of the Commonwealth countries (e.g., Australia, New Zealand) adopt the concept of "creative industries" whereas other European and Asian countries (e.g., Finland, Japan) prefer the term "cultural industries" (Henry 2007). Consequently, the UK decided to take into consideration the following economic sectors: creative industries, cultural sector, digital sector, gambling, sport, telecoms, tourism (DCMS 2016b). The cultural sector encompasses all industries with a cultural object at their core such as manufacture of jewellery and related articles, manufacture of musical instruments, library and archive activities, or museum activities (DCMS 2016c).

Romania, as a member of the EU, categorizes the creative economic activities according to the Classification on National Economy Activities. Although there are some differences, the Romanian creative industries are similar to the British system (Table 1).

In the light of the above discussion some characteristics of the concept of "creative economy" should be emphasized. First, the creative economy is a relatively new development paradigm that puts creativity at its heart. Second, there are numerous and various definitions of the concept all over the world. Third, the creative economy represents a holistic concept dealing with a multitude of interactions between culture, economics, people, geography, creativity and technology in a world dominated by symbols. Fourth, the creative economy constitutes an evolving concept that is still being shaped. Fifth, the concept is a vast and heterogeneous domain being related with diverse activities such as music, televisions, and crafts.

Table 1 The creative ındustries in UK and Romania

Country	Creative industries
UK	Manufacture of jewellery and related articles; book publishing; publishing of directories and mailing lists; publishing of newspapers; publishing of journals and periodicals; other publishing activities; publishing of computer games; other software publishing; motion picture, video and television programme production activities; motion picture, video and television programme distribution activities; motion picture projection activities; sound recording and music publishing activities; radio broadcasting; television programming and broadcasting activities; computer programming activities; computer consultancy activities; public relations and communication activities; architectural activities; advertising agencies; media representation; specialised design activities; photographic activities; translation and interpretation activities; cultural education; performing arts; support activities to performing arts; artistic creation; operation of arts facilities; library and archive activities; museum activities (Nathan et al. 2015; DCMS 2016b)
Romania	Printing of newspapers; other printing activities; prepress services; binding and related services; book publishing activities; guidebooks, compendiums, mailing lists and similar activities; newspapers publishing activities; journals and periodicals publishing activities; other publishing activities; computer games publishing activities; other software publishing activities; motion pictures, video and television programme activities; post-production, motion picture, video and television programme activities; sound developing, recording and music publishing activities; radio broadcasting activities; television broadcasting activities; telecommunications activities through cable networks; telecommunications activities wireless network; satellite telecommunications activities; other telecommunications activities; custom software development activities (software-oriented client); information technology consultancy activities; management activities (management and operation) of computing; other information technology and computer service activities; data processing, hosting and related activities; web portals activities; news agency activities; other information service activities; architectural activities; engineering activities and related technical consultancy; technical testing and analysis activities; activities of advertising agencies; media representation; activities market research and public opinion polling; specialized design activities; photographic activities; activities of oral and written translation (interpreting); other professional, scientific and technical activities; artistic interpretation activities (performances); support activities for artistic interpretation; activities of artistic creation; libraries and archives activities; operation of sports; activities of sports clubs; activities of fitness centres; other sport activities (CAEN 2016; Pintilii et al. 2017)

3 New Methods Used in Analysing the Creative Economy: Romania, as a Case Study

3.1 Methodology

This study carries out a pertinent analysis of the creative economies in Romania for the period 2001–2014, by using two methods. The first method is based on the GIS software, which is necessary for spatial visualization and representation of four main economic indicators (number of companies, number of employees, profit and turnover) at the level of an administrative territorial unit (ATU). The second method is based on the GLCM and fractal analysis, the latter being useful in the analysis of the spatial evolution of some economic indicators (e.g., the creative economies' average), highlighting the tendencies towards disorder, uniformity and homogeneity. Thus, valuable information can be obtained such as the spatial effects of an economic decision, a political decision, an economic crisis, or some economic indicators.

For a more detailed analysis on the global spatial evolution of the four economic indicators a series of methods have been used, which have not been applied until this study in the economics analysis: the GLCM analysis (Entropy, Energy and Homogeneity) and the fractal analysis (Pyramid Dimension). The inputs of GLCM and fractal analysis were the series of cartographic images with spatial representations of the distribution of the four above mentioned indicators at the level of ATU. The grey levels of these images represent the individual intensities of the four indicators.

The GLCM analyses were carried out in ImageJ 1.5.1h (Schneider et al. 2012), using the GLCM_TextureToo plugin (Haralick et al. 1973). ImageJ is a public domain Java-based image processing program designed for scientific multidimensional images, being developed at the National Institutes of Health from Bethesda, Maryland, USA. The grey-level co-occurrence matrix, also known as a spatial dependence matrix of grey-level, is a statistic method for examining the texture that takes into account the spatial relation of pixels. The GLCM functions characterize the texture of an image by calculating the density of the pixel pairs with specific values, in a specific spatial relations of an image, creating a GLCM, then extracting statistical dimensions from that matrix (offer information about the shape and the spatial relations of the pixels of an image) (Radović et al. 2013). The GLCM calculates how often a pixel with grey-level (grey scale intensity or Tone) value i occurs either horizontally, vertically, or diagonally to adjacent pixels with the value j. The computational complexity of GLCM method is highly sensitive to the number of grey levels (Clausi 2002).

In thermodynamics, the entropy measures a distribution of probabilities which reflects the microstates of a given system at a certain moment. Theoretically, the entropy increases with the tendency of homogenizing the probability distribution, or flattening that distribution. But, the traditional qualitative description of entropy, starting with Clausius, Boltzmann, Hermann von Helmholtz, is that entropy can be understood in terms of molecular "disorder" within a macroscopic system, measuring the disorder and order in atomic and molecular assemblies (Landsberg 1984; Anderson 2005). Likewise, the value of the entropy of a distribution of atoms and molecules in a thermodynamic system is a measure of the disorder in the arrangements of its particles (Greven et al. 2003). As in the traditional qualitative description, in GLCM analysis, **entropy** represents a statistical measure of randomness and measures the disorder or complexity in the sense of the degree of complication of textures of an image. The entropy is large when the image is not texturally uniform and many GLCM elements have very small values. Complex textures tend to have high entropy. Entropy is strongly, but inversely correlated to energy.

$$Entropy = -\sum_i \sum_j p(i,j) logp\ (i,j) \tag{1}$$

where i and j are the coordinates of the co-occurrence matrix.

Energy, also called Uniformity or Angular Second Moment, provides the sum of squared elements in the GLCM. The Energy measures the textural uniformity which represents the repetition of the pixel pairs, thus detecting the disorder in the texture. The maximum energy value is equal to one, and the minimum with zero. High energy values occur when gray-level distribution has a constant or sporadic shape. The GLCM of a less homogeneous image will have a large number of small low implicit inputs of Energy (Gadkari 2004).

$$Energy = \sum_i \sum_j \{p(i,j)\}^2 \tag{2}$$

where i and j are coordinates of the co-occurrence matrix.

A homogeneous image will contain only a few gray levels, giving a GLCM with only a few but relatively high values of *p(i,j)*. Thus, the sum of squares will be high.

Homogeneity, also called the Inverse Difference Moment, measures the proximity of the GLCM element distribution to the GLCM diagonal (measures the homogeneity of the image by assuming higher values for the smaller gray-level differences in the pair elements). Homogeneity is more sensitive to the presence of diagonal elements in GLCM. It has maximum value when all elements in the image are identical. GLCM contrast and homogeneity are strong but inversely correlated in terms of equivalent distribution in the pixel pair population. This means that homogeneity decreases if contrast increases, while energy is kept constant (Gadkari 2004).

$$Homogeneity = \sum_i \sum_j \frac{1}{1 + (i,j)^2} p(i,j) \tag{3}$$

where i and j are coordinates of the co-occurrence matrix.

The fractal dimension indicates how much space is occupied by the object, representing the degree of complexity that the image has. The degree of irregularity derives from the properties of the fractal object, which is a fractured or broken geometric figure, which, if divided into parts, each side is approximately a smaller copy of the whole. In reality, these copies are not identical representations, but they are invariant on the scale (Jelinek et al. 2006; Andronache et al. 2016). As a fractal dimension method, **Pyramid Dimension** is an alternative to the Box-counting method and using image pyramids which are a sequence of identical images but at different sizes. The bottom of the pyramid represents the original image. The size of image is then reduced successively until it is one pixel, which represents the top of the pyramid. Pyramid dimension is defined according to:

$$D_p = \lim_{\varepsilon \to \infty} \left(\frac{\ln (N)}{ln\varepsilon} \right) \quad (4)$$

where D_P is Pyramid Dimension; ε is the scaling variable, and N(ε) is the total number of object pixels can be counted for each pyramidal image.

The Pyramid Dimension has been calculated by using IQM software (Kainz et al. 2015)—the PGM bilinear method according to Mayrhofer-Reinhartshuber and Ahammer 2016. IQM is image and signal analysis software fully written in Java, being developed by Helmut Ahammer from the Medical University of Graz, Austria.

3.2 Case Study: Romania

The spatial representations, visualized through the first method (Fig. 2), emphasize the fact that in 2001 a series of localities show an inhomogeneous distribution of the turnover. The large cities of Romania are clearly visible, like Bucharest or Timișoara, where the values are over 10%, or even 15%, but also other localities with a smaller number of inhabitants, where the average of creative activities is predominant, like the Nucșoara locality from the Argeș County. In Romania, the number of localities where the turnover of creative economies exceeds 5% of the economy’s total value is 62, these being represented in Fig. 2 with five classifications and values between 5% and over 25%.

In 2007, during the economic crisis, the creative economy remarked itself through ascending tendencies, while other economic sectors presented a considerable fall. In the same year, the number of localities where the creative economy did not exist, decreased from 2597 to 1873, and those with positive values increased from 62 to 157. Therefore, in the first 8 years leading up to the economic crisis, localities around the polarisation centres of large cities, respectively Bucharest, Timișoara, Cluj-Napoca, and Iași, but also of some smaller cities, such as Sibiu or Oradea, began to agglomerate. Furthermore, there was an isolated county, which was affected by the economic crisis, namely the Nucșoara locality from the Argeș county. This locality maintained high values of over 25% (over 80%) during the period of 2001–2005, but values started to decrease in the year 2006 down to under 10% and fall to 0% between 2007 and 2008. After 2009, the values recovered to values of over 25%.

The post-crisis period until 2014 showed that 1636 new localities with creative economies emerged. These localities began to be more and more defined in the peri-urban areas of large cities and appeared more concentrated, for example, in the proximity of the Nucșoara commune or around the large cities where these already existed: Bucharest, Timișoara and Cluj-Napoca. A homogenization of values can be noticed in the West, North-West, Central Development Regions, Southern Muntenia and Bucharest-Ilfov.

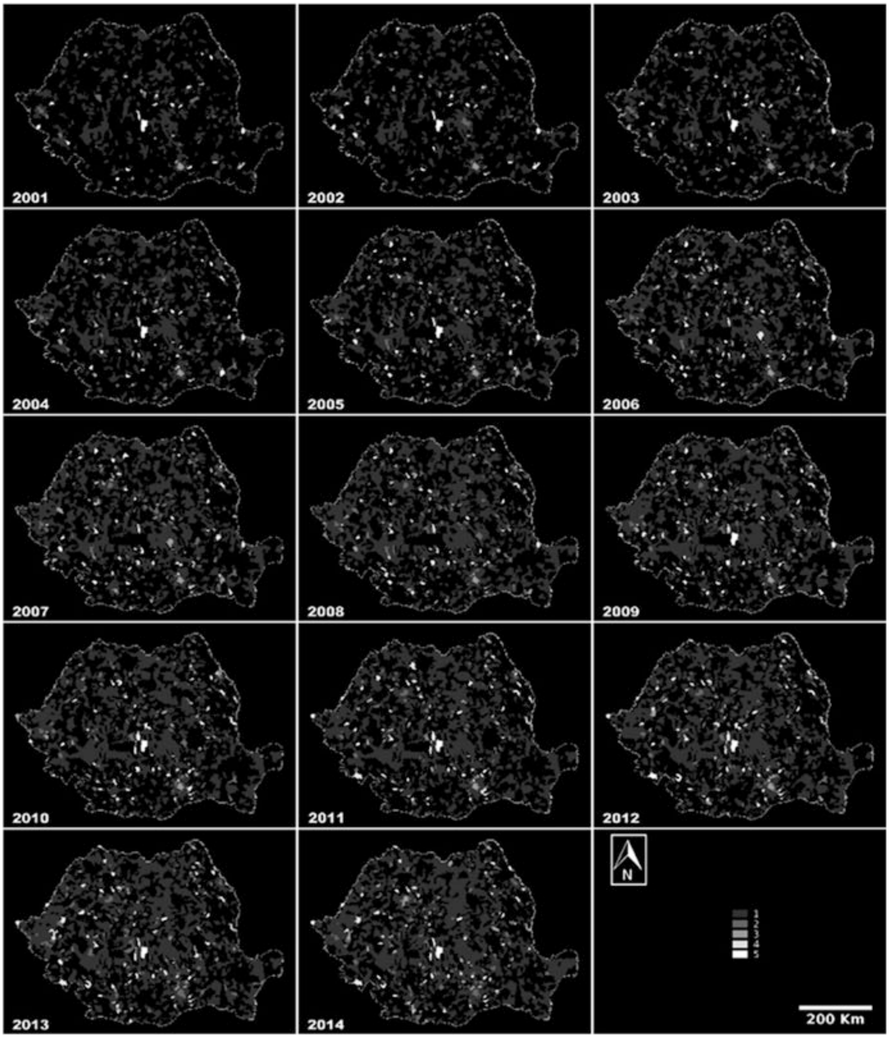

Fig. 2 Turnover in the Romanian creative economies in the period 2001–2014 (**1**: <5%, **2**: 5.01–10%, **3**: 10.01–15%, **4**: 15.01–20%, **5**: >20%). Source: Authors' contribution

Regarding the companies from the creative field (Fig. 3), the image of the year 2001 illustrates an insular spread of these, with a presence of only 2551, at national level. Therefore, these can only be identified in the peri-urban areas of the large cities: Bucharest, Timişoara, Braşov, Iaşi and Oradea. Additionally, there existed a reduced number of localities with percentage values that exceed the fifth threshold 25%. Again, it was the Nucşoara locality, situated in the centre of Romania, whose value was higher in the year 2001, particularly 66.67%. Two out of three companies situated in the Nucşoara locality performed activities in the creative economy.

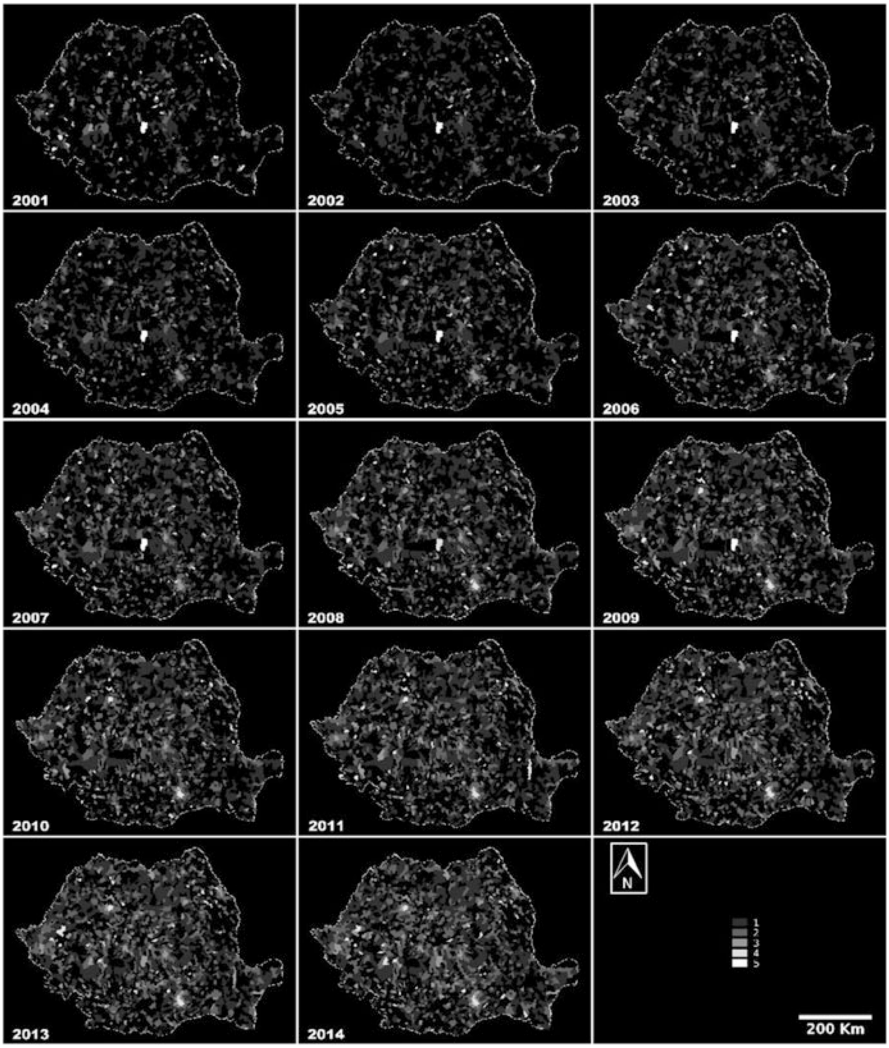

Fig. 3 Companies in the Romanian creative economies (2001–2014) (**1**: <5%, **2**: 5.01–10%, **3**: 10.01–15%, **4**: 15.01–20%, **5**: >20%). Source: Authors' contribution

A progressive ascending tendency of the companies from the creative economy can be observed before the big economic crisis, where the number of localities with companies in the creative domain increases from 630 to 1480 in 2009. This fact can occur by restricting the activity of the companies from other economic sectors, which have been more affected than those that lead their activity in the creative domain. Grouping or merging tendencies of some localities can be observed, under a cluster shape, especially around the large cities—Bucharest, Timișoara, Brașov and Cluj-Napoca.

After the economic crisis, the administrative territorial units which had companies in the creative economy homogenized because their number reached the value 1807 in 2014. In that year, even though a homogenization of the localities with companies in the creative economy was observed, the majority presented values of under 10%, only six of them were over the threshold of 25% (represented with white colour). Among these, the Gâdinți commune from the Neamț County can be emphasized. It is a locality with approximately 2000 inhabitants, but with the highest average of the creative economy, particularly 32% (eight companies activating in the creative economy).

In 2001, the predominant value of the employees (Fig. 4) was under 5%. A low representation can be observed at national level, hence, approximately 60% of Romania's localities have values equal to 0. At the beginning of the study period, however large cities like Bucharest, Timișoara, Brașov, Cluj-Napoca and the localities from their peri-urban areas can be observed. In the period leading up to the economic crisis, the number of localities with creative economies begins to increase, thus in 2001, there existed only 437 localities, and in the year 2008 their number increased to 1175 localities, most of these having values of under 5%.

The economic crisis of 2008 did not considerably affect the percentage value of the employees, which implied a decline in the economic sectors. Due to the crisis of 2008, in the following year an increase of values can be observed in cities like Oradea, Ploiești and Cluj-Napoca. Even though in the post-crisis period the number of localities with a significant average of employees in the creative industry ascended, in 2014 the number of localities with employees was 1338, of which 1032 counties had values under 5% and only 30 had values over 25%. The values began to be more homogenous in the West, North-West, Central Development Regions, Southern Muntenia and Bucharest-Ilfov.

Profit is the indicator that presents all the above values (Fig. 5) which were over 25% throughout the entire period of study. Thus, in 2001, 2712 out of the total of 3181 localities had a profit of 0%, 42 localities of over 25%, and the rest having values under this threshold. In that year three localities made themselves obvious because of the profit that came exclusively from the creative industries, these being the Coronini commune from the Caraș-Severin County, the Costești commune from the Iași County and the Nucșoara commune from the Argeș County.

In 2001, large cities (Bucharest and Timișoara) showed percentage values between 15 and 20, while lower values were observed in Cluj-Napoca, Brașov and Iași. Up to 2008 the number of localities where the profit of the creative economies is visible increased from 469 in 2001 to 1094, and the number of localities with values over 25% increased from 42 to 80, which suggests on the one side, the establishment of new companies, and on the other side, the fact that the profit increase represents the decline of other companies and from other economic sectors.

In the post-crisis period, a profit increase can be observed in large cities such as Cluj-Napoca, Iași and Ploiești. In 2014, the number of localities without a profit from the creative industries was reduced to 1823, and one locality with values of over 25% increased to 121. There had not been recorded any locality in the year

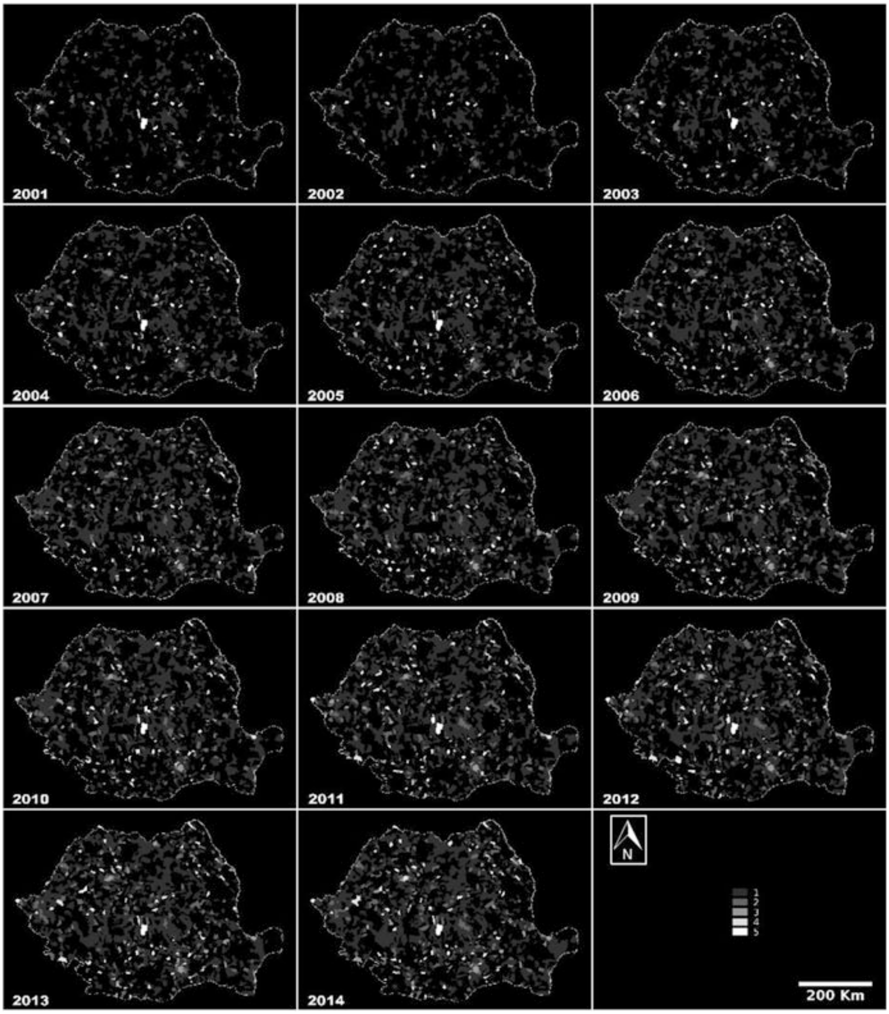

Fig. 4 Employees in the Romanian creative economies (2001–2014) (**1**: <5%, **2**: 5.01–10%, **3**: 10.01–15%, **4**: 15.01–20%, **5**: >20%). Source: Authors' contribution

2014 with a profit exclusively from the creative industries, the highest value being 98% in the Seaca de Pădure locality from the Dolj County.

The values for entropy (Fig. 6) indicate a general increase of the disorder degree of the distribution of the creative economies' average at the ATU level as an effect of the economic growth. The more creative economies extend at a spatial level and grow on average, the more they fragment the space occupied by the non-creative economies, thus generating an increase of entropy. The percentage values of the turnover significantly increase from 0.43 in 2001 to 0.79 in 2014. The emphasized

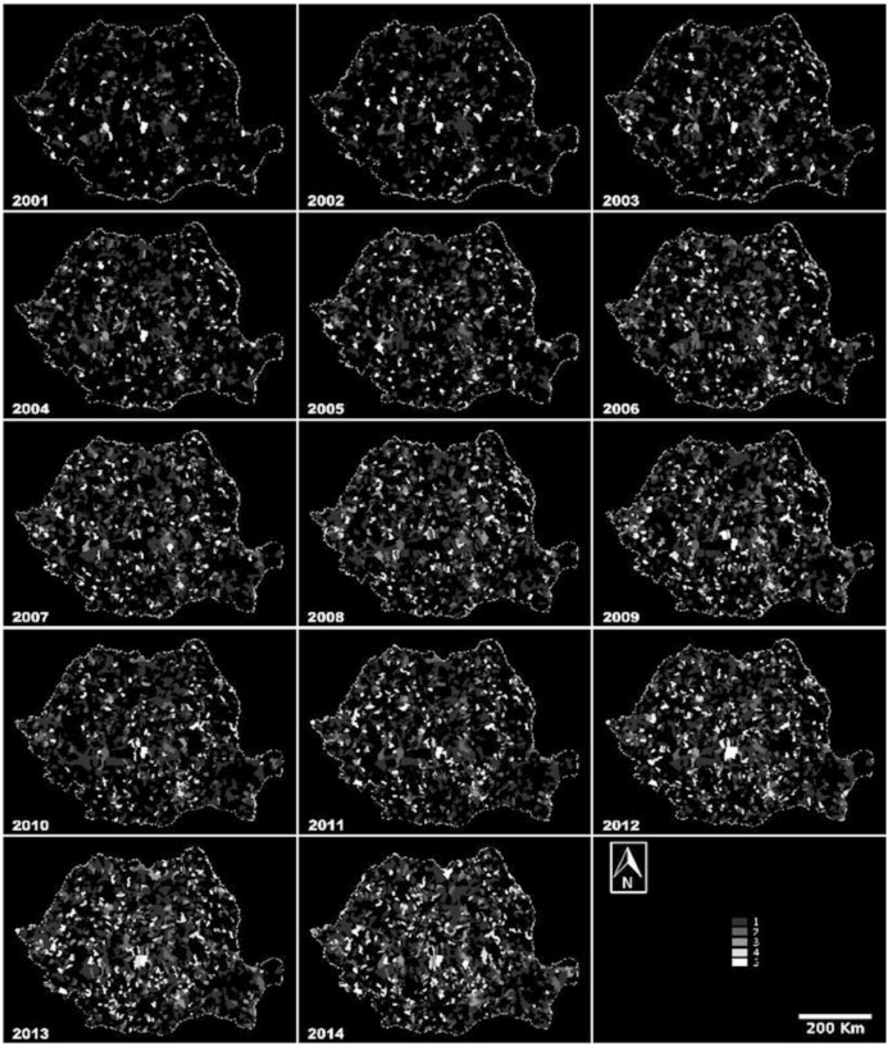

Fig. 5 Profit in the Romanian creative economies (2001–2014) (**1**: <5%, **2**: 5.01–10%, **3**: 10.01–15%, **4**: 15.01–20%, **5**: >20%). Source: Authors' contribution

increase of entropy is also specific to the number of companies (from 0.51 to 1.02), to the profit (from 0.41 to 0.93) and to the number of employees (from 0.36 to 0.8).

The economic crisis manifested itself through a slight decrease of the creative economies' average only in 2010 for the turnover and the number of employees, and in 2009–2010 for the profit (this has been the most affected indicator by the negative effects of the crisis). However, the crisis was not experienced for the company numbers, whose spatial disorder slightly grew.

