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high quality research focusing on the role of institutions and public policy, within both a national and international context. *REBE* encourages cross-disciplinary research work of Romanian and foreign scholars.

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A REVIEW OF ROMANIAN SOCIAL ENTREPRENEURSHIP AND FURTHER RESEARCH AGENDA

Sorin I. Blaga*

Abstract

This article aid the understanding of the social entrepreneurship (SE) phenomenon in the particular context of Romanian, drawing upon existing academic knowledge and practices of SE, exploring the present state of development, identifying existing shortcomings, and suggesting potential new research avenues. This comparative analysis identified five limitations that occur due to SE multi-disciplinary character and complexity of many settings. The study is based on various international organisations' analyses and Romanian government's SE reports. The study advances five research avenues that could enhance governments', academics' and practitioners' perspectives on SE and challenge existing scientific knowledge in this academic field.

Keywords: social entrepreneurship, social enterprises, social entrepreneurs, social economy

JEL Codes: A14; M13; O31; O35; P2: P31; P35

1. Introduction

Social Entrepreneurship (SE), along with private and public sectors is increasingly recognised as a potential source of economic and social development (Pcciotti, 2017). Studies of SE, social enterprises and the social economy in Romania are limited (Schmidt, et al. 2015), with researchers observing that SE literature about Romania has been largely descriptive (Bibu and Orhei, 2008; Arpinte, 2010; Constantinescu, 2012; Cace, et al., 2013; Barna and Vamesu 2014). Apart from the work of a few researchers (Bottoni, 2010; Dobre, 2013; Diaconu, 2015, European Commission, 2016), not much attention has been given to government strategies on SE in Romania. The objective of this paper is to outline the state of SE in Romania, including a review of the academic literature, serving as a basis for a proposed research agenda, increasing our understanding of the Romanian SE and social economy. This paper presents also, the state of Romanian SE integration into the EU Commission's Sustainable Development program (New York, 20 June 2016), enhancing SE research visibility and making it part of the regional and global political agenda, as the phenomenon is similar in other East European countries (Bibu and Orhei, 2008).

This article begins with definitions of SE, social enterprise, social economy, and social entrepreneurs, including taxonomies of all. The purpose of this overview is to identify emerging concepts in Romania and explain it. A short history of the evolution of SE in Romania follows, pinpointing organisational forms that are considered precursors of today's social enterprises in Romania.

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Thereafter, academic literature on SE in Romania is outlined, reviewing existing gaps in SE research, which are identified as further research agenda. The article's conclusion emphasise the potential of SE research in Romania to reach a similar level of analysis as in developed countries.

2. What is Social Entrepreneurship?

SE is not new, and has been around for some time, but has not been labeled as such (Dees, 2001). Some have likened SE to philanthropy (Ostrander, 2007), others have linked it to an organisation's socially responsible behaviors. Yet, others view SE as a means to solve social problems by implementing social transformation through commercial means (Mair and Marti, 2006; Short et al., 2009), a view that currently gaining currency.

Literature increasingly indicates that SE is a form of entrepreneurship (Shane and Venkataraman, 2000) that adopts a commercial approach to solve social problems. Creating profit is part of both business models, yet, in the case of SE, it has a social means and a social end. The market-based business model generates financial outcomes in the case of the social enterprises that address a social need (Haugh, 2005, Mair and Noboa, 2006). Seem that a well-received definition of SE is that proposed by Austin (2006), who states that SE is an 'innovative, social value-creating activity that can occur within or across the non-profit business or government sectors' (p. 371). Therefore, this paper adopts this definition of SE.

Definition of Social Enterprise

Literature indicates that social enterprises are a type of innovative firm that identifies social needs as a business opportunity. The new venture created has a hybrid character, as it employs a market-based business model and uses its outcomes to create social values (Haugh, 2005). These social ventures are instruments of social change that identify and seize opportunities, to alter society for the better (Bornstein, 2004, Dees, 2007). Social enterprises identify niche markets and provide basic services, such as healthcare, education, renewable energy, affordable nutrition, and employment.

The 'social' dimension of social enterprise is important. 'Social' denotes a firm's unique purpose of exclusively creating social equities, which fundamentally differs from the mission of commercial ventures which are exclusively focused on profit maximisation (Mair and Martí, 2004). The operations of social enterprises exhibit dual strategies, focusing on income for the organisation's survival, used to address various social needs. Therefore, social enterprises need to be financially sustainable to meet their social mission.

Perceiving the dynamics of social enterprises is difficult because of their diversity (Billitteri, 2007). The UK Department of Trade and Industry (2002) defines social enterprises as 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximize profit for shareholders and owners' (p. 1). The European Union (EU) defines a social enterprise as an undertaking:

- whose primary objective is to achieve social effects, rather than generating profit for owners and shareholders;
- that uses its surpluses mainly to achieve these social goals;

- that is managed by social entrepreneurs in an accountable, transparent and innovative way, particularly by involving workers, customers and stakeholders affected by its business activity (Commission's Expert Group on Social Entrepreneurship, GECES, 2011).

The EU definition is both comprehensive and 'operationalises' the concept of social enterprise by embedding three key dimensions- that a social enterprise's primary goal is to create social value; it operates in a market-oriented business environment and its primary objective is to serve its identified community stakeholders. This paper adopts the EU definition of social enterprise.

Definition of social economy

The concept of the social economy comes up recently on the central stage of the academic debate. International organisations' (OECD, EU, GEM) and academics' efforts to present a common analytical construct and a universally accepted definition of the social economy failed "due to the difficulties in setting apart various forms of social economy entities" (EU, 2015).

Based on the above meanings of SE and social enterprises an idiosyncratic characteristic of the social economy can be identified as is concerned about the individuals' and communities' wellbeing, delivering social values over profit used for private indulgence. Logically embedding all the above meanings of SE and social enterprises, one may say that the *social economy entrenches the whole number of social enterprises existing at a given point in time, in a specific geographical area.*

Definition of Social Entrepreneur

Dees (2001) defined social entrepreneurs as individuals who embrace innovation to exploit new economic opportunities to pursue a social mission. Dees (2001) further notes that a social entrepreneur '... exhibits a heightened sense of accountability to the constituencies served and for the outcomes created' (p. 167). Similar views are shared also by Mair and Marti, (2004) and Haugh, (2006). These views emphasises the importance of an individual's personal qualities and attributes, such as persistence and determination in pursuing their social mission (Stephan and Drencheva, 2017). Specifically, Dees (2001) stated that social entrepreneurs are change agents in the social sector by 'adopting a mission to create and sustain social value' (p. 12) through unremittingly identifying new opportunities that serve their objectives within the legal framework and constraints of the resources available. In short, social entrepreneurs employ market-based practices to overcome social issues.

Zahra, et al., (2009) argue that not all social entrepreneurs are the same, identifying three types of social entrepreneurs: social bricoleurs, social constructionists and social engineers.

Social Bricoleurs

Baker and Nelson (2005) developed the concept of social bricolage, defined as a collage of 'whatever resources and repertoires one has to perform whatever tasks one faces' (p. 353). They stated that successful bricoleurs require inside knowledge of local conditions and available resources. To be clear about the meaning of social bricoleurs, Zahra et al. (2009) stated that: 'We call entrepreneurs who act on locally discovered

opportunities with locally available resources “Social Bricoleurs” (p. 524). This particular category of entrepreneurial characteristic focuses mostly on the entrepreneurial process rather than upon an individuals’ attributes and motivations for their business idiosyncrasies.

Social Constructionists

In contrast to social bricoleurs, social constructionists create social value by acting on the social status quo to introduce innovative solutions to social problems and create social ventures that contribute to constructing a better society. The social problems taken on board may vary from small scale to the national level. The latter will cause changes in the social fabric of communities; therefore, these individuals are labeled constructionists (Zahra, et al., 2009).

Social Engineers

In some countries, especially developing countries, individual and social entrepreneurial processes may be hindered by inadequate government institutions or deep-rooted corruption and favoritism of political elites that can thwart entrepreneurial processes. Social engineers ‘identify systemic problems within the social systems and structures and address them by bringing about revolutionary change’ (Zahra et al., 2009, p. 526). In the case of systemic problems, social engineers target national and global issues. Their approaches to solving social problems often conflict with the national political status quo and can subsequently be viewed as illegal. Social entrepreneurs’ taxonomy reflects the effective roles that they play at different points in new ventures creation and changes that they may bring at the social level.

3. Romanian social entrepreneurship past and present.

Studies of the historical development of SE, social enterprises, and the social economy in Romania is limited. SE in Romania generally followed Western European trends in the nineteenth century and the beginning of the twentieth century. Its roots can be identified in the nineteenth century in the activities of different professional and religious associations that emerged as a consequence of the need to provide various goods and services to Romanian communities (Osvat et al., 2012). At that time, these associations provided and distributed social services, such as medical assistance (hospitals) and education, throughout the country. For example, Theodor Diamant’s experimental agronomic and manufacturing society at Scăieni (1835 to 1836) was one of the first forms of social economy in Romania. Ten years later, the ‘Project for a Savings and Loan Association’ (1845) represented the first appearance of the cooperative sector in Romania. The activities of cooperatives became regulated by the Trade Code (1887), which was in force until 1903. In 1921, the first Romanian regulations on associations and foundations emerged. In 1948, cooperatives for workers with disabilities were established.

Epistemological elements of SE in Romania can first be identified in a coherent and written form in the neoclassical liberal philosophy of Ion Ionescu de la Brad¹ in the 1880s, which emphasised the need for equilibrium between ‘social and economic interests in enterprise activities’ (Sandu-Ville, 1971, p. 69). Similar views were later

¹ Romanian agronomist, statistician, scholar and writer.

formulated by Virgil Madgearu² in his 1929 paper, ‘Théorie du protectionism et de l’échange international’, published in Paris by Girard, in which he underlined the need to develop and adapt traditional forms of economic entities to protect against the perceived destructive character of industrialisation and mass production. This approach is known in the Romanian economic literature as the ‘industrial protectionism theory’.

Unfortunately, this trend was disrupted by World War II. Nevertheless, during this period, numerous charities and volunteer organisations flourished providing much-needed health care for wounded soldiers. At the end of World War II, when communism took hold, the social welfare state was installed and any social issues fell under the state’s responsibility. The communist regime in the period 1947 to 1949 dissolved over 1,000 associations and foundations that did not align with their philosophy, yet retained or created some cooperatives (Bottoni, 2010) For example, in 1948, the government created cooperatives to support workers with disabilities. Interestingly, the socialist structures absorbed all the professional associations (cooperatives), yet only partially assumed their mutual and social responsibilities, while leaving their economic status relatively unaltered. Cooperatives became much-needed employment entities that provided specialised services (e.g. such as tailoring and shoemaking).

During the post-communist era, from 1989, SE began to flourish again in Romania, stimulated by four major events. First, the communist welfare state - which had inhibited traditional Romanian social relationships of caring for others - came to an end. Second, the expected positive post-revolution socio-economic changes were confronted with numerous hurdles that hindered the progress of SE. Third, the transition from a planned economy to a market economy was marked by massive job losses and implicitly increased unemployment and poverty. Fourth, lack of social protection during this period exposed a significant part of the population to poverty. All these factors created a fertile environment for the development of SE (Diaconu and Watts, 2005; Barna and Vamesu, 2014). A few years later, as part of being accepted into the EU, the Romanian Government created legal and administrative infrastructures to implement social change and finance proactive initiatives to stimulate SE, using EU grants and self-established funds.

Romania became a full member of the EU in 2007. Romania’s newly created Foundation for Civil Society Development (FCSD) collected and analysed SE data and published these in the first edition of the ‘Atlas of Social Economy—2011’. A year later, under the same auspices (FCSD and ISE), and in correlation with data from the Ministry of Justice, National Bank of Romania, Register of Companies National Office and Employees National Credit Union, Barna and Vamesu (2014) wrote a report, ‘Making Social Economy Visible in Romania’. This report established that the social economy represented 1.9% of the national economy in 2012, up from 1.3% in 2011. In 2012, the Romanian social economy contributed to government taxes with 4.18% of gross domestic product (GDP), up from 3.04% in 2011, suggesting the number of social enterprises had increased and was growing stronger. Table 1 presents Barna’s (2014) analysis of the social economy in Romania and its structure.

² Romanian economist, sociologist and politician.