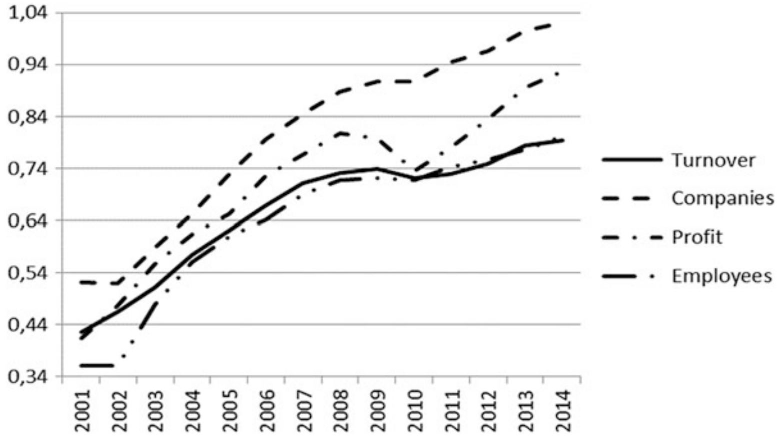

Fig. 6 The evolution of entropy of the spatial repartition of the Romanian creative economies' average (2001–2014). Source: CAIMT—Project UB/1365, 2016b

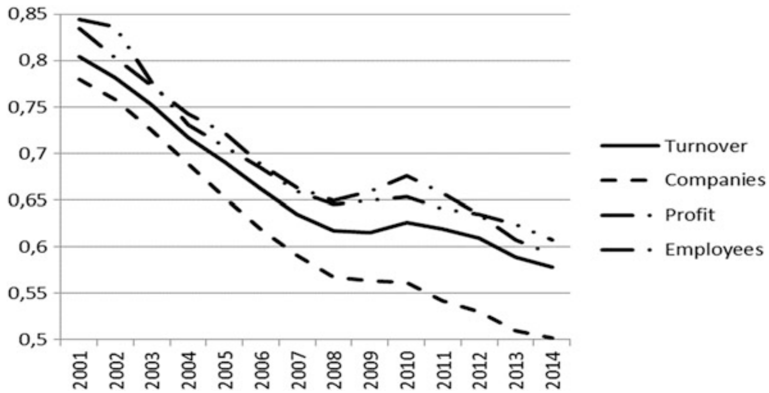

Fig. 7 The evolution of energy of the spatial repartition of the Romanian creative economies' average (2001–2014). Source: CAIMT—Project UB/1365, 2016b

The energy (Fig. 7) indicates a general tendency for the decrease of the textural uniformity of the creative economies' average repartition, as new begin to conduct new creative activities at Romania's level. Hence, energy decreased from 0.8 in 2001 to 0.58 in 2014 for the turnover; from 0.78 to 0.5 for the number of companies; from 0.83 to 0.59 for profit and from 0.84 to 0.61 for the number of employees. The economic crisis generated a slight decrease of textural uniformity in 2009–2010 for the profit and the number of employees and only in 2010 for the turnover. This time the crisis also was not felt and the company numbers continuously slightly decrease as the textural uniformity and their spatial repartition becoming more disordered.

The evolution of homogeneity (Fig. 8) confirms and is in accordance to the energy analysis, following its evolution. Hence, homogeneity slightly decreases

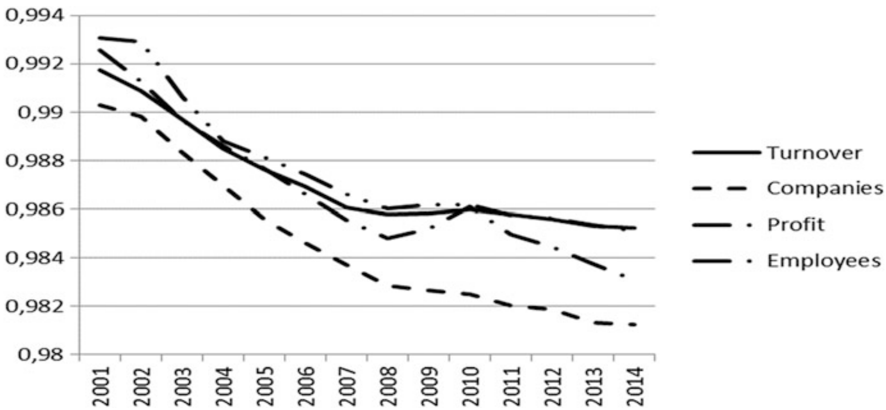

Fig. 8 The evolution of homogeneity of the spatial repartition of the Romanian creative economies' average (2001–2014). Source: CAIMT—Project UB/1365, 2016b

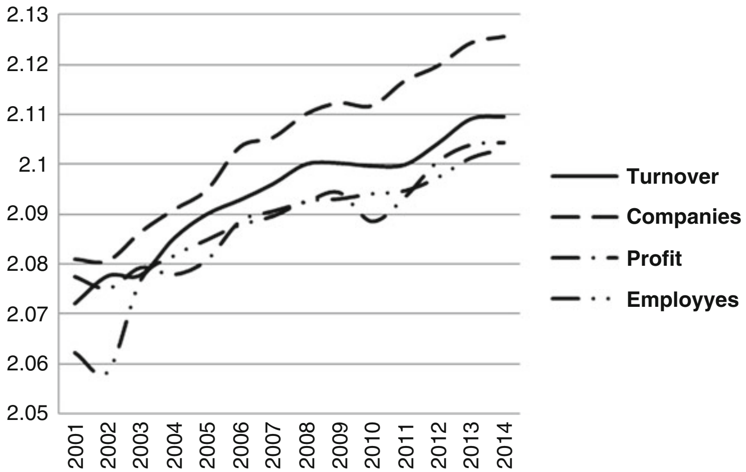

Fig. 9 The evolution of Pyramid Dimension of the spatial repartition of the Romanian creative economies' average (2001–2014). Source: CAIMT—Project UB/1365, 2016b

from 0.992 in 2001 to 0.985 in 2014 for the turnover; from 0.9903 to 0.981 for the number of companies; from 0.993 to 0.983 for the profit and from 0.993 to 0.985 for the number of employees.

The Pyramid Dimension (Fig. 9) confirms the growing tendency of the complexity of the spatial distribution of the creative economies' average on the background of economic growth. The average values of the turnover increased from 2.07 in 2001 to 2.11 in 2014. The Pyramid Dimension growth is also specific to the number of companies (from 2.08 to 2.13), profit (from 2.08 to 2.10) and to the number of employees (from 2.06 to 2.10).

The Pyramid Dimension represents the effects of the economic crisis on the spatial distribution of the creative economies' average, when in 2010 the degree of the fractal dimension decreases, both for the turnover, profit and number of companies. For the number of employees, the shock of the economic crisis was not emphasized by the Pyramid Dimension.

The above analysis shows that, despite its relatively small dimensions, the Romanian creative economy has played an important role in the process of economic integration in the EU. It registered total revenues of around 12.80 billion euro in 2013 and 13.16 billion euros in 2014 (CAIMT 2016a). In the same period, the Romanian gross domestic product (GDP) was 144 billion euros in 2013 and 150 billion euros in 2014 (Eurostat 2016). It means that the creative economy' share of GDP in Romania was 0.088 % in 2013 and 0.087% in 2014. However, it generated income, created jobs and proved to be resilient during the crisis.

4 Conclusions

The creative economy constitutes one of the most important resources for economic development and growth. It has increasingly become a topic of interest for researchers, organizations, and governments within the EU.

The analyses carried out on the Romanian creative economy show an increase of its importance within the national economy. These can contribute to the lasting growth of the local systems. The tendencies are underlined by the evolutions from the last period of the companies, employees, turnover, and as well as of the profit from the creative economies.

From the presented evolutions, it can be concluded that Bucharest clearly distinguishes itself from the other large cities of the country. In the last period, new tendencies of localisation (migration) of the creative economies towards their peripheries have been observed. These new spaces (urban peripheries) have demonstrated the capacity of ensuring optimal conditions (economic, demographic, social and of other types) for the development of activities in the creative domain.

The role of the creative economies in the local development of Romania is presented through the use of modern methods, such as the fractal analysis and GLCM, being a premiere in Romania for this type of studies. Thus, a new perspective is introduced, namely looking at the self-organisation of Romania's territorial systems. The creative economy has proved to be a veritable development vector, showing superior capacity for adapting to structural crises, and contributed to the economic integration of Romania in the EU.

This study traces new directions for analysing the creative economies, particularly applicable on Romania, and at the same time, represents an instrument generally useful for interested researchers and students.

Questions and Activities

1. Define the concept of creative industry.
2. Define the concept of creative economy.

3. Enumerate the primary components of the creative economy.
4. Has the Romanian creative economy contributed to the economic integration in the EU? How?
5. What does entropy measure? Analyse the case of the Romanian creative economy.
6. What does homogeneity measure? Analyse the case of the Romanian creative economy.
7. What does Pyramid Dimension mean? Analyse the case of the Romanian creative economy.
8. Enumerate three Romanian cities with significant creative economy activities.
9. Which are the main cities with the highest share of creative economy in Romania?
10. Is there any relationship between universities and the concentration of creative economies in Romania? Why?

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Differentiation Strategy and Rankings in Higher Education: Role of Rankings in Building a Strategy

Magdalena Iordache-Platis

Abstract The contemporary higher education environment is dominated by uncertainty. Institutions do not disappear overnight in this industry, but study programmes decline even dramatically. Presently, ranking methodologies and indicators contribute to different and dynamic positioning of institutions at national or international level, based on a particular approach or a field-based one. Building a proper development strategy is a complex task for academic leadership. The chapter reveals the need of integrating the information provided by rankings into the decisions and actions in higher education institutions to achieve sustainable development. The main objectives of the chapter are to understand the dynamism of the contemporary competitive environment in higher education sector, to clarify the differentiation strategy as a solution for being stable on the educational market, to identify the role of rankings in defining an effective strategy. The topic is relevant for the students, contributing to their knowledge of differentiation strategy in general, but also on its applications in higher education, in particular; they will not only become more aware of the large possibilities of differentiation strategy implementation, but also better decision-makers about educational providers.

The key points of the chapter are the following ones:

1. to understand the main institutional challenges in the context of the higher education environment dynamism of the EU
2. to identify the importance of rankings in higher education sector
3. to understand the need of differentiation in the process of development in higher education institutions
4. to reveal the role of rankings in building an effective differentiation strategy for higher education institutions

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5. to provide a model of ranking–based differentiation strategy for higher education sector

1 Introduction: Main Institutional Challenges in the Context of the Higher Education Environment Dynamism of the EU

In a competitive economy, when individuals and institutions have more and more alternatives to choose, development becomes uncertain. The dynamism of the higher education environment is generated from both international influences of the market, and national changes such as legislation and national requirements for quality assurance. Clear explanations of the changing context in higher education sector done by Sursock (2015) reveal that many effects on higher education institutions have been generated from negative demographic trends and financial crises which put a lot of pressure on the institutions' budgets. At the same time, the increase of youth unemployment in many regions of Europe generated at different decision-making level a high interest on entrepreneurship and innovative programmes, while a growing importance have been identified to internationalization, rankings and institutional positioning. These all evolve in a global marketplace, as Kotler and Armstrong (2008) describe.

Many higher education institutions have paid a lot of attention to internationalization, developing study programmes in foreign languages, increasing staff and students' mobility and entering to international project. Al-Sindi et al. (2016) describe the importance of cross border higher education in the context of two leading motivational factors: international competitiveness and collaborations. They also admit the need of quality assurance procedures to perceive the quality added value of regional development. During the latest years, higher education institutions made numerous efforts to find solutions at similar issues through communication and cooperation. Granados (2015) referring to the current context of higher education institutions mentions the world of crisis in a complex knowledge society when everything changes; therefore, it appears the need for a new type of education, in which creativity is most needed, as well as institutional new type of behaviors such as networking, innovation, information and communication technologies.

A recent analysis of Bologna Process reveals the international efforts thousands of higher education institutions and different organizations have made towards its implementation, meaning adapting educational systems to become more qualitative and compatible. Navracsics (2015), the *Commissioner responsible for Education, Culture, Youth and Sport* explains the European context as one of cooperation in which degrees structures need to be modernized on the basis of quality assurance mechanisms. He explains that even many efforts have been taken place since the Bologna Declaration was signed in 1990, higher education institutions still have a lot to improve in the area of the abroad study and work recognition, competences

Table 1 Main characteristics of the educational environment and institutional challenges

Context characteristics	Bologna process issues	Current institutional challenges
Complexity	Students' mobility	Better recognition of qualifications
Dynamism	Transferable credits	Competences description
Competitive	Quality standards	Consolidation of a quality culture
Non-traditional	Effective outcomes	Increasing employability
Global-oriented	Global cooperation	Internationally focused

and skills for future careers, development of student-centred learning, digital technologies for teaching and learning. The same report describes the *European Higher Education Area* context as being characterized by a student population diversity imposed by the national demographical changes and by a high impact of the financial crisis on the public funding expenditures for higher education. In February 2017, a new EUA project was launched in the area of teaching and learning, and through the four thematic groups, main challenges for institutions are revealed, explained and good practices examples shared: a new link between research and teaching missions of higher education institutions, empowering students to become better professionals and more involved in civic life, how student success can be achieved and new possibilities for teaching and learning, all of them into account the changing environment.

The main characteristics of the changing environment are simple explained in Table 1.

In this context, many events and conferences are dedicated in a large or strict sense to the higher education market—dynamics, rankings, partnerships. For example, at the European University Association Conference in 2017, main topic refers to autonomy, freedom and sustainability as future challenges. At the University-Industry Interaction Conference in 2017, main sections addressed to the need of more engaged and entrepreneurial universities on one hand, and of more educated leaders on the other hand. The over 400 participants to the conference representing managers, practitioners and researchers discussed about the importance of leading higher education into the future through a new generation of universities, more engaged and entrepreneurial.

The evolving European higher education system faces the challenge to adapt to a more difficult context characterized by Storey and Brendan (2014) as economically turbulent, politically unstable and socially rapidly changing. In this context, in the area of education, training and youth, European Commission (2017b) set new goals and promote good practices sharing, such as programmes for managing the youth unemployment on the basis of equal opportunities. In the EU Youth Strategy two goals are declared as most important for the 2010–2018 cooperation framework: more and equal opportunities for young generation for education and labour market and encouraging young people to actively involve in the society. This is why, a lot of attention is dedicated to youth employability, at different levels—governs, commissions, public and private institutions, including ranking organizations and higher education institutions.

Therefore, the revealed challenges in the European context for higher education mainly include: more efficient networking, new programmes for creating more innovative and entrepreneurial universities, new type of cooperation towards modernization, new link research-teaching, more attention to programmes generating employability increasing, higher control of financial resources, more creativity-oriented programmes and an increasingly higher interest on internationalization, rankings and institutional positioning.

At a national level, the educational sector in general and especially, the higher education one is more or less financially supported. Therefore, the institutional autonomy is very important in the process of evolution and development towards future challenges. At this point, differentiation strategy might be a positive reaction to competitive environment. What differentiation strategy in higher education sector is and how to build it in order to achieve higher education institutions sustainability are a few issues to be clarified.

2 Rankings and Institutional Differentiation in Higher Education

2.1 Rankings in Higher Education: Conceptual Clarifications

In the contemporary context, rankings in the area of higher education are paid a lot of attention. From general principles and methodologies, to concrete particularities in calculating specific indicators, rankings are associated to institutional performance and competitivity, with reputation and visibility as Radojicic and Jovanovic-Milenkovic (2017) consider. In the process of teaching and learning, Irvin and Kevan (2017) explain the competency-based education as an instructional model in which more important is what the students know and can do, rather than what they are taught. In addition, Jones and Olswang (2017) connect building competence in education with performance motivation and teaching knowledge and skills. Although systematic comparisons among US higher education institutions have been observed since 1870, as the origins of the international rankings are explained by O'Leary (2017), rankings are internationally recognized since the famous Academic Ranking of World Universities (ARWU) was launched in 2003.

At a national level, there is a huge variety of rankings. IREG Observatory on Academic Ranking and Excellence started in 2010 to publish an inventory of national rankings from different countries, based on a simple evaluation resulting in an *IREG approved* label given to the university. At an international level, rankings are more visible than at national one. In some countries, when there is no clear national methodology, institutions decide to take part in what they consider a relevant and useful ranking for their profile and subjects. Rauhvargers (2011) in a EUA Report on rankings explain the main indicators and dimensions for most

Table 2 International rankings conceptual clarifications

Ranking	Aspects covered and clarifications (official websites)
ARWU Ranking	– quality of education: number of alumni and staff with special distinctions (such as Nobel Prize) – quality of faculty: highly cited researches, number of staff with Nobel Prize, for example – research output: papers published in specific (indexed)journals – Per capita performance: per capita academic performance
QS World University Ranking	– academic reputation: expert's opinions on teaching and research quality – employer reputation: employer survey – faculty/student ratio: teaching quality—students' access to professors – citation per faculty: research quality—number of citations received by all papers produced by an institution across a 5-year period by the number of faculty members – international faculty and student ratio: ability to attract faculty and students from abroad, global awareness, strong international brand
U-multirank	– teaching and learning: bachelor and master graduation rate and graduating on time – research: citation rate, research publications, external research income – knowledge transfer: co-publications with industrial partners, income from private sources, patents awarded, publications cited in patents – international orientation: student mobility, international joint publications – regional engagement: bachelor graduates working in the region, regional joint publications, income from regional sources

popular global rankings, starting from the differentiation among international rankings generating leagues tables, rankings based on research performance only, multirankings, web rankings and relevant benchmarking based on learning outcomes. Therefore, two rankings that generated highest attention were ARWU Ranking, and Quacquarelli Symonds Ranking. In Table 2, a simple review of the current dimensions/criteria used by the ranking methodology reveals in fact their conceptual clarifications. Another recent European multidimensional ranking is U-multirank which allows the user to express his or her own criteria and dimensions considered as being relevant.

Therefore, similarities and differences may be observed among the global rankings. Some are minor, like the understanding of the research quality expressed as faculty quality, as very high distinction or as number of citations and some are major, like the way the quality itself is perceived—through perceptions of others, meaning reputation-based surveys or concrete indicators of performance included in per capita performance. No matter how different the rankings methodologies are, they grow rapidly in importance. Hazelkorn et al. (2014) describe rankings as tools used to measure the university performance all over the world. They also demonstrate that rankings have brought consistent/considerable contributions to the way institutions were perceived by different stakeholders, such as students, parents, business sectors, employers, and media. In addition, based on rankings, higher education institutions have implemented several changes, such as revisions of internal policies, new objectives for specific domains, new priorities for research, even new administrative structures created etc. All these affirmations prove that the impact of rankings is obvious for institutional development.

Currently, there are over 30 European universities within the Top 100 reputation ranking based on Times Higher Education statistics. A recent analysis made by Weingarten (2017) shows that even if American institutions are still dominating the perception of excellent universities, European universities are gaining reputation. More precisely, one third of the 31 universities are in UK and other 13 universities from Germany and Netherlands are in the TOP 800. In addition, among the world class universities included in the Shanghai ranking in 2015–2016, among the first ten there are six from US, but three from UK and one from Switzerland, which proves the same enhancement in terms of reputation and several ranking criteria like research visibility for European higher education institutions. Students can create by themselves small individual and personalized rankings after studying official websites of recognized rankings. For instance, from ARWU information, students are able to identify in what universities in UK, Germany, Netherlands, France etc. are best and create their own interest based ranking.

The importance of rankings for institutional performance must take into consideration the following issues of internal and external importance:

– internal importance: managers, administrators, academic staff, as well as students look for activities that contribute to the reputation increase. Internal changes take place starting from objectives which become more focused. Strategic decisions are improved. Important decisions are taken to accomplish the goals;
– external importance: potential students and families look for information provided by rankings in order to decide which institution or study programme to follow. Governments study rankings to design national policy. Employers use rankings to extract information for comparative studies needed to perceive the quality of the graduates.

Understanding the importance of rankings towards achieving a better positioning is not enough for higher education institutions to improve their strategic decisions. Building a ranking-based differentiation strategy might be a challenge for the academic management in order to perceive rankings as an effective tool for higher performance achievement.

2.2 Differentiation in the Higher Education Sector: Importance and Analysis

Differentiation in the higher education sector is not clearly defined. In order to understand its importance for higher education institutions, some general characteristics that apply to business must be analyzed and observed as being also relevant to the educational area. Of course, similarities and differences between business and educational sectors must also be considered. Put differently, not all strategies that apply to business, are feasible and pertinent to higher education institutions.

Porter (1980) explains the need for a competitive strategy in order to achieve profitability, taking into considerations several competitive forces. He describes the competitive advantage of a company in relationship with the cost and the differentiation options, context from which two possibilities are brought up for companies: to accept costs and differentiate or to forget about differentiation and accept low costs. In other words, differentiation does not go along with low cost. The contemporary context is characterized by a financial instability since the economic and financial crisis in 2008, according to the European Commission (2017a). In other words, either public or private, resources have decreased and therefore, differentiation has become questionable.

In a competitive environment, long institutional life is difficult unless a special strategy adapted to the context is implemented. Such strategy refers to differentiation. In fact, competition takes place not only among products, but also among needs and financial resources. Therefore, differentiation is a solution to survival in the current context. Trout (2006) writes very simply that there are only two options: to differentiate or to die. He states that differentiation factors must be understood in order to be identified and reveals many differentiation ideas considering also the steps to a good differentiation strategy; some of the differentiation solutions include: differentiation must be mental, being the first is important, leadership position is differentiating, specializations count, being fashionable is important, tradition is to be strategically considered. Differentiation is itself very complex, and the competitive environment is providing multiple alternatives. The responsibility associated to choosing the strategy is colossal.

Differentiation is part of the contemporary environment and business coming from all types of industries. Doing businesses today means being different from others doing businesses in the same sector. Businesses are simply described by a novelty degree which can be also relative or absolute. The first step in doing business is to write a proper business plan in order to identify the key elements of the business which, as senior editor Palffy (2015) describes are: the business objectives, the market understanding and the profit and income relationship projection; therefore, in order to describe the product or service of the business, the plan must include pertinent answers to the differentiation issue especially, what makes the product/service to be sold on the market.

Kotler (2002) explains the importance of the differentiation strategy in connection to its positioning impact and identifies several differentiation variables—from product and services, to personnel, channel and image. The importance of the differentiation strategy must be explained from the three categories of interested parties—business, market and customers:

– business becomes more personalized for a specific market, meaning becoming either the best or better compared to others; in fact, competitive advantage is what makes products or companies different;

– market is better divided and segmented, better understood and controlled in terms of competition, quantities and qualities of the goods and services;
– customers become better known and satisfied; they are involved in the business development process through their feedback.

Differentiation-based strategy generates a new type of relationship among the three categories—business, market and customer. It becomes a direct one, meaning that the clearer or the better the differentiation strategy is, the better off the business, the market and the customers are.

A simple analysis reveals connections between business and educational sector. In Table 3 similarities and differences between organizations involved in the two sectors are expressed.

Similarities and differences can be even many more identified. Therefore, the differentiation strategy for higher education institutions has a specific importance generated from the characteristics of the environment. Higher education institutions should differentiate, at least for the following issues: differentiation variables become part of the marketing strategy and real effective competitive advantage, institutional strategies become more focused, institutional reputation changes from general to specific visibility. In addition, institutions, will have their competitive position improved, their potential candidates will be able to better select the study programme and the university, while similar universities will know in which compatible and complementary areas to cooperate.

A deeper analysis of the educational sector reveals that differentiation is more difficult than in other businesses, for its opportunities and threats for institutions exposed in Fig. 1.

At present, many classifications include higher education institutions in groups that reflect the institutional mission as Hazelkorn et al. (2014) describe. Taking into

Table 3 Business sector versus higher education sector

Issues	Business sector	Higher education sector
	Similarities	
Resources	– financial, material, human and informational resources are used; insufficient resources create a huge restriction for development	
Management	– strategic management, quality management, change management	
Marketing	– product and services are part of a marketing strategy	
Client relationship	– efforts are made to develop the relationship for a long term	
	Differences	
Main purpose	– profit maximization – cost minimization	– increasing visibility – increasing reputation
Mission	– very diverse	– more or less similar: education, research and involvement in society development
Promotional strategies	– very often	– never or approximated to such strategy

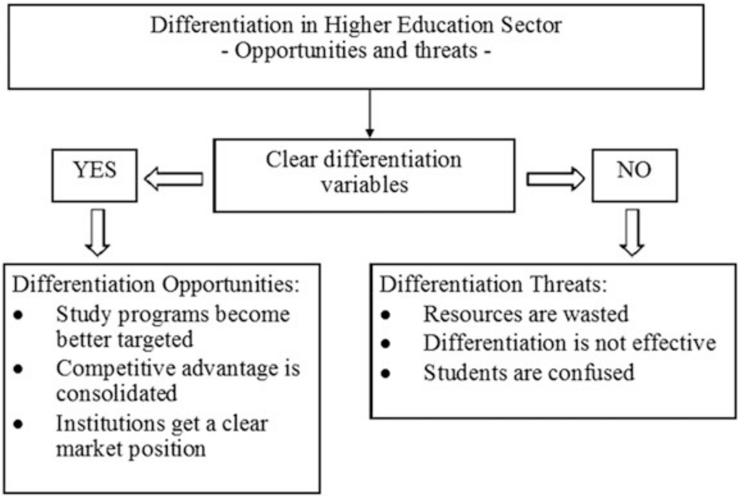

Fig. 1 Differentiation opportunities and threats for higher education institutions (Source: Author)

consideration the first two institutional missions—research and teaching missions, or even combinations between them, institutional types might include research intensive, research and teaching, teaching intensive universities etc. For instance, Russell Group comprises 24 research-intensive universities, considered world-class universities, all of them being unique and sharing distinguished characteristics. Rankings include several dimensions, generated from the institutional missions. A ranking based differentiation means a new higher education strategy. A ranking based differentiation has to be decided by the higher education institution management in terms of which ranking is most relevant for the institutional profile and which would generate a higher impact on institutional visibility. The ranking identified as relevant will be then better understood and its criteria as well as indicators will become institutional directions of improvement. The entire responsibility belongs to the academic leadership, which according to Swami et al. (2017) have a strong commitment to many areas, including quality assurance, strategies adopted, research, developing new programmes.

3 Ranking-Based Differentiation Strategy in Higher Education Institutions

3.1 Role of Rankings in Building an Effective Differentiation Strategy

Differentiation is more or less visible in different industries; Shepart (2014) provides an insight in several areas such as insurance, cosmetics, fresh food, recruiting etc. and identifies what makes the companies different from the competition. The more sustainable businesses are the more effective differentiation is. Differentiation is applicable in many ways, but to be effective, it must generate considerable effects for the business. Trout (2006) explains using metaphors that different elements can be generators of differentiation—such as leadership, tradition keeper, market specialization, preferences, being the first, while others cannot always generate differentiation, such as quality and client orientation, price, creativity. In other words, not all changes generate differentiation in terms of real competitive advantage. An effective differentiation is that approach that generates higher value to the business and its beneficiaries.

In higher education sector differentiation is more or less visible. Many business actions and models, practices and techniques can be applied in this field. Higher education sector is characterized by several many indicators generated from the institutional strategic and operational plans. Each indicator can be easily considered relevant for differentiation: number of students, cycle of studies, number of international student, number of incoming and outgoing students, financial state, sponsorships, number of partnerships, curriculum activities etc. In the quality assurance evaluations, many indicators are used and each of them or groups of them is a criterion for differentiation. In addition, higher education institutions are classified by national legislation or by international organizations as being of one or another type, therefore different.

At present, national and international rankings for which higher education institutions submit data or not are also tools that integrate institutions in different groups or categories. These are defined by specific dimensions according to ranking methodologies. A synthesis of the current expressions of differentiation in higher education sector is shown in Fig. 2.

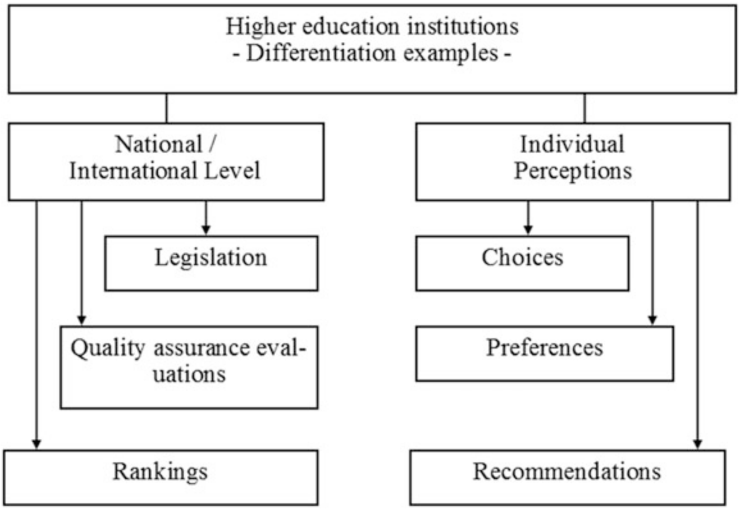

Fig. 2 Differentiation in higher education institutions (Source: Author)

Therefore, rankings generate differentiation among higher education institutions, as the legislation and the quality assurance standards do, too. Important is that individual perception considers the rankings and the type of institutions they want to reveal through the positioning. On a long term, what contributes from a feedback point of view is whether the students and graduates recommend the institutions to their family and friend or not. A ranking-based differentiation strategy could contribute to a better understanding of the institutions and its valuable characteristics.

At a first glance, differentiation in higher education sector is also present. It contributes to the recognition of higher education institutions as part of different categories: big or small, public or private, accredited or not accredited, research intensive or teaching intensive etc. Does this mean that differentiation strategy is also present? Two approaches can be observed in higher education sector. In the first approach there is no differentiation strategy. The existing indicators and institutional categories accepted or recognized by national and international legislation, methodologies and systems are not enough. At the end of their studies, the diplomas are comparable and graduates have no benefit in their career development for graduating from one institution or another. In the second approach differentiation exists and it is less visible, at the beginning of the student-institution relationship, but more visible at the end of their studies, when students become graduates; an effective differentiation recognition must be done by institutional beneficiaries of the educational services, by the students and potential employers of them. What is relevant in terms of differentiation in higher education sector is that differentiation variables are important in this process; they belong to the following categories: product and services, teaching and research staff, distribution, promotion. Higher education institutions provide personalized study programmes, sometimes created in cooperation or joint degrees in order to be more attractive to potential candidates; services can also be personalized in terms of convenience in applying for internships, or extracurricular activities. At the same time, institutions can become famous from the presence of recognized specialists in their field of teaching or research; in such cases, students will accept institutions with less equipment, but high quality personnel. Higher education institutions do not have much flexibility in providing study programmes, the main possibility being: full time, on line and blended learning system of teaching and learning; Institutions can benefit from their image and brand and if this happens, they do not need to have an aggressive promotion.

Each of the previous elements can be an efficient differentiation variable for higher education institutions. These differentiation variables are more or less considered by students in their decision making process. Sometimes, they are aware of the competitive advantage and they want to benefit from the institution strength, while other times, potential candidates ignore the differentiation variables and choose a study programme under totally subjective motivation. Therefore, students may behave accordingly to two possibilities. One possibility is of a student behavior ignoring differentiation variables, case which corresponds to the first approach when differentiation is not considered possible in higher education institutions. The other possibility is of a student behavior oriented by differentiation variables awareness, case which corresponds to the second approach when differentiation is considered and recognized.

On the educational market, institutional behaviors interact with individual behavior. On one hand, higher education institutions might pay a lot of attention to the importance of the differentiation and its effects on current and future state and therefore they might invest in creating and consolidating a competitive advantage. Such an investment implies a cost of differentiation. No cost at institutional level for a clear differentiation variable does not necessarily mean that the institution is not different from the others. In this case, resources are not directed towards differentiation, the institutional behavior being freely oriented. On the other hand, students may pay a lot of attention towards the institutional features and being aware of the differentiation variables, they generate a behavior oriented towards their own education investment. When they are not interested in differentiation variables of higher education institutions, students are not preoccupied of their own education. From all these interactions, the differentiation strategies arise as seen in Fig. 3.

Higher education institutions' strategies are the following ones: strategy of win-win, strategy of inefficiency, strategy of lottery and strategy of non-action. These generate institutional behaviours that are explained in Table 4.

Any lack of understanding is transferred to the management performance of the institution. The better the differentiation process is understood, the more efficient the change management is. At the same time, the sooner the students are in clarifying their study and carrier profile, the higher their employability will be. In order to both institutions and students meet in the process of differentiation, change management must be involved accordingly. As a consequence, students will choose the best higher education institutions for them to study and institutions will have the best students' profiles.

A ranking-based differentiation strategy should take into consideration variables generated from the major ranking dimensions. A review of national rankings from

	Student Awareness of Differentiation Variables	
Institutional Costs for Differentiation Variables	High	Moderate or Low
High	Win—Win Strategy	Inefficiency Strategy
Moderate or Low	Lottery Strategy	Non-Action Strategy

Fig. 3 Differentiation strategies generated from institution-student interaction (Source: Author)

Table 4 Differentiation strategies and institutional behaviours

Strategy type	Higher education institution' behaviour
Strategy of win-win	Institutions understand the importance of the differentiation in defining their actions and invest in it. At the same time, they attract students with high interest in matching their studying profile with the institutional offerings and therefore both expectations are fellfield
Strategy of inefficiency	Resources are invested in developing towards one or several differentiation variables, but students do not pay attention to these and then, the percentage of students' high performances will be low
Strategy of lottery	This is a passive strategy in which institutions either do not understand the importance of differentiation, or do not have enough resources to cultivate the changes. Students with high interest in finding the best institution for them to study will be partially satisfied, so some will consider the already existing features as corresponding with their study interests, while others will not
Strategy of non-action	Institutions do not pay attention to differentiation variables, and students have a low or moderate preoccupation of what this might mean for their profile. Institutions will be characterized by a passive strategy of non-actions, waiting for regulations to force them do change something

Table 5 Main ranking dimensions, based on IREG inventory

Ranking dimensions		
Research Teaching	Regional engagement Student satisfaction	Staff/student ratio Level of final degree
Reputation	Campus life	Completion rate
Internationalization	Website	Academic and student facilities
Innovation	Social service	Welfare and administrative services
Employability	Entry standards	Teaching and learning environment

the recognized rankings by IREG Observatory on Academic Ranking and Excellence reveal the dimensions include in Table 5. The dimension selection includes the rankings from European countries, meaning 25 national rankings.

Some of the major dimension included in the rankings are more frequent than others; research is considered by 26 times, teaching by 30, reputation by 18 times, internationalization by 14 times, innovation by 9 times, employability by 14 times, while the rest less than 3 times. Campus life is reflected only in the Italian ranking, student satisfaction in the Irish ranking and in one British ranking. Some of the dimensions can be connected to others, such as research with innovation, campus life with student satisfaction and with academic and student facilities, teaching with teaching and learning environment etc.

Ranking role in building an effective differentiation strategy is clear, once the academic leadership choose the dimensions to institutionally focus on. Some would consider that a really excellent university pays attention to all the aforementioned dimensions, which can be true, in case of an external comparison to other institutions. When the analysis is done internally, dimension based objectives should be prioritized meaning that what is different is in fact the importance of the dimensions and not the dimensions or variables themselves.

3.2 Model of Ranking-Based Differentiation Strategy for Higher Education Institutions

Differentiation is a key for successful strategies. Many business ideas can be adopted in higher education sector and best answers to simple questions can be found related to proper institutional change and development. Krogerus and Tschappeler (2012), McGrath and Bates (2013) and Sherratt and Delves (2014) explain that the current challenges for decision making processes are related to management dilemmas, to abilities to manage the change itself and to find proper change orientation and answers to change-related questions. Such questions are: How to find a competitive advantage for higher education institution? Which are the distinctive features of the institution? How to manage a change effectively? In other words, the main questions are: What to change? How to change? How to make the change effective?

Differentiation is a consequence of change, but also a premise of the process of change. According to Roberts, there are five management functions, beginning with planning, like all management specialists follow and based on Evans (2013), there can be used 80+ tools to create a winning strategy. A short description of the differentiation strategy as part of the management process is reflected in Fig. 4.

Differentiation strategy starts from the institutional vision and mission, where from, clear and smart objectives must be identified, according to the available resources. In many cases, marketing research is the key for identifying pertinent instituional changes, based on Brandt (1999). The strategy is not a moment, is a process to be planned, organized, coordinated and controlled. In order to build an effective strategic model for differentiation in higher education institutions, academic leadership should correlate the ranking dimension to the institutional

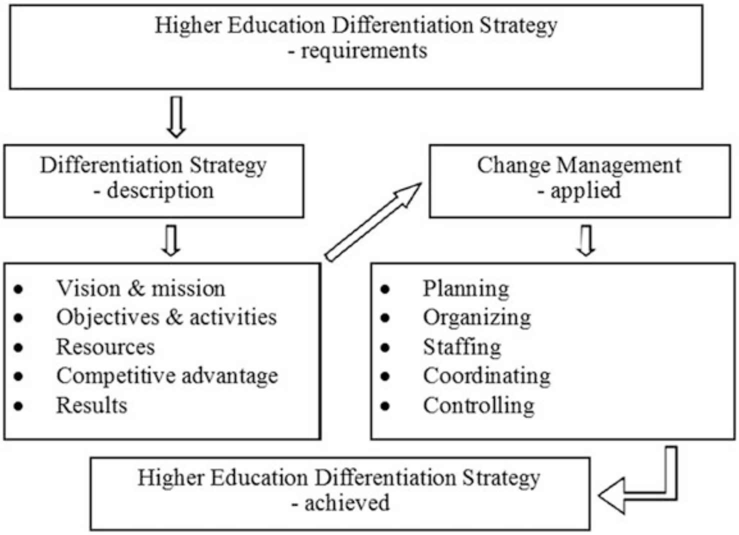

Fig. 4 Differentiation strategy—from objectives to results (Source: Author)

Table 6 Ranking dimensions and institutional mission

Missions: teaching—1; research—2; society involvement—3		
Research: 2 Teaching: 1	Regional engagement: 3 Student satisfaction: 1	Staff/student ratio: 1 Level of final degree: 1, 2
Reputation: 1, 2, 3	Campus life: 1	Completion rate: 1
Internationalization: 1, 2	Website: 1, 2, 3	Academic and student facilities: 1, 2
Innovation: 1, 2	Social service: 1, 3	Welfare and administrative services: 1, 2, 3
Employability: 1, 2, 3	Entry standards: 1	Teaching and learning environment: 1, 2

mission, first. Secondly, since differentiation is connected to change, academic leadership should generate institutional change through the decision-making process. A link between the possible dimensions as differentiation variable and the institutional mission could contribute to a correct strategy building. Therefore, such a possible connection is shown in Table 6.

Therefore, considering all the aforementioned connections between ranking dimensions and institutional missions, the steps to follow to generate the change towards the differentiation should be:

– determine the higher education option for the ranking dimension
– assess the current state of the ranking dimension
– define possible institutional changes
– predict the competitor's changes related to the chosen dimension
– implement the change.

A differentiation strategy is a way of competing in which institutions look for unfitness, through selecting one or several ranking dimensions. Higher education institutions become able to better perform on the market, but only in the case of student awareness or other stakeholder awareness, according to the specific objectives. If the students do not know or do not trust rankings, having a differentiation strategy and investing in it is similar to the case of no differentiation at all. In other words, a differentiation strategy is worth building and developing only if the students, as beneficiaries of it are aware and understand it properly. In this context, communication to the public is most important. Media and institutional press office contribute to the strategy building. If the communication is direct, continuous and clear, the strategy is effective. In case of a lack of communication, the differentiation does not reach the potential public and its impact becomes minor.

A general model of differentiation strategy is presented in Fig. 5.

Differentiation strategy starts from the institutional vision and mission, where from, clear and smart objectives must be identified, according to the available resources allocated for ranking-based dimension. In case of a research and internationalization-based institution, the internal decision towards these areas and more resources allocated to them are not enough for achieving an effective differentiation strategy. It has to be properly communicated to the public, therefore, communication strategy must go along with the differentiation message. Making the strategy visible is the key to achieving its objectives.

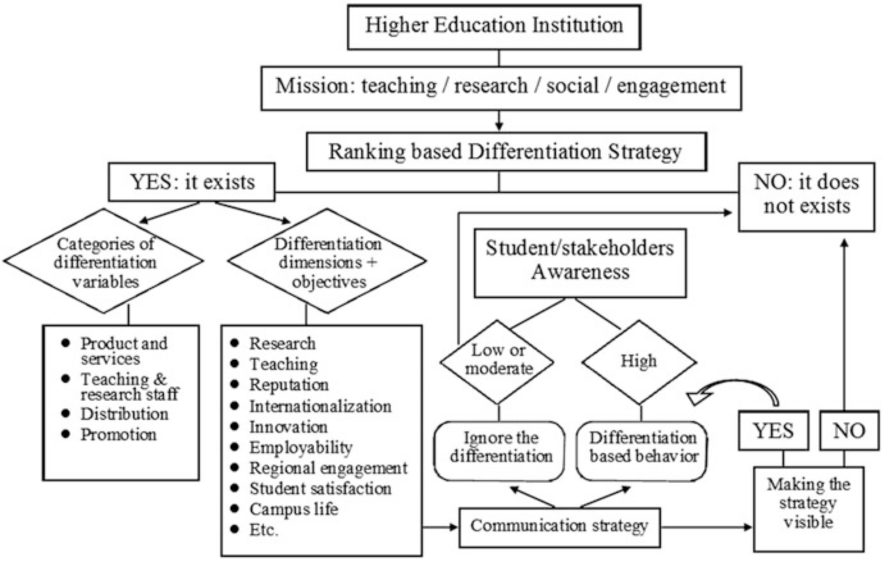

Fig. 5 Model of ranking-based differentiation strategy for higher education institutions (Source: Author)

4 Conclusion

4.1 Theoretical and Practical Issues

Higher education institutions are important structures in a local community, as well as in national and international community. The differentiation strategy can be a successful change management for pro-active behaviors. A differentiation strategy is necessary and requires more than a declaration statement form the academic leadership. It implies a proper institutional engagement from the differentiation variables identification towards their proper communication to the interested parties, meaning stakeholders. Differentiation strategies are a result of the change management process effectively implemented.

Rankings are part of the current context and there is no way back to the context before these leagues or mappings. Institutional decision must be taken whether rankings should become an input to strategical changes or leave them as results of ranking institution that can be ignored. Once the decision of the academic leadership is to consider and cope with the ranking institutions, pertinent cooperation with them become internally recognized and institutional profiles are submitted to the ranking institutions and agencies.

From a theoretical point of view, academic leadership must understand specific ranking related concepts, such as league, criteria, and indicators in the contemporary context. In the absence of a proper contextual understanding, all institutional decisions will be like survival actions and not performance-oriented once. From a practical point of view, academic leadership becomes aware to what rankings are and reveal—specific dimensions, methodologies, differences among rankings, importance of institutional data submitted or collected by the ranking groups etc.

The proper differentiation strategy is of tremendous importance for different stakeholder categories. In addition, the communication strategy should follow the type of the message beneficiaries look for; a future student at a bachelor programme might be less interested in research than a doctoral candidate, or an external partner. The stakeholder category must be identified, and the message should be created according to its needs. In other words, a ranking based differentiation strategy may be effective only in the case a stakeholders' awareness.

4.2 Future Studies

Differentiation is possible in specific contexts through specific tools and as contexts change, so do the tools improve. How to apply the differentiation strategy could be of interest in a dynamic environment such as the contemporary one? Another topic for future studies could be the correspondence between the change management and the quality management in higher education sector, since the change is continuous, but the standards of quality do not keep the change dynamics. Of interest could be the importance of finding tools for students to better choose their studies according to their individual profile and institutional competitive advantage, so that they could be more satisfied with their decisions.

Questions and Activities

1. 'The current European context of higher education is a context of cooperation'. Explain and comment upon this statement in the light of the education environment characteristics considering the impact of this context towards your own university
2. 'One institutional challenge is a better recognition of qualifications.' Explain why this statement may have been made. Do you agree with it (make sure you justify your answer providing short examples of good and bad practice based on your own research)? What is the role of the Bologna Process in this matter?
3. 'Quality of education is an important dimension of most of the rankings at national and international level'. Explain and comment what issues does it reveal and which mission is it connected with; select and compare 3–4 rankings, at your choice and integrate the information they provide in your explanation.
4. 'A differentiation strategy in higher education institutions is important for all stakeholders'. Explain who the stakeholders are and which are the benefits of a differentiation strategy for each category of them for your university in comparison with other similar institutions better positioned in a global ranking, such as ARWU.
5. 'No matter what rankings are accepted at national level and recognized at institutional level by the academic leadership, who decides what to study and

where to study is the candidate himself/herself.' Explain the factors that influence individual perceptions on higher education institutions and study programmes. Do you agree with this statement? Do a questionnaire based research to identify the main motivational factors that contributed to the study decision of your colleagues and explain if rankings are one of the reasons for their decision.

6. 'Student awareness related to differentiation variables for higher education can be low, moderate or high'. Create a questionnaire based research to identify the level of students' awareness related to the differentiation variables of your university. Find the students' answers to what makes their university different from others.
7. 'A ranking-based differentiation strategy has no impact in case of a low level of student awareness.' Do you agree with this statement? Explain the relationship between the impact of a differentiation strategy and the level of stakeholders' awareness. Identify what different stakeholders look for and provide examples of strategic partnership with your own university.
8. 'Some rankings consider that an institutional performance is measured by the quality of research'. What do you think about this statement? Explain the link between teaching and research quality in higher education. Create your own research in order to identify the academics' perception on one hand and the researchers' perceptions on the other hand in terms of the research based institutional performance and the institutional capacity of integrating research into teaching.
9. 'The importance of rankings can be described from an internal and an external point of view.' Explain why this statement. Select three European countries and universities and reveal the national changes towards considering rankings as important tools for institutional development and identify concrete practices universities implemented.
10. 'Increasing employability is considered an institutional challenge for a higher education institution'. Do you agree with it? Should this be an individual responsibility, a labour market responsibility or a higher education institution responsibility? Discuss the efforts that different institutions have made on tracking students and graduates and comment how a good tracking can be an input for increasing employability.

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Big Business Bias? European Policy at the Expense of Small and Alternative Ventures

Volker Rundshagen and Markus Raueiser

Abstract This chapter contributes a critical perspective on EU policy and the challenges it imposes on SMEs in general and alternative businesses in particular. The recent financial and Euro crises have undermined public trust in the business world and the political system. Reorientation and/or innovation towards more viable business practice could come from—and inspires—many SMEs, particularly alternative ventures. However, lobbyists of the large corporation scenery exercise substantial influence undermining meaningful policy shifts at EU level. We illustrate resulting dilemmas in the areas of banking and agriculture.

The key points of the chapter are the following ones:

1. to highlight the situation and importance of SMEs in the EU
2. to highlight the notion of alternative ventures and business approaches
3. to understand the problematique of big business lobbyism in the EU
4. to illustrate major dilemmas of EU policy for small/alternative banks
5. to illustrate major dilemmas of EU policy for small/alternative farmers

1 Introduction

The business world is a fascinating realm for several reasons. It provides employment opportunities and thereby the platform to work, and work in turn is a major activity of life if not even a personal raison d'être for many individuals (e.g. Super et al. 1995).

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Businesses are also the provider of products and services enabling our contemporary lifestyle, not least through innovations and inventions companies of all sorts create in response to a competitive environment. Be it in the role of consumers, employees or citizens; we are all affected by business activity in manifold ways.

"The effects of businesses are far-reaching and represent a large component of the social fabric of our lives. Businesses have an unprecedented opportunity and, some would argue, even a duty, to positively impact their stakeholders" (Dillon et al. 2014: 1). Unfortunately, narrow-minded views of profit maximization for the benefit of shareholders as the only legitimate or even natural goal of corporations prevail (Freeman et al. 2004). However, recent public debates reflect the shadow of doubt cast over the notion of positive business impacts on society. The aftermath of the global financial crisis triggered in the subprime real estate segment of the United States in 2007/2008 (e.g. Shiller 2012) has made many people weary vis-à-vis the benefit of (particularly corporate) business activity for all. Endless series of corporate scandals linked to greed and reckless profit maximization (e.g. Gray et al. 2005) reinforce such effects. Yet, the situation calls for a differentiated perspective. On the one hand, large corporations and financial markets dominate the global economy (e.g. Herrmann 2017) and cause much of the recently debated mayhem, which, however, does not mean all their activities, let alone their existence per se would be devastating for the world. On the other hand, countless small businesses have not ceased to contribute to our benefit with new approaches and revolutionary ideas as much as with traditional craft or down-to-earth daily work (of course there will also always be small businesses guilty of malpractice resulting in e.g. workforce exploitation or environmental damage). These notions embed into the larger societal debates about a dichotomy between the corporate/capital market sphere largely composed of multi-national corporations (MNCs) and the 'rest of the world' encompassing civil society as well as the small business scenery. Backlash against a global reign of MNCs (and/or their major shareholders) recently culminated in fierce anti-globalization rhetoric in many media and in the rise of populist movements (not only in Europe), already alarming the elites—even the World Economic Forum has prominently addressed major problems arising from MNC-driven globalization (e.g. WEF 2014).

In Europe, one of the issues linking the big picture to our topic is the recent public outrage about tax advantages for MNCs like Apple, Starbucks or Amazon who generate massive revenues in many European countries, but hardly pay any income tax there (e.g. Barker et al. 2017). Experts point out these corporations act fully in line with the law, outsmarting tax authorities by shifting income to low-tax havens through complex schemes benefiting from loopholes and crafted by savvy lawyers and consultants often based in Luxemburg as revealed by *LuxLeaks* (e.g. Christians 2014). The key issue for our chapter here is that smaller businesses like the bookstore round the corner, local coffee shops or regional organic farmers do not have this tax manipulation option and therefore face unfair competition. That is somewhat ironic, considering the EU commission's avowal to the principle of (fair!) competition as source of a diversified economy, growth, and wealth generation (e.g. European Union 2017).

While the public vigorously debates the question of why such imbalance in regulation remains in place in latter-day Europe, and how to change it, many voices request a return to the business leitmotiv of *Ehrbarer Kaufmann*, or 'honourable trade person', prominently treated in Thomas Mann's famous work on the *Buddenbrook* family. Transferring this traditional role model into our era, Faltin (2015) offers a passionate plea for entrepreneurship as a route to success with consciousness regarding responsible and responsive business practice. He has developed and coached various entrepreneurial projects and blueprints against the backdrop of an increasing public awareness that a viable future requires either a pathway we may label, slightly improvised, as 'back to the roots' of sound business practice for the 'real economy' or even alternative approaches to business. Maybe it even requires alternative economic paradigms altogether (e.g. Felber 2010; Welzer 2014). Various local or regional, citizen-driven initiatives practice—and experiment with—such approaches. Particularly the modern urban lifestyle of European metropole regions induces and encourages an avant-garde of traditionally rooted, yet progressively enacted craft revivals and of alternative business (mostly retail) concepts, most of which emphasize organic, fair trade and other principles/products (Heinrich-Böll-Stiftung 2009) we can consider ethical in one way or another (Crane and Matten 2016). It is clear that (almost) all of these initiatives or approaches originate in the sector of micro, small or at maximum medium-sized businesses, as these are not confined by narrow-minded profit maximization imperatives and myth-propelled return-on-investment goals suffocating most operational practice not aiming at sheer cost reduction (e.g. Chang 2010). In this chapter, we illuminate the conditions small and alternative ventures face because of EU policy. To narrow down this vast field the elaborate exploration of which would go beyond the scope of this chapter, we focus on regulation and subsidies as major EU policymaker's instruments.

European integration has created a huge single European market with some 500 million people living in its area as citizens and of course also as potential consumers. Officially, it grants the free movement of goods, services, capital, and labour. The resulting major advantages for businesses include the wider availability of economies of scale, direct cost reductions due to abolished border formalities and reduced national regulation differences, simplification of cross-border mobility, and lower entry barriers (Johnson and Turner 2016). In reality, however, large businesses, and MNCs in particular can capitalize on these benefits much more than small and/or alternative ventures. One of the main reasons is that, more than ever, lobbying activity accompanies doing business in Europe (Suder 2011)—an arena where big business has an inherent advantage due to financial power translated into political influence.

To illustrate the situation and some of the most pressing resulting problems, we illuminate the two major economic segments or industries of agriculture/food and banking/finance. These two are among the few sectors where up to 80% of all parliamentary legislation in EU member countries originates from the EU

(Guay 2014) so that EU influence is much more prominent than the leeway of national legislation in these areas. Whereas these two areas certainly do not imply generalizability across all industries/segments, we assume wider applicability that remains subject to research in detail elsewhere. We proceed as follows: to frame our context we briefly define and explain the concepts and provide key data of small and medium enterprises and alternative businesses. These two categories are of course not the same, but we will unveil that problems SMEs face are often the same and even exacerbated in the case of alternative ventures. Furthermore, the phenomenon of big business lobbyism in the EU completes our basis. Then we move on to the two areas of banking and agriculture, describing the situation and providing a case study highlighting the most problematic issues, respectively. Finally, we offer a brief conclusion summarizing the key points of this chapter and featuring an outlook.

2 Small and Medium Enterprises (SME)

There is no unanimous definition of SME, neither globally nor within Europe. The European commission emphasizes the importance of SMEs, and there is an avowal to foster this segment. In a preliminary step, the European Commission even defines the very term or concept of an *enterprise* as “any entity engaged in an economic activity, irrespective of its legal form” (European Commission 2005: 12). Based on that, and considering the context of a single market, “it is essential that measures in favour of SMEs are based on a common definition to improve their consistency and effectiveness and to limit distortions of competition” (European Commission 2005: 6). This common definition distinguishes *micro*, *small*, and *medium-sized* enterprises based on the parameters of staff headcount, annual turnover and annual balance sheet. Table 1 summarizes the categories and parameters accordingly.

In Europe, nine out of ten enterprises are SMEs, and SMEs generate two out of every three jobs. Hence, there is their declaration as “the engine of the European economy” (European Commission 2015: 3). As of 2012, the share of micro-enterprises in total employment in the non-financial business economy in Europe ranged from almost 20% in the United Kingdom or in Germany to almost 60% in Greece (Eurostat 2015). Overall in the EU, the share of newly born enterprises without any employee, i.e. owner-operated ventures, amounted to 46.9% in 2012 (Eurostat 2015).

Table 1 SME categories and defining parameters

Category	Headcount (annual work unit)	Turnover or balance sheet (annual €, annual total €)	
Micro	<10	≤ 2 million	≤ 2 million
Small	<50	≤ 10 million	≤ 10 million
Medium-sized	<250	≤ 50 million	≤ 43 million

Adapted from European Commission (2015)

Beyond quantitative criteria, qualitative criteria are worthwhile as well in establishing an understanding of SMEs. Meckl (2010), referring to the German context with its prominent and strong SME segment yet making a vital point of universal applicability, suggests that a central qualitative characteristic of an SME is the unity of ownership, management, liability and risk. Unlike corporations with professional managers who de facto can avert almost any ultimate personal liability risk (e.g. Schwarcz 2015) and with largely anonymous shareholders who only contribute with their investment, most SME owners assume active management roles. Many family-owned businesses have kept ownership and management in family hands over generations. Major challenges SMEs face typically encompass a thin capital basis and distribution problems (Meckl 2010), although they may be able to compensate the latter to some degree thanks to internet technology that theoretically provides a level playing field in terms of sales through direct customer contact (e.g. da Costa 2001). However, they have some competitive advantages due to their very status as SME, such as flexibility, low overhead costs and dynamic approaches to innovation (Somers et al. 2010).

In the EU, one basic assumption is that SMEs—like businesses in general—should find a prosperous business environment particularly due to the single European market, even more so because of the EU enlargement of the past decades opening up further markets and entailing additional business potential.

> In Europe, common rules are there to harmonize access to countries and market opportunities. Opportunities are diverse. For example, the Czech Republic offers opportunities in automobile equipment, agri-business and fishery; Poland in the environmental sector; Estonia in hotel and restaurant equipment; Cyprus in food and perfume (Suder 2011: 65).

SMEs do not only represent an important economic segment, they also play a vital role for new and further economic development and innovation in the EU. A significant share of that has to come from new ventures, which, in turn, need favourable conditions to realize their potential. “For entrepreneurs to take ideas and turn them into marketable goods and services, an environment that nurtures start-ups is essential” (Guay 2014: 316). Of course, not only start-ups but also existing SMEs need nurturing, insofar as the environment should not disadvantage them. EU policy officially reflects this notion. There are EU support schemes and funding opportunities dedicated to SMEs. By the end of 2013, the EU had supported more than 300,000 SMEs through various funding mechanisms, and the strategy concept of *Europe 2020* explicitly emphasizes further importance of support for SMEs, not least, because the financial crisis affected them more adversely than any other group of businesses (Johnson and Turner 2016). In particular, the *Small Business Act (SBA)* of 2008 for European SMEs reflects an official commitment to nurture this segment. However, its success remains disputed. Table 2 features an overview of its key principles/intentions along with remaining problems unveiled during a public consultation in 2014.

Hence, there is the EU policymakers’ avowal to support SMEs and keep them in focus. Yet, severe obstacles remain and the reality looks different in several regards.

Table 2 Selected Small Business Act principles and remaining problems

Selected guiding principles of SBA	Remaining problems
• Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded • Design rules according to the 'think small first' principle • Make public administrations responsive to the needs of small and medium-sized businesses (SMEs) • Adapt public policy tools to SMEs' needs: facilitate SMEs' participation in public procurement and better use state aid possibilities for SMEs • Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions	• Administrative and legal burdens remained the biggest concern • Access to finance remained difficult despite the measures taken • Further effort is needed with respect to accessing markets, in particular improving links between existing EU programmes

Adapted from EUR-Lex (2016)

3 Alternative Businesses

There is no universal definition or conceptualization of *alternative businesses*. We use this rather broad label purposefully for enterprises that pursue non-conventional business pathways in their very mission and/or in their operations. They share a strong commitment to the common good in the broadest sense as opposed to shareholder value primacy. Mostly, their commitment focuses on sustainability goals. Those are often classified as environmental or social, acknowledging that the former concept has been researched much more than the latter, which in turn can be defined as "the processes by which social health and wellbeing are initiated and nourished both now and in the future" (Pullman and Dillard 2010: 746). In many cases the founders started the respective enterprise with such mission as the very driver of opening up shop, translating an idealistic or ethical stance into entrepreneurial effort. Besides for-profit businesses there are also non-profit oriented ventures in this domain. However, we exclude NGOs as we only consider businesses in this chapter. It is important to realize that all businesses we refer to as *alternative* exclude profit maximization goals widely associated with corporations and traditional investor-driven businesses (e.g. Demsetz and Lehn 1985). As a logical consequence of their orientation and their ownership structure (often owner-operated, family-owned, partnerships or co-operatives), alternative businesses are mostly small, if not even micro, but some of them have reached medium-size. Overall, we consider their segment as non-mainstream SME scenery niche.