Table 1: Structure of the Romanian Social Economy

Type of Enterprises	No. of Active Organisations	Fixed Assets (Thousands RON)	Revenues (Thousands RON)	No. of Employees	Members (Thousands)
Associations and foundations	33,670	7,198,847	7,742,043	76,902	–
Cooperatives, comprising:	2,228	1,122,805	1,764,363	31,428	N/A
• craft/worker cooperatives	846	599,352	719,036	22,082	N/A
• consumer cooperatives	940	265,295	571,711	7,050	N/A
• credit cooperatives	86	86,371	156,339	2,049	N/A
• agricultural cooperatives	356	171,787	317,277	247	N/A
Credit unions, comprising:	2,767	3,624,190	589,143	5,403	3,028
• credit unions of pensioners	198	768,865	159,879	2,240	1,811*
• credit unions of employees	2,569	2,855,325	429,264	3,163	1,217**
Commercial companies held by social organisations	682	1,971,666	2,202,562	17,394	–
Total	39,347	13,917,508	12,298,111	131,127	–

Source: Barna, C., Vamesu, 2014. * Data supplied by the National Federation Omenia of Credit Unions of Pensioners and ISE estimates for unaffiliated organisations. ** Data supplied by the Romanian Employees National Credit Union and ISE estimates for unaffiliated organisations.

Table 1 illustrates the size of the Romanian social economy, representing 16.3% of GDP, and a positive trend, as entrepreneurial activity increased from 5.68% in the previous year to 6.92%, with the trend predicted to continue in the following years. Barna (2014) indicated that SE also demonstrated regional differences as a result of traditions, economic structures and the availability of resources. Most enterprises were created in the central part of the country (18.76%) and in the north-west (17.42%), while the region of the capital (Ilfov) alone recorded 16.23% of the total social ventures created (Pirvu, 2015). The analysis also demonstrated that the regions with the lowest number of enterprises were the south-west and south-east. The enterprises were active in the following social deeds: charity (28.64%), sports (16.39%), culture (9.16%), education (8.16%), environment (2.35%), and agriculture (3.29%). These data were also endorsed by the 2014 SEFORIS Country Report for Romania.

Recently, the Ministry for Business Environment, Commerce, and Entrepreneurship was created, with responsibility for stimulating the creation of new enterprises, including social ventures. The Ministry is charged with providing funds and clear guidelines, governed by Law no.346/2004, which is in line with the European Commission (EC) Regulation Nr. 1.407/2013, on the creation and enhancement of SMEs. The Ministry's agencies now

monitor 6 programs that are important for the development of the business environment. However, the programs do not refer specifically to SE.

The Romanian Institute of Social Economy's latest report on SE (Vamesu, 2014) reported 100,335 jobs have been created by social enterprises in Romania, representing 2.3% of the Romanian workforce. Comparatively, the GEM Report (2011) on SE in the EU indicates for example that 7.5% of the active population in Finland, 5.7% in the United Kingdom, 5.4% in Slovenia, 4.1% in Belgium, 3.3% in Italy, 3.1% in France are engaged in the social economy. These data show that 1 out of 4 new enterprises created each year in the EU and up to 1 out of 3 in Finland, France, and Belgium, are social enterprises. This comparative data suggests a considerable opportunity for growth potential and job creation in the Romanian social economy.

The European Commission's 2016 assessment of SE in Romania highlighted social entrepreneurial initiatives are confronted with significant infrastructure issues that have the potential to depreciate social entrepreneurial initiatives. The Romanian government has adopted new legislation, strategies, and operational programs to improve the business environment, including the National Strategy for Competitiveness 2015-2020, the National Research-Development-Innovation Plan III 2015-2020, and the National Strategy on the Digital Agenda for Romania 2020.

Further, The European Commission Report (2017) on the Romanian entrepreneurial environment stated that the country significantly underperformed the EU average and identified specific issues the EU believed were hindering (social) entrepreneurial initiatives. The report recommended changes aimed at improving SE effectiveness, such as tax cuts and financial policies. Recommendations included increasing the level of company's turnover (from €100 000 to €500 000), to allow companies to fall into a category benefiting from tax cuts; and the elimination of several taxes.

A further step forward is the Romanian Government's newly created Romanian Entrepreneurship Agency which has the mission to nurture venture start-ups and scale-up. The Agency's objective is to drive strategic innovation and an entrepreneurial agenda, allocating public funding through grants, or establishing types of private-public partnerships leading to a higher birth and success rate for new ventures. The Agency will also develop a monitoring and evaluation system to provide relevant information to various bodies and interested organisations. How successful this agency will be, remains to be seen but, hopefully, it will provide a positive approach to increase entrepreneurial effectiveness, including SE in Romania.

After several decades of social, economic, and political transformation and upheaval, the Romanian perception of SE is experiencing significant positive change (Bibu and Orhei, 2008; Cace et al., 2010). Following Romania's affiliation with the EU, SE and social enterprises have received increasing attention from the EU, the Romanian Government, and various private organisations. A 2010 report by the Ministry of Labor, Family and Social Protection stated that the general perceptions of SE are positive, and all stakeholders believe that SE is a way to improve economic development by creating jobs and increasing the social development and inclusiveness of less fortunate social categories, such as youth and minority groups. Several researchers share similar views (Cace et al., 2010; Constantinescu, 2013; Osvat et al., 2012; Dobre and Mantea, 2013; Barna and Vamesu, 2014).

From uncertain beginnings, it is clear that the development of social enterprises and the social economy is becoming an increasingly important agenda for Romania, the Romanian Government, and good progress is being made. A critical issue, however, is the extent, depth, and availability of academic research into Romanian SE to guide and underpin this agenda.

4. Review of Literature on Romanian Social Entrepreneurship

A review of literature on SE in Romania it may be classified into the following broad categories:

- Studies into the integration and implementation of EU requirements for SE
- Studies by various Romanian Government agencies
- Independent studies of Romanian researchers.
- Studies by the EU and other international bodies into SE in Romania
- Academic studies into SE in Romania.

Each category is briefly outlined below.

Studies into EU requirements for SE in Romania

SE in its contemporaneous form has been largely imported into Romania from other EU countries. Since Romania became a member of the EU (1 January 2007), most of the studies have focused upon analysing the integration and implementation of EU requirements regarding the creation and implementation of frameworks for entrepreneurship and SE in Romania, the proliferation of social enterprises and the creation of a social economy and the importance thereof in Romania (Cace, 2013).

Studies by Romanian Government agencies

Romanian SE literature indicates several studies commissioned by various Romanian Government agencies. As earlier stated, the Romanian Ministry of Labor, Family and Social Protection (2010) reported that the general perceptions of SE are positive, and all stakeholders believe that SE is a way to improve economic development in Romania.

Romania has adopted EU recommendations for a comprehensive legal system of laws and policies that have an impact on SE. These recommendations were adapted to Romanian reality and the following legislation has been adopted: Law no. 122/1996 concerning the legal regime of employees' credit unions. Government Ordinance 26/2000 on associations and foundations; Law no. 540/2002 on mutual aid associations for pensioners. Law no. 346/2004 on stimulating the establishment and development of small and medium enterprises. Law 1/2005 regarding the organization and functioning of cooperatives; Law no. 448/2006 on the protection and promotion of the rights of people with disabilities; Law no. 62/2014 Law no. 346/2004 on stimulating the establishment and development of small and medium enterprises (Pirvu, 2015). The legal initiatives have yet to yield the expected results (Cace, et al., 2013).

Independent studies of Romanian researchers

In the Romanian complex, economic and social environment, it seems that Barna and Vamesu's (2014) report titled, 'Making Social Economy Visible in Romania' is the first

in-depth analysis of SE in Romania. Later on, Global Entrepreneurship Monitor (GEM) 2018 call in for an updated report on SE in Romania remained unanswered. Literature recorded also, Constantinescu's (2013) independent analysis focuses on the benefits of SE in creating jobs, integrating socially and economically various disadvantaged groups.

In their analysis of SE and social economy, Vamesu and Barna (2018) demystify the perspective on SE as the universal answer to all social issues, emphasising SE and social enterprises lack a continuum isomorphism. Their complex analysis reveals various social and economic issues that social enterprises are confronted with, enabling us to achieve a well-nuanced understanding of the territorial differences and dynamics of SE in the Romanian context.

EU and other international agency studies

The leading research activities of the ISE and GEM have analysed and recommended policies to achieve consistency and social inclusiveness in many countries, including Romania. One rich source of entrepreneurial data is the annual country report of the World Bank, 'Doing Business', which considers how easy or difficult it is for a start-up entrepreneur to create and run an SME in specific national contexts. To create an overarching comparison of countries, comparative data from other countries are also presented in this report ("Doing Business - 2016 - Romania"). Similarly, GEM has a comprehensive source of macroeconomic data on entrepreneurship in their country reports. Very specific and valuable research data can be collected from the European Commission's 2015 Country Report on Romania, which includes an in-depth review of the macroeconomic factors influencing entrepreneurial activities.

Academic studies into SE in Romania

Historically, a lack of in-depth and rigorous empirical research into Romanian SE has potentially hindered understanding of the development of SE in Romania (Cace, et al.2013), Recently, Romanian scholars have moved to fill this gap with a growing body of academic research into SE (Pirvu et al., 2009; Lambriu and Petrescu, 2012; Orhei et al., 2012; Petrescu and Stanilă, 2012; Cace et al., 2013; Pirvu, 2015). This academic research into SE in Romania has tended to follow one of two paths: Either a focus on the role of SE in the national economy and society; or studies into processes and practices of SE in Romania.

The first avenue of academic research into SE in Romania highlighted academic discourses casting a light on the impacts of SE on economic policies, social structures, and cultural contexts. Much of this research focuses on various regional levels. While research into Romanian entrepreneurship and SE at this macro level may not be as comprehensive as that found in some Western countries, it is arguably the most representative area of academic research into SE in Romania. This first group of studies tends to be explanatory (Bibu and Orhei, 2008; Arpinte, 2010; Constantinescu, 2012; Cace, et al., 2013; Barna and Vamesu 2014), or focus upon analysing methods of SE implementation (Bibu and Orhei, 2008; Lambriu and Petrescu, 2012) and the benefits of SE activities (Osvat et al., 2012; Dobre and Mantea, 2013).

The second avenue of academic research covers the theoretical understanding of SE in Romania. This research avenue becomes broader and deeper as new research directions open up, such as social enterprise funding and their sustainability, along with policy development for increasing their survival and various legal aspects that support the

process of social venture creation (Blaga, 2018). A synthesis of recent studies into Romanian SE and their contribution to the development of SE knowledge in Romania is presented in Table 2.

Table 2: Summary of Romanian Social Entrepreneurship Studies

Studies	Contribution	Focus
<i>EU requirements for SE in Romania</i>		
Bibu and Orhei, (2008). <i>Social entrepreneurship in the context of Romania's European integration</i>	<i>Differentiating entrepreneurship and SE and future development in Romania, in the context of EU</i>	Commercial and social enterprises
European Commission, (2017). <i>Specific Support to Romania – Starts-ups, Scale-ups and Entrepreneurship in Romania</i>	Opportunities and challenges of the SE and policy recommendations for start-up and scale-up in Romania	SE and social economy
Orhei, et al. (2012). <i>The social enterprise in Romania. An European perspective on their current situation</i>	<i>Uses a perspective of 'social and functional' competencies to define SE</i>	Commercial and social enterprises
Pirvu and Ion, (2014). <i>The evolution of social indicators developed at the level of the European Union and the need to stimulate the activity of social enterprises.</i>	<i>SE indicators developed at the level of the European Union, relative to the social objectives of the Europe 2020 Strategy</i>	Social enterprises
<i>Romanian Government agencies</i>		
Dobre and Mantea, (2013). <i>Social entrepreneurship and other models to secure employment for those most in need</i>	Reforms undertaken by Romanian Government in the fields of social economy	SE, social enterprises and social economy
European Union, World Bank, Romanian Government, (2014). <i>Atlas of Urban Marginalized Areas in Romania</i>	Provides the "Integrated Intervention Tool" to measure poverty and marginalisation and the social economy	Social economy
Ministry of Labor, Family and Social Protection, 2010. <i>Economia sociala – model inovator pentru incluziunea activa a persoanelor defavorizate,</i>	Social economy and inclusiveness	Social economy
World Bank and Romanian Government(2017) <i>Mission of the Roma Sounding Board</i>	Implementation of country's program relevant to the Roma inclusion agenda	Social economy
<i>Independent Research</i>		
Barna (2014). <i>Atlas of social economy in Romania.</i>	(Social) Entrepreneurship analysis and methods of implementation	Commercial, and social economy
Constantinescu et al. (2013). <i>Economia social și ocuparea forței de muncă, Integrarea grupurilor vulnerabile</i>	Social economy and social inclusiveness, employment, inclusion	Social economy
Vamesu and Barna, (2018). <i>Social Economy and Territorial Development in Romania</i>	Social economy integrating rural territory	Social economy

<i>EU and other international agency studies</i>		
European Commission (2016). <i>Statistical reports on social enterprises. Romania</i>	Socio-economic impact of social enterprises	SE and social economy
European Foundation for the Improvement of Living and Working Conditions (1995) <i>Public Welfare Services and Social Exclusion</i>	Provides data and analysis for informing and supporting the formulation of EU policy on working and living conditions	Social enterprises and social economy
World Bank (2014). <i>Romania - Country partnership strategy for the period FY2014-2017</i>	Reduce poverty in Romania and foster sustainable income	Social enterprises and social economy
<i>Academic studies into SE in Romania</i>		
Arpinte et al. (2010). <i>Social economy in Romania. Preliminary approach.</i>	The role of social economy in local and regional development	Social enterprise
Cace et al. (2010). <i>Economia socială în România. Două profiluri regionale</i>	The role of social economy in local and regional development	Social economy
Cace et al. (2013). <i>Social economy in Romania - Challenges and perspectives.</i>	Evaluation of the social economy sector in Romania	Social economy
Diaconu (2015). <i>Regional economic disparities in Romania. Comparative analysis of the North-East and West development regions</i>	Social entrepreneurship contribution to employment	SE and social economy
Lambriu and Petrescu (2012), <i>Trends and Challenges for Social Enterprises in Romania</i>	The role of the social economy in local and regional development	Social enterprise
Pirvu (2015). <i>Social enterprises in Romania</i>	Need for SE development and its current stage of development in Romania	SE and social economy

Source: Created for this study

The studies presented in Table 2 underline the increasingly multi-dimensional approaches to the study of SE in Romania. In addition to these studies, there have been several academic studies by young Romanian students who are studying or have studied overseas, emphasising various aspects of the SE process (Ministry of Labor, Family and Social Protection, 2010; Cace et al., 2010; Lambriu and Petrescu, 2012). Together, academic studies reveal a richly growing development in the level of analysis and depth of the Romanian SE and social economy literature. Overall, it is increasingly apparent that SE and development of social enterprise in Romania are now gaining substantial academic attention from scholars like that in developed economies around the world (Lambriu and Petrescu, 2012).