Many businesses we consider alternative are *values-based*. Values are subjective notions of the desirable representing normative orientations, providing direction for individuals as well as organizations and the individuals within them (e.g. Schwartz 2012). Furthermore, we should even consider their potential of driving innovation

(Breuer and Lüdeke-Freund 2015), hence potentially inspiring start-ups and eventually incumbents feeling the pressure to innovate in insecure times and volatile market environments to remain competitive or to stay afloat. Largely, values-based businesses foster

> a culture shaped by a clear set of ground rules establishing a foundation and guiding principles for decision-making, actions and a sense of community. In a values-driven culture, employees find alignment between their personal values and the organization's values creating a unified and motivated workforce. Management and leadership set examples for their organizations and live the values they preach (SHRM 2017).

There are various potential bases of the shared values uniting and guiding the workforce. One such basis is spirituality. It is difficult to capture, as it means different things to different individuals or even constituencies. As common ground there are deeply held values (Milliman et al. 1999). But not all spiritual organizations are alternative in our sense. Other potential value bases more consequently in line with our line of thought are intentions of creating "green, socially responsible, or sustainable" (Honeyman 2014: 3) ventures. In essence, founders of such businesses question the taken for granted mainstream business conduct that allegedly is harmful for humanity and/or the environment in many ways (e.g. Tencati and Pogutz 2015; Welzer 2014). Beyond reducing harm, the raison d'être of alternative businesses may even be to solve or alleviate pressing problems. This applies in particular to actors in the field of *social entrepreneurship*, which can be defined as "the innovative use of resource combinations to pursue opportunities aiming at the creation of organizations and/or practices that yield and sustain social benefits" (Mair and Noboa 2006: 122).

An often-cited and European pioneer example of a successful values-based business is *The Body Shop*. Anita Roddick founded the company in 1976 for a simple reason: "I just wanted to go in the opposite direction of the cosmetics industry" (Roddick 2005:vii), and she translated that idea into business principles such as forgoing animal testing, buying ingredients on a fair-trade basis, and fostering human rights as well as environmental protection. However, this company is an interesting case also for another reason: in 2006 *L'Oréal*—one of the established mainstream corporations of the cosmetics industry—acquired The Body Shop. This case shows that once an 'alternative' start-up has grown substantially enough to achieve a certain level of commercial success it can become part of the 'big business world', and it also shows how it can spark substantial criticism in that process (van den Ven et al. 2009). Another case in point to illustrate how alternative approaches can turn mainstream is *fair trade* undergoing dramatic transformation: in a process of appropriation the commercial sector adopts the more convenient elements of fair trade so that the concept loses its radical edge, which "will be greatly to the detriment of a movement that has always acted as both critic and conscience" (Low and Davenport 2005: 143). Hence, we notice that beyond the dynamic scenery of small-scale (and partly 'radically alternative') players and their ideas, larger concepts diffuse into the broader business world.

We are witnessing such occurrences in many guises. To name just two remarkable ones: firstly, there are the increasingly popular constructs of the *Certified B*

Corporation and the closely related *Benefit Corporation*, both subscribing to the movement understanding business as a 'force for good' (e.g. Branson 2013; Honeyman 2014; Mackey and Sisodia 2013). They represent hybrid business entities required to have a material positive impact on society, while at the same time generating profits up for distribution among owners (Singer and Day 2014). There is a growing global 'B Corp' community of currently around 1600 certified B Corporations from 42 countries and over 120 industries (B Lab 2017), and this movement initiated in the United States is gaining momentum in Europe as well. Secondly, the Austrian initiative of the *economy for the common good* is growing. Its core principles are cooperation instead of competition to strengthen democratic values and an economy in the service of society instead of individual profits (Felber 2010). More than 400 international member companies, including regional banks and organic bakeries among manifold others report their contribution to societal benefit (Gemeinwohlökonomie 2017).

These examples show that boundaries between conventional and alternative business spheres are partly blurring. Arguably, that is also a result of the societal debates mentioned earlier. However, a strong divide remains between publicly traded corporations stuck with the paradigm of shareholder value maximization, despite its mythical and legally misguided nature (Stout 2012), on the one hand and alternative enterprises negating profit maximization for the sake of a viable future for all on the other hand.

4 Big Business Lobbyism in the EU

In the broadest sense, inquiry into lobbying belongs to a field of analysis referred to as the social reality of interest politics (Bouwen 2002). In technical terms, one of the standard definitions highlights lobbying as "a way for interest groups to be heard, exchange ideas and information with policymakers and try to influence the regulatory and legislative process" (Guay 2014: 60). Observers that are more critical point to lobbying as "power unaccompanied by accountability of any kind; that which is not required to report to anyone concerning its activities and which, being difficult to understand, is equally difficult to counter" (George 2015: 8). Essentially, this view represents an evaluation of lobbying as a threat to democracy.

Due to a—despite manifold opposite allegations—comparatively small apparatus of EU bureaucrats with 33,000 staff members, corresponding with about half of Edinburgh's public sector headcount, policymakers need additional sources of information provided from the outside world (Guay 2014). They solicit much of that information from parties with stakes in areas affected by (future) political decisions, and certainly, lobbyists provide, beyond that, unsolicited information to promote their agendas. Overall, there are roughly 5000 registered interest groups and an estimated 15,000–30,000 lobbyists with access to the European Parliament or Commission (Guay 2014). Various (mostly non-governmental) organizations criticize a lack of transparency in terms of who of the lobbyists actually gets access to which members of the EU commission or parliament how often and in which matters exactly (e.g. ALTER-EU 2016).

Undoubtedly, lobbying activity accompanies doing business in Europe more than ever. In large part, we can attribute that to the fact that business—and arguably the 'big business scenery' in particular—"has become aware of the competitive advantage that public affairs management on an EU scale offers" (Suder 2011: 306). It is undisputed that large firms have the highest degree of access to the European Commission (Bouwen 2002), which puts them into a privileged position in relation to other business or civil society groups when it comes to achieving policies in line with their interests (Tansey 2014). It is not surprising to notice, "SMEs do not usually have the resources which large firms dedicate to influencing policy-making or lobbying" (Suder 2011: 294). There certainly is no directly or exactly calculable relation between money spent on lobbying and money received in subsidies for a certain industry, or money saved due to prevented regulation that would have led to higher costs for a certain industry. However, there certainly is a correlation between financial power to fund lobbying activity and favourable policy outcomes.

A recent culmination and (although only unveiled in fractions) demonstration of the lobbying power of the biggest corporations are the negotiations between the EU and Canada/USA concerning CETA/TTIP/TiSA. George (2015) unveils how transnational corporations tailor such transnational treaties to their interests, and Bank (2016) points out that 90% of the lobby discussions of the Directorate General in theses contexts were with lobbyists representing large corporations. Considering that the latter essentially represent the top 1% of global wealth (e.g. Oxfam 2014), thus neither SMEs nor civil society, we have to diagnose a striking mismatch regarding represented interests.

5 Banking

The first sector we consider to illustrate the 'big business bias' of EU policy is banking (and finance). "The financial system is meant to facilitate efficient allocation of resources and help people and businesses fund, invest, save and manage risks" (Admati 2016: 1). Confronting people with such mundane technical statement about the role of finance will most likely cause a plethora of cynical outbreaks, considering the financial meltdown of 2008 and the seemingly endless series of scandals riddling the sector. The system, instead of fulfilling its function outlined above

> is rife with conflicts of interests. Reckless practices if uncontrolled by market forces and effective rules, can cause great harm. Most of the time, however, the harm from excessive risk in banking is invisible and the culprits remain unaccountable. They rarely violate the law (Admati 2016: 1).

5.1 Lobbying and Revolving Doors

One of the main arguments brought forward is the lobbying power of financial industry groups (e.g. Pagliari and Young 2014). In Brussels, the finance industry employs around 1700 lobbyists, thus outnumbering the EU civil servant work force dealing with the financial sector by factor four. It spends roughly 120 million euros per year to that end, which in turn is about 30 times as much as all trade unions, consumer protection and environmental protection agencies combined have at their disposal to work on the same issues (Schumann 2016). There is a clear rationale behind this massive effort and cost-intensive apparatus: political limitations imposed on the finance industry to reduce the risks (ultimately born by taxpayers) would also reduce its profit potential easily amounting to several hundred millions per year. Hence, preventing or at least delaying major reforms curtailing the most profitable (i.e. speculative/risky) activity is a worthwhile investment for the sector (Schumann 2016).

In addition to the pure financial lobbying power, the 'revolving doors' phenomenon exacerbates the system-induced problems and conflicts of interest: the same people rotate their roles within institutions in the financial system, politics and regulations, and other organizations—resulting in regulatory dysfunction (Admati 2016). José Manuel Barroso who led the EU commission as its president for a decade until 2014 represents one of the most prominent recent revolving door examples: he joined Goldman Sachs as advisor. Thereby, he spurred a debate about conflict of interest in general and potential violation of EU codes of conduct (stating that ex-commissioners must act with integrity and discretion during and after they have left office) in particular. Arguably, it is especially problematic that Barroso joined not just any bank, but Goldman Sachs—of all firms—due to this bank's alleged involvement in harming and undermining the integrity and functionality of the EU, or more specifically the Euro zone at various instances (e.g. Rankin 2016). Revolving door occurrences raise the question whether the role-holders involved have not actually worked for their ultimate (corporate) job destination all along, now reaping the implicit reward there for having served the corporate interests even throughout an earlier official political role.

5.2 Pre- and Post-Crisis Banking and Finance Regulation in the EU

The financial crisis of 2007/2008, turning into the so-called *Euro crisis* in 2010 (Bohn and de Jong 2011), certainly marks a watershed event for the EU in general and the Euro zone (technically referred to as European Monetary Union—EMU) in particular. It may well be "the most serious economic and political crisis in the history of the EU" (Copelovitch et al. 2016: 811). Many experts claim the defunct arrangement of EMU from the outset, as politicians initiated it on geopolitical grounds while ignoring prerequisites for a successful single currency area; first and foremost political and social union (e.g. Busch et al. 2017; Eichengreen 2012). Hence, it is worthwhile to highlight pre-crisis versus post-crisis financial policy and market regulation in the EU.

In the first decade after the introduction of the Euro, there was fast-paced financial market integration (Quaglia 2012). Despite initial fears of continental banks, the liberalization and widening of the financial market intensified quickly. That encouraged large banks with global player ambitions to open up substantial investment banking units. These emerged as powerhouses of the above-mentioned lobby scenery, heavily promoting the interests of big finance. As a consequence, policymakers and their regulation in favour of the big players pushed aside national parliaments along with the interests of small banks (and other businesses), and ordinary citizens (Mügge 2010). The big financial institutions' lobbyists (even of US banks) had also major influence in the design of the so-called Basel II accord that set international capital requirements, which, in turn, the EU incorporated into its legislation (Quaglia 2012).

The crisis culminated in highly controversial bank bailouts of institutions 'too big to fail', especially in Germany and Spain (e.g. Spiegel 2012) on the one hand, and in an overburdening debt crisis of periphery EU member states on the other hand. The so-called PIIGS countries of Portugal, Italy, Ireland, Greece and Spain incurred severe economic shocks with growth, employment and public finance largely collapsing (Brazys and Regan 2015). The Irish state accumulated more than 70 billion of additional debt to keep banks (with inflated pre-crisis business models) liquid. Even more dramatic is the case of Greece. This country's deficit developed so dramatically that the EU, partly together with the IMF, conducted several rounds of financial assistance programmes in return for harsh austerity policies (e.g. Capelovitch et al. 2016). To make matters worse, it turned out that most of the 'bailout' payments (and beyond that guarantees not paid out yet) hardly reached the indebted nations, but primarily guaranteed debt service to their lenders. These large (mainly French, German and British) banks effectively shifted their risk to taxpayers. Hence, some of the co-initiators of the crisis have benefitted most of the policies in its response (e.g. Schumann 2013).

In light of these occurrences, it seems particularly puzzling that EU leaders have adopted piecemeal, incomplete reforms at best containing but never solving the crisis and its aftermath, let alone prevent future crises. Jones et al. (2015) ascribe this behaviour to the phenomenon of 'failing forward': repeatedly, interstate bargaining leads to fragmented, eventually failing incremental reforms that intensify financial integration ever further, which provokes rather than prevents a potential future financial meltdown. One reason for this approach is that there are prevailing divergent national interests:

> At every step, the European decision-making process has been marked by a struggle on the part of the member states to ensure that more of the risks and costs will be borne by other states. This is one reason why the full costs of the debt crisis have not yet been allocated. This dynamic is evident in the resistance of the Netherlands, Finland and Germany to allowing the ECB to purchase sovereign debt or transfer funds across national borders to stem the crisis of confidence in the financial markets. It appears in the glacial movement toward banking union, which has endowed the ECB with supervisory authority over large European banks but is still elusive on the issue of who will pay to wind down insolvent banks (Hall 2014: 15f).

According to another diagnosis, EU institutions "have invested huge financial and political capital to manage the crisis, but not to resolve it. Behind the Euro's

Table 3 EU regulatory responses to the global financial crisis concerning banking

Regulatory measure, date	Essential content
Amendment of Deposit Guarantee Scheme directive (October 2008)	Minimum level of coverage for deposits increased, payment time reduced
Proposal for new Deposit Guarantee Scheme directive (July 2010)	Harmonization of coverage and simplification of pay-out
Capital Requirements Directive (CRD) III amended (2008–2010)	Higher capital requirements on trading book and securitization, sound remuneration practices
CRD IV, following Basel III to be proposed in 2011 (December 2010) *[enacted 2013]*	Redefinition of capital, higher capital requirements, increase of weight risk for certain assets, leverage ratio, liquidity rules

Adapted from Quaglia (2012: 175)

manifold contradictions lie disparate and divisive forces that make clear-cut outcomes unlikely" (Marsh 2016: 5). Nevertheless, there are regulatory responses. Table 3 below summarizes reform steps following the financial crisis of 2007/2008.

There are two highly relevant regulation/policy aspects for our context. Firstly, there is the Anglo-Saxon dominated Basel III accord and its incorporation into CRD IV with heightened capital requirements for banks at its core. Whereas the Anglo-Saxon economic culture relies on financial markets and corporate finance rather than bank loans to the real economy (especially consisting of SMEs), it is the other way round in many European countries (Quaglia 2012). Therefore, German lobbying intervened and succeeded to some degree in obtaining a more favourable regulatory treatment of bank lending to SMEs in CRD IV (Keller 2015). Secondly, there is the ECB's recent extreme low-interest policy with negative bank deposit rates. The official rationale of this move is to stimulate bank loan activity especially vis-à-vis businesses and in peripheral states. However, there are indications that this policy provides too weak an incentive for banks holding excess liquidity (in core states) to provide more bank loans, neither at home nor to periphery countries (Bucher and Neyer 2015).

5.3 *The Case of Alternative Banks in Germany*

The German banking sector is quite distinct in Europe with its three pillars of private commercial banks, public sector banks (*Sparkassen*), and co-operative banks (*Volks- und Raiffeisenbanken*). There are also several alternative banks in Germany. In line with Butzbach and von Mettenheim (2014) we consider alternative banks those that are not run to maximize profit or to satisfy shareholders and therefore pursue a business model that is the antipode of classical (finance-market, shareholder value-driven) banking. Notably, four institutions in Germany fully subscribe to ethical principles based on strict ethical, ecological and social criteria covering both their investment and their loan offer policies. Table 4 summarizes these institutions.

Table 4 Alternative banks in Germany

Institution, year of initiation	Major characteristics
EthikBank *founded in 2002*	• Smallest alternative bank in Germany • Subsidiary of a regional *Volksbank* • Strongly engaged in social projects
GLS Bank *1974 (first ethical bank in Germany)*	• Anthroposophical context • All investments publicly disclosed
Triodos Bank *1980 (Netherlands), Germany 2009*	• First and largest European ethical bank • Incorporated, owned by a foundation
UmweltBank *licensed as Volksbank since 1997*	• Incorporated, widely held stock • Investment focus: renewable energy

Summarized from Attac (2017)

These alternative institutions have grown substantially—although from a very low basis and still within a small niche—in recent years. Undoubtedly, the financial crisis and mainstream bank scandals of the last decade have contributed to that growth, as an increasing clientele does not want to support financial market speculation externalizing its risks to taxpayers any longer. However, EU banking and finance regulation as highlighted in the previous section severely disadvantages the business models of small banks in general and of alternative ones in particular.

Significant problems arise out of the current EU regulation approach: it violates the principle of commensurability. EU bodies and sequentially national bodies follow the Single Supervisory Mechanism (SSM), imposing the rules designed with large, corporate, global player institutions in mind equally on small banks. Thereby, regulators ignore their fundamentally different risk profiles and customer bases and therefore overburden these institutions with bureaucratic exercises and costs incurred to meet excessive reporting requirements (Ferber 2016). To make matters worse, ECB's negative interest policy cuts off the already small interest margins and leeway of small/alternative banks to support SMEs of the real economy (EthikBank 2016). As a result, those very banks that have been committed to sound financial practice preventing financial crises and scandals suffer most from post-crisis regulation, whereas the big player 'culprits' can easily live with it and keep the 'casino' (Strange 2015) open.

6 Agriculture

The second sector we use to highlight the 'big business bias' of EU policy is the sector of agriculture with an emphasis on subsidy policies. The overall budget of the EU amounted to 144 billion euros as of 2013, which is less than the individual national budgets of Austria or Belgium and breaks down statistically into a contribution of some 280 euros per capita per year (European Commission 2016). This is still a substantial total volume allocated for various purposes. Like elsewhere in the world, farming and food production are essential elements at the core of a viable economy and society in Europe. Consequently, EU budget allocation reflects the importance of this sector: roughly, 40% of the total budget is reserved for direct agricultural subsidies and the development of rural areas (EU Commission 2016).

6.1 EU Agriculture Subsidies

The Common Agricultural Policy (CAP) of the EU dates back to the earliest stages of the European Community in the late 1950s and early 1960s—an era where times of food supply shortages and starvation during the World War were still present in collective memories. There were several reform stages, three of which are of particular interest for our context. Firstly, the 'Agenda 2000' reforms of 1999 created its still valid structure with the two pillars of production support (i.e. direct subsidies to farmers or other food producers) and rural development. Secondly, the so-called 'decoupling' reform of 2003 changed the pattern: instead of paying fixed amount per commodity output (e.g. 200 euros per hectare of wheat); the EU would now provide support based on a single payment scheme. It gives member states some freedom to choose how to implement this scheme. There can be regionalized payment with farmers receiving identical payments per hectare within a region, a farm-specific payment (like in France and Italy basing payments on historical farm production levels) or a combination of both (like in Sweden and Germany) (Brady et al. 2009). Furthermore, in 2010 the EU launched the latest reform covering the years 2014–2020, outlining the challenges of food security, environment and climate change, therefore also announcing a 'greener' policy scheme. However, environmental prescriptions of the new scheme "are so diluted that they are unlikely to benefit biodiversity" (Pe'er et al. 2014: 1090). Experts predict the abandonment of an estimated 8% of farmland in the EU because of recent CAP reforms, mostly concerning livestock grazing farms of more marginal areas of Europe. Besides a reduction of farmland biodiversity, they at least point to potential improvement of agriculture's footprint (Renwick et al. 2013).

There is another highly criticized aspect of the 'greener' EU agriculture subsidy scheme: it awards money mainly based on the size of the land owned. In the UK some of the most bizarre misallocations include the payment of 400,000 Pounds a year to subsidize a farm where a billionaire Saudi prince breeds racehorses, more than 500,000 Pounds to the Queen or more than 785,000 Pounds to the Mormons (Harrabin 2016). Not only large-scale landowners benefit from the current policy scheme, but also large corporations. In Germany, Südzucker AG—the world's largest sugar producer and a highly profitable agro-industrial business—received 1.9 million euros of direct EU payments in 2014 (Rosenberger 2015).

6.2 Agricultural Market Structure

With its 28 member states, the EU has some 12 million farmers with a further 4 million people working in the food sector. The farming and food sectors together provide 7% of all jobs and generate 6% of the European gross domestic product. There were 10.8 million farms in the EU in 2013, with the vast majority of these (96.2 %) classified as family farms—defined as farms under family management and with at least 50% of the regular labour force provided by family members. Hence, family farms account for more than 19 out of 20 farms across the EU. However, they only have about two thirds of the cultivated agricultural land (Eurostat 2017a). Looking at the resulting products available to consumers, the picture turns around: while a visit to European supermarkets suggests that there is an enormous variety of food and beverage products, diversity actually diminishes on the supply side: multinational food and beverage giants provide most of the products (KSTA 2017).

The developments in the EU mirror the global trend towards agro-industrial concentration and a highly financialized supply chain. The concentration and merger wave is continuously increasing: Five out of 12 capital-intensive takeovers within the last two years occurred in the sector of food, beverages and agriculture. 50 food producers account for 50% of the revenues worldwide, seven large companies dominate the market for seeds and pesticides worldwide, and with the permission of the antitrust authorities, there will be only three by the end of 2017 (KSTA 2017). There are a number of highly problematic consequences: agro-food enterprises become increasingly involved in financial activities, food retailers are dominant actors within the agro-food system, there is intensified exploitation of food workers, and small-scale farmers see their livelihoods become more uncertain due to increasing volatility in agricultural markets and due to growing competition for their farmland (Isakson 2014). Furthermore, industrial livestock farming and mass production of food are associated with massive environmental pollution and climate change promotion. Recently, Germany's government had to report that there is groundwater pollution through high nitrate concentrations (BMEL 2017).

6.3 The Case of Dairy Farmers in Germany

Germany is one of the most important agricultural producers and the leading milk-producing country in the EU. The top six milk producers of the EU are Germany (19.6% of total EU production), France (16.2%), the UK (9.1%), Poland (7.9%), the Netherlands (7.8%), and Italy (7.4%). Together, they account for more than two thirds of EU milk production (Eurostat 2017b). In Germany, there are still some 72,000 dairy farmers holding 4.3 million cows. Two thirds of German dairy farmers hold less than 50 cows per farm. Structural change is under way; the overall number of dairy farms decreases by 2–4% per year (MIV 2016). Especially the number of small farms is declining, while the number of bigger producers grows. A dairy farmer with less than 100 cows must calculate a cost of around 800–1400 euros for a new shed per cow and year, including depreciation and interest. To finance this, every litre of milk would have to yield at least 40 cents. However, the latest statistic shows that only about 28 cents are yielded. Table 5 features a cost overview for a litre of milk.

Table 5 Composition of milk price in Germany

Cost components/value chain stages	Average costs per litre of full milk, sold @ 60 cents in supermarket
Farmer	28.8 cents
Dairy factory cost + margin	9.6 cents
Packaging (container)	6.6 cents
VAT (7%)	4.2 cents
Recycling fee (*Grüner Punkt*)	2.4 cents
Logistics and warehouse costs	1.2 cents
Transportation	1.2 cents
Supermarket/retailer costs + margin	6.0 cents

Adapted from Binder (2017)

Dairy farmers have suffered from low milk prices during recent years. Nowhere else in Europe, retail prices for milk are as low as in Germany: for the litre of whole milk, food discounters charged even less than 50 cents in 2016, and to keep up, the big food retail chains followed suit in lowering prices. Although the prices went up to some 60 cents (see Table 5), small farmers still have a gap of at least 10 cents per litre for viable milk production. Obviously many farmers—those with less than 100 cows—cannot survive in the long run. Even larger dairy farms face a problematic situation, although they have a more favourable cost structure mainly through economies of scale achieved with automated production based on milking robots. In the German state (*Bundesland*) of Nordrhein-Westfalen, the number of dairy farms decreased by about two thirds over the last 20 years (from some 18,000 to 6179), and by some 9% from 2015 to 2016 alone (Binder 2017).

From a farmer's perspective, only large-scale production promises survival. That leads to the paradox that since the EU abandoned milk quotas to counter oversupplies farmers are producing much more than before. But even export is an inappropriate solution, as EU farmers exacerbate worldwide over-production of milk. German (and other EU) farmers who have invested heavily to modernize and scale up production during recent years now face huge problems due to lack of liquidity. These farms may not all have to close down but many probably face expropriation when banks or investors take over (e.g. Busse 2016). Market concentration, scaled-up production and (large) investor-driven agriculture are least likely to solve some of the urgent problems like food quality or environmental and social sustainability.

Despite crises and criticisms, the dominant policy stance has not departed from neoliberal paradigms promoting further integration of large parts of European agriculture into agro-food circuits of capital (Potter and Tilzey 2005). There is no lack of programmes and reforms, there are some good intentions, and there is substantial funding. However, in the sector of agriculture, like in the banking sector, principles of fair competition and a market economy for the benefit of all EU citizens—a major raison d'être of the EU—are violated further with policymakers stuck on the current paradigm pathway.

7 Conclusion

In this chapter, we took a critical perspective on EU policy with regard to the business environment it creates for SMEs and, even more so, for alternative ventures. In light of the financial crisis of 2007/2008, turning into the Euro crisis by 2010, the greater public feels at unease with the current paradigm of business for the sake of profit maximization at the expense of the greater good. One of the problematic consequences is that the entire business world loses public esteem and credibility.

However, the business scenery is diverse and has the potential of generating innovation, wealth and solutions for many of the latent or the pressing problems facing society. Furthermore, entrepreneurship provides enormous possibilities, maybe even more than ever before. Many people, ranging from seasoned professionals to young idealists just entering the world of work look for meaning and believe in business as a force for positive change. They experiment with values-based or alternative business models. We acknowledge that there are diverse mind-sets in terms of in how far small business founders/owners are (not) fervent supporters of (unrestrained) market forces (Goss 1991) or other controversial policy paradigms. However, overall, interests of big business, in particular MNCs often conflict with those of SMEs (e.g. Guay 2014).

In Europe, most businesses are SMEs, and most alternative businesses are in that category. Despite an avowal to foster SMEs as a backbone of the economy, and despite major programmes such as the Small Business Act, the EU de facto serves big business interests first. It even hinders, albeit possibly unintended, the unfolding of small ventures through regulation and subsidy schemes. We illuminated this trend for the sectors of banking and agriculture. Regarding banking, the case of alternative (ethical) banks in Germany illustrates how post-crisis regulation with an emphasis on capital requirements and negative interest rates nearly suffocates the very institutions standing in for future-proof banking practices. Policymakers have failed to see that banking comes in various guises, and not only in the form of large, corporate, global player institutions (Butzbach and von Mettenheim 2014). Regarding agriculture, the case of milk farmers in Germany illustrates how subsidy schemes favour, sometimes culminating in bizarre forms, large-scale agrarian industry and rich landowners, and how these schemes drive small, often organic and/or regionally rooted farms at the brink of extinction.

One reason may be that European decision-makers mainly aim at securing full market integration inside the EU rather than at shaping regulation to meet a common public purpose (Posner and Véron 2010). Another reason certainly is that diverging national interests persevere, and the task of policymaking at EU level remains complex. In the near future, we do not expect much change to the direction of EU policymaking. National electorates put pressure on politicians who otherwise might be committed to the common European cause (Menasse 2012). More differentiated policymaking in terms of considering different business needs, situations, profiles and contributions to society could help substantially to solve the issues at hand (e.g. Ferber 2016). However, the most severe obstacle is (and will remain) the sheer lobbyist power of MNCs in Brussels, which is unlikely to give in any time soon. Keeping it at bay for the sake of a viable future for us Europeans remains a formidable challenge.

Questions and Activities

1. Explain the importance of 'big' businesses and of 'small' businesses/SME for the economy and for society in Europe.
2. Select any five 'big businesses', e.g. from major stock markets such as the German DAX or the British FTSE 100, look into their history and explain how/why they have grown to become big (even global?) players.
3. Besides their size, what are the main differences between large corporations and SME? In how far do these differences help explain conflicting interests between the respective spheres of 'big' and 'small' business?
4. Which social and/or economic trends encourage the development of 'alternative' businesses, which trends are detrimental to it?
5. Research which organizations and/or individuals are registered with the EU as lobbyists and exemplify the major goals of some of them.
6. 'Lobbying at EU institutions should be stopped altogether, as it only favours one-sided corporate profit interests'. Comment on this statement, differentiating perspectives of various stakeholders or interest groups.
7. Explain the business model of a bank and discuss how it could be transformed to survive major changes or disruption in the marketplace such as the current zero-interest policy of the ECB.
8. Research the current milk prices across EU member states and explain reasons for differences.
9. Discuss in how far consumers have influence and responsibility regarding the problems facing the agricultural and banking sectors in Europe.
10. Can you think of other sectors suffering from the EU policy phenomenon of 'failing forward' quoted in this chapter?

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Innovation Support Strategies for Enhancing Business Competitiveness in the European Union: Programmes, Objectives and Economic Impact Assessment

Francesco Bellini and Fabrizio D'Ascenzo

Abstract The research, development and innovation programmes of the European Union play an important role for the development and competitiveness of the "old continent". The aim of this paper is to briefly describe the policy that drives these programmes and give some insights on how they are assessed in order to measure the impact of public investment. In this work, we discuss the impacts on Gross Domestic Product and employment estimated by the European Commission for Framework Programme 7 with the results of a sample of 60 FP7 projects in three ICT domains. The exercise allows to raise some questions about the assumptions made by the EC experts and provides suggestions in order to implement a more effective system for monitoring the R&D investment.

The key points of the chapter are the following ones:

1. Introduce the Europe 2020 strategy
2. Discuss the importance of resources allocation for innovation
3. Provide an introduction to the impact assessment of research & innovation programmes and investments
4. Compare the official economic assessment of EU FP7 with alternative exercises
5. Provide a contribution to the design of a comprehensive evaluation framework of research, development and innovation (R&D&I) programmes

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1 Introduction

The past decade saw a disruptive economic and financial crises that obliged to re-discuss the working rules of the worldwide economy. The innovation programmes that European Union supports since 1980s needed to be redesigned according to the new economic and societal changes also addressing the gradual European 'lag' in comparison with the US, Asian tigers and several emerging economies in terms of research, development and innovation (R&D&I).

The Europe 2020 strategy promotes seven flagship initiatives to catalyse progress (European Commission 2010):

- "Innovation Union" to improve framework conditions and access to finance for research and innovation with the aim to ensure that innovative ideas can be turned into products and services that create growth and jobs.
- "Youth on the move" to enhance the performance of education systems and to facilitate the entry of young people to the labour market.
- "A digital agenda for Europe" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.
- "Resource efficient Europe" to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise our transport sector and promote energy efficiency.
- "An industrial policy for the globalisation era" to improve the business environment, notably for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.
- "An agenda for new skills and jobs" to modernise labour markets and empower people by developing their of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility.
- "European platform against poverty" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

Each of these initiatives is "innovation intensive" but if the 2016 European Innovation Scoreboard (European Commission, 2016) has shown really positive signs in some regions, the overall Innovation Index that measures the innovative capability of the "enlarged Europe",[1] shows a flat trend since from 2008 (coinciding with the beginning of the financial crises).

Although Horizon 2020 is Europe's largest single research and innovation programme ever, it accounts for only a very small proportion of the public research and innovation effort in Europe. The headline indicator of 3% fixed in the Europe 2020 strategy is made up of:

[1]EU 28 plus Switzerland, Israel, Iceland, Norway, Serbia, Turkey, Macedonia, FYROM, Ukraine.

- 1% public expenditure (of which Horizon 2020 is a minority);
- 2% private expenditure.

To have any chance of progressing towards this goal, efforts need to go well beyond the effective implementation of a Framework Programme and understand how this can produce a leverage effect by attracting new public and private investments.

In this framework, also the way how resource are allocated for innovation becomes crucial. The role of resource allocation, in particular financial resources, was central to Schumpeter's (1934) analysis while the relation between finance and innovation was neglected by some contemporary economists (O'Sullivan 2005). The latter approach influenced a set of policies that were often oriented towards dysfunctional incentives and opportunities across a range of sectors with the result of undermining the productive investment. This dysfunction produces effects beyond the short-term and unproductive value extraction is encouraged at the expense of value creation (FINNOV Project 2012).

It was then realised that is now the time to reconsider the Schumpeter's foundations by identifying two levels of analysis:

- A micro level where the entrepreneur decisions drive the resource allocation.
- A macro level where the resource allocation interacts with structural economic changes.

For example, ICTs (information communication technologies) sectors are highly dynamic sectors in Europe and account for almost one half of the EU productivity growth; on the other hand, the EU still lacks behind US in these sectors and this is the main reason of EU-US gap. The boost of Europe's ICT sector becomes even more crucial with the Digital Agenda for Europe, which promises to contribute an estimated 500 billion euros, or 4% of GDP to the EU economy. Which is impact of EC sponsored investments in ICT research? How to efficiently and effectively sustain ICTs innovation strategies?

In this debate evaluations become an essential part of the EU's Framework Programmes. They create a crucial evidence base to steer the implementation of research and innovation programmes, as well as guide future Framework Programmes. At the same time, especially after the financial crises, an accurate evaluation and the communication about the impacts generated by EU funded research represent an important instrument of "accountability" with reference to the usage of tax payers resources.

The European Commission (EC) is now carrying out an interim evaluation of Horizon 2020 that is both a legal requirement (European Commission 2017) and an opportunity to steer the debate on future R&I activities in Europe and to deliver on the Commission's Better Regulation agenda (European Commission 2015).

The ex-post evaluation of the 7th Framework Programme (FP7) is completed and was also used to inform the intervention logic of Horizon 2020 (European Commission 2013). The evaluation of a Framework Programme is a complex exercise that covers many aspects and areas of intervention and, according to this, a structured and uniform approach is strongly needed despite of many proposal and theories that were deployed in different assessment exercises. The aim of this paper is exactly to give a, even small, contribution to the debate with reference to the macro economic impacts of EU research Programmes. In order to run this exercise, we started from the official Ex-Post-Evaluation of the 7th EU Framework Programme (2007–2013) (European Commission 2015) and we used the results obtained in three support actions projects, namely SEQUOIA,[2] MAXICULTURE[3] and IA4SI,[4] that evaluated the socio-economic impacts of the research projects funded in three ICT domains under the FP7.

2 Impact Evaluation of the R&D Programmes

2.1 Evaluating Economic Effects, Growth and Jobs

This section briefly explores the existing studies regarding the impact assessment, the evaluation of investment in technological research programmes and reviews the key findings and the methodologies used in such studies.

The value chain, that starts with research and ends with innovation activities, is characterized by a number of complex interactions, feed-back loops and variable time spans between research, development and innovation (R&D&I) phases until market penetration. The beginning of the innovation processes is marked by R&D activities in basic research, applied research or design and development. The following step is the integration of innovative products and processes, their introduction and subsequently the diffusion into the market. The assessment of economic effects of R&D requires sophisticated methods to connect the increases in R&D intensity/investments to the increases in productivity, domestic and external demand and, finally, growth and employment. While the outputs of innovation processes, such as e.g. publications, patents or prototypes, appear immediately, impacts in terms of increased sectorial competitiveness, GDP increases, increased employment or improved living conditions, need more time to become evident.

Evaluation techniques to perform projects' impact assessment are numerous. For example, in Berghout and Renkema (2001), 65 methods were identified. Each differs in its level of detail, the range of stakeholders considered, and the characteristics of the data required. The selection of an appropriate method is critical, since success and evaluation accuracy depend on the technique's suitability and the rigor with which it is applied (Berghout and Renkema 2001; Khalifa et al. 2001; Pouloudi and Serafeimidis 1999). To help in identifying a suitable method,

[2] http://cordis.europa.eu/project/rcn/95308_en.html

[3] http://www.maxiculture.eu/

[4] http://www.ia4si.eu

Farbey (1999) proposed a set of matrices that enable to match project characteristics and evaluation techniques.

The method chosen is influenced by many factors and these include: social and organisational contexts, the organisational domain, the level of analysis, evaluation purpose and perspective, investment purpose, measurability of system impacts, and ICT application. It is now widely believed that several metrics are required to evaluate the different aspects of an ICT project (Passani et al. 2014).

The number of existing evaluation techniques are classified in various ways in the literature. For example, (De Jong et al. 1999) categorised techniques as "fundamental measures", "composite approaches" or "meta approaches". Lech (2005) distinguished among "financial techniques" and "qualitative methods" such as multi-criteria methods, "strategic analysis methods" and "probabilistic methods". Berghout and Renkema (2001) categorised four predominant approaches, which they termed the "financial approach", "multi-criteria approach", "ratio approach" and "portfolio approach".

Many more existing classifications are not cited here. Some overlaps between the various classifications are evident, however there are also distinct differences between them. This highlights the difficulty associated with establishing an agreed, coherent framework for evaluating ICT investments. A review of all available techniques cannot be exhaustive; new methods continue to be introduced while other techniques combine several existing tools (Bellini et al. 2014).

The majority of the approaches to the impact measurement focus on the input, output, outcomes and impact model (Fig. 1) where:

- Inputs are the investments made in, or the resources required to, produce a product or develop/undertake an activity.
- Outputs are the products or services provided (e.g. number of grids/networks created, papers published, events held, etc.)
- Outcomes are the immediate changes resulting from an activity—these can be intentional or unintentional, positive or negative (e.g. employment, increased connectivity, etc.)
- Impacts are the net difference made by an activity after the outputs interact with society and the economy (e.g. transformational research enabled by the project which would otherwise would not have occurred or occurred as fast enabling EC funded researchers to be world-leading).

Monitoring and ex-post evaluation exercise is a combination of qualitative, statistical and econometric techniques aimed at analysing the effects of the policy intervention.

The methodologies employed in ex-post evaluation include (Fahrenkroget et al., 2002):

a. Statistical data analysis

    - Innovation Surveys: provide basic data to describe the innovation process, summarised using descriptive statistics.

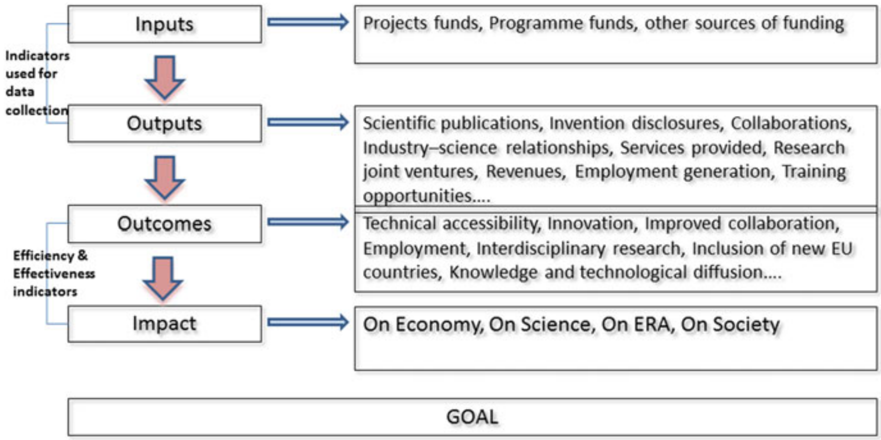

Fig. 1 Approach to impact measurement (Source: United Nations Development Programme 2002)

- Benchmarking allows to perform comparisons based on a relevant set of indicators across entities providing a reasoned explanation of their values.

b. Modelling methodologies

- Macro-econometric modelling and simulation approaches: allows to estimate the broader socio-economic impact of policy interventions.
- Micro-econometric modelling: permits to study the effect of policy intervention at the level of individuals or firms. There are mechanisms for the counterfactual control by specifying a model which allows to estimate the effects on the outcome of the participant if the programme would have not taken place.
- Productivity analysis: permits to assess the impact of R&D on productivity growth at different levels of data aggregation. This is particularly relevant to analyse the broader effects of R&D on the economy.
- Control group approaches: allows to capture the effect of the programme on participants using statistically sophisticated techniques.

c. Qualitative and semi-quantitative methodologies

- Interviews and case studies: use direct observation of naturally occurring events to investigate behaviours in their indigenous social setting.
- Cost-benefit analysis: allows to establish whether a programme or project is economically efficient by appraising all its economic and social effects. The approaches to quantify the socio-economic gains of a policy instrument include contingent valuation studies, simulating the existence of a market for a non-marketed good such as for example the capacity to produce a genome mapping in less time. These studies generally adopt questionnaires incorporating willingness to pay schemes to try to infer the price a certain public good is worth to the respondent. Other approaches include the use

conjoint analysis in surveys to determine the price users place on the attributes or features of goods and quality adjusted hedonic pricing for new or improved goods
- Expert Panels/Peer Review: measures scientific output relying on the perception scientists have of the scientific contributions made by other peers. Peer review is the most widely used method for the evaluation of the output of scientific research.
- Network Analysis: allows to analyse the structure of co-operation relationships and the consequences for individual decisions' on actions providing explanations for the observed behaviours by analysing their social connections into networks.
- Foresight/Technology Assessment: used to identify potential mismatches in the strategic efficiency of projects and programmes.

Ex-post economic evaluation methodologies have proved a successful mechanism to:

- Determine the efficiency and efficacy of the intervention (e.g. productivity studies).
- Provide a quantitative estimation of the impact of the intervention (e.g. microeconomic evaluation studies).
- Quantify the various dimensions in which returns should be considered within a defined framework.
- Assess environmental sustainability and wealth issues (e.g. cost-benefit analysis), organisational impact (e.g. case studies, network analysis, innovation studies), strategic impact (e.g. foresight).

2.2 *Evaluation of FP7*

Before Horizon 2020, FP7 was longer and larger than previous Framework Programmes. It was funded with a budget of 55 billion euros, which accounts for an estimated 3% of total RTD expenditure in Europe or 25% of competitive funding. Over the 7 years duration of FP7, more than 139,000 research proposals were submitted, out of which 25,000 projects of highest quality were selected and received funding (about 17.9% of success rate). The budget breakdown among the 29,000 organizations participating in FP7 shows that 44% of the funding went to universities, 27% to research and technology organizations, 11% to large private companies and 13% to SMEs, while the public sector (3%) and civil society organizations (2%) played a minor role. The European Commission estimated quite substantial economic impacts despite the fact that FP7 only accounts for a small proportion of total RTD expenditure in Europe. According to European Commission (European Commission 2015), each euro of EC funding in FP7 generated more than 11 euros of estimated direct and indirect economic effects through innovations, new technologies and products. This happened through a short-term leverage effects and long-term multiplier effects. In total, the indirect economic effects of FP7 are estimated at approximately 500 billion euros over a period of 25 years, contributing with 20 billion euros per year to the growth of European GDP. These economic impacts generated also effects on employment by creating 1.3 million person-years within the projects funded (over a period of 10 years) and indirectly 4 million person-years over a period of 25 years. There is also evidence of positive impacts in terms of microeconomic effects with participating enterprises reporting innovative product developments, increased turnover, improved productivity and competitiveness. Modelling involves three main mechanisms: (1) the leverage effect that enables determination of total R&D expenditure; (2) the spill over of knowledge describes knowledge transfers to other sectors and other countries; and (3) the economic performance of knowledge.

It is really interesting understand how the above mentioned figures are built. The assumptions and estimates of increases in GDP and employment that are directly connected to FP7 spending are provided by Fougeyrollas et al. (2012) and Zagamé et al. (2012) in their assessments of the programme years 2012 and 2013. Their key indicators were used for a rough estimate of the economic impacts of the whole 7th Framework Programme. More in detail:

- 50 billion euros (out of the total budget of 55 billion euros) of EC contribution to FP7 were taken as starting point for the estimation.
- Both the studies mentioned above estimated the leverage effect at 0.74, indicating that for each euro the EC contributed to FP7 funded research, the organizations involved (such as universities, industries, SME, research organisations) contributed in average 0.74 euro. Consequently, based on the 50 billion euros mentioned above, the own contributions of other organizations to the funded projects can be estimated at 37 billion euros.
- In addition, the total staff costs for developing and submitting more than 139,000 proposals (about 21,500 euros each) at an estimate of 3 billion euros were taken into account (6% of the EC funding).
- The contribution of FP7 beneficiaries (matching funding) can be then estimated at 40 billion euros.
- Consequently, the total investment into RTD caused by FP7 can therefore be estimated at approximately 90 billion euros.
- For estimating the time scale of these investments, the duration of FP7 (2007–2013) plus the average project duration (3 years) was taken into account. Therefore, a total running time of 10 years and an annual RTD expenditure of 9 billion euros covered by EC funding and matching funding of participating organizations were calculated.
- Both the studies mentioned above estimated a cumulative GDP multiplier of 6.5 for a period of 25 years. This consists of the total investment into RTD (90 billion euros) and the indirect economic effects (caused by new technologies, products and markets). Applying this estimation, the indirect economic effects can be estimated at approximately 500 billion euros giving an additional annual GDP of approximately 20 billion euros for the next 25 years.

- Considering both—the leverage effect and the multiplier effect—each euro contributed by the EC to FP7 caused 11.7 euros of direct and indirect economic effects.
- In order to translate these economic impacts into job effects, it was necessary to estimate the average annual staff costs of researchers (for the direct effects) and of employees in the industries effected by RTD (for the indirect effects). Based on estimated average annual staff costs for researchers of 70,000 euros, the report concludes that FP7 directly created 130,000 jobs in RTD over a period of 10 years (i.e. 1.3 million persons-years).
- When estimating the indirect job effects, it has to be considered that new technologies in some cases create new jobs while in other cases they might lead to job losses as well. This has already been taken into account in the two studies mentioned above. By applying their results to FP7 approximately 160,000 additional jobs are indirectly caused by FP7 over a period of 25 years (i.e. 4 million person-years).
- In order to make these figures comparable for our exercise we introduce here two new indicators that become the expected benchmark for the assessment of FP7 sub-domains:

  – Direct jobs in 10 years per million of EC investment: 25.71
  – Indirect jobs in 25 years per million of EC investment: 80

  Table 1 summarises these results.

3 Impact Evaluation of the R&D Sub-programmes

3.1 Evaluating Micro-economic Effects, Growth and Jobs

In the last years we run several support actions devoted to the assessment of the socio-economic impact of FP7 project in different ICT domains such as Internet of services and software as a services, technologies for cultural heritage (DIGICult) and digital social innovation (CAPS). The applied assessment methodology was not intended to directly assess the macro-economic impact of research projects (e.g. on growth—GDP) and it is conceived for evaluating, at a micro level, the potential benefits deriving to Consortium's partners, to final users, and to the whole society from the implementation of the research and the exploitation of the resulting products (Passani et al. 2014). Nevertheless, through the approach briefly described in this paragraph we were able to gather for each domain the same type of information used for determining the macro economic impact of FP7.

According to Evalsed Guide 2012 (European Commission 2012), four main methodologies are currently used for socio-economic impact assessments:

- Contingent evaluation: this is also called priority evaluation method. Its aim is to involve the general public in decisions. The method combines economic theories

Table 1 Framework Programme 7 economic impact evaluation

Variables	N.	Description	FP7
Investment	1	Direct investment	50,000,000,000.00 €
	2	Leverage effect[a]	0.74
	3	Beneficiaries investment[a] (=1 × 2)	37,000,000,000.00 €
	4	Proposal preparation (about 21,500 € each)[a]	3,000,000,000.00 €
	5	**Total (=1+3+4)**	**90,000,000,000.00 €**
	6	Time frame 2007–2013 + 3	10
	7	**Annual investment (=5/6)**	**9,000,000,000.00 €**
GDP impact	8	GDP multiplier[a]	6.5
	9	**Indirect economic effects (=5 × 8)**	**585,000,000,000.00 €**
	10	Timespan years[a]	25
	11	Annual impact on GDP (=9/10)	23,400,000,000.00 €
	12	Multiplier effect of EC investment (=9/1)	11.7
Impact on jobs	13	Cost of researchers[a]	70,000.00 €
	14	Direct jobs per year created (=7/13)	128,571
	15	Timespan years	10.00
	16	Total direct jobs created (=14 × 15)	1,285,714
	17	Indirect jobs per year created[a]	160,000
	18	Timespan years[a]	25
	19	Total indirect jobs created (=17 × 18)	4,000,000
	20	**Direct jobs per million invested (=16/1 per million)**	**25.71**
	21	**Indirect jobs per million invested (=19/1 per million)**	**80.00**

Source: COMMITMENT and COHERENCE Ex-Post-Evaluation of the 7th EU Framework Programme (2007–2013)
[a]Assumptions used by the EC for the estimation

with social surveys to simulate market choices and to identify priorities of choices and preferences. This approach is useful for decision-making, especially with techniques using value judgements. The aspects of the current scenario are compared to an ideal scenario to assess public preferences. This method is usually applied in an environmental impact assessment, especially to evaluate non-marketable environmental goods.

- Cost-Benefit Analysis (CBA): it is aimed at evaluating the net economic impact of a project involving public investments. A CBA is used to determine if project results are desirable and produce an impact on the society and on the economy by evaluating quantitatively monetary values. Compared to other accounting evaluation methods, a CBA considers externalities and shadow prices, allowing also the consideration of market distortions. Usually, a CBA is used in ex-ante evaluations for the selection of an investment of a project or in the ex-post evaluation in order to assess the economic impact of project activities (Bellini and Dulskaia 2017).

- Cost-Effectiveness Analysis (CEA): it is a method for selecting the most effective alternative in terms of costs between projects with the same objective. A CEA is used for evaluating benefits that are not expressed in monetary values. It is not based on subjective judgements and it is not useful in case of projects with many different objectives (in this case a weighted CEA is used). The main objective of a CEA is to evaluate the effectiveness of a project, but it does not consider the efficiency. A CEA is mainly applied to projects in the health sector with a strict definition of the programme objectives. A CEA should be applied only to compare simple programmes providing the same kind of impact.
- Multi-Criteria Analysis (MCA): it is used to evaluate non-monetary values of a project and to compare heterogeneous values. A MCA combines different decision-making techniques for assessing different impacts of the same project. It is aimed at identifying the opinion expressed by all stakeholders and end-users of a project in order to formulate recommendations and to identify best practices Bellini and Dulskaia, ibid.).

Considering these different methods and related perspectives, we decided then to ground our assessment methodologies on the Cost-Benefit Analysis (CBA) and on the Multi-Criteria Analysis (MCA). The results presented in the following paragraphs only refer to the information useful for comparing the economic impacts with the data provided in Sect. 2.2. Nevertheless, the analysis tried to cover the various interactions, feed-back loops and variable time spans between research, development, innovation activities and market penetration (see Sect. 2.1), as well as the increases in productivity, outputs of innovation processes, such as publications, patents and prototypes.

3.2 Evaluation of FP7 Software and Services Domain

The SEQUOIA project carried the assessment of 30 research projects (9 from Call 1 and 21 from Call 5) of the ICT FP7 co-financed by the European Commission in the domain of Internet of Services (IoS) and Software as a Service (SaaS) (Passani et al. 2014).

We apply now the same methodology and assumptions made by EC for the FP7 assessment to the figures gathered for the SEQUOIA projects' sample.

- The 120,144,852.00 euros of EC contribution to FP7 were taken as starting point for the estimation.
- We applied the leverage effect at 0.74 and the own contributions of other organizations to the funded projects can be estimated at 88,907,190.48 euros.
- The total staff costs for developing and submitting the proposal can be estimated in 7,208,691.12 euros (6% of the EC funding).
- In total, the contribution of grantees can be estimated at 96,115,881.60 euros.
- The total investment into ICT FP7 IoS and SaaS research can therefore be estimated at 216,260,733.60 euros.

- For estimating the time span of these investments, we considered the actual duration of the projects assessed equal to 5 years. Therefore, an annual R&D expenditure of 43,252,146.72 euros covered by EC funding and own contributions of other organizations were calculated.
- We applied the EC estimated multiplier effect of R&D of 6.5 for a period of 25 years to the total investment into R&D. The indirect economic effects can be then estimated at approximately 1.4 billion euros giving an additional annual GDP of approximately 56 million euros for the next 25 years.
- When translating these economic impacts into job effects, we were able to compare the expected jobs created according to the EC estimation and the actual jobs (direct and indirect) created according to the projects feedback. Software & Services projects actually created 162 direct jobs per year while these jobs should have been more than 600 according to the EC metrics. The number of yearly indirect jobs created is about 37 (921 in 25 years).
- We compare the Software & Services domain results with FP7 aggregated evaluation though the two new indicators:
  - Direct jobs in 10 years per million of EC investment: 13.48 (expected 25.71).
  - Indirect jobs in 25 years per million of EC investment: 7.67 (expected 80).

  The economic impact of FP7 IoS and S&S projects is summarised in Table 2.

3.3 Evaluation of FP7 DIGICult Domain

The MAXICULTURE support action performed the analysis of 19 projects in the domain of digital technologies applied to the cultural and creative domain (DIGICult) (Bellini et al. 2014).

We apply now the same methodology and assumptions made by the EC for the FP7 assessment to the figures gathered for the MAXICULTURE projects' sample.

- The 52,475,448 euros of EC contribution to FP7 were taken as starting point for the estimation.
- We applied the leverage effect at 0.74 and the own contributions of other organizations to the funded projects can be estimated at 38,831,831.52 euros.
- The total staff costs for developing and submitting the proposals can be estimated (6% of the EC funding) in 3,148,526.88 euros.
- In total, the contribution of grantees can be estimated at 41,980,358.40 euros.
- The total investment into ICT FP7 digital cultural heritage technologies research can therefore be estimated at 94,455,806.40 euros.
- For estimating the time span of these investments, we considered the actual duration of the projects assessed equal to 4.5 years. Therefore, an annual R&D expenditure of 20,990,179.20 euros covered by EC funding and own contributions of other organizations were calculated.

Table 2 FP7 ICT Internet of Services and Software as a Services domain economic impact evaluation

Variables	N.	Description	IoS and SaaS domain
Investment	1	Direct investment	120,144,852.00 €
	2	Leverage effect[a]	0.74
	3	Beneficiaries investment[a] (=1 × 2)	88,907,190.48 €
	4	Proposal preparation (about 21,500 € each)[a]	7,208,691.12 €
	5	**Total (=1+3+4)**	**216,260,733.60** €
	6	Time frame 2007–2013 + 3	5
	7	**Annual investment (=5/6)**	**43,252,146.72** €
GDP impact	8	GDP multiplier[a]	6.5
	9	**Indirect economic effects (=5 × 8)**	**1,405,694,768.40** €
	10	Timespan years[a]	25
	11	Annual impact on GDP (=9/10)	56,227,790.74 €
	12	Multiplier effect of EC investment (=9/1)	11.7
Impact on jobs	13	Cost of researchers[a]	70,000.00 €
	14	Direct jobs per year created (=7/13)	162 (expected 617.89)
	15	Timespan years	10.00
	16	Total direct jobs created (=14 × 15)	1620.00
	17	Indirect jobs per year created[a]	36.84
	18	Timespan years[a]	25
	19	Total indirect jobs created (=17 × 18)	921
	20	**Direct jobs per million invested (=16/1 per million)**	**13.48**
	21	**Indirect jobs per million invested (=19/1 per million)**	**7.67**

Source: SEQUOIA project
[a]Use of the same assumptions used by the EC for the estimation

- We applied the EC estimated multiplier effect of R&D of 6.5 for a period of 25 years to the total investment into R&D. The indirect economic effects can be then estimated at approximately 614 million euros giving an additional annual GDP of approximately 24.5 million euros for the next 25 years.
- When translating these economic impacts into job effects, we were able to compare the expected jobs created according to the EC estimation and the actual jobs (direct and indirect) created according to the projects feedback. DIGICult projects actually created 78 direct jobs while these jobs should have been about 300 according to the EC metrics. The indirect jobs created were only eight.
- We compare the DIGICult domain results with FP7 aggregated evaluation though the two new indicators:
  - Direct jobs in 10 years per million of EC investment: 14.86 (expected 25.71).
  - Indirect jobs in 25 years per million of EC investment: 3.81 (expected 80).

  The economic impact of FP7 DIGICult projects is summarised in Table 3.

Table 3 FP7 ICT DIGICULT domain economic impact evaluation

Variables	N.	Description	DIGICult domain
Investment	1	Direct investment	52,475,448.00 €
	2	Leverage effect[a]	0.74
	3	Beneficiaries investment[a] (=1 × 2)	38,831,831.52 €
	4	Proposal preparation (about 21,500 € each)[a]	3,148,526.88 €
	5	**Total (=1+3+4)**	**94,455,806.40 €**
	6	Time frame 2007–2013 + 3	4.5
	7	**Annual investment (=5/6)**	**20,990,179.20 €**
GDP impact	8	GDP multiplier[a]	6.5
	9	**Indirect economic effects (=5 × 8)**	**613,962,741.60 €**
	10	Timespan years[a]	25
	11	Annual impact on GDP (=9/10)	24,558,509.66 €
	12	Multiplier effect of EC investment (=9/1)	11.7
Impact on jobs	13	Cost of researchers[a]	70,000.00 €
	14	Direct jobs per year created (=7/13)	78.00 (expected 299.86)
	15	Timespan years	10.00
	16	Total direct jobs created (=14 × 15)	780.00
	17	Indirect jobs per year created[a]	8.00
	18	Timespan years[a]	25.00
	19	Total indirect jobs created (=17 × 18)	200.00
	20	**Direct jobs per million invested (=16/1 per million)**	**14.86**
	21	**Indirect jobs per million invested (=19/1 per million)**	**3.81**

Source: MAXICULTURE project
[a]Use of the same assumptions made by the EC for the estimation

3.4 *Evaluation of FP7 CAPS Domain*

The IA4SI support action performed the analysis of 11 project s in the domain of digital social innovation, namely Collective Awareness Platforms for Social innovation (CAPS) (Bellini et al. 2016).