The following suggested research avenues of SE, social enterprises and social economy may constitute a step forward in academic research and could offer the opportunity to develop deeper insights into the dynamics of the SE phenomenon in Romania. The outcomes of these researches may apply to the rest of East Europe and developing countries around the world.

5. Further Social Entrepreneurship Research Agenda in Romania

After the fall of communism, the Romanian economic landscape dramatically changed and various foundations, co-operatives, mutual societies, and associations emerged (Barna and Vamesu, 2014, 2018). The process has many similarities with all Central and East European countries, with some national particularities (Monzon and Chaves, 2008; Bacq and Janssen, 2011). Moreover, the EU (2020) stated that: “The characteristics of social enterprises differ from country to country concerning their number, size, legal forms and fields of activities.” A similar statement was made by the GEM (2015) that there is no clear boundary concerning which social issues are the government's responsibility and which issues will fall into private or non-governmental organisations.

These aspects are important as theoretical and practical questions could be raised. Several researchers (Billitteri, 2007; Aponte, et al, 2019) emphasised the necessity of comparative and in-depth analysis of SE particularities (geographical/national) that may aid governments in elaborating more effective SE policies. One may say that a clear national regulatory environment, contribute to the expansion of SE and increase the number of the social enterprises, “as an alternative and complementary form of producing social welfare” (Cace, et al. 2011). The combination of the legal provisions and government-specific policies constitute a practical guide for social entrepreneurs.

The extensive diversity of social enterprises that operate in a variety of forms and industries may have a new and innovative business model that makes them successful (Lambriu and Petrescu, 2012, Blaga, 2018). In Romanian SE research, these aspects are only mentioned at best and therefore solid empirical research is needed (Cace et al., 2013). Based on these considerations the following research avenue will be beneficial to the Romanian government and academics in developing effective SE policies that may assist SE expansion with social and economic benefits.

1. Examination of social entrepreneurial processes, practices and business models that work in the specific Romanian context

The aim of this broad stream of research will contribute also to a better understanding of the social entrepreneurial process, social venture creation and how the SE process unfolds over time in the specific context of the Romanian economy, society, culture, and legal systems as stated by Cace (2013) and Pirvu (2015). By achieving this desideratum, Romanian SE research could be put at the forefront of the world SE research.

Many academics - economists, sociologists, psychologists, and management scientists focused their research attention on two main aspects: new venture creation and individual entrepreneur's attributes needed to succeed during the difficulties of the process of venture creation. This paper emphasise the need to investigate how these new firms are performing in delivering social value over time, and which factors contribute to their success or failure. Seem that many contextual factors are playing an essential role in company survival, such as legal provisions to support the new venture, the existence of capital or access to finance, organisation's size and the number of new entrants on the market are important elements of new venture survival as stated by Cunneen and Mankelow (2010). This paper stresses the need to get over the optimistic idealism of SE literature and analyse factors of failure (Pcciotti, 2017).

In response to this approach, Blaga (2018) suggests a complex sustainability framework for social enterprise sustainability, embedding all elements of commercial and social enterprises into a framework needed for a company to successfully deliver social value. Despite these few types of research, the area remains virtually unknown. Even if the elements of the business model are correctly and fully identified, there could be geographical/national variations that may produce over time different effects in a different context. Therefore, the request for further research into:

II. How to promote stable and sustainable social enterprises in the Romanian context remain valid which is also a worldwide desideratum.

By following this research avenue, scholars could elaborate and promote possible solutions that will preserve social enterprises' capability to maintain and remain over time, dedicated to their social purpose. This stream of research may contribute to a convergent view of social enterprise policies, covering their development, proliferation, and success in delivering social value as advocated by academics and international organizations such as OECD and EU and should be reflected in academic research.

In the last two decades, national governments passed legislation and issued various public policies aiming to create an enabling environment that accelerates the social entrepreneurial process. Researches on SE development (Short, et al., 2009) emphasise the importance of public policy and regulatory mechanisms in the process of creating new social ventures. Indeed, Nicollas (2010) emphasis the view that the creation and sustainable development of new social enterprises depends on how government institutions and their SE policies "typically enacted a range of rationalities driven by external sociological factors and path dependencies" (p. 71). Moreover, Nicollas (2010) suggests that further analysis is needed and should have a normative orientation in terms of the social environment required for SE development. A promising SE research avenue could be the investigation of SE from the perspective of institutional theory, originating in organisation studies (Bylund and McCaffrey, 2017), that may identify how social enterprises establish them self in society and which managerial principles need to be considered to survive.

Concurrently, several Romanian researchers have a similar view asserting that there is much to do in this area of academic research (Bibu and Orhei, 2008). For instance, Orhei, et al., (2012) asserts that "in Romania, very little research has been conducted into this field" (p. 756), meanwhile, Lambru and Petrescu, (2012) identifies specific policy that supports the social enterprises in Romania. Alternatively, Cace, et al., (2013) asserted that analysing the social firms in their social and market environment, trough the institutional theory lens is somehow curtailed as there are different theoretical approaches to the social enterprise economic framework.

Based on the above rationality, we believe that the following research avenue will be useful to academics, policymakers, and especially to SE practitioners:

III. Examination of Romanian legal, institutional and government policies to support and strengthen social entrepreneurship and social enterprises in Romania

Incidentally, probably a useful approach to Romanian SE researchers could be comparative research of SE policies, legal systems, and initiatives applied in various East

European countries that could support the infrastructure developments and could be of benefit in developing SE in Romania. This approach will also contribute to the convergence of SE policies as recommended by academics and the EU.

SE literature evolved around three main subjects: social entrepreneurial activities, which are seen as an indicator of economic health, the occurrence of SE, and individual's entrepreneurial behaviors. SE and entrepreneurship in the commercial world are different in many respects, including individuals' motivations for pursuing social entrepreneurship, rather than commercial entrepreneurship (Aponte, et al. 2019). Little appears to be known about individuals' motivations to pursue social entrepreneurship, especially in developing economies, such as Romania. Therefore, intention for SE and the motivations that drive this intention needs to be explored and the following research question becomes valid:

IV. Individual's motivations that encourage (or discourage) their engagement in SE in the Romanian context and elsewhere.

Social entrepreneurs' behaviors are complex, with many factors influencing them. The above research avenue could become a possible research path in an examination of motivations for SE in Romania and any other country. Moreover, this research avenue could explore the roles of specific variables – such as the influences of social norms, personal agency, and many more – on SE motivations and the process of social venture creation. This research avenue may also shed light on potential government legal and/or policy support that would encourage or discourage new social venture creation. Though, we believe that the aforementioned research avenue has a strong potential for the advance of the SE research in Romania and worldwide.

Society is confronted with a continuous increase of the social needs that may not be satisfied by governments and therefore societies as a whole are looking for innovative, efficient, and sustainable ways to address endless social problems. In this context, social enterprises and social entrepreneurs assist communities by supplying “social good” (Mair and Noboa, 2006) which could become also an important field of academic inquiry in Romania (Cace, et al. 2010; Cace, et al. 2013).

There is an agreement between researchers that recognise SE as a vector of social and economic development that builds a resilient and pluralistic social economy (Ali Kazami, et al, 2016). This view resonates also with Romanian researchers (Cace et al, 2010; Barna and Vamesu, 2014, Pirvu, 2015). Furthermore, we believe that a new report on SE, social enterprises, and the social economy in Romania is overdue. Hence, the following suggested research avenue is timely and beneficial to all SE stakeholders – government, academics, and practitioners.

V. Impacts of SE and social enterprise on the Romanian economy and society

At the national level, new data on SE and social enterprises may exist at some government departments, but it seems that this data is not available on the public domain, and therefore are not accessible to researchers. A new report, following Barna's (2014) examination of the state of SE in Romania, will offer consistency in data collection, processing, reporting and facilitate comparative analysis. Such a report has a certain level of urgency with beneficial effects on SE, social enterprises, and social economy by

providing essential information to develop effective and efficient policies and supporting much needed empirical research on SE in Romania.

However, these proposed broad research agendas are focusing primarily upon developing a better understanding of many aspects of the complex process of SE in the specific context of Romanian, informing, enhancing and enriching our understanding of how SE works in the wider global community.

6. Conclusion

This paper presents the evolution of SE research in Romanian, identifying a few shortcomings that reflect a general deficiency in existing academic research, partially due to SE complexity in its many settings, mirroring also significant changes in the progress of organisational theories. The new research avenues proposed may apply also to SE research in the rest of the East European countries, EU, and worldwide which stresses the generality and importance of these new research avenues proposed.

By addressing these research questions, Romanian SE research could go a long way in supporting the development of a SE theory, providing essential information for further academic research, and offer governments valuable information in developing effective and efficient SE policies. This knowledge could place Romania amongst the forefront of nations demonstrating how SE works and the benefits emerging from it.

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CLASSIFICATION OF THE MAIN FINANCIAL - BANKING INSTITUTIONS IN ROMANIA USING SAS

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Abstract

In this research we started from the analysis of the financial actors on the Romanian market, the values of the net assets and equity indicators were registered and, depending on these, the financial institutions were grouped. The software's used were: Statistical Analysis System (Data Miner), SAS Enterprise Guide and Microsoft Office Excel 2019. Thus, financial institutions with foreign or state capital were aggregated in two main classes, depending on the performance indicators studied. Apart from this, two outliers were found which could not be attached to any class. Furthermore, a comparative analysis was performed over a period of 10 years (2009 - 2019) of these two outliers to study in detail why they could not be added to any found class.

Keywords: SAS, banking, data mining, strategy, classification, Enterprise Guide

JEL Classification: C38, C32, E49, P34

1. Introduction

The accentuation of the competition on the Romanian banking market, the increase of the quality of the products and services offered, as well as an experience that can no longer be neglected, represented as many premises that emphasized the importance and the growing need to adopt pertinent strategies by the banking players in the market.

Along with the ability to be recognized and associated, from an institutional point of view, by customers with attributes that determine them to make a choice (trust, security, tradition, speed and others), each bank has its own way of being anchored in the respective banking landscape.

In the perspective of changing the approach of banks from the orientation to products and services, to the customers they address, to the target, to which are added the new banking regulations that amplify the need to closely monitor customer performance, automate banking processes, diversification of distribution channels, banks were determined to be interested in developing high-performance strategies in relation to customers.

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Under the dominance of the globalization of the economy, the pace and need for change increase, the life cycles of the company, of the products it offers and of the strategies it promotes become shorter and shorter. Under these conditions, a new way is needed to define and operationalize the company's strategy, materialized in the continuous development of the strategy - both in its conceptual and operational side - based on a coherent and clear vision of the company's mission. This will allow the bank to constantly adapt to changes in its environment (by integrating positive deviations and avoiding or neutralizing / reducing the effects of negative ones), as well as adopting a proactive attitude, anticipating environmental challenges, transforming them into opportunities and capitalizing on them.

2. Defining the problem, data and coding of the indicators

In this research, the main actors of the Romanian banking market from 2019 were analyzed in terms of performance indicators, such as net assets and equity. It is known that when implementing the long-term management strategy within an economic agent, it must take into account several factors, including existing financial partners. Thus, a robust analysis of them and the determination of their aggregation is necessary.