We apply now the same methodology and assumptions made for the FP7 assessment to the figures gathered for the IA4SI projects' sample.

- The 17,204,988.00 euros of EC contribution to FP7 were taken as starting point for the estimation.
- We applied the leverage effect at 0.74 and the own contributions of other organizations to the funded projects can be estimated at 12,731,691.12 euros.
- The total staff costs for developing and submitting the proposals can be estimated (6% of the EC funding) in 1,032,299.28 euros.
- In total, the contribution of grantees can be estimated at 13,763,990.40 euros.

- The total investment into ICT FP7 digital social innovation research can therefore be estimated at 30,968,978.40 euros.
- For estimating the time span of these investments, we considered the actual duration of the projects assessed equal to 3 years. Therefore, an annual R&D expenditure of 10,322,992.80 euros covered by EC funding and own contributions of other organizations were calculated.
- We applied the EC estimated multiplier effect of R&D of 6.5 for a period of 25 years to the total investment into R&D. The indirect economic effects can be then estimated at approximately 201 million euros giving an additional annual GDP of approximately 8 million euros for the next 25 years.
- When translating these economic impacts into job effects, we were able to compare the expected jobs created according to the EC estimation and the actual jobs (direct and indirect) created according to the projects feedback. CAPS projects created 28.6 direct jobs while these jobs should have been about 147 according to the EC metrics. The indirect jobs created were 31.
- We compare the CAPS domain results with FP7 aggregated evaluation though the two new indicators:

  – Direct jobs in 10 years per million of EC investment: 14.86 (expected 25.71).
  – Indirect jobs in 25 years per million of EC investment: 3.81 (expected 80).

  The economic impact of FP7 CAPS projects is summarised in Table 4.

4 From Micro to Macro Evaluation of Impact: Discussion of Results

From the analysis proposed in the previous paragraphs clearly emerges a substantial misalignment of derivated indicators with the official reports of European Commission. The 60 projects evaluated in the three ICT domains (about 190 million of EC investments) represent in our opinions a good sample also considering that ICT research accounted for about 8.3 billion of FP7 budget.

The indicator *Direct jobs per million invested* shows a substantial alignment among the three ICT domains with a mean of 14.99 that might correctly reflect the actual need for FP7 participants of hiring people for the projects' development. Anyway, this result is quite far from the EC data derived estimation of 25.71.

The indicator *Indirect jobs per million invested* shows a certain volatility across the different ICT domains. It is known that this kind of data is strongly influenced by the assumptions made for its estimation and that might be influenced by sector specificities. In our case the research results are producing impact on employment in very different labour sectors—software, cultural heritage and preservation, social innovation—that are characterised by different labour and salary dynamics (Bellini

Table 4 FP7 ICT CAPS domain economic impact evaluation

Variables	N.	Description	CAPS domain
Investment	1	Direct investment	17,204,988.00 €
	2	Leverage effect[a]	0.74
	3	Beneficiaries investment[a] (=1 × 2)	12,731,691.12 €
	4	Proposal preparation (about 21,500 € each)[a]	1,032,299.28 €
	5	**Total (=1+3+4)**	**30,968,978.40 €**
	6	Time frame 2007–2013 + 3	3
	7	**Annual investment (=5/6)**	**10,322,992.80 €**
GDP impact	8	GDP multiplier[a]	6.5
	9	**Indirect economic effects (=5 × 8)**	**201,298,359.60 €**
	10	Timespan years[a]	25
	11	Annual impact on GDP (=9/10)	8,051,934.38 €
	12	Multiplier effect of EC investment (=9/1)	11.7
Impact on jobs	13	Cost of researchers[a]	70,000.00 €
	14	Direct jobs per year created (=7/13)	28.60 (expected 147.47)
	15	Timespan years	10.00
	16	Total direct jobs created (=14 × 15)	286.00
	17	Indirect jobs per year created[a]	31.00
	18	Timespan years[a]	25
	19	Total indirect jobs created (=17 × 18)	775.00
	20	**Direct jobs per million invested (=16/1 per million)**	**16.62**
	21	**Indirect jobs per million invested (=19/1 per million)**	**45.05**

Source: IA4SI project

[a]Use of the same assumptions made by the EC for the estimation

Table 5 FP7—cross domain economic impact evaluation

Description	FP7	DIGICult domain	Software and services	CAPS domain
Direct jobs per million invested	25.71	14.86	13.48	16.62
Indirect jobs per million	80.00	3.81	7.67	45.05

et al. 2011, 2016). Nevertheless, the mean (18.44) and the maximum value obtained for this indicator (45.05) are really far from the EC data derived estimation of 80 jobs.

Table 5 summarises these results.

5 Conclusions

We are perfectly aware that the evaluation of a research and investment programme is a very difficult exercise that implies strong assumption and it is still very difficult to identify the best evaluation approach especially when the objective is to determine the macro economic impact on GDP and employment.

EC experts are aware that the main limitations of their assessments include the time frame of only one FP7 funding year per study, the assumption that each year's budget is allocated in form of a "one-off shock", as well as model limitations.

With this paper, we want to contribute to the debate on the micro foundations of these models gaining from the experience accumulated during our projects developed to evaluation of some FPT ICT activities. First of all, the leverage effect of 0.74 proposed by Fougeyrollas and Zagamé (ibid.) and adopted by the European Commission experts looks quite optimistic also considering that for many beneficiaries such as universities, research centres and SMEs is already very difficult to cover the requested matching funding when the instrument does not allow the full coverage of R&D&I expensed. Another assumption used by the EC evaluation is that entire investment (EU plus participants' contribution) is allocated on the personnel cost; this item surely represents a relevant part of the project budget but also other cost items and indirect costs are included in the eligible research investment.

Another assumption refers to the duration of indirect benefits estimated in 25 years: we are now observing very short technology life cycles to which are connected specialised jobs with short life cycles too.

All these parameters sound rather optimistic and influence positively the 11.7 direct/indirect effect the FP7 investment estimated by the European Commission.

Finally, the average cost of researchers used of 70,000 euros per year looks rather high while available statistics (Eurostat 2017) suggest a value around 40,000 euros per year. In this case, the reduction of the researchers' cost should enable a positive effect on employment accounts.

In conclusion, we believe that a structured approach to evaluation and data gathering is strongly needed in order to have suitable standards metrics for the assessing the EU R&D investment programmes. A clear and standard evaluation framework need to be identified and policy makers should take the lead in this process also in order to define clear roles and responsibilities in data collection and data provision (i.e. Eurostat, project partners etc.).

Questions and Activities

1. Which are the seven flagship initiatives of the Europe 2020 strategy?
2. Which is the target indicator in terms of R&D&I expenditure?
3. What are the main theoretical approaches with reference to the resources allocation for innovation?
4. Which are the main steps followed by impact measurement techniques?
5. Which are the methodologies adopted for ex-post evaluations?

6. Summarise the main characteristics of Cost-Benefit Analysis (CBA), Cost-Effectiveness Analysis (CEA) and Multi-Criteria Analysis (MCA).
7. Discuss the figures shown in tables and try to provide alternative indicators, metrics and measurements.
8. Which are EU institutions involved in the evaluation of R&D&I programmes?

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Information and Communication Technologies (ICTs) in Enterprises on the Over The Counter (OTC) Markets in European Union: Case Study of Polish *NewConnect* Market

Jacek Woźniak and Wioletta Wereda

Abstract Companies operating on the OTC markets are a special collection of enterprises. In many countries of the European Union, different OTC markets operate, which differ among themselves in terms of number of listed companies, industry specificity of listed companies, level of capitalization of shares, etc. It is worth noting, however, that among the OTC markets operating in the so-called "new" EU countries the Polish *NewConnect* market stands out, which ranks higher in different rankings than many OTC markets in the so-called "old" EU countries. Taking into account the specificity of companies listed on the Polish market, empirical research was conducted on the use of ICTs by these companies. The developed case study of the Polish OTC market indicates that companies are quite used to ICTs, although the level of ICTs investments is not at the highest level. Enterprises expect measurable business benefits from the implementation of ICTs, but they understand that implementation processes are accompanied by a number of threats. The case study pointed out that the implementation of ICTs in enterprises provides the foundation for their functioning in a global economy in network structures, increasing their relationship with stakeholders and allowing access to resources.

The key points of the chapter are the following ones:

1. to specify the influence of ICTs on the contemporary enterprises;
2. to identify the main attributes of the OTC markets' enterprises in the context of ICTs and risk management;
3. to understand the role and significance of enterprises of the OTC markets in the development of branches and sectors in the European Union countries;
4. to identify the differences between the OTC markets in the "old" and "new" countries in the European Union;

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5. to specify the scope and complexity of ICTs' implementation in enterprises listed on the Polish OCT market—as a case study.

1 Introduction

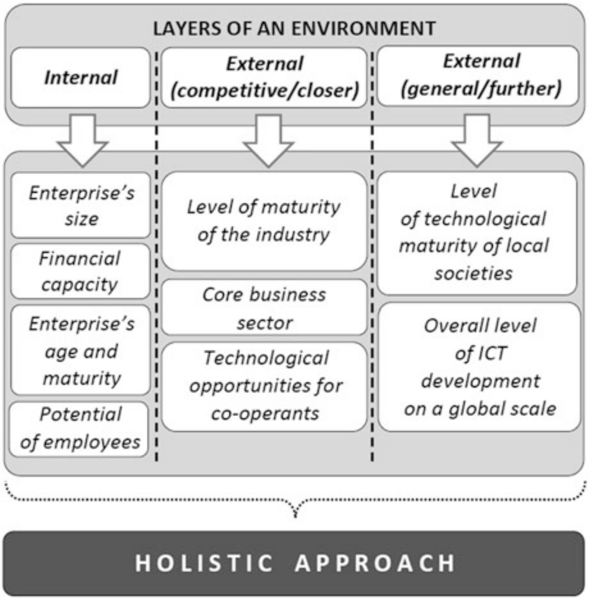
Information and Communication Technologies (ICTs) are a development platform for many companies today. They, generally, enable them to acquire resources and develop a business relationship network with other entities. ICTs, supporting knowledge management processes and innovative processes, can contribute to improving the enterprises's competitiveness. The scale and scope of ICTs implementation is subject to the age and size of the business and the industry in which it operates. These factors influence the level of investment in ICTs as well as the level of needs and requirements of the enterprises themselves.

The main objective of this chapter is to identify the basic differences between chosen European OTC markets and specify the scope and complexity of ICTs' implementation in enterprises listed in the Polish OCT market—as a case study and a source of potential best practices for other OTC markets in the EU. The case study aims to show whether ICTs implementation in companies gives the basis for the functioning of these enterprises in global economic conditions in network structures, enhancing their relationship with internal and external stakeholders and allowing access to external resources.

2 ICTs in Contemporary Enterprises

Nowadays Information and Communication Technologies play a key role in designing and improving the performance of businesses in various industries and sectors. ICTs can be defined as "all kinds of computer technologies (hardware and software), communication technologies, data management technologies and the relationships between these technologies that support business processes in the enterprise" (Turek 2010: 35). ICTs are becoming not only the resource (an element of technical infrastructure) but, above all, a specific "gateway key" to the global economy. In situations when market success depends not only on the structure and value of resources, but rather the flexibility in the action (mainly operational) and the relational capital, the basic determinant of the potential of the enterprise is the ability to use opportunities that appear in the environment (Wereda and Woźniak 2015: 66 et seq.; Bratnicka-Myśliwiec 2016: 40 et seq.). One of the basic ways of using the environment of an enterprise is to implement and develop certain ICTs. It is worth remembering that different types of businesses use different technologies. The basic criteria that differentiate the scale and scope of ICT implementation in enterprises are (own study on a base of Nowicki 2010: 45 et seq.):

Fig. 1 Holistic approach to the implementation of the ICTs in the enterprise (own elaboration)



- size (determined by number of employees or annual turnover),
- the core business sector as well as the level of maturity of the industry (measured, inter alia, by the level of enterprise trust and stakeholder value),
- age and maturity of the company,
- the internal potential of employees and the financial capacity of enterprises,
- ICTs' efficiency in the core business of the company,
- technological opportunities for co-operants and co-operators,
- the level of technological maturity of local societies and the overall level of ICT development on a global scale.

At this point it should be noted that the above criteria permeate all layers of the company's environment: internal, closer external (market/competitive) and further external (general). This approach reflects the essence of holistic thinking and action (Fig. 1) (see e.g. in Woźniak and Zaskórski 2015: 115 et seq.; Sage and Rouse 2009: 1 et seq.). The choice of certain ICTs for specific companies, taking into account the different criteria, is most appropriate and desirable. It minimizes the risk of mismatching these technologies both to the specificity of the enterprise (as an internally integrated entity) and its relationship with the various classes of external stakeholders (based on Kaplan and Norton 2011: 13 et seq.; Orzechowski 2008: 92–99). This mismatch can be a source of different types of costs and thus may cause (especially in the long run) the need for corrective action, which may adversely affect, for example, liquidity. Risks are not only financially sound, but they can also affect the organization and execution of processes within an enterprise, e.g. in terms of ongoing communication with other entities, data collection, or analytical and decision making processes (see e.g. Borodzicz 2005: 15 et seq.; Wereda and Woźniak 2015: 66 et seq.).

ICTs, spanning virtually the entire organizational system of a company, determine its efficiency, effectiveness, productivity and performance, e.g. in a human resources dimension (Rummler and Brache 2000). ICT accompanies enterprises from the stage of their design, through systematic development and ending with redesign (e.g. process reengineering) or liquidation (Sage 2009: 923 et seq.). In fact, in today's businesses there are no processes that would not even be implicit in the implementation and development of ICTs in a given enterprise (Gonciarski 2012). Today, ICTs should create conditions for the integration (internal and external) of enterprises (Bakonyi 2017: 112 et seq.; Bratianu 2013: 109 et seq.). Incorrect implementation (not corresponding to the current needs, capabilities and requirements of the company and its external stakeholders) of ICTs becomes the basis for the formation of formal and organizational barriers to the organization as well as the gradual alienation of the company from the dynamics of the environment (Fig. 2).

One of the basic assumptions for implementing ICTs in modern enterprises is to allow access to various resources, mainly intangible resources/assets (Hammer 2001, 2012; Sirkin et al. 2008: 85 et seq.; Surma 2008: 108 et seq.; Suszyński 2013: 175–181; Perechuda 2015: 15–18; Hadad 2017: 205 et seq.). The Internet is a specific platform for the flow of this resource class, which creates an environment

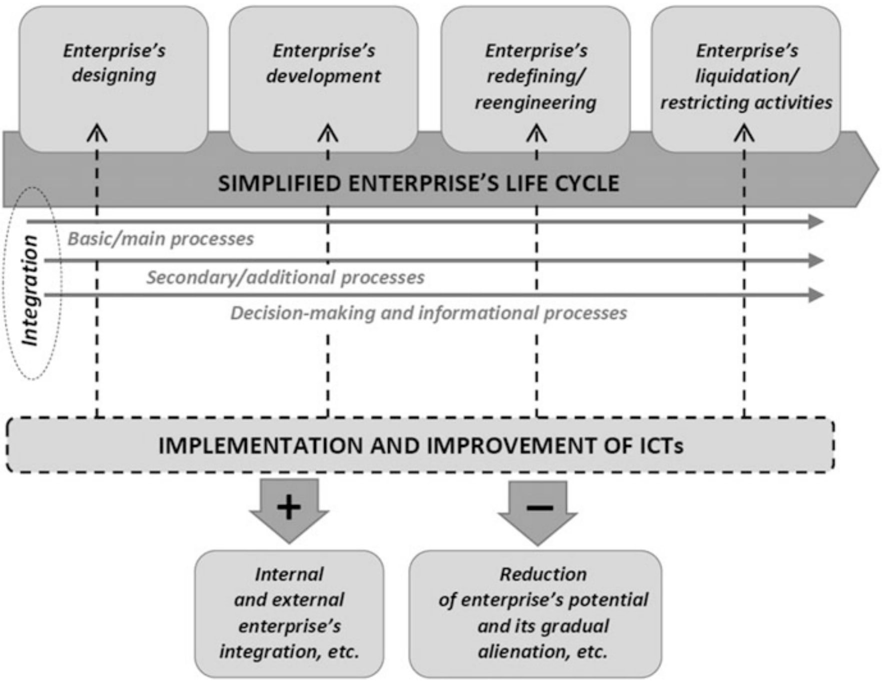


Fig. 2 ICTs in the life cycle of the enterprise (own elaboration)

for the creation of virtual structures and the free exchange of data, information and knowledge between enterprises (and not only) on a global scale (Chomiak-Orsa 2016: 48 et seq.; Sobińska 2016: 88 et seq.; Ziółkowska 2015: 231 et seq.). In this way, network organizations with high growth dynamics/changes in the global environment will be created, enabling the flexibility (see Matheson and Matheson 1998) of the network organization to grow and the use of economies of scale (through access to new resources and markets) in their individual development (Wiersema 2002). There is, among others, positive and generally strong synergy effect. Noteworthy here is the currently significant development of the sharing economy (see e.g. Nowicka 2017: 71 et seq.). ICT can also be followed by rapid internationalization of businesses, which generally positively influences their market value (see e.g. Surma 2008: 111 et seq.; Ciesielska 2008: 47 et seq.), and the value for customers (see Doligalski 2013: 55 et seq.; Gonciarski 2012: 23–25).

The implementation of ICT in modern enterprises improves, inter alia, the processes of (Zaskórski 2012: 201 et seq., 2015: 183 et seq.; Dziembek 2010: 38–44; Chomiak-Orsa 2016: 48 et seq.; Dohn et al. 2014: 4 et seq.; Pindelski and Mrówka 2014: 19 et seq.; Januszewski 2008a: 17 et seq., 2008b: 7 et seq.; Silver 2014: 11 et seq.; Lipińska 2012: 96–99):

- data acquisition and collection,
- data processing (e.g. aggregation, exploration, transaction, visualization),
- forecasting, reasoning and creating knowledge,
- enterprise information integration,
- sharing data and information.

Today, large-scale deployments are being made in enterprise databases, as well as data and knowledge warehouses, Data Mining, and Cloud Computing (Kołodziejczyk 2015: 81 et seq.; Sobińska 2015: 93 et seq.). Integrated Management Information Systems (e.g. CRM, MRP I/II, ERP) play an important role in the improvement of enterprises (Zaskórski 2015: 187 et seq.; Adamczewski 2015: 12 et seq.). DEM class systems enable dynamic redesign of the enterprise, including towards the process structures. In the development of modern businesses, social media, mobile technologies and the Internet of things are becoming increasingly important. A separate class of information and communication technologies are tools and systems supporting design processes (e.g. CASE and CAx) and project management (Zaskórski 2015: 212–219).

ICTs, as a catalyst for management and business processes, determine the ability of a company to adapt to changes in a broadly understood environment (see Osbert-Pociecha 2011; Skrzypek 2015: 239–240; Adamczewski 2016: 62). Different types of enterprises respond differently to the implementation of ICT, and the development of these technologies is different in different organizational environments. It is worth emphasizing, however, that ICTs should be implemented on the basis of a thorough analysis of the internal and external environment, rather than merely opinions and financial possibilities (on a base of Stępniak 2010: 26 et seq.; Żeliński 2017: 7 et seq.).

3 Attributes of Enterprises on the OTC Markets: In the Context of ICTs and Risk Management

In order to specify the attributes of companies listed on alternative markets, the determinants of the functioning of these markets should first be identified. Alternative economic turnover is an Over The Counter (OTC) market which is organized by an investment firm or a company running regulated market (NewConnect 2015: 9 et seq.). In Poland, *NewConnect* is an example of this market, in Luxembourg it is *EuroMTF*, *AIM* and *SFM* in Great Britain, and *Entry Standard* in Germany. A list of examples of OTC markets in Europe is provided in Table 1.

On the OTC markets securities and money market instruments are traded. This system provides a concentration of supply and demand in a way that makes it possible to conclude transactions between its participants. Currently on alternative markets, in addition to FX transactions, it also trades futures for stock indices, raw materials, stocks, CFDs and other financial instruments. Alternative markets offer investors an interesting opportunity to allocate capital in a variety of innovative industries. Companies listed on alternative markets offer investors a potentially high return on their investments while at the same time increasing the risk of investment. Investors are unsure as to how the market in which companies operate will change, and whether the external effectiveness of the company's operations (i.e., the extent to which the external stakeholders are involved) will be at the expected level (NewConnect 2015). Moreover, it is important to link the role of relationships with stakeholders in the organization to the confidence-building process between the various groups, since the level of trust decreases year by year due to the ongoing but fortunately declining economic crisis and the problems that enterprises or public entities need to be tackled with daily in a turbulent environment (Wereda 2013: 248–249; Wereda 2014: 125–126).

Companies listed on alternative markets are primarily characterized by (own preparation based on NewConnect 2015: 9 et seq.):

Table 1 OTC markets in chosen European countries

Country	Market
Poland	Warsaw Stock Exchange (*NewConnect*)
Great Britain	London (*AIM* and *SFM*)
Luxembourg	Luxembourg (*EuroMTF*)
Netherlands, Belgium, Portugal, France, Great Britain	NYSE Euronext (*Alternext*)
Sweden, Denmark, Finland, Island	NASDAQ OMX (*First North*)
Germany	Deutsche Borse (*Entry Standard*)
Spain	BME (*Spanish Stock Exchange*) MAB
Italy	Borsa Italiana (*AIM*)

Source: Zygmanowski (2014)

- small or medium size; these are mainly start-ups or young companies, seeking effective ways to build their value on the market; however, there may be companies that already have a well-established market position but do not want to enter the main market for various reasons;
- high growth potential and flexibility/agility as they operate in innovative industries and sectors that reflect market niches such as advanced technology, ecology, specialist services, or financial operations;
- a desire to quickly raise capital for development, including for the improvement of the abovementioned technologies—that is basic activity, but also auxiliary activities, related to business relationship (B2B), client relationship (B2C) and state and local administration (B2A); the need to raise capital derives from a high level of capital intensity of processes (e.g. created innovations), as well as high unpredictability of markets (competitors' actions and customer purchasing behaviour) and the period of implementation of processes/innovations (the period of work on a particular solution/process is determined by capital).
- difficulties in obtaining financing for development, mainly because the markets in which these companies operate are underdeveloped and the demand for products/services may not be high enough; there may also be a relatively low level of social trust (and therefore difficult to finance in the form of loans or credits offered by banks) to such activities, or the cost of capital offered by banks is too high for these companies.

Attributes of OTC-listed companies may suggest a relatively high level of risk in their business. In addition, the level of risk is also influenced by the environment (Kicia 2011: 57 et seq.). One of the basic measures in the field of risk management in enterprises is to reduce the negative impact of risk and risk avoidance (see e.g. ISO 31000:2009). This is a "traditional" approach. Based on a modern approach to risk management (inter alia in the operating activities of enterprises), the risk is controlled to create the so-called opportunity factors (Kasiewicz and Rogowski 2006: 34). The specificity of business operations in OTC markets involves interacting with external stakeholders, such as acquiring resources, streamlining information flows, or establishing new and lasting relationships—to gradually reduce uncertainty and risk in the environment.

One of the solutions designed to create this type of opportunity is the implementation of ICT. ICT is, on the one hand, a carrier of threats, but at the same time it increases the level of security of business activity in different countries. The main benefits of implementing ICT in OTC-listed companies are as follows (on a base of Zaskórski 2012; Wrycza 2010; Shapiro and Varian 2007; Larose 2006; Januszewski 2008a, b):

- support for planning and forecasting processes—in case of instability of the environment (internal and external) and weak market position, companies can try to better understand the environment in which they operate and can anticipate

changes, ahead of competitors in the innovation process (companies alone or in clusters) can create new market niches where they will dominate,
- streamlining financial management processes and increase financial transparency, which may increase the confidence of the firm on the part of individual investors and other companies (strengthening of B2B market ties);
- increasing the efficiency of capital allocation (e.g. by means of multi-dimensional analysis of investment profitability),
- streamlining innovation activities, e.g. through support for manufacturing processes, R&D, analytical processes and decision making, etc.,
- enabling businesses to enter into network structures (including virtual ones), e.g. in the form of industry clusters, enabling businesses to have access to rare resources strategically important for their development, as well as to help them enter new markets—participation in networking structures can thus also increase the credibility of the company on the market and give rise to a boost to brand value,
- increasing scale and scope—OTC companies are typically small to medium sized, and their scale of operation is limited, e.g. to the metropolitan area, geographic region, or territorial unit or area; ICTs provide the basis for global action—the location criterion does not limit business development,
- increasing the efficiency of distribution channels and the promotion of products and services (including innovation) offered, thus enabling entry into new market segments and increasing liquidity both in the short and the long term.

ICTs are the basis for active shaping of the business conditions of companies listed on the OTC markets by creating and using opportunities (both inside and outside). ICT, by streamlining the analytical and decision processes, determines the condition of financial, marketing or manufacturing situation, enabling its systematic and structured development in an unstable environment. It is worth stressing here that the risk avoidance or neutralization alone cannot positively influence the competitiveness of enterprises (Kicia 2011: 66), including those listed on the OTC markets. Passive business activity on dynamic and uncertain markets is definitely not enough to succeed. It is therefore imperative to take active actions that are geared to the changing (by the possibility) of certain elements of the environment of the company, as well as the risk appetite (see e.g. Gai and Vause 2005: 6 et seq.; Danielsson et al. 2009: 3 et seq.; González-Hermosillo 2008: 6 et seq.). Conservative actions in OTC market companies will not give expected high returns to investors, and thus raising capital for development will be difficult. One of the basic solutions in this area is the relatively fast internationalization of OTC business activities with the use of ICT. The deployment and development of ICTs can increase the level of widely understood economic security (including market, financial, or social) of enterprises (see Woźniak 2013: 22 et seq.).

4 Role and Significance of Enterprises of the OTC Markets in the Development of Branches and Sectors in the European Union Countries

OTC markets play an important role in the development of individual European Union countries. Their impact on the economic development of individual countries or regions is multifaceted. It penetrates, among others, the social, financial, technological & technical, and the market development layers of these national economies by stimulating (or limiting) the activities of both individual businesses and entire societies (Fig. 3). As mentioned above, OTC markets are concentrated in small size businesses, high financial needs and weak market position, but with high potential for short-term growth (NewConnect 2015). Therefore, these companies are able to (and appropriately finance) create certain, expected values for the environment and positively influence that environment.

The main "tool" for developing enterprises in the OTC markets and their (positive) impact on the environment is innovation (usually a product). Assuming that companies in the OTC markets are internationalizing (or are aiming for) their activities, innovation can be spread globally, contributing directly to improving the lives of societies in different countries, or indirectly by supporting businesses that

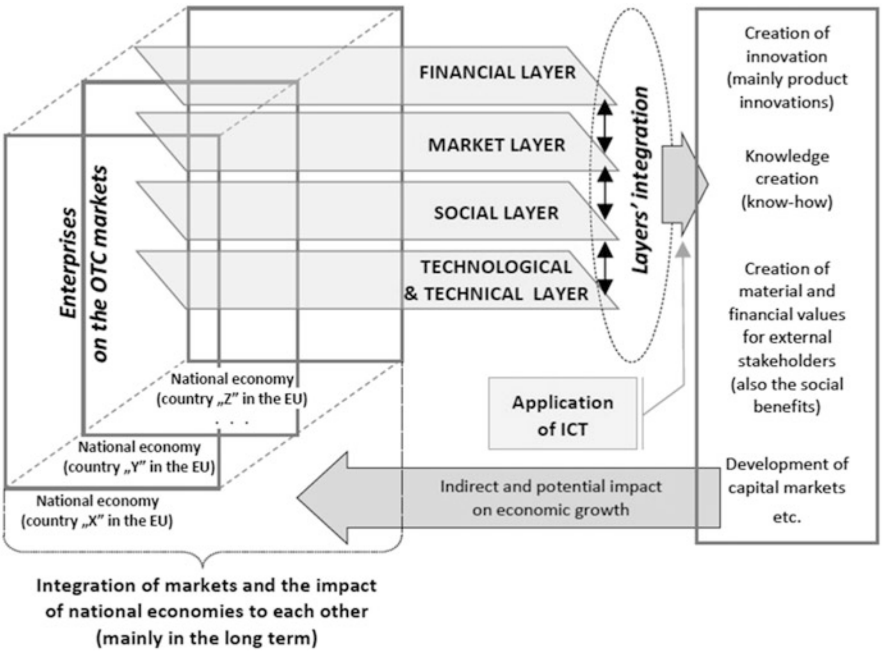


Fig. 3 The potential influence of OTC markets' enterprises on the development of branches and sectors in the EU countries—with the use of ICTs (own elaboration)

offer the goods for society. Innovation contributes to the technical and technological progress of national economies, or even to the global economy (if a case for breakthrough innovation is considered) (Niklewicz-Pijaczyńska 2013: 335 et seq.). Another example of the impact on technical and technological progress in EU countries is the creation and diffusion of know-how in OTC-listed companies. Creation of knowledge enhances the value of the enterprise itself, but it can also positively influence other companies and entire industries/sectors of national economies, e.g. by participating in clusters and other industry associations (Jankowska 2015: 54 et seq.; Pietrzykowski 2016: 161 et seq.). There are processes of knowledge transfer and mutual improvement between companies.

Technologically advanced and highly specialized clusters, such as IT, ecology, civil engineering, finance, etc., can be a strategic area for the development of national economies, determining the direction of change, e.g. in structure, time and scope of foreign direct investment, and thus inflow of capital to a given country. This is particularly true for new EU member states. OTC business activities can indirectly and in the long term determine the development of individual industries and sectors, but this depends on the efficiency and effectiveness of the financing of their business by external parties. It is also worth remembering that in the case of less developed and young OTC markets, the impact of companies listed on these markets on industries and sectors of national economies may be weak or even negligible.

OTC business activities are related to the creation of material and financial values for external stakeholders. The dynamic development of this business class may result in an accelerated flow of financial resources in the industry and clusters. Investing in business relationships, such as subcontractors, increasing financial liquidity of enterprises results in increasing the level and scope of their investments in own development with the use of external entities. This enables them to develop new specialized industries (outsourcing or offshoring services) that support existing industries such as IT, space technology, finance, bio-systems, etc. (on a base of Pauka 2010. In addition, the development of the scope and scale of business financing in OTC markets may reflect increased social trust for small and niche but innovative companies as well as developing capital markets in individual EU countries (see Pauka 2010). However, one must keep in mind that each of these markets develops at its own rate, has a different history and is dedicated to slightly different types of companies (on a base of NewConnect 2015; Feder-Sempach 2010).

In conclusion, companies listed on OTC markets may (generally indirectly) determine the level of development of specific industries and sectors in individual EU countries. This effect may be noticeable in the long run, especially in the underdeveloped OTC markets. It is important, however, that these companies, in particular due to their market, financial, technological and social potential, with the expected level of external financing, are able to change the structure and functioning of the industries and sectors in which they operate. However, these changes require time, as well as changes in the attitude of the public, including individual and institutional investors, to support this class of enterprises. OTC markets can be

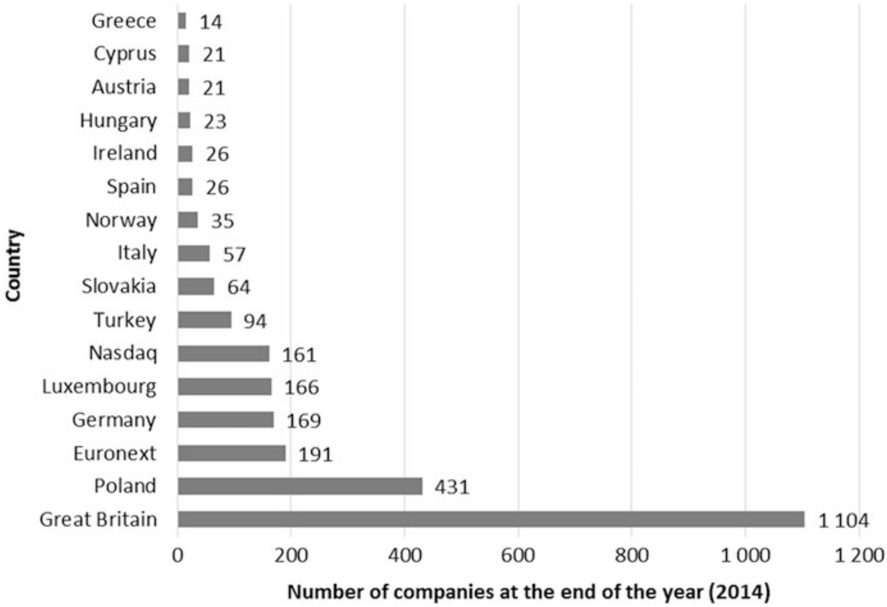


Fig. 4 Number of companies listed on chosen European OTC markets—state at the end of the year 2014. (Author's own figure based on data from NewConnect 2015: 10)

seen today as one of the pillars of supporting the competitiveness of national companies that are also geared towards global business.

5 Polish vs. Other European OTC Markets[1]

In Europe, in the OTC market dominates the London *AIM*, which has both the largest number of listed companies (Fig. 4) and capitalization (Fig. 5). It is worth adding, however, that this market functions much longer than its European counterparts—it was created in 1995.[2] According to data for 2014[3] in terms of the number of listed companies on the OTC market behind the London market are the following: Warsaw *NewConnect*, NYSE *Euronext (Alternext)* (established by stock exchanges in the Netherlands, Portugal, France and Great Britain), German *Entry Standard*, Luxembourg market *EuroMTF*, the NASDAQ *OMX (First North)* market (set up by stock exchanges in Sweden, Denmark, Finland and Iceland), the Turkish

[1]The selection of OTC markets in Europe was made on the basis of the available data contained in NewConnect (2015).

[2]Since October 2004 it has been operating as MTF market.

[3]The analysis includes 2014 due to the availability of data.

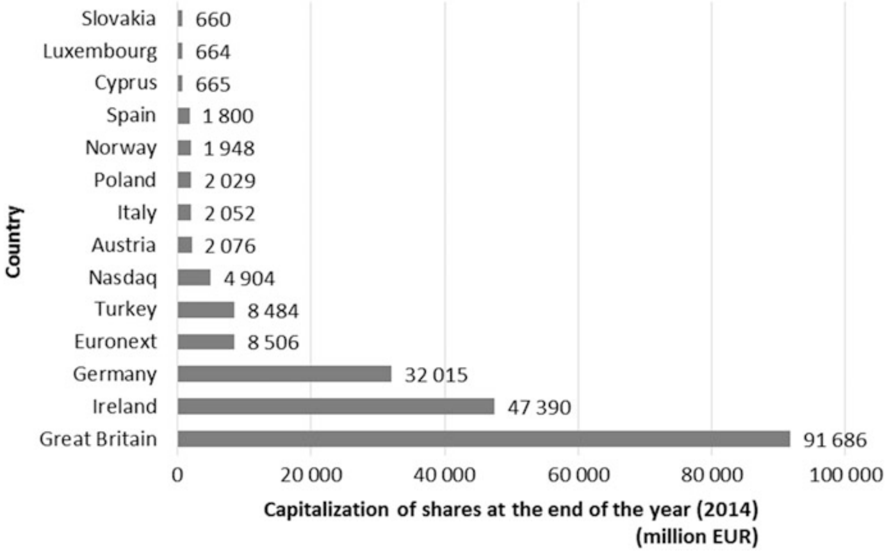


Fig. 5 Capitalization of shares for chosen European OTC markets—state at the end of the year 2014. (Author's own figure based on data from NewConnect 2015: 10)

Borsa market in Istanbul, the Slovakian market, the Italian *AIM* market, and the Norwegian *Oslo Axess* market. The following markets are in the following locations: Spanish, Irish, Hungarian, Austrian, Cypriot and Greek (NewConnect 2015: 10).

Taking into account the capitalization criterion, the London *AIM* market ranks first in Europe at the end of 2014. The Irish, German, *NYSE Euronext (Alternext)*, Turkish, *NASDAQ OMX (First North)*, Austrian, Italian, Polish, Norwegian and Spanish markets followed. The smallest shares capitalization of the analyzed markets is found in the markets of Cyprus, Luxembourg and Slovakia (Fig. 5) (NewConnect 2015: 10).

The analyzed markets (including data at the end of 2014) can be divided into four main groups (Fig. 8) (own preparation based on NewConnect 2015: 10):

1. having a high level of capitalization of shares and, at the same time, a relatively large number of listed companies—this market includes Great Britain and German markets; These are the most developed markets with a relatively long history and reputation; It is also worth noting that these markets are also characterized by relatively high shares turnover (for the London market it amounts to 53,170 million EUR and for the German market 2373 million EUR) and relatively high liquidity[4] (for the London market the liquidity was 58%, while for the German market it was much less—just 7%) (Figs. 6 and 7);

[4]Calculated as the quotient of shares turnover on the market to the capitalization of shares.

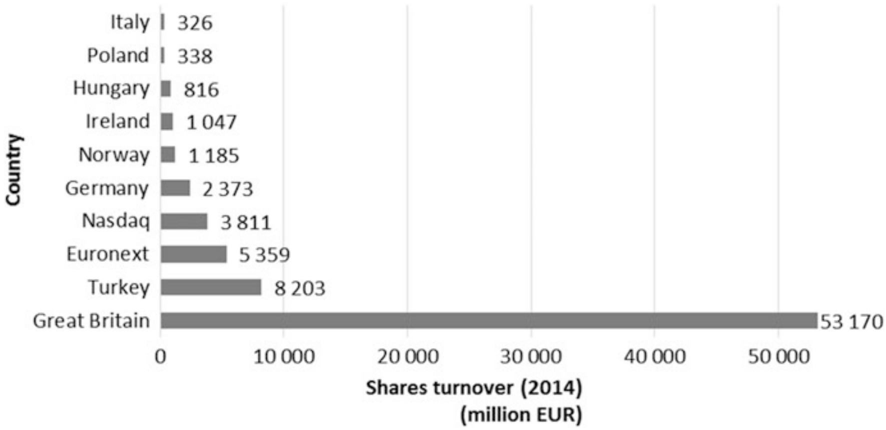


Fig. 6 Shares turnover for chosen European OTC markets—state at the end of the year 2014. (Author's own figure based on data from NewConnect 2015: 11)

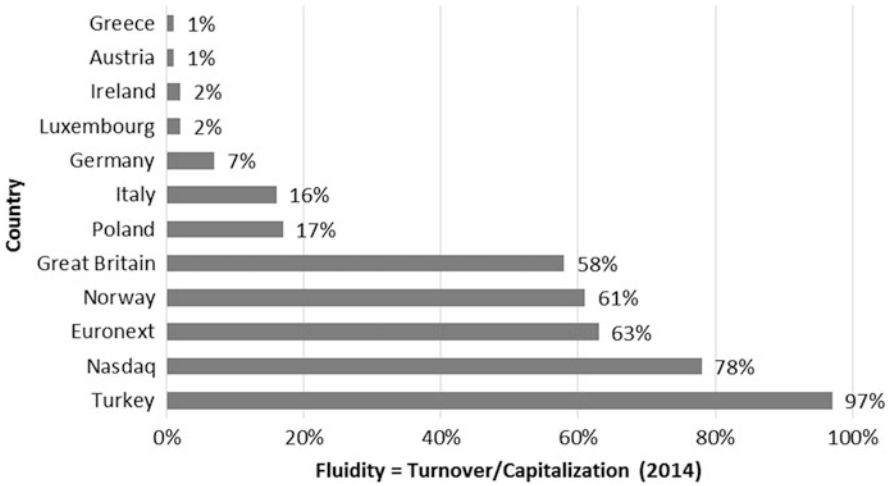


Fig. 7 Fluidity for chosen European OTC markets—state at the end of the year 2014. (Author's own figure based on data from NewConnect 2015: 11)

2. with a high level of capitalization of shares and at the same time relatively small number of listed companies—this group includes the Irish market, which is characterized by high value of listed companies, but small in size, which may result from restrictions on entering the market or insufficient willingness of enterprises to enter it; The market is also characterized by a relatively high shares turnover (EUR 1047 million), while low liquidity (2%) (Figs. 6 and 7);
3. with low capitalization of shares and relatively large number of listed companies—Polish, *NYSE Euronext (Alternext)*, Luxembourg, *NASDAQ OMX (First*

North) and Turkish; These markets are mainly concentrated in companies with relatively low market value, although companies are willing to enter these markets, mainly because of their reputation and the potential for potential value growth; They are also not markets with a long history and a well-established position on the capital markets; Among these markets, two fractions are distinguished: (1) very high liquidity markets and at the same time very high turnover—Turkish, *NYSE Euronext (Alternext)* and *NASDAQ OMX*, as well as (2) medium liquidity and shares turnover values—these are the Polish and Luxembourg markets (Figs. 6 and 7);
4. with low capitalization of shares and at the same time relatively small number of listed companies—it is in fact the largest group, with the following markets: Italian, Slovak, Norwegian, Spanish, Austrian, Greek and Cypriot; These are, for the most part, young markets that are just beginning to develop; As a consequence, companies are not keen to enter these markets, mainly because of the risk (e.g. market) and the absence of potential benefits from participating in these markets; It is also worth mentioning that these are markets established in countries with relatively small populations in Europe, which may also result in the population of micro, small and medium-sized enterprises potentially entering these markets. Among these markets one can distinguish two fractions: (1) markets with relatively high or medium liquidity and at the same time relatively high or medium level of shares turnover—these are Norwegian, Italian and Austrian markets, and (2) very low liquidity and very low shares turnover values—these are markets: Greek, Spanish, Slovak and Cypriot (Figs. 6 and 7).

By setting the criteria for the number of listed companies and shares capitalization at the end of 2014, it can be seen that (Fig. 8):

- the London market is well above the other European markets, both in terms of the number of listed companies (the number of listed companies on the London market is over two and a half times the number of listed companies on the second Polish market) and capitalization (almost twice the London market capitalization exceeds capitalization of shares on the second Irish market);
- the Polish market, despite the relatively low capitalization is characterized by exceptionally high number of listed companies, which may prove very attractive for micro, small and medium enterprises (also those of low market value). This situation also arises from the profile of this market—it is dedicated mainly to micro-companies on a European scale; Moreover, the nature of the *NewConnect* market is related to the specificity of the Polish economy, where micro-enterprises dominate (NewConnect 2015: 10);
- the existence of three specific clusters in a group with relatively low capitalization of the stock market: (1) a relatively large number of listed companies (*NYSE Euronext*, Luxembourg, *NASDAQ OMX*), (2) the medium number of listed companies (markets: Turkish, Italian, Slovak), and (3) a small number of listed companies (Norwegian, Spanish, Austrian, Greek and Cypriot markets).

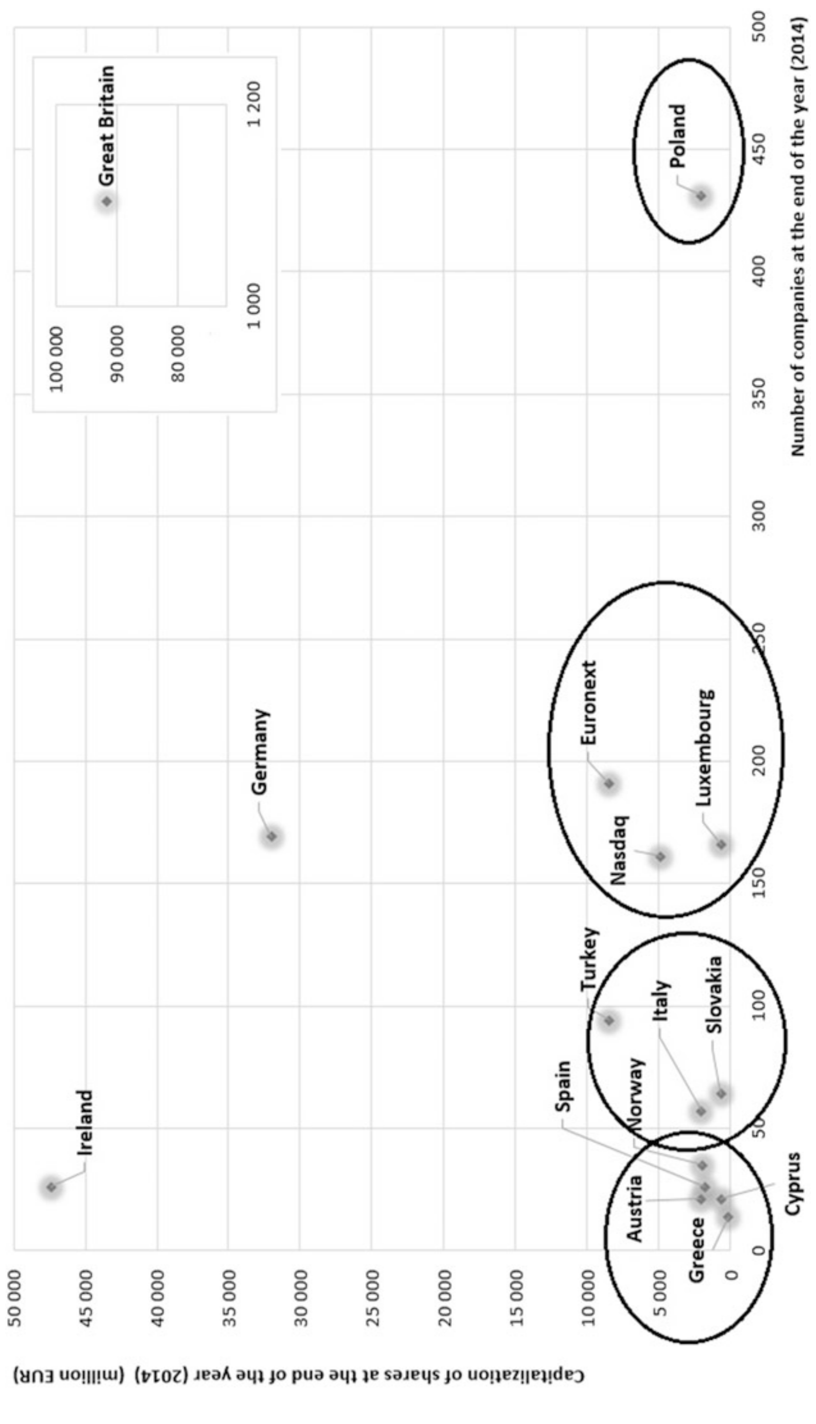


Fig. 8 Summary of the number of companies listed on the chosen European OTC markets and capitalization of shares for these markets—state at the end of the year 2014. (Author's own figure based on data from NewConnect 2015: 10)

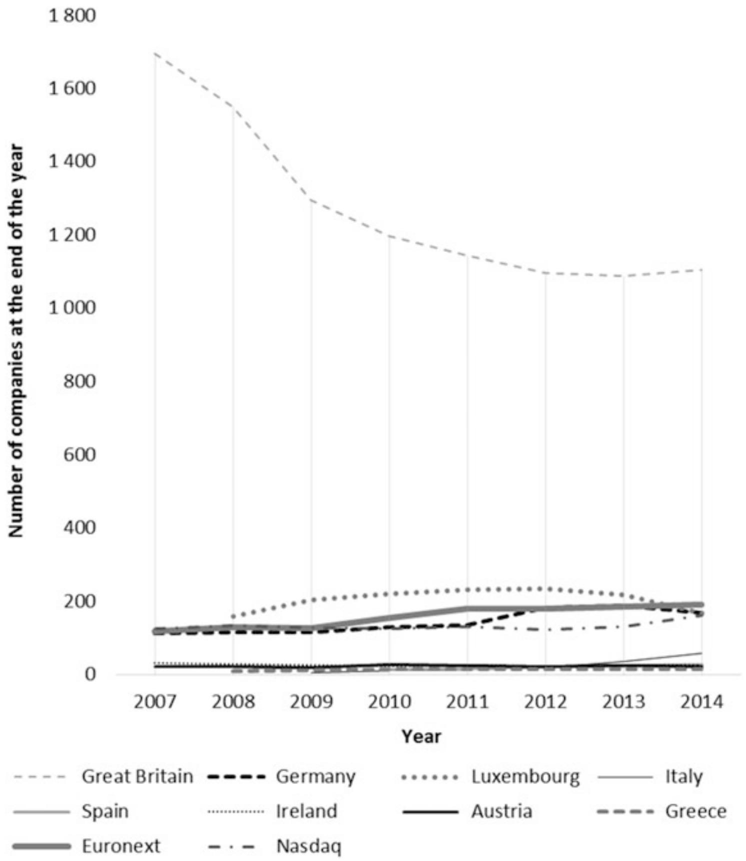


Fig. 9 Number of companies listed on the chosen European OTC markets (operating in the "old" EU countries) in the years 2007–2014. (Author's own figure based on data from NewConnect 2015: 10)

From 2007 to 2014, the number of listed companies was clearly dominated by the London *AIM* (Fig. 9). However, it can be noted that since 2007 the number of listed companies on this market has steadily decreased. In 2014, the first increase since 2007 was observed (from 1087 companies in 2013 to 1104 in 2014) (NewConnect 2015: 10). Among the other markets (operating in the so-called "old" EU countries) two basic fractions can be distinguished (Fig. 10) (NewConnect 2015: 10):

1. markets with relatively large number of listed companies—Luxembourg, NYSE *Euronext, NASDAQ OMX* and German; It can be observed here that the German, *NYSE Euronext* and *NASDAQ OMX* markets experienced a rising trend (in some generalizations), while the Luxembourg market from 2012 marked a sharp decline in the number of listed companies; It is also worth mentioning that all

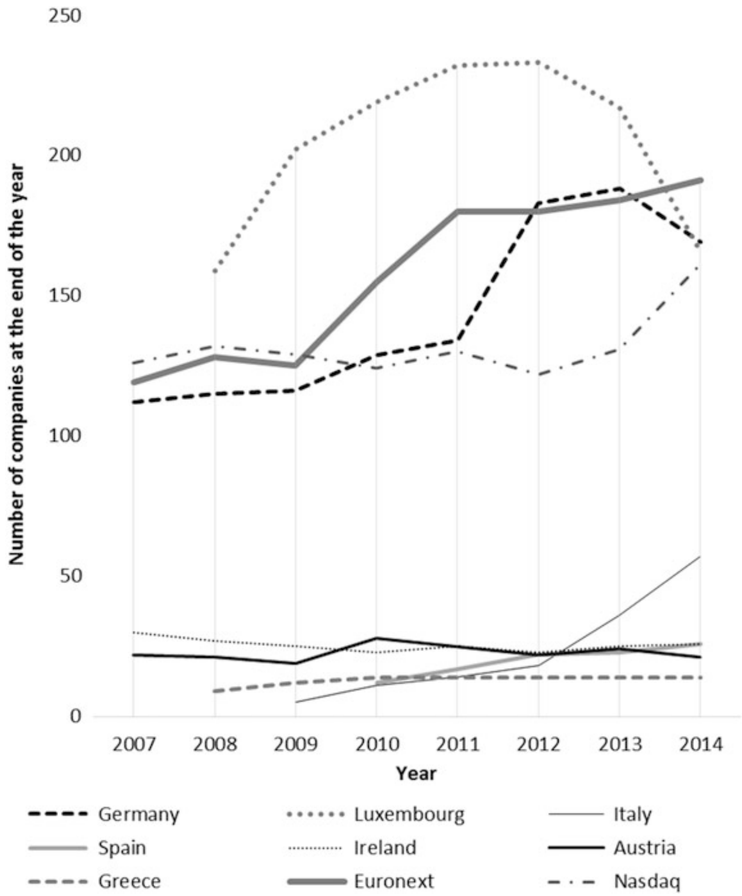


Fig. 10 Number of companies listed on the chosen European OTC markets (operating in the "old" EU countries) without Great Britain in the years 2007–2014. (Author's own figure based on data from NewConnect 2015: 10)

four markets in this faction were characterized by a downward trend or a stagnation in the number of IPOs;

2. markets with a relatively small number of listed companies—these are Spanish, Greek, Italian, Austrian and Irish markets; In this segment, the upward trend in the number of listed companies occurred only in the Italian and Spanish markets, while in the Greek, Irish and Austrian markets there was a downward trend; As regards the number of IPOs, the Italian market has been systematically growing and the Spanish market has been stagnating; On the Irish and Austrian markets, the number of IPOs has been at a very low level in recent years (there are only one or two new entrants in the market).

Among the OTC markets operating in the years 2007–2014 in the "new" EU countries, the distinctive position of the Polish market in terms of number of listed

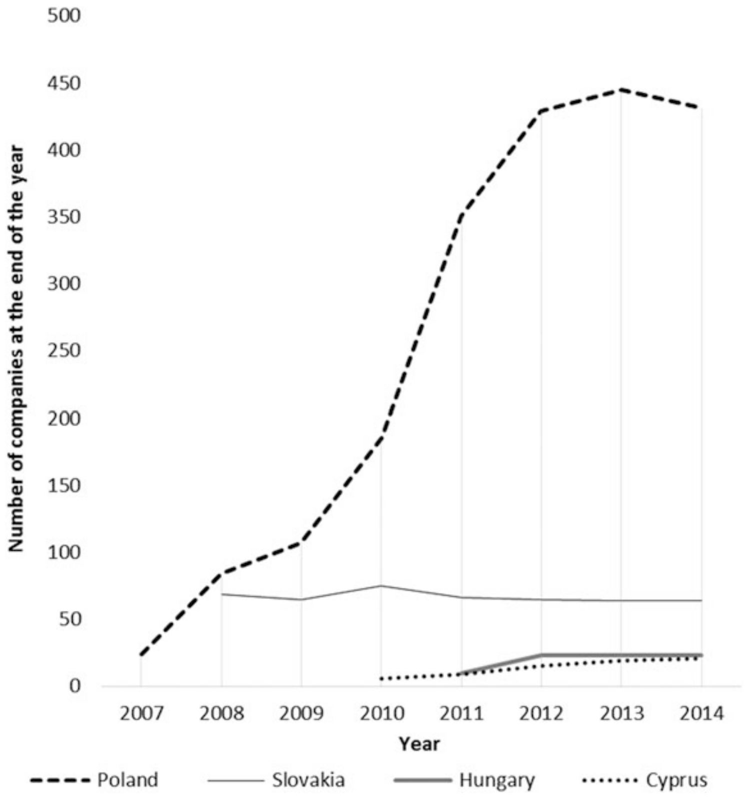


Fig. 11 Number of companies listed on the chosen European OTC markets (operating in the "new" EU countries) in the years 2007–2014. (Author's own figure based on data from NewConnect 2015: 10)

companies can be noted (Fig. 11). The other three markets (Slovakia, Hungary and Cyprus) were significantly less listed during the period considered. It is also worth noting that the dynamics of growth of the number of companies on the Polish market was the highest, and the number of IPOs in 2007–2014 was at a relatively high level, reaching in 2011 a maximum of 172 debuting companies. Outside the Polish market, only the Cypriot market was able to observe an upward trend in the number of listed companies. On the other hand, there were no significant changes in the number of listed companies in the Slovak and Hungarian markets (NewConnect 2015: 10).

Comparing the Polish *NewConnect* market to the leading markets in the so-called "old" European Union countries, it can be seen that in the years 2007–2014 it was the Polish market which was characterized by the highest dynamics of growth of the number of listed companies and was the only one with a strong upward trend in the number of companies listed (Fig. 12). It is also worth noting that in the case of the number of IPOs, the Polish market in the period under

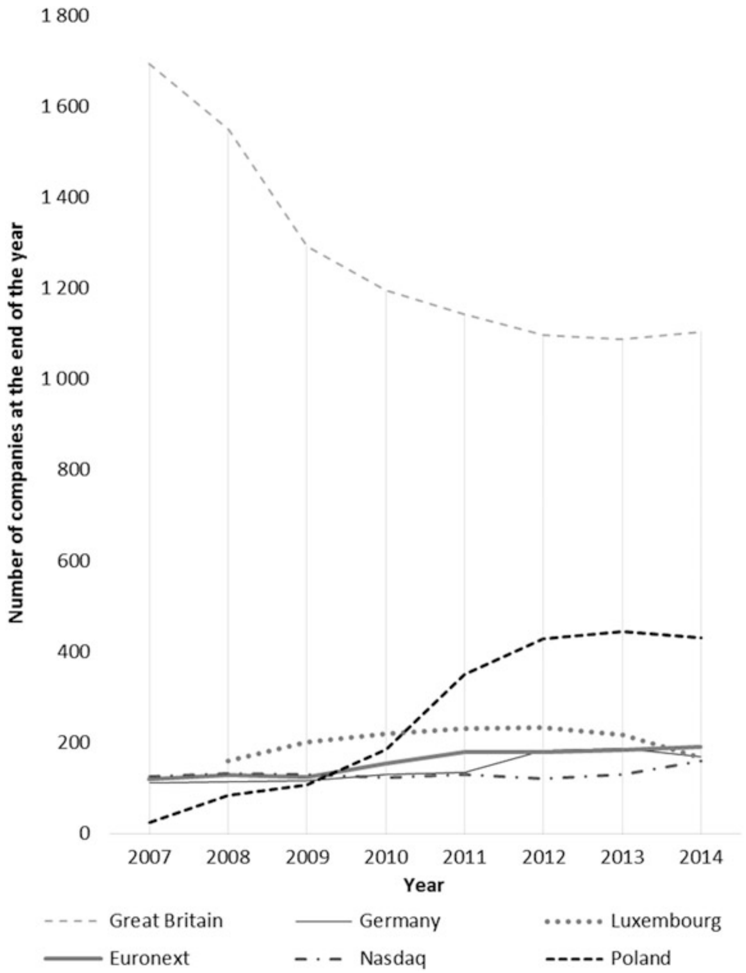


Fig. 12 Polish vs. leading OTC markets from "old" EU countries in the framework of the criterion of number of listed companies in the years 2007–2014. (Author's own figure based on data from NewConnect 2015: 10)

consideration also distinguished itself, ahead of such markets as Germany, Luxembourg, *NYSE Euronext* and *NASDAQ OMX*. On the other hand, in terms of IPO value, the Polish market was not as good in each analyzed period taking the sixth place (i.e. the last one in the selected markets) (NewConnect 2015: 10).