The data on the most important banking institutions in Romania were taken from the public reports provided by the National Bank of Romania, but also from the own reports of each bank. The data were taken over for the period 2009-2019, the cluster analysis was performed only for 2019, and the banks resulting from the analysis for 2019 were analyzed in terms of time series 2010-2019.

The table below (Table 1) presents the initial data that formed the basis of the analysis. The main indicators considered in making the comparison between the individuals of the bank population were: net assets (I1) and the equity (I2). For these two indicators, values were recorded both in absolute value and in percentage.

Table no 1. Initial values for the data sample for 2019

Bank Name	I1	I1%	I2	I2%
CEC Bank	32897.80	6.64	3861.10	8.17
Export-Import Bank of Romania - Eximbank	7750.90	1.57	1074.60	2.28
Transilvania Bank	87740.70	17.72	8328.80	17.63
Creditcoop Central Cooperative Bank	1474.10	0.30	310.60	0.66
Railway Commercial Bank	463.10	0.09	38.40	0.08
Romanian Bank for Loans and Investments	165.80	0.03	42.30	0.09
Romanian Commercial Bank	71450.00	14.44	7724.80	16.36
BRD - Soci�t� G�n�rale Group	55853.30	11.28	5793.20	12.27
UniCredit Bank	44541.20	8.99	4872.60	10.32
Raiffeisen Bank	42876.30	8.66	4687.80	9.93
Alpha Bank	17820.50	3.60	1910.70	4.05
OTP Bank	13252.70	2.68	1594.20	3.37
Garanti Bank	10870.20	2.19	1298.40	2.75
Banca Romaneasca member of the National Bank of Greece Group	6646.80	1.34	971.00	2.06
First Bank (Piraeus)	6417.10	1.30	804.40	1.70

Intesa SanPaolo Comercial Bank	6582.90	1.33	794.30	1.68
Libra Internet Bank	6527.00	1.32	657.30	1.39
Credit Europe Bank	4031.20	0.81	742.70	1.57
Patria Bank	3193.80	0.64	326.20	0.69
BCR Housing Bank	2653.30	0.53	57.00	0.12
Idea Bank	2337.30	0.47	215.10	0.45
Vista Bank (Marfin)	2580.20	0.52	309.10	0.65
Crédit Agricole Bank	2353.70	0.47	213.50	0.45
ProCredit Bank	1803.60	0.36	216.80	0.46
Leumi Bank	1318.80	0.27	189.10	0.40
Porsche Bank	831.60	0.17	174.30	0.37
Aedificium Housing Bank	399.40	0.08	21.70	0.05

The net assets represents the difference between total assets and total liabilities and corresponds to equity. [11] This indicator is used to estimate the value of a company and represents the amount that the shareholders / associates of the entity would receive in case of liquidation (ie what remains from the capitalization of the asset, after the payment of debts). [12] The net balance sheet asset does not fully reflect the market value of a company, but is a starting point for such an estimate.

According to the Regulation no. 18 of 14. dec. 2006 on the own funds of credit institutions and investment companies published by the National Bank of Romania, the own funds of credit institutions and respectively of a credit cooperative network are formed by funds level 1 own funds and level 2 own funds. [13] The own funds of the Romanian branches of credit institutions from third countries are represented by the level 1 own funds.

Level 1 own funds include: the subscribed and paid-in share capital, except for cumulative preferred shares or, as the case may be, the endowment capital made available to the Romanian branch by the credit institution from the third state; capital premiums, fully collected, related to the share capital; legal, statutory and other reserves, as well as the positive carry-forward result of previous financial years, remaining after profit distribution; the net profit of the last financial year, carried forward until its distribution according to the destinations established by the general meeting of shareholders.

Level 2 own funds consist of: basic level 2 own funds (reserves from revaluation of property, plant and equipment, adjusted for related tax liabilities, foreseeable at the date of calculation of own funds; open-ended securities and other instruments of the same nature; other items) and additional tier 2 equity (fixed-term cumulative preference shares and subordinated loan capital).

The component elements of own funds must be able to be used at any time and with priority to absorb losses, not involve fixed costs for the credit institution and be effectively made available to it, respectively be fully paid.

3. The research methodology

The methodology used in the application has the following structure:

- we built an initial data matrix with indicators I1 and I2 expressed as a percentage.

We have given up the use of these two indicators in absolute value because only in

percentage value can the best differences between the members of the bank population be identified.

- the advanced data mining techniques were applied to the previously built matrix: cluster analysis, classification of banks into various groups. The application was developed in the Statistical Analysis System (SAS) software and SAS Enterprise Guide. The grouping of banks, the number of possible groups and, possibly, outlier members were identified.

- a comparative analysis of the banks that did not join any group was performed. This analysis was performed using Microsoft Office Excel 2019.

4. Results and discussions

After the data sample was loaded into SAS software, a first analysis was performed in terms of data homogeneity, so indicators such as (figure 1) were calculated: minimum value, maximum value, standard deviation from average, skewness, kurtosis. The data sample was also checked and if missing values were found, in this case they would have been removed from the analysis.

Name	Min	Max	Mean	Std Dev.	Missing %	Skewness	Kurtosis
I1_	0.03	17.72	3.2517	4.8073	0%	1.8612	2.672
I2_	0.05	17.63	3.7037	5.1428	0%	1.6737	1.7526

Figure 1. Descriptive statistics of the sample

Skewness is used to determine a distribution's deviation, if exists, from the normal distribution and indicates the direction and relative magnitude of the entire series. In our case for the indicator I1 a skewness of 1.86 was calculated, and for the indicator I2 its value was 1.67.

Kurtosis is an indicator that provides user the information about the existence of some outliers in the data set. The higher its value, the more problems there will be in terms of the number of outliers in the data set. For the studied data sample (figure 1) it can be seen that the value for I1 is 2.67, and for I2 we have 1.75. The values for kurtosis are not very high, there is the possibility of outliers, but they will not have a special influence, so they can be removed from the analysis.

After the descriptive analysis of the data, the clustering method was established. Thus, we chose the ward method to perform the cluster analysis, and the clustering criterion was the least squares. The Ward method allows segmenting the data sample into different classes, so that the classes are as homogeneous as possible inside and as different as possible from each other.

The least squares method involves finding the parameters of the regression function by making the condition that the sum of the squares of the distances between the graph of the function and each observed variable be minimal.

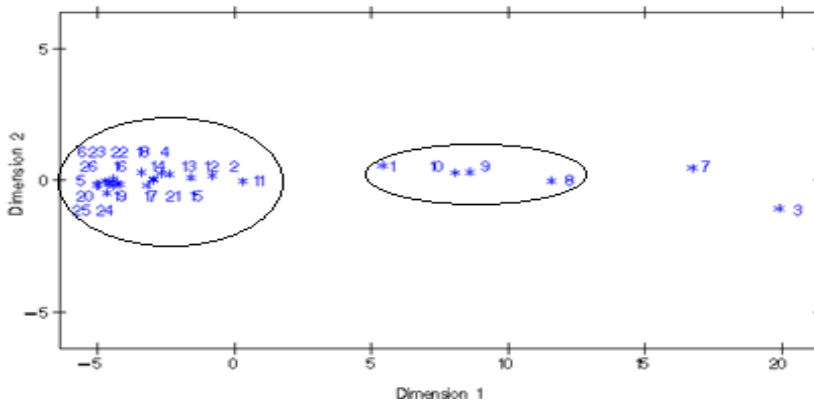


Figure 2. Cluster proximities of the sample of data

After the analysis performed with the help of the SAS program, it can be observed that the following results were obtained (figure 2):

- class 1 consisting of observations: 1, 10, 9 and 8 (CEC Bank, UniCredit Bank, Raiffeisen Bank and Alpha Bank)
- class 2 consisting of observations: 2, 4, 5, 6, 11-24 (Export-Import Bank of Romania - Eximbank, Creditcoop Central Cooperative Bank, Railway Commercial Bank, Romanian Bank for Loans and Investments, OTP Bank, Garanti Bank, Banca Romaneasca member of the National Bank of Greece Group, First Bank (Piraeus), Intesa SanPaolo Comercial Bank, Libra Internet Bank, Credit Europe Bank, Patria Bank, BCR Housing Bank, Idea Bank, Vista Bank (Marfin), Crédit Agricole Bank, ProCredit Bank, Leumi Bank, Porsche Bank, Aedificium Housing Bank)
- observations 7 (Romanian Commercial Bank) and 3 (Transilvania Bank) are outliers. They cannot be associated in a different class because the distance between them is too big for such an association, and the distance between the farthest point in class 1 (observation 8) and the nearest outlier (observation 7) is approximately equal. with the distance between the two outliers.

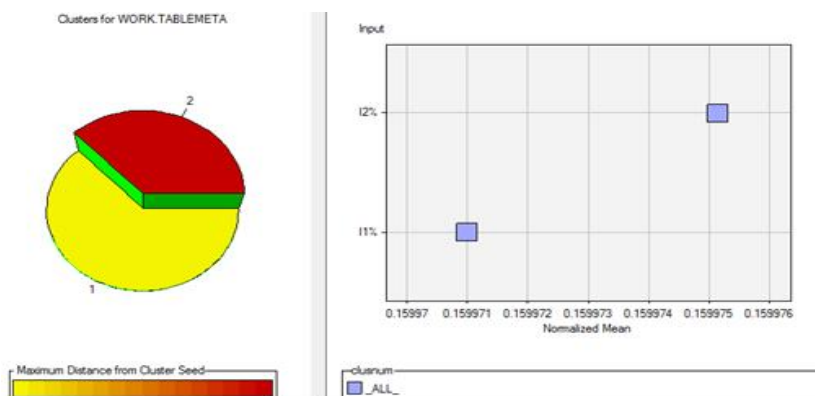


Figure 3. Clusters after removing outliers

After the outliers are eliminated, it will be confirmed that only 2 relatively homogeneous groups of banks will remain (figure 3).

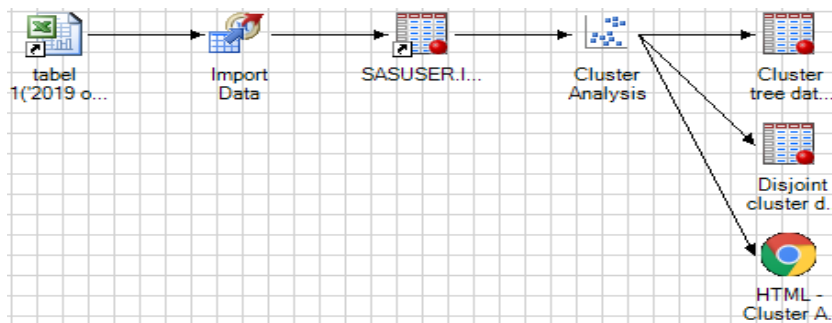


Figure 4. Process flow of the new data set from the SAS Enterprise Guide

After removing the two outliers from the initial data set, the analysis is repeated using the same algorithms according to the process flow from figure 4. Thus, the data series is reanalyzed and the two classes are obtained, as it can be seen in the dendrogram resulting from the SAS Enterprise Guide program (figure 5).

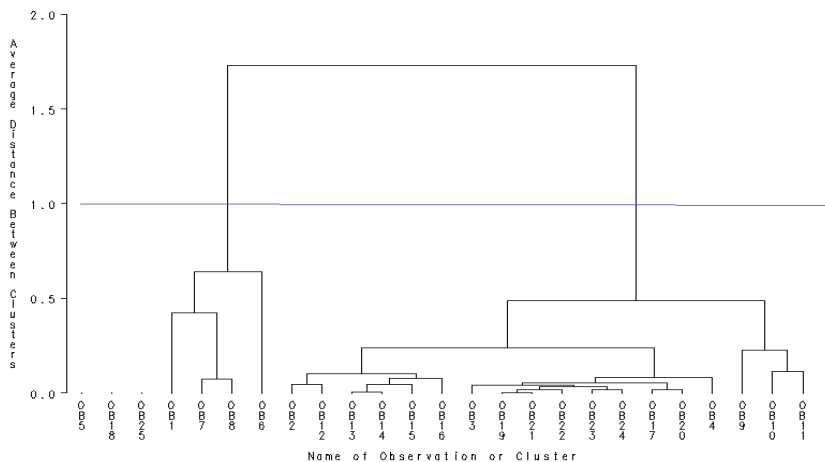


Figure 5. Cluster tree data from SAS Enterprise Guide

The data series was reanalyzed, after the two outliers were eliminated, using the same clustering algorithm (ward) and both the number of classes initially made and, somewhat, their structure were preserved. With the re-sampling of a series of data by removing certain values, it is noticed that all the observations could not be linked to a certain class. This is due to the fact that the values of these observations were much too low, so they were eliminated from the start of the analysis (OB5, OB15 and OB25). But, looking at the graph from the figure 6, these observations that could not be associated with a class by the SAS Enterprise Guide can be assimilated to the class with the most observations, thus obtaining the two classes initially resulting from the SAS program.

According to the proposed research methodology, the two outliers will be further analyzed using the Microsoft Office Excel program.

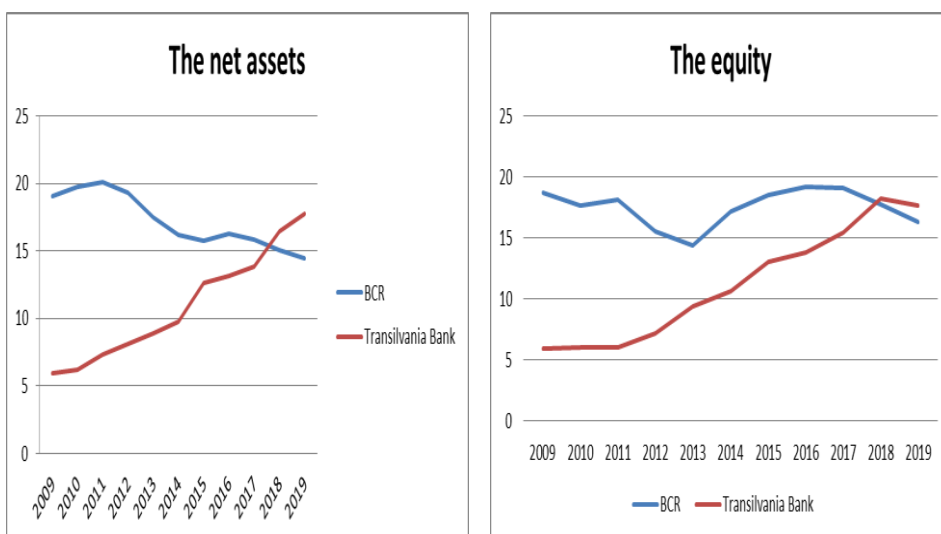


Figure 6. The evolution of the percent of the net assets and the equity in the period 2009-2019

One of the important players on the Romanian banking market was the Transylvania Bank, over time it has managed to maintain its top position, but also to implement the rules, directives or regulations imposed by the National Bank of Romania. In this sense, it changed its internal rules and changes took place in the organizational framework. Since 2009, the bank has started a process of growth and adaptation of their business system meant to face the challenges of the financial crisis.

An essential moment in the evolution of Transylvania Bank is the beginning of 2015, when it acquired by merger of Volksbank Romania. The bank considers that the defining elements that made it acquire Volksbank Romania are: the benefit brought in terms of development and stabilization strategy, the large number of customers and an important portfolio of retail loans, as well as the fact that their business system was close and sharing the same market.

An important moment for the evolution of Transylvania Bank is also the year 2018 when it managed to carry out a new merger of Bancpost Bank. Thus, with the experience already had, this represented a real success, the bank continuing the approach in supporting entrepreneurs, SMEs, but also projects of individuals. Also this year, Transylvania Bank became the third shareholder of Victoriabank in the top of the banks in the Republic of Moldova and together with the EBRD (European Bank for Reconstruction and Development) having a share of 66%.

As a result of these acquisitions and successes, Transylvania Bank manages to gain a position on the market and to maintain in an increasing trend its net assets and equity, managing to obtain on the financial-banking market in Romania the second place in the ranking.

On the other hand, Commercial Romanian Bank maintained its first position throughout the research period. It managed to align with the norms, regulations imposed by the National Bank of Romania, introducing when the situation was imposed by certain corporate governance directives, thus constituting the necessary framework to be able to delimit the monitoring and management function.

Although the total number of loans allocated by the bank increased by 8%, and 34% of the amount of capital for the First House program was distributed to Romanian Commercial Bank for 2019, customer deposits were increased and a special emphasis was placed on was put on the efficiency of the means of digitization, however it was affected, as it can be seen from figure 7 the own capitals start to decrease.

We can therefore say that, although it had a good operational result, its positive return in all business directions, its equity and net profit decreased.

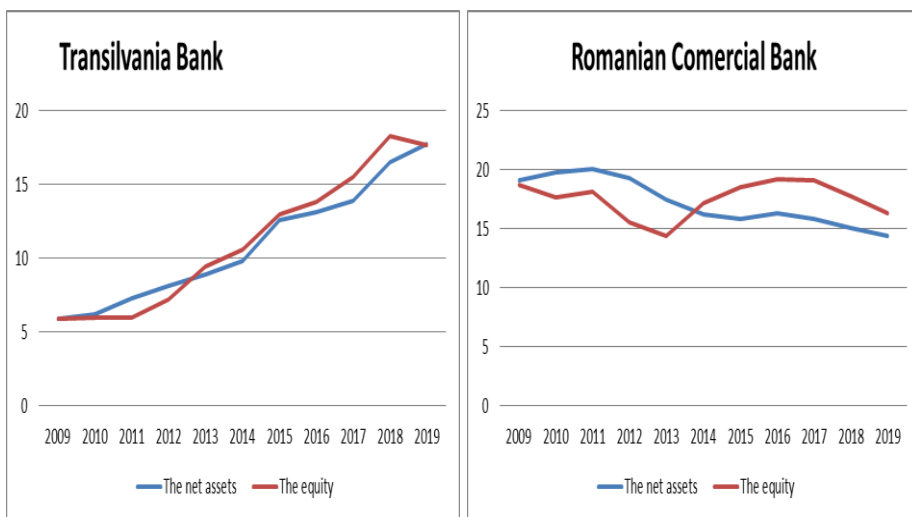


Figure 7. The evolution of the net assets and the equity from the Transilvania Bank and RCB in the period 2009-2019

Each bank has a unique purpose or reason to be, a uniqueness that must be reflected in its mission / vision statement. Well-formulated mission / vision statements are essential for the subsequent formulation, implementation and evaluation of the strategy, although too often they are not sufficiently taken into account. In the absence of a clear funding of the bank's mission, its short-term actions may harm long-term interests. The bank's mission / vision statements should be constantly evaluated and updated, but in general, well-made statements do not undergo major changes, often resisting the passage of time.

The objectives are essential for the organizational success as they establish the direction of the bank's evolution, help to evaluate the performances, generate synergy, reveal priorities, focus on coordination, provide the foundation for effective planning, organization, motivation and control activities. Objectives must be stimulating, measurable, consistent, reasonable and clear. In a multidimensional bank, the objectives will have to be set both for its global level and for each division (strategic business unit).

The strategic management cumulates the actions of conception, implementation and systematic use of a strategy for fulfilling the objectives assumed by the bank, according to their mission and vision, having the following basic characteristics:

- the global approach of the bank considered as an open system, in continuous correlation with its external environment, in continuous dynamic interdependence between the potential and its own actions on the one hand, and the competition, customers, suppliers, on the other hand;
- the voluntary, anticipatory and proactive attitude of the managers regarding the establishment of the objectives and the means to achieve them; the strategic objectives are chosen a priori, based on analyzes, evaluations and forecasts of the evolution of the main influencing factors and are kept up to date by systematic monitoring;
- permanent focus on achieving the objectives and allocating in this sense the necessary resources (physical, material, human and informational);
- giving priority to long-term decisions and their rapid implementation.

Strategic management is carried out within the general context provided by the bank's mission, and its fundamental task is precisely to ensure that the mission is correctly defined and relevant to the bank's fundamental purpose in its ever-changing environment. But strategic management is concerned with both goals and means. In terms of purpose, he formulates an image / vision of how the bank will look in the future, and in terms of means, he shows how he expects that image / vision to become a reality. Strategic management is therefore a visionary management, concerned with creating and conceptualizing ideas on the evolution of the bank. But, it must be translated into an empirical management, which decides how to get there practically.

5. Conclusion

In the long run, competitiveness is given by the ability to build, at lower costs than competitors and faster than them, the distinctive skills that increase results unexpectedly. The real sources of advantage must be in the ability of management to integrate technologies and production skills into the skills that allow the bank to adapt quickly to the changing environment. Distinctive competencies refer both to the harmonization and integration of different technology flows, and to the organization of work and value creation. They do not diminish through use but, on the contrary, unlike physical assets, which lose their value over time, they become stronger as they adhere to them and apply them.

Strategies cover a wide variety depending on the constraints imposed, on the one hand, by the external environment in which they evolve, as well as on the characteristics of banks in terms of size, financing capacity, research and development, market position, on the other hand. Strategies serve as a foundation for the implementation of policies, programs and rules by the bank.

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THE IMAGE OF WORK AND THE IDEAL LEADERSHIP IN *SHUJŪ KOKOROEGUSA*, “THE MANUAL OF MASTER AND SERVANT”

Watahiki Nobumichi
Chua James Redmond
Gatan Luiza
Vlad Cristian*

Abstract

Deeply rooted in the synthesis of Confucian, Shinto and Buddhist ideas that characterized the 18th century Japanese philosophy called Shingaku (“education of the heart”), Japanese management is an internalized activity whose principles are seldom explicitly expressed. As a result, Japanese managers often find themselves in a difficult position when pressed for expressing their principles explicitly.

Our research discusses the characteristics of Japanese management and highlights the religious influences and tradition that shape the behavioral and social-institutional context of Japanese leadership and management. In doing so, the research attempts to shed light on how organizations can enhance their cultural intelligence, leadership styles, management training, and corporate culture more especially when dealing with Japanese companies and employees. The research also delves into the concepts of work/labor, lifetime training, ethical leadership, and corporate social responsibility.

Despite being hundreds of years old, the principles written in the “The Handbook of Master and Employee” are worth looking into due to their timeliness and relevance in the age of globalization, digitization, increasing consumer pragmatism, and resilience amidst global pandemics.

Keywords: economic thought, leadership, ethics, history, Japan

JEL Classification: M10, Z10

I. Introduction

It seems that the problem of *karōshi*, or death from overwork, is a Japanese characteristic. The cause for this phenomenon could be found in a broad interpretation or a dis-function of the *Shingaku* popular philosophy of the Edo city dwellers. *Shingaku* (or “education of the heart” in a literal translation) was the specific Japanese Shintoist

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religion to which Buddhist, Confucian and Taoist influences were added. For the Japanese managers, management is an internalized activity and they often find themselves in a difficult position when pressed for expressing their principles explicitly. Although it is even good intentions that can lead to confrontation, it is a pity that the Japanese themselves did not make an effort to explain themselves positively and scholarly to foreigners.

Incidentally, we should note that, considering their geographical proximity Japan, China and Korea are culturally close. Due to the great influence of Confucianism in the area, warriors were the most highly revered while merchants, because they did not produce material goods yet had a life of profit, were at the bottom of the social strata. Japan had the same thinking until the beginning of the Edo period (1603-1868), and in this aspect resembles China and Korea.

Regarding this matter, Suzuki Shōsan (1579-1655), in his book *Banmin tokuyō* (“Right Action for All”), said that if merchants did their duty as merchants correctly, commerce would be just like a Buddhist practice, and he did not consider that it should be put at the bottom of society. It is generally accepted that Baigan Ishida (1685-1744) took these views as a basis for his elaboration of merchant ethics⁵.

Afterwards, many thinkers of the city merchants’ class continued to develop this kind of study. The idea that by leading a correct life in this mundane world, one can attain similar results to a Buddhist practice influenced greatly the merchant class, starting with the merchants of Omi⁶, and laid the foundations for the commercial ethics of Japan until the beginning of the Shōwa era (1926-1989)⁷.

Shujū Kokoroegusa, or “The Handbook of Master and Employee”, can be considered the introductory book for this kind of ethics. While Baigan Ishida had placed the commercial transactions of the master at the center, *Shujū Kokoroegusa* places at the center what we call leadership in modern management theory. Here, the main points are the debt of gratitude and the trust-based human relationships formed between master and employees as a result of the gratitude. This way of thinking is opposed to the traditional Western type of thinking such as X theory, legal formal theory and the (jurisdictional) functional theories. If we are to assimilate it to something, it is closer to the acceptance theory of authority⁸ and the servant leadership¹⁹ theory (abbreviated SL from now on).

To begin with, the thinking concerning private property in the economic activity in Japan differs widely from the traditional European one. The cause lies in the strength of the family business thinking, which is viewed in Japan as something inherited from one’s ancestors and which must be handed over to one’s descendants, and moreover, due to the fact that commercial activities were viewed primarily as a public service. It seems that

⁵ Ishida, Baigan, (1839). *Dialogues of City and Country: Tohi Mondō*, Osaka Kyoiku Tosho.

⁶ Watsuji, Tetsuro, (1965). *Rinrigaku (Ethics)*, 2nd Edition, Tokyo; Iwanami, Shoten; Hara, Shiro, 1965. Meiji Zenki Kin’yushi (*The Financial World of Early Meiji Era*), Toyokeizai Shinpōsha, Tokyo.

⁷ Tsunehiko, Yui, (2007). *Toi Mondō – Keiei no michi to kokoro* (City and Country Dialogues – the Way and Heart of Management), Nikkei Shinbunsha, Tokyo.

⁸ Barnard, Chester Irving, 1938. *The functions of the executive*, Harvard University Press.

⁹ Greenleaf, Robert K., (2002). *Servant Leadership: A Journey into the Nature of Legitimate Power and Greatness*, 25th anniversary edition. Paulist Press.

this kind of thinking has common points with the cultural area of rice cultivating peoples, with its strong and weak points. It takes a lot of work and time to make the rice paddies, and a huge investment of work to continue to use them, because an interruption of cultivation for several years damages the paddies. That is to say, because the ancestors worked hard, the present generation can cultivate rice without so much effort and this thinking expresses the gratitude towards them. That is, trade should not be done solely for personal profit, but also for the community, and here we can see the great influence of Suzuki Shōsan's thinking. This is why we think it was difficult for a theory of delegation of authority to appear in Japan.

However, after the Meiji Restoration and together with the spread of social advocacy and the establishment of modern property rights based on the Civil Code, the perception on company ownership which was the premise of *Shingaku* also changed. Furthermore, the GHQ (General Headquarters, the Supreme Commander for the Allied Powers) that controlled Japan immediately after World War II banned¹¹ the traditional moral training based on an erroneous interpretation of *Shingaku* as totalitarianism, and thus the number of commercial schools that taught *Shingaku* decreased. After the period of rapid economic growth, the perspective that considers profit maximization as a normal thing became widespread. Moreover, in the period of economic slump, the Japanese type of management declared its demise and at the same time, the management based on an awareness of *Shingaku* also declined.

What we call *Shingaku* comprises, however, of many elements such as the writings of *gesaku* authors who borrowed from previous thinkers and associated their names unduly with *Shingaku*.

Among them, "The Handbook of Master and Employee" had fairly large reprinted versions and is one of great interest. This book was written by condensing the traditional ethics of Japan, and by comparing with various theories used in management science, it discusses the relation between employers and managers and employees.

II. Regarding "Master and Helpmate"

II.1. Position in psychology

In "*Banmin tokuyō*" ("Right Action for All")¹² by Suzuki Shōsan, the role of the social status of samurai, farmers and artisans is discussed. The study on the ethics of commerce specific to Japan began from the point of the importance of the duties of merchants, followed by the development of Baigan Ishida in "*Tohimondou*"¹³. He and his disciples called this *Sekimon Shingaku*. From the experience of working as a merchant, Baigan Ishida regarded the essence of commerce as a broker of exchange, insisted that its importance is not inferior to other positions, and attracted the support of the merchants.

¹¹ GHQ, (1945), 4th Directive. Article of suspending the teaching of ethics, Japanese history and geography. https://www.mext.go.jp/b_menu/hakusho/html/others/detail/1318255.htm (Accessed 20.07.2020).

¹² Suzuki Shōsan (1661), *Banmin tokuyō* ("Right Action for All"), translated by Kato Michiko, "Suzuki Shōsan works I," 2015, Chuo Koron Shinsha Co., Ltd.

¹³ Morita, Yoshio, (1991), *To be thrift and peaceful home: The origin of the merchant road that Umeda Ishida sought*, Kawade Press.

After the theory of Baigan Ishida, the commercial ethics were established by the townspeople thinkers.

Jufukuken Shinkyou, the author of “Master and Employee”, is also one of the townspeople's thinkers. This book does not have direct quotations from Baigan Ishida and his subsequent disciples, but was influenced greatly by the ideology.

II.2. Personalities and historical background

According to the print of the original book, the author lived in Edo, Asakusa area, but his real name and career are not known. However, because the place, names, and dialects of the Kansai region come out many times and especially because the story of an apprentice from Oomi province¹⁴ comes out with the author having experienced working in the Oomi merchant from the vicinity of Nagahama, it is possible that he wrote this book after he retired. In addition to this, he also published “*Shingakushushindowa*” and “*Nichiyosinpo*” under the name of *Jufukuken Shinkyō*. These two books use a somehow stiff writing and have a slightly school-like atmosphere to them.

On the other hand, “Master and Employee” is written in a colloquial style and consists of five volumes written between 1823 and 1846, but they are incomplete. The first edition was published in the era when the townspeople's culture called *Kasei-Culture*¹⁵ flourished, and ludicrous stories like those on the cover were preferred. “Master and Employee” is closer to the content that also serves as entertainment rather than a professional book of psychology¹⁶ with historical background. In particular, it was published in the latter half of the year when it was revived from the great Tenpo famine. It was scheduled to continue after this, and this was mentioned as a notice in the text, but the publication stopped after volume five.

After the Meiji Restoration, the book was reprinted, showing it was also quite popular at the time.

II.3. Expected readers

In the period when this book was published, many townspeople and scholars published essays with many morals and teachings. “Master and Employee” is an example of this type of publishing.

“Master and Employee” is an introductory book about the treatment of subordinates (family members or subordinates of the branch families or family members of the patriarchs), aimed at readers who are planning to take over the family trade (the head of the family, those conducting the business, or those who are responsible for national affairs). In this paper, the master-employee relationship is not distinguished by profession, because it is explained by quoting¹⁷ the master's knowledge based on what

¹⁴ An apprentice is defined as somebody who does not have a position and works in the house from the age of approximately 10 years old.

¹⁵ The yellow cover books (*Kibyōshi-mono*) were like fantasy novels with elements of political criticism and parody.

¹⁶ The great famine from 1833-36, caused by abnormally low temperatures, killed 300,000 to 500,000 people out of Japan's population estimated at about 40 million at that time.

¹⁷ Biography about a war hero, that mostly took place in Japan.

was learned from capable generals of history. In addition, the target readers are not only the master, but also the following masters, and the person who plans to take over the house or who has just become a clerk¹⁸, and it also includes a person who plans to have a subordinate in the future.

The style is written in a very plain and conversational method compared to those written by other townspeople. The content is more enjoyable to read than a collection of lessons, and the degree of basic learning ability taught at temple elementary schools is enough to understand its contents.

III. Labor view

III.1. Labor = Training and circular hours

The most important thing in managing employees is the view of labor. The view of labor varies by region, religion, and era. It is because the management method is very different depending on whether or not labor is viewed as a hard work in giving instructions.

As mentioned above, in the psychology after Baigan Ishida, the view of labor is the same as the Buddhist ascetic practices according to the duty of the profession, and “Master and Employee” is not different in this aspect.

“Whatever you do, do what you can as a person and do your best in the family business. If you have a hard time in the family business and you stay up late at night, you may not be able to stand up in the morning or take a nap, but you should understand that it is useless. People who want to live and prosper should work day and night without sleeping. A good Samurai, a good Monk, a doctor, a Confucian, a peasant, townspeople must be trained day and night to be a good person.” (Volume 5)

Labor, as seen in this sentence, is basically a painful assumption to avoid. It is said that labor is an ascetic practice that must be fulfilled in each profession. This practice has a circular concept of time in that it seeks happiness in the afterlife, not the pursuit of the personal interests of this world. On the contrary, the busier a person is, the more eager he is for training. Since it is an ascetic practice, it is presupposed that it is done voluntarily. From this point of view, training is not a trait that requires efficiency, so it is difficult to manage it for efficiency.

On the other hand, in Taylor's method of scientific management for example, discriminatory work-do-high-salary system was used in order to increase motivation. But since it was not left to the autonomy of employees, it was linked to systematic neglect, and it worked to the selfishness of the pursuit of monetary benefit, and to the efficiency of the management, which shows a stark contrast to the concept of “Master and Employee”.

III.2. Undifferentiated social high and low with respect to labor

In Europe, since ancient Greece, labor has been divided into two groups: *techné* or *poiesis* and *prāxis*. *Technè* is a labor that involves moving the body, such as a craftsman, and is perceived as painful. This is accompanied by the evaluation of “dirty and

¹⁸ Head of Department in the present times.

shameful” physical labor. In contrast, poiesis refers to the creative act, while prāxis refers to the moral thing and the act of making decisions. In other words, poiesis and prāxis are seen at the top of the behavioral hierarchy of labor independent from techné or moving bodies¹⁹. It seems that the idea that the type of labor that moves the brain is more upscale than the labor that moves the body is basically unchanged even now.

In contrast, labor in Japan is significantly different because it encompasses all of these. After the 1980's, people in Japan tend to dislike the kind of civil engineering work of 3K (dirty, dangerous and demeaning) and avoid working in such a workplace, despite the fact that the salary has been unscaled in return. In addition, a new 3K (difficult, cheap salary, no return) has also been highlighted mainly in the IT industry in recent years. However, there are no clear social and economic differences between the two concepts like in Europe. Even today, the concept of labor in Japan does not distinguish between physical labor and brain labor. In “Master and Employee” the author mentioned:

“If you do not know how to use people as people, the house and the nation will not subside. It is an important thing to know well, in both top and bottom.” (Volume 5)

In the “Master and Employee”, if you do not know how hard it is to work for someone with lower status, it is difficult to demonstrate leadership. A subordinate who sees a protective superior gets a sense of security and as a result, works well in the organization.

It is probably because of this that a strange phenomenon occurs when the president of a company that has grown to a certain extent takes the initiative to work at the factory site, or becomes the top in the sales activity. This can certainly be an important factor in creating a sense of solidarity with employees, but it can also be counterproductive in terms of who is in charge or working efficiently.

III.3. Breath of life: Comparison with McGregor’s theory

McGregor²⁰ advocated Theory X and Theory Y as a premise of the management method, but Theory X is exactly the ancient Greek flow. “Therefore, most of the wage earners are workers, and this is the price of all the satisfaction they can afford when they leave the work place. As McGregor²¹ said, “the traditional view of labor is never positive. It is necessary to motivate by “carrot and stick”. In fact, even the “Master and Employee” has a starting point with an approach that is close to this.

“Those who are under the rank are particularly reluctant to go to bed early at night and be up late in the morning, and do not want to be alert. It is cold in winter and hot in summer, and even if the master calls, the employee does not reply.” (Volume 1)

In summary, the doctrine stands on the premise that one is lazy and does not work assumed. However, immediately after this sentence, an idea which differs greatly from Theory X is shown.

¹⁹ Imamura, Hitoshi, (1998), Preface. Imamura Jinji, "The view of modern labor", Iwanami Shoten, Tokyo.

²⁰ McGregor, Douglas, (1960), *The Human Side of Enterprise*, McGraw-Hill USA.

²¹ *Ibid.*

“Motivate your employees by showing affection and compassion. They cannot easily understand it, even if only given instructions. Furthermore, it is not something that can be fixed easily by trying to fix this immediately. To fix this, it is the first thing to put up with it. This patience is something that cannot be done without compassion.” (Volume 1)

There are many sentences with a similar purpose. They say that we should treat our servants with virtue rather than treat them with compassion and force them to work. This is the opposite of the poverty institute in 17th century Europe²² and the forced labor there. Thus, the view of labor in “Master and Employee” is that it is unbearable for the “master” to make the “servant” work, and the work given by the “master” is intolerable and equal to the practice.

Both are painful, but, as mentioned earlier, in European-style thinking, mostly physical labor is shameful, and there is a tendency to want liberation from labor. On the other hand, in the “Master and Employee,” one is suffering from work, but these are like religious practices, and their suffering is a noble act of virtue.

IV. Leadership

IV.1. Ideal image of leadership

It is well known that, regardless of Schein's theory²³, the leadership style that is favored in each culture is greatly different.

The leader in the world of monotheism is the Prophet Moses, who received revelation from God in the biblical Exodus, where it was mentioned that “he who leads us to the ideal (of God).” A leader is someone who is especially trusted by God and has special abilities. Here, it is the reader who judges whether it is good or bad, what the image of overcoming hardship is and how to turn it to the ideal.

In response, “Master and Employee” warns against being autocratic. The following are two representative sentences that symbolize the impossibility of discussing pure religious books and private ethics books together. Instead of the leader making his own decisions, he adopts a virtuous subordinate who listens to them and decides.

“The Master will study and refine his knowledge, and consult with his family, friends, and subjects of wisdom, and rule the country and the house without problems. One should not think that this is only about the state.” (Volume 3)

“No matter how much wisdom there is, it is not wise to ignore the wisdom of others only by one's own thoughts. It is difficult to do things that are narrowly and morally good without relying on the wisdom of others.” (Volume 5)

It is not just those who are in the managerial ranks, but all that are not going to do anything they do not want to do. In this regard, we can see that the prophet is completely different from leading the “wandering lambs” (i.e., those who are not capable). This also refers to the similarity of the Acceptance Theory to Authority.

²² *Ibid.*, Imamura, 1998.

²³ Schein, Edgar H. (2004), *Organizational Culture and Leadership*, 3rd edition. Jossey-Bass.

IV.2. Basic premise as a leader: Entrusting

In “Master and Employee”, the staff is described on the work of the master on human resources.

“People who are virtuous do not force their own flow unto others. They make the flow that they want to do.” (Volume 1)

Here, things do not mean a certain way, but they are used in the flow of the situation and the meaning of the subject. For example, in Japan, there is a proverb that says “*water finds its level*”, but the original meaning is that the relationship between people has a certain regularity, like the law of nature, so it means that it does not work even if you force it to go against this law and execute it. In addition, it is a point that the characteristics of the ability of the employee should be discerned, even if it is important, and that the height of social class of the employee should not be placed in the standard.

“The person who comes to the house (the person who is hired) is a person who has wisdom, is capable, loyal, eloquent, and brave, a scholar and a person who has the ability to adapt. Other people should also be given appropriate work and use it. Those who can do that, are said to be good masters.” (Volume 5)

It seems that there was a difference in the origin of the apprentice, but in the management of the merchant family, it is said that even if it is a clerk or an apprentice, it should not be treated poorly.

“Because I am a daimyo in the first place because I have a subordinate. I am not a daimyo unless I have a subordinate. Man has no choice but to act right as a model for others. It is not possible to grant a wish in a selfish way. A man of virtue considers his subordinates as important, understanding, and not to treat subordinates as sloppy.” (Volume 5)

“The head is noble; the feet are humble. How could I be allowed to love my master as precious, and to hurt my feet as low as possible? Consider this sentence. It is like sacrificing one's feet with dignity and disgrace his retainers. Then I will become a solitary inept and lose my life.” (Volume 5)

This is the concept of “one’s debt to one’s fellowmen”. However, since the word “must not” came out, it is thought that a person with a higher social status actually oppressed a person with a lower social status, but it is thought that the four social classes was declared in the Meiji government, but it is already in the late Edo period. In this way, the leader is not a special existence, and it is characteristic that it does not fundamentally differ from the other members, and that it is rather important to care accordingly.

IV.3. Recruitment

In “Master and Employee”, humans are the most important management resources. It is presumed that both the master and the subordinate have high ethical standards.

“One can't directly control the nation by oneself. Use your loyal subordinates and people with morals to govern the state. No matter how many disloyal people there are, they are useless. It is just a disaster for the Master's family. In addition, when an emergency happens to the master, he does not mind his own affairs and does not mind his own personal affairs, he

thinks only of his own interests, and there are people who work in a family and take advantage of the fact that the master is in trouble.” (Volume 4)

“The treasures of the masters (the noble or the person who manages the area) is land, people, and politics. It is always a disaster to make jewelry a treasure.” (Volume 4)

It is said that when you have a large project, it can't be done by one person and one should hire by selecting suitable persons.

IV.3.1. Moral: The five cardinal Confucian virtues

In the “Master and Employee”, recruitment is characterized by a focus on ethics rather than the skills of the employee. In particular, the evaluation criteria were based on the five cardinal Confucian virtues²⁴.

“The hardships of the common people will eventually become the hardships of the master. Therefore, it is necessary to recruit a person who has wisdom and courage and to conduct good politics.” (Volume 3)

“If we don't find the right people, the country will be in danger and destabilize,” Even in “Mencius”²⁵, the country becomes empty if you do not believe in Jin and Ken. If you do not have the courtesy, you are going to have to go up and down. It is important for the master to use his mind. If you adopt a person who has a bad moral sense, the people will not listen to you, and evil will come out. Never use it. The bad guys should stop and move away from these people to disturb the nation.” (Volume 1)

Not only do they value their loyalty, but they also use the Five Principles of Wisdom and Confucianism as the criteria for their recruitment, and repeat the whole book.

It is not clear what kind of person he is, but he seems to think that he is a person who does not listen to others' stories and goes about things in a dictatorial manner. Hiring a fool is a cause of creating conflict within an organization, so we should pay attention to the recruitment. He also states that, even when hiring, the master should rely on his own knowledge and not employ anyone who judges that he is evil.

“If you show your own wisdom and find out whether a person is capable or not, do not wait for others to recruit, and do not recruit even if someone recommends you 1000 people. You must not hire someone who should not.” (Volume 2)

“To recruit a person who combines wisdom, virtue and valor, one must also have wisdom, virtue and valor. It is good wisdom to hire a person on this basis. A person who hires a person who uses evil wisdom is one that has his own character twisted.” (Volume 3)

It is not always a coherent argument about recruiting people, but it is also a matter of gathering opinions to make up for the fact that it is overlooked.

²⁴ The five cardinal Confucian virtues are regarded as the elements of gaining virtue in Confucianism. First one is benevolence, which means to love people. Second, righteousness which is to do what must be done, without being bound by greed. Third, politeness refers to the etiquette of interacting with people. Fourth, wisdom refers to wide knowledge. Fifth, trust means to keep promises.

²⁵ A wise man here refers to morally superior people.

By contrast, Pfeffer said²⁶, “it’s not a good thing.” First, he dismissed the idea that those who are humanly superior will be a leader as the “just-world hypothesis” and urged them to behave in a manner that would impress their power, to produce “anger”, to “interrupt the opponent's talk”, and even to recommend that it could be incest, such as “taking the boss's mood.”

IV.3.2. What to delegate

By quoting “Ieyasu Kodama”²⁷, he denies the generalists and states as follows: It is basically the assignment of the right material in the place, and it should be used in the field of the ability rather than trying to force the bad thing.

“Do not ask for anything.” To see is the eye, to hear is the ear, to smell is the nose, the taste is the tongue, the foot to walk, the hand to beat, the finger to take. The eyes are useless when dark surrounds us, but the ears are good. You do not need a hand to walk, and you do not need a foot to sit down.” (Volume 1)

This paper cites “Masashige Kusunoki”²⁸ as follows:

“When you hire a lot of people, you do not expect them to be ministers of similar abilities. Some people think he is a master; some people think he is a friend. In addition, some people seem to think that it is an enemy, it is useless for nothing, but some people put it to leave a person in the waste of salary. Understand this well and govern your country and your home.” (Volume 5)

There is a problem with dismissing all of your incompetent subordinates. Although it will be touched on in the personnel evaluation, it says that one should also be cautious to bury a grudge and become an enemy by dismissing the subject.

IV.4. Instructions for using obedience

The most important issue in “Master and Employee” is how to use a subordinate. The obedience attitude is assumed as it is, like a mirror image of the master.

“If one works honestly and advances in his career and salary without acting on the momentum and ideas of the occasion, that person will become the daimyo’s minister and a shopkeeper, and he will listen to his family members, servants, and women, and as a result, he will become the prestige of his master.” (Volume 1)

That is why, first of all, the master must be ethically correct. Furthermore, as the most important knowledge, the master must treat employees with kindness and righteousness. This justice and humanity have been repeatedly discussed in Confucius

²⁶ Pfeffer, Jeffrey, (2010), *Power: Why Some People Have It and Others Don't*, Harper Business.

²⁷ A testament note written by Ieyasu Tokugawa, who created the Edo bakufu (Japanese feudal government headed by a Shogun). Ieyasu Tokugawa's Wills. He created the Edo Shogunate system.

²⁸ This name is used in "Master and Employee", but it seems to be " Kouyo hyougo no ki", which a war chronicles.

and are important points in Confucianism. Caring for another person is a path that should be maintained in an ethical manner, but in “Master and Employee”, this is expressed as a heavenly path.

“A good man cares for the other person to breathe. Therefore, his subordinates are easy to work with. The bad guys try to keep others from breathing, so their subordinates do not want to serve.” (Volume 1)

The Master as a leader must always take care of his men as if they were breathing.

IV.4.1. Growth and education

After being hired, the employee should be treated like a member of the family.

“Even if you are one of the Masters, think of your servants as your children. Do not treat them like crap. However, disregard a child who is too terrible. This is for the house and for the descendants. I am not going to let this happen. It can be a hindrance to good people. It is a very bad thing. On the other hand, people who are good enough are rare. First of all, it should be used by the bad person in six points and four points. Be careful and use it gradually. When you do something good, praise it, and when you see it, reward it and become a good person. Many people become good people depending on the way they are raised. Be sure that the person who stands up is a good person. This can be called the real man of virtue.” (Volume 4)

This point is most likely the basis of long-term employment practices in Japan. Furthermore, taking it out is difficult because it is centered on the family.

The education focuses on the ability to judge what is good and evil rather than the mastery of the business content. Three of them, as mentioned above, are rare, and the one who can be born with these is rarer. Therefore, it is necessary to educate the employees and it is important to have a clear understanding of what is going on.

“First of all, praise the person who has a false loyalty and a false sense of justice, and sometimes give him a reward. In the end, he will become a man of sincerity and filial piety. Good people are rare in the first place. There are many who are taught well and become good people. For one thing, subordinates can be good or bad, depending on how their master treats them. Therefore, it is important how the master uses his subordinates.” (Volume 4)

As can be seen from this sentence, it stands in the assumption that few people can be faithful from the beginning, and it is said that it changes greatly depending on how the Master uses his subordinates.

IV.4.2. Evaluation

IV.4.2.1 Make sure that the grudge does not show

“There are three things the master does. It is to identify talent who will do the job, to evaluate for merit and rewards, and to reveal sin and give punishment. There is a long-term talent shortage to fill the job. There is also a high level of award giving and salary giving. It should be addressed to each person so that resentment does not arise.” (Volume 1)

In the modern way, it is the role of the superiors to judge the talent of the subordinates, to take a position, and to punish them by revealing the failure which they have actually done. However, the purpose of evaluation is to prevent the grudge from coming out rather than to respond to the result. The degree of reward will be decided according to the purpose.

“We should value those who value the world's interests first and those who abandon their desires and keep righteousness, and never the people who hate their masters. Even if that is not the case now, the master highly values his favorite person, and people in the world try to help his boss by saying various things, only trying to favor him. No matter how terrible the politics is, the people below can only benefit themselves. Is it the right politics?” (Volume 3)

Although commercial activities are private profit activities, it is not always desirable to have an attitude of always pursuing profits without always considering the impact on society. This is the basic idea of the social responsibility of the enterprise, and is considered to be the most desirable.

However, there are some employees who have asked for their boss's help now and in the past. This tends to lead to hidden recalls in the business unit or accounting fraud cases.

IV.4.2.2. Avoid betrayal

If you want to know how to do a thing, you have to do it yourself. The master tells you to give flattery and prizes to those who are ostensibly ethical and to obey those who disobey the master. A person who works in a position close to the master has greater influence than a person working at the end.

“Rather than jotting down the wrongs of the people, the evil of the officers on the master's side should be the first one to do it. Anyway, the fact that there are many vassals who borrow the power of the monarch and make the general public suffer and struggle is a great harm to the state. In order to know this, gather information through the secret actions of the confidant's subordinates, gather information from others when an evil is discovered, and punish those who are truly doing evil. Give them all a prize and a punishment. Punish one person, let the other be afraid. Do not punish everyone so much.” (Volume 4)

The important thing is to avoid being betrayed by subordinates, and it is not the purpose to control by fear. For this, the reward and punishment should be given to all.

This may be the reason why the whistleblowing system does not work in Japan. In other words, employees pledge allegiance to the company's community and supervisors, so that even if they find injustice, members of the community feel guilty about it. On the other hand, in the monotheistic culture area, there is a possibility that there is a big difference compared with Japan because it has an absolute god over the community and the boss of the place of work, and faith is a contract with God.

IV.4.2.3. Evaluation of results and goodness

Citing the “Analects” regarding how assessments should be given, the handbook mentions that subordinates should be paid for outcomes rather than aspirations.

"If the willing is high, I will pay", Mencius said. For example, if you do not do a useful job, break a tile, or scribble a graffiti on a wall and try to get a wage, do you hire that person? So, would you pay for that? No, you wouldn't. That is why one pays for a useful job, not for aspirations." (Volume 4)

Object to ideas such as "if you work hard, you will make money" or "you will get money, even when there is no result." Develop subordinates and evaluate them if their actions lead to goodness and evaluate them regardless of their initial intention. At the same time, even if the behavior and motive for the action is right, but the result is wrong, then it should be punished.

V.5. Ultimate authority

V.5.1. Dismissal

Fundamentally, one hires a person who is morally superior preferentially. For those who are not, masters must raise their ethics by education, and to train a person who do not have the capacity to work. Dismissal is regarded as a last resort.

"Forgive the sins of the most, and be patient with everything. If you cannot stand everything, nothing can be accomplished. If the master is short-tempered and hits the servant hard, the house will not necessarily befriend him. If you do not get along well, the country will be disturbed, and if you have a house, it will be a disaster." (Volume 5)

Based on this sentence, one is encouraged to forgive mistakes made at work. If a leader is short-tempered, he or she will not listen to the master's commands and will cause infighting, so it should be noted. However, those who are capable but morally bad must be quickly eliminated.

"No matter how merciful the master may be, there is a Born Villain," You can't do this to your subordinates. You should be fired early." (Volume 4)

In "Master and Employee," there are two cases of innate evil men to dismiss. One is the one who does not always understand the meaning of the things that work, while the other is the one who has described the behavior that was described earlier.

"There are people who think that food, clothing, and pocket money come down from heaven and it's all free. It is hard to imagine this kind of reasoning. We have no choice but to kick them out." (Volume 2)

This sentence seems to refer to embezzlement, which means stealing from the master. Basically, it should be solved by the education of the ethics, but those who do not improve should be dismissed.

"The master is a good servant, but there are vassals who are disloyal, who look down on the master, who make him a villain." This will do great harm to the state, so be careful and drive away." (Volume 4)

Basically, there is a premise that the master has the ability to judge morally good and evil. Because of this premise, it is considered that it is more important to cut off the cause of the organization's misconduct in the apology conference by the top of the

organization apologizing for its own “vice” and replacing it with the “virtuous person” instead of the “immoral person”.

V.5.2. Resistance to the leader

In “Master and Employee”, it is the master’s claim that one must not rebel. The premise is that the master is a good man, and that it is his duty to do whatever even if it is unreasonable. But even so, the master may instruct to do unethical things. The Master said:

“Whoever has become a servant, be compassionate to his master, but be faithful to him wherever he may be.” (Volume 4)

But if one does not do well, he will be reprimanded.

“If the Master seems to be doing a foolish thing, it is remiss to the master in the role of the retainer. It is the salary thief who does not stop the evil deeds of the master.” (Volume 5)

If he is required to be unethical while receiving a salary, he is required to be advised of his actions and to be unethical by his master. Still, retirement is recommended if things do not change.

“If your master's policy and your opinion do not suit you, then leave the house. Follow the master otherwise. There is no other way.” (Volume 5)

Basically, one should listen to what the superior says and if there is a problem with his sense of ethics, the servant should come up front and not say things behind his back. If the servant gives up on the master and still does not stop doing something unethical, it is said that the master is the cause.

VI. Conclusions

When working with Japanese people, one might encounter behaviors that are hard to understand. This is because, the objective is to make decisions that are not visible, even though it is essential for leaders to exercise rational management when it comes to running the business. In particular, even ordinary employees may find it difficult that they do not have the opportunity to voice out their opinions. This also applies to employees who have no opinion, or are not in a position to take responsibility. This is probably the influence of Shingaku. This may be seen as a strength of Japanese management or a lack of efficiency.

To illustrate, under the principle of unanimity, the work or decision of the manager of a department that is not directly related to the approval process of an initiative approves it or stamps the seal. While such ritual leads to a fatal problem that delays the decision-making process, it also has the advantage of making the movement very fast. Because by the time a decision has been made, a sufficient coordination that includes involving various stakeholders, answering their questions and overcoming any resistance have already taken place. This allows Japanese managers and leaders to be slow to make decisions but quick to implement them once they are made.

The problem of *karoshi* (death from overwork and mental stress) seems to be a problem specific to Japan. The reason for this is the inverse function (dis-function) of the townspeople *shingaku*. Japanese townspeople's mentality is influenced by Buddhism, Shintoism and Confucianism, in addition to the inherent Shinto religion of Japan. In particular, it seems that the connection with Buddhist training has had a great influence. Under the Pure Land ideology, which is a part of Buddhism, one must live his everyday life with the right conduct and right resolve, which, of course, is not an easy task. This principle also applies with work and both are not devoid of pain. Therefore, it is easy to make the adjustment by the labor input rather than improve the work structure itself efficiently.

For Japanese managers and employees, business activities are internalized, and fall into a difficult situation when a turn of events is difficult to be actualized by the language of reason. Because of this, the problem of low labor productivity in Japan continues. To the Japanese, work is not only an environment to make a living, but it is also a place to practice. And because of this, work is not seen as a place to streamline training. Therefore, people who had a hard time tended to be evaluated more than those who achieved results efficiently. In fact, when praising a person, the expression "this person is a hard worker" is commonly used and has the connotation of "someone who has practiced." In Japan, it is still very common to see employees going from one member to another to seek approval for requests, conduct one-on-one discussions to obtain consensus or agreement for a proposed change or project, and ask for decisions – an informal process called *nemawashi*. This can be seen as a form of work signal that the person is practicing.

When overseas trade of Japanese enterprises and multinationalization of enterprises advance, the confrontation with the local employees often occurs on the management method. As a result, Japan has been regarded as a mysterious country. It is regrettable that the Japanese voluntarily did not explain it academically to the non-Japanese despite the fact that good intentions can lead to confrontation. This is why, when conducting business in Japan, it is also important to understand not only the characteristics of Japanese management but also the religious influences and tradition that shaped the behavioral and social-institutional context of Japanese leadership and management.

In China and Korea, training is conducted in a sacred place, and it was not their idea to be trained by ordinary people, especially merchants, in doing business. It is said that Japan is close to the culture of the continent of China and of Korea because it is close to them geographically. In these regions, Confucianism had a dominant influence and had a view of seeing the merchants in the lowest layer of the social status as a group of people who devour the profits despite not producing them. Japan was similar until the end of 17th century, and there were similar parts in the Japanese mentality in that regard.

However, after the 17th century, it became completely different from China and Korea. In Shōsan Suzuki's "Banmin Tokuyo" ("Right Action for All"), he discussed for the first time how merchants have social significance. This had a huge impact for the merchants and was an idea that encouraged them. In Suzuki's "Banmin Tokuyo," it was thought that business practice was the same as Buddhist practice, and should never be placed at the bottom of society if merchants conduct their practice correctly. When doing business, merchants think that it is important to do fair business without lying to the other party, allowing them to see their practice with pride. As a result, engaging in commerce or trade no longer had a negative perception of being at the bottom of society.

This idea was then expended by Sanpou Yoshi who believed that in commerce, there are benefits to the seller, benefits to the buyer, and indirectly benefits to parties other than the parties involved in the transaction. Sanpou Yoshi's idea demands that business activities exist not only for the benefit of the two parties involved in the transaction, but also even to those who did not participate in the transaction. This is the prototype of corporate social responsibility (CSR), which is not designed to show off, but must be a virtue embedded in every transaction and done as a daily business activity. This idea is the basic logic of Oumi-merchant. Some of them traded throughout Japan and some settled down. Among them were the publication of books by townsman psychologists such as Jufukuken Shinkyō, and spread through Terakoya²⁹, and also adopted as moral textbooks for elementary through high school after the Meiji Restoration.

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²⁹ Terakoya is a school where monks and samurai taught the very young townspeople in a Buddhist temple or private residence. The equivalent of the current elementary school.

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WOMEN FORMAL EMPLOYMENT IN THE PRIVATE SECTOR OF EGYPT

Hend Hassan*

Abstract

Egypt is an emerging economy facing immense economic as well as social challenges. The 102 million population count can either pose a heavy load to a country struggling to rise to its potential or can offer a workforce capable of economic growth and hence prosperity. It is crucial to realize that by ignoring half of the potential workforce we are forgoing half of the human capital diminishing –therefore- both economic growth and economic development.

Despite the extensive arguments advocating women as a vital labor resource in the economy, women participation in economic activity in Egypt is still subdued relative to men.

It is the aim of this paper to shed light on the employment setting of women in the private sector of Egypt, the challenges they face in this sector and the vital role they play as supporters for their households despite the discussed challenges. Conclusions reveal that women in Egypt still lack social, economic, and legal tools needed to empower them in order to fulfill their vital role in the economy despite the fact that they are highly educated.

Keywords: Labor Gender Disparity, Labor Market, Women Employment, Women Empowerment, Egypt

JEL Classification: J7, J0, E24, J16, J19, K4

1. Introduction

The aim of this paper is to shed light on the current environment pertaining to women in the formal private sector of the Egyptian labor market and the challenges they face in this sector. Empowering women and incorporating them as vital members and partakers in the economic environment is not a luxury anymore but rather a necessity. Despite that women in Egypt still lack social, economic, and legal tools needed to empower them in order to fulfill their role in the economy.

Succeeding the introduction, the problem statement and the research methodology are portrayed followed by an inspection of literature review relating to the effect of gender inequality on women labor participation in Egypt. The aforementioned is attempted through a portrayal of the effect of gender parity on economic activity and labor participation. Afterwards, the paper provides an overview of the employment setting for women in Egypt and the apprehensions of maintaining employment in the formal private sector in Egypt. Following the literature review the paper presents the findings of empirical work conducted in Egypt to support the theoretical hypotheses.

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The paper then concludes that the fact that women economic empowerment and agency is widely recognized as a prerequisite to development, is demonstrably acknowledged by the Egyptian State. However, in spite of the sincere exertions of the government, a lot remains to be achieved in order to bridge the women labor participation gap in Egypt relative to global indices.

2. Problem Statement and Research Methodology

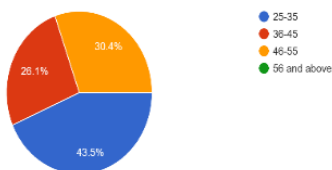
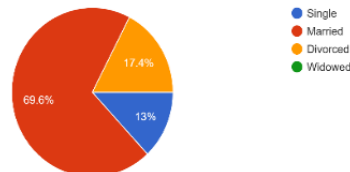
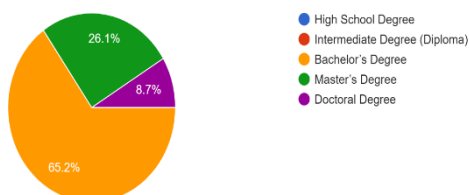
Economic activity that secures own income is deemed essential for empowering women and allowing them agency and supremacy over vital life choices. Although worthy enough as a cause, women economic empowerment is not solely about granting them social justice, it is also about its vitality to the wellbeing of the entire society. According to the United Nations Department of Economic and Social Affairs Population Division, the female% to total population in Egypt has registered 49.8% in 2020 (Countrymeter, 2020), yet Egypt ranks among the highest 10 countries in the world with regards to the gender gap (USAID, 2017).

The IMF stipulates that if the female contribution in the labor force is elevated to the same level of the male participation rate in addition to granting them proper access to employment opportunities, this would result into an increase of up to 34% in the GDP of the country (USAID, 2017). Regrettably, in spite of the countless opinions instating women as an essential labor resource in ensuring and accelerating economic growth and development, women participation in economic activity is still subdued relative to men.

In addition to its situation as an emerging economy -with all the challenges contingent on that- a host of non-economic factors add to the uniqueness of the situation of Egypt: social, cultural, religious -to name a few. The matter that has drawn the interest of a lot of researchers to focus their work on the case of Egypt. Subsequent to its importance, an immense body of literature is devoted to topics pertaining to economic participation of women as a vital contributor to the labor force, particularly in developing countries like Egypt.

This paper aims to offer a perspective on the current situation of women employment in the private sector of Egypt and the role they play as providers for their families. In an attempt to reach this end, the paper implies a scrutiny of the literature, proving that gender inequality adversely impacts women participation in economic activity in general and in the Egyptian labor market in specific. This is in addition to an empirical study that supports the preceding notion through examining: (1) the impact of earned income on women empowerment; (2) the financial contribution of women to the household; (3) the suitability of working conditions in the private the sector for women; (4) the impact of reproductive burden on career choices.

The instrument used to achieve the empirical work is a semi structured guided questionnaire displaying objective multiple choice questions as well as open ended questions to give the interviewees better opportunity to express their points of view and hence a richer insight for the researcher. The questionnaire was administered in Egypt in November 2019 and comprises the participation of 23 women from different age groups, marital status, education levels, and different occupations to display diversity. The criteria for choice are age 25 to 50; holder of a university degree; working in the private sector.

Age
23 responsesMarital Status
23 responsesEducation
23 responses

The women interviewed are divided into 3 focus groups and can be categorized into three main professions: education, medical/clinical, and business services. Each focus group had a group leader heading it acting as a liaison and facilitator. Prior to dispensing the questionnaire, the researcher met with each group leader and explained the aim of the research and thoroughly clarified the process of investigation.

The questionnaire has been implemented using Google forms software to enable the retrieval of all responses. The software also allows a separate visibility for each recipient answer to every question on a separate sheet. Google Form Software automatically creates a summary of all the responses making it possible to have all the data input in a Google Spreadsheet, therefore generating quantitative data, displaying visual representation, and facilitating cross analysis. All the questions are displayed on the header first row of the spreadsheet displayed in the same order as in the Google Form.

Research Limitation

The sample size accessible to the researcher is insufficient for establishing definitive statistical conclusions. The small sample size is a function of time constraints since it is not conducted in the country of residence. Another limitation of the sample is that the majority of the participants came from the same sector, namely, the education sector. The sector barely exhibiting any visual disparities relating to equal pay and suitable work conditions which is not the case of other businesses in the private sector. It is important to note here that it is not the intention of the researcher to concentrate on education employment as a representative of the private sector, it is however inevitable owing to the fact that it attracts many women because of the previously stated benefits.

3. Literature Review

3.1. Gender Parity as a determinant of Economic Activity and labor Participation

Despite the extensive arguments advocating women as a vital labor resource in enhancing economic growth