In summary, it is important to note that the OTC markets in the "old" EU countries perform better than the markets in the "new" EU Member States—except for the *NewConnect* market, which is low in the IPO only. Among the "old" EU countries are the leading markets in Great Britain, Germany and Luxembourg, as well as markets *NYSE Euronext* and *NASDAQ OMX*. They are attractive to investors and companies themselves as they have been operating for many years, have a strong reputation and guarantee a return on their investment. This is reflected in both the capitalization of companies, shares turnover values and liquidity. The less developed markets among the "old" EU countries are the Italian, Austrian, Greek and Spanish markets. These markets have similar results to markets in the "new" EU (excluding the Polish market), i.e. the Slovak, Hungarian and Cypriot markets. It is worth remembering that these are young markets which are only in the early stages of development and whose origins were in the years of the recent financial crisis (or soon after).

6 ICTs in the Enterprises on Polish NewConnect Market

6.1 Research Methodology

The specificity of the Polish market, as well as the availability of data and the proximity of businesses, have made *NewConnect* the chosen market for empirical research and a case study. The case study aims to indicate to what extent and to what scale companies listed on the Polish OTC market use ICTs and what benefits they expect after implementation and what threat they perceive in these processes.

The specification of the research methodology is presented in Table 2.

Table 2 Methodology of the research

The components of methodology	Specification
Research scope	Identification of basic ICTs used by *NewConnect* companies
Research tool	Computer Assisted Self-Interviewing (CASI)
Entity carrying out the study	Centre of Marketing Research INDICATOR Limited Liability Company with its registered office in Warsaw, ul. Świętojerska 5/7, 00-236 Warszawa
Entity contracting the study	Institute of Organization and Management, Faculty of Cybernetics, Military University of Technology in Warsaw, Poland
Period of study	2 months (November–December 2016)
Scope of study	Area of whole country (16 voivodships in Poland)
Respondents	Managers or managers responsible for IT, environment or innovation, employed in *NewConnect*-listed companies (1 respondent per business)
Criteria for selection of research sample	Systematic random sampling (including the criterion of the leading business profile indicated for the purposes of the *NewConnect* market record) in layers (layers correspond to enterprise size)
The size of the research sample	N = 60 enterprises (28% of the population—the population constituted of 214 companies, i.e. SMEs and large enterprises, which are based in Poland and mainly operate in Poland)
Structure of the research questionnaire	The questionnaire included: respondents' particulars consisting of 5 questions and a basic questionnaire: 10 questions (including 5 multiple choice questions, 1 single choice question, 4 questions divided into 68 specific questions answered using a 5-point Likert scale)

6.2 Characteristics of the Research Sample

The age distribution of the studied companies is not normal—it is right-angled. There is a predominance of companies below the middle age, i.e. 14.5 years of operation on the market. Most of young companies (up to 10 years old) operate in the following industries: trade, information technology, financial services, as well as advice and training. One company operating in the eco-energy sector can also be identified here. Older businesses are involved in the media, recycling, industrial processing, and building & construction. The greatest variation in the age of enterprises occurs in the sectors of: building & construction, computer science, as well as advice and training.

Most of small businesses (10–49 employees) operate in the fields of computer science, trade, financial services, and building & construction. Most of medium-sized companies (50–249 employees) operate in the following industries: industrial processing, and trade. On the other hand, a large company (the only one that went to the research trial) is in the recycling business. In general, most of the surveyed companies operate in the sectors of trade, computer science, industrial processing, building & construction, and financial services (Table 3).

Among small enterprises, "young" entities dominate (4–9 years of activity on the market) and some "older" (10–15 years of activity on the market). In this business class, there are the few "old" companies (over 25 years of activity on the market). Midsize companies are dominated by older companies (between 10 and 24 years old). There are relatively few "young" enterprises here (4–9 years of activity on the market). In the large enterprise class, only one entity is classified as "old" (over 25 years) (Table 4).

The "young" companies (from 4 to 9 years on the market) are principally engaged in computer science (five indications) and trade (four indications). In

Table 3 Company size and industry profile

Leading business profile (*NewConnect* classification)	The size of the enterprise (number of employees)			In general
	Small (10–49 employees)	Medium (50–249 employees)	Large (more than 250 employees)	
Building and construction	5	3	0	8
Eco-energy	1	0	0	1
Trade	7	4	0	11
Computer science	8	3	0	11
Media	1	0	0	1
Recycling	1	0	1	2
Financial services	6	2	0	8
Industrial processing	4	7	0	11
Advice and training	4	3	0	7
In general	37	22	1	60

Own study; N = 60

Table 4 Summary of age and size of enterprise

The age of the enterprise (number of years)	The size of the enterprise (number of employees)			In general
	Small (10–49 employees)	Medium (50–249 employees)	Large (more than 250 employees)	
4–9	13	3	0	16
10–15	11	8	0	19
16–24	7	8	0	15
25–30	6	3	1	10
In general	37	22	1	60

Own study; N = 60

Table 5 Summary of leading business profile and age of enterprise

Leading business profile (*NewConnect* classification)	The age of the enterprise (number of years)				In general
	4–9	10–15	16–24	25–30	
Building and construction	2	1	2	3	8
Eco-energy	1	0	0	0	1
Trade	4	5	2	0	11
Computer science	5	2	2	2	11
Media	0	0	0	1	1
Recycling	0	0	0	2	2
Financial services	3	4	1	0	8
Industrial processing	0	4	6	1	11
Advice and training	1	3	2	1	7
In general	16	19	15	10	60

Own study; N = 60

addition, companies in this age group are involved in financial services (three indications), building & construction (two indications) and eco-energy, and advice and training (one indication). The "older" companies, i.e. between 10 and 24 years of activity in the market, are mainly active in the area of industrial processing (ten indications) and trade (seven indications). On the other hand, the smallest enterprises in this age class are computer science (four indications) and building & construction (three indications). Companies that operate at least 25 years are dominated by building & construction (three indications) (Table 5).

All studied companies operate on the scales of: national (9–16 voivodships in Poland) and regional (1–8 voivodships in Poland). On the local scale (one city/municipality/district) there are 58 companies. It can therefore be assumed that 58 companies operate both locally and regionally and nationally. Only 25 companies operate on the European scale (at least one country in Europe outside Poland) and 5 companies on the international scale (at least one country in the world outside Europe, including outside Poland). This may indicate that the surveyed enterprises are still at a low level of internationalization of the activity (Table 6).

Table 6 Summary of scale of activity and age of enterprise

The age of the enterprise (number of years)	The scale of the business				
	Local	Regional	National/domestic	European	International
4–9	16	16	16	7	3
10–15	18	19	19	7	0
16–24	15	15	15	8	2
25–30	9	10	10	3	0
In general	58	60	60	25	5

Own study; N = 60; multiple choice question

Table 7 Summary of scale of activity and size of enterprise

The size of the enterprise (number of employees)	The scale of the business				
	Local	Regional	National/domestic	European	International
Small (10–49 employees)	35	37	37	14	3
Medium (50–249 employees)	22	33	22	11	2
Large (more than 250 employees)	1	1	1	0	0
In general	58	60	60	25	5

Own study; N = 60; multiple choice question

Among local, regional and national companies dominate the "young" (4–15 years of activity)—more than half of the enterprises in each of the three classes mentioned in the scale of their activity. Among companies operating from the local to the European level, the "old" companies i.e. over 25 years of activity on the market are the smallest group. On the other hand, there are companies that are internationally active, both "very young" (4–9 years old) and somewhat "mature" in the market (16–24 years) (Table 6).

Regardless of the scale of operations, small businesses dominate in each of the five classes (local, regional, national, European and international). The smallest disproportions between the share of small and medium enterprises are in the case of European and international scale (Table 7).

Of the companies operating on a local, regional and national scale, the largest number of companies are involved in trade, computer science and industrial processing (11 indications). A significant group of the companies deals with building & construction, financial services, as well as advice and training (7–8 indications). Least enterprises operate in media and recycling (1–2 indications). Among companies operating on a European scale industrial processing dominates (11 indications). Moreover, on a European scale, there are five computer science companies, three companies in each other branch: building & construction and trade, as well as two companies in financial services, and one in media branch. On the other hand, the companies dealing with computer science dominate in the international scale, while one company deals with industrial processing (Table 8).

Table 8 Summary of scale of activity and leading profile of business (industry)

Leading business profile (*NewConnect* classification)	The scale of the business				
	Local	Regional	National/ domestic	European	International
Building and construction	8	8	8	3	0
Eco-energy	1	1	1	0	0
Trade	11	11	11	3	0
Computer science	11	11	11	5	4
Media	1	1	1	1	0
Recycling	1	2	2	0	0
Financial services	7	8	8	2	0
Industrial processing	11	11	11	11	1
Advice and training	7	7	7	0	0
In general	58	60	60	25	5

Own study; N = 60; multiple choice question

6.3 *Results of the Research*

Over the past 5 years, the studied companies have implemented ICTs in the following areas: data storage and processing (49 indications), creation and sharing of knowledge to employees and partners (46 indications), acquisition of key business data (46 indications), planning, forecasting and scheduling of processes (35 indications), as well as construction of IT technical infrastructure (32 indicators), customer service (31 indications) and business relationships (30 indications). Least ICT deployment has been reported in the field of on-site communication (8 indications) (Fig. 13).

The most commonly reported respondents' benefits to businesses stemming from the use of ICTs include: increased revenue (56 indications), increased customer base or increased market share (55 indications), increased flexibility (54 indicators), as well as the increase in business innovation (42 indications) and improvement of administrative processes (41 indications). In turn, the least often indicated benefits are: reduction of excessive IT infrastructure (4 indications), development of incomplete IT infrastructure (5 indications) and improvement of communication in the enterprise (10 indications) (Fig. 14).

Least, i.e. less than 23,631 EUR (i.e. 100,000 PLN[5]) on average per year, for the maintenance and development of information and communication technology is mainly spent on "old" companies, i.e. over 10 years of operation on the market. The average age of enterprises in this cost bracket is over 15 years. A similar situation occurs in the case of expenditure in the range 23,632–70,893 EUR (i.e. 101,000–300,000 PLN). In this case, the average age of enterprises is also

[5]All conversions from PLN to EUR were made due to the EUR exchange rate of the day 28.06.2017—according to the National Bank of Poland; 1 EUR = 42,317 PLN.

Fig. 13 ICT deployment areas in the surveyed enterprises in the last 5 years. (Own elaboration; N = 60; multiple choice question)

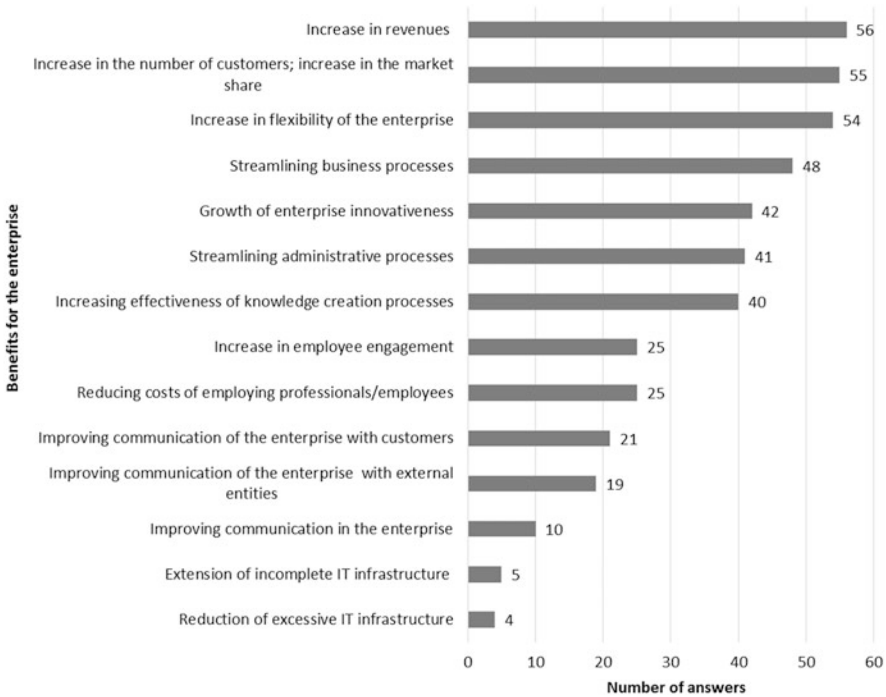


Fig. 14 Basic business benefits of using ICTs. (Own elaboration; N = 60; multiple choice question)

over 15 years. For a cost level below 70,893 EUR (i.e. 300,000 PLN) there is a large dispersion of the age of enterprises—both very young and old. In the range of expenditure on maintenance and development of information and communication technologies at the level of 70,894–118,156 EUR (i.e. 301,000–500,000 PLN), "relatively young" companies dominate. The dispersion of the age of enterprises in this compartment is small (except for one enterprise). In the expenditure range of 118,157–165,418 EUR (i.e. 501,000–700,000 PLN) there is only one "young" company. In general it can be observed that the younger the company, the greater the cost of maintaining and developing ICTs.

Most of the companies surveyed bear the costs of maintenance and development of ICTs at the level of 23,632–70,893 EUR (i.e. 101,000–300,000 PLN) (41 indications). There are both "young" and "old" companies in this range. In 11 companies, costs are below 23,631 EUR (i.e. 100,000 PLN). Over 70,894 EUR (i.e. 300,000 PLN) is listed by 8 companies (Fig. 15).

In the group of companies, which bear the costs of maintenance and development of ICT at less than 23,631 EUR (i.e. 100,000 PLN), the largest group is small enterprises (10 indications). In the cost range 23,632–70,893 EUR (i.e. 101,000–300,000 PLN) also dominates a group of small companies (26 indications), although medium-sized companies (15 indications) are also significant. In the range 70,894–118.156 EUR (i.e. 301,000–700,000 PLN) medium companies (6 indications) predominate.

The most important criteria for selecting ICTs in the opinion of the surveyed companies are: the ability to update the technology (54 indicators), the provision of IT infrastructure by the supplier (48 indications), the popularity of technology in the branch (39 indications). The least important criteria are: low cost of implementation (11 indications) and low maintenance and development costs (16 indications). For

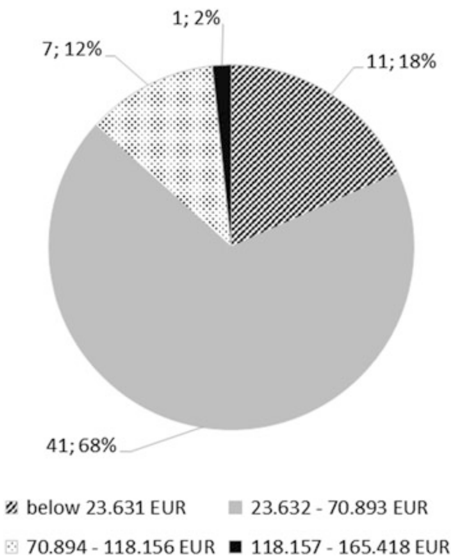


Fig. 15 Average yearly cost of living and development of ICT in the company over the last 5 years. (Own elaboration; N = 60)

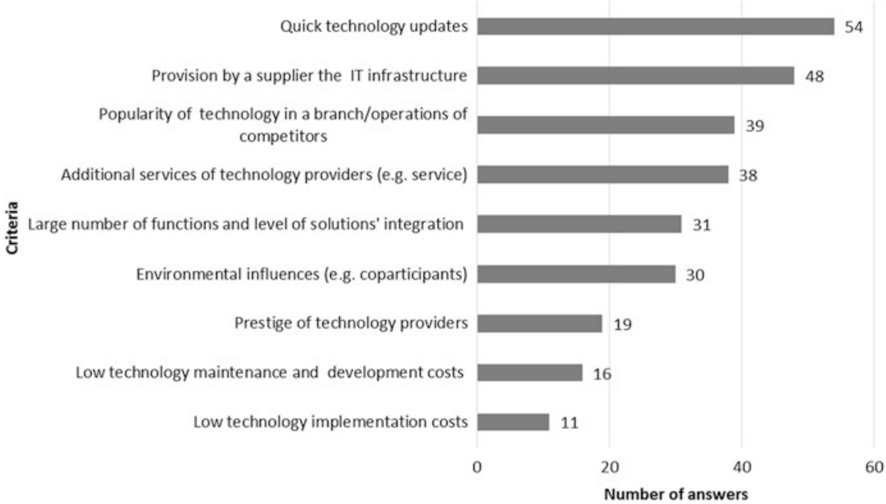


Fig. 16 Key criteria for choosing ICT in the surveyed enterprises. (Own elaboration; N = 60; multiple choice question)

respondents, the technology provider's prestige (19 indications) is also relatively small criterion (Fig. 16).

The basic and most important threats resulting from the use of ICTs are: rapid technological downturn (53 indications), cost increases (52 indications), and difficulty in handling/using technology by employees and managers (41 indications). The least important threats are, in turn, too many functions (1 indication) and too much reduction in IT infrastructure in the enterprise (2 indications) (Fig. 17).

All of the companies surveyed use ICTs to interact with various groups of internal stakeholders, such as specific teams of employees, internal departments or individual organizational units, or management staff, etc. ICT is used by 57 companies in contacts with external stakeholders, by 51 companies to contact with media organizations. It is also worth mentioning that five of the surveyed companies use ICT to establish and maintain relationships with various public administrations (Fig. 18).

6.4 Discussion and Conclusions

The surveyed companies differ in terms of age, scale and leading business profile, as well as size (based on the number of employees). The least numerous is the group of large companies, however, this is due to the specificity of the *NewConnect* market, which is dedicated to small and medium enterprises. The "young" companies (up to 15 years of activity on the market) also dominate. Research sample

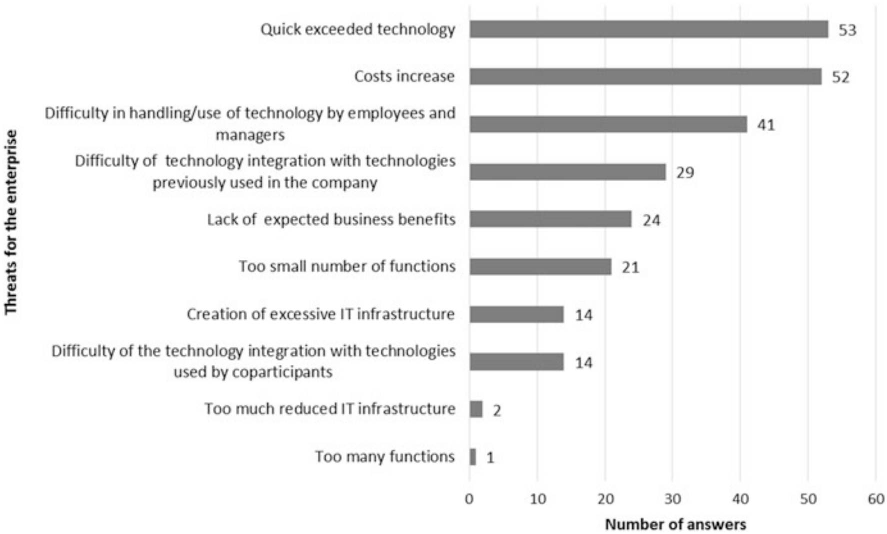


Fig. 17 Threats arising from the use of ICTs. (Own elaboration; N = 60; multiple choice question)

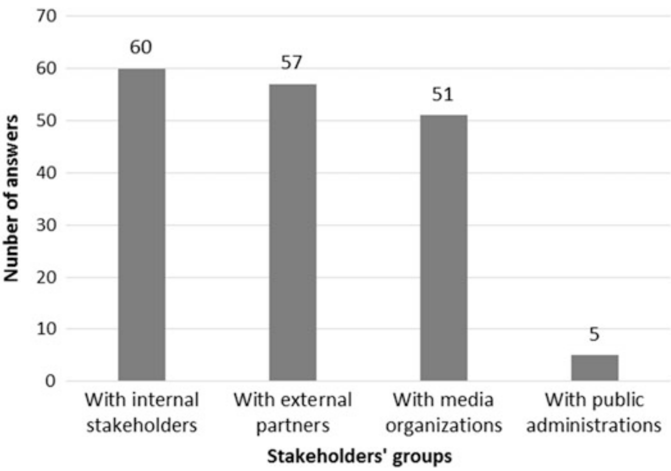


Fig. 18 Stakeholder groups with which companies enter into relationships with the use of ICTs. (Own elaboration; N = 60; multiple choice question)

companies are predominantly engaged in activities that operate on a national scale, fewer are European or international actors. However, there is a slight tendency for the gradual internationalization of these entities—with the prolongation of their activity on the market. This is the most desirable situation, as it demonstrates the development of companies listed on the *NewConnect* market. Most of the surveyed companies operate in trade, industrial processing and computer science. However, it is worth noting that among the companies with the largest scale of activity and at the same time "the youngest" computer science dominates, which is one of the basic profiles of innovative enterprises. In addition, in the "older" and medium-sized enterprises less innovative core business profiles predominate than in "young" and small enterprises.

According to presented research results it can be noted, first of all, that companies do not appreciate the scale of ICT deployment or the problems they face. More problems with new technologies have "old" companies. This situation may be a reflection of the fact that these companies are still at a low level of internationalization. The larger the scale, the greater share of the "older" companies. It need to be noted, however, that relatively a lot of the "young" companies operate in a different way, immediately set up another (larger) scale of activity. The "young" companies spend more on ICTs, are more flexible and innovative. Less interest of enterprises (mainly the "older" ones) in the large number of ICT functions is due to lack of knowledge and concerns on the part of users—companies do not know how to use it (hence the service and training are so important). Less interest in ICTs is driven by the desire to reduce the risk of unprofitable solutions/investments (choosing popular solutions, a reputable provider) and less financial opportunities, experience—hence the interest in providing infrastructure, training, etc.

The main areas of ICT deployment in the surveyed companies are data acquisition from internal and external sources as well as data processing. These are the foundations for knowledge management processes, which are rather the standard used in every enterprise, resulting from the need to conduct market analysis (competitors and cooperatives) and to perform planning functions. On the other hand, the more "advanced" areas of business operations and related complex processes are no longer of great interest in ICT implementation. Examples include, among others, customer support, administrative process support, promotional activities, or reporting and analysis/evaluation of business. It is quite important for businesses to use ICT to build business relationships.

Concentration mainly on data processing, knowledge management and relationships with external parties is to some extent expected by companies for the benefits of ICT implementation. The basic expected benefits are revenue growth, increased flexibility of the enterprise, strengthening of business processes, or increase of innovativeness. It is worth emphasizing, however, that relatively small capital expenditures and a focus on data management may not be sufficient to achieve the expected results of ICT implementation in the short term. Then there may be some kind of dissonance and disappointment with the implementation measures taken and the involvement of business owners/managers in the further development of ICT in the enterprise. In order to achieve tangible business benefits, especially in companies operating in competitive and innovative industries (even micro, small and medium enterprises), it is necessary to continually invest in IT infrastructure (i.e., technical infrastructure), as it is constantly changes, offering new functionality to users. Suspending ICT investment may even lead to IT and information exclusion in the long term, which may also limit its potential to enter into business relationships (e.g. network/virtual infrastructure) and hinder access to resources (reducing the company's innovation potential). This is especially important for micro, small and medium enterprises that do not have sufficiently large financial resources to acquire other resources themselves or create innovations (e.g. innovative networks of companies responsible for creating and developing open innovation).

Targeting the surveyed enterprises to increase operational flexibility (understood as, inter alia, the ability to respond quickly to changes within the organization and the environment, and to the efficiency of information and decision processes) is reflected in the structure of the criteria to be followed in selecting ICT companies. Owners/managers are primarily concerned with the ability to rapidly upgrade technology, provide IT infrastructure, additional services, and a large number of features and the ability to integrate technology with third parties. It also welcomes the fact that entrepreneurs are not guided primarily by the costs of acquiring, implementing and developing ICT. However, such an approach may also be of concern, mainly because the surveyed companies point out that the level of ICT investment is not high. Therefore, ICT costs must be taken into account in order to ensure that, for example, the IT budget in an enterprise (if developed) is respected. In addition, most of the surveyed companies operate in innovative and capital-intensive industries, where dedicated IT solutions are not cheap and can pose a serious burden on the company's budget. Examples may be found in industry: computer science, industrial processing, or financial services. The low importance of the ICT cost criterion may also indicate that these technologies are not being implemented in core business processes, or are not advanced and essential technologies but rather basic, ad hoc tools such as communications applications, spreadsheets or databases. However, it must be borne in mind that the impact of this type of technology on the level of innovation and thus the competitiveness of enterprises (especially those listed on the *NewConnect* market) can be indirect and insignificant. So, the question is whether it is worth investing in such "small" and "ad hoc" IT solutions?

The above-mentioned situation is very likely because it is confirmed by respondents' responses to the basic threats that may be associated with the implementation of ICT in enterprises. The main threats in the opinion of respondents include: rapid technology update, cost increase and difficulty in handling and using technology by employees and managers. Perhaps owners/managers, in an effort to reduce the risk of unprofitable ICT investments, are investing in cheaper and temporary—and therefore more "safe" in the short term—solutions with less analytical and decision-making potential, thus offering less contribution to value creation for internal and external stakeholders. However, taking into account the age of the surveyed companies, this is a rather normal situation, as the "young" players are dominant in the sample, which do not yet have a solid network of external relations and a well-developed IT infrastructure and are constantly searching for new and "best" solutions (calculating the cost of investing in ICT).

Researched companies are quite willing and on a large scale use ICT to create and maintain relationships with external stakeholders—although this should be viewed rather as "intentions" of enterprises rather than the present state. This is, however, a positive situation, indicating the ability (or willingness) of the surveyed companies to create and maintain relationships with external parties, giving rise to, for example, access to network structures (distributed information and geographically dispersed). It is worth recalling, however, that these companies are primarily interested in acquiring and processing data from the environment, and are less likely to focus on providing their own information resources. This approach to networking is not appropriate because it can be inconsistent with the overriding purpose of the entire network. The use of ICTs within enterprises can also be beneficial, inter alia, in the area of streamlining information and decision processes and knowledge management processes. One should keep in mind the aforementioned continuity in financing the development of ICT in enterprises as well as successively increasing the functionality of the ICTs used.

Questions and Activities

1. What are the basic functions of ICTs in managing contemporary enterprises?
2. What are the basic attributes of companies listed on OTC markets? What are these attributes?
3. How can ICTs influence on the development of OTC-listed enterprises as well on the development of individual industries and sectors in the EU?
4. What are the basic threats associated with the implementation of ICTs in enterprises listed on OTC markets in the EU? Are the hazards in each EU country (i.e. on each national OTC market) the same? If YES/NO, what does it depend on?
5. Why different OTC markets in the EU have different financial results? Does the different level of development of OTC markets in the EU affects the scale, scope and complexity of implementing ICTs in enterprises listed in these markets?
6. Why does the British OTC market differentiate from other European OTC markets?
7. What impact on the virtualisation and internationalization of OTC-listed businesses may have on the implementation of ICTs in these enterprises?
8. How can the enterprise's age and scale of operations influence the scope and complexity of implementing ICTs in OTC-listed companies? What is the significance of the criterion of cost of acquisition, implementation and improvement of ICTs?
9. Try to develop 4-5 good practices for companies listed on the European OTC markets (e.g. for the Slovak, Greek, Cypriot and Hungarian markets) in the field of ICTs implementation—based on the example of a case study of the Polish market.

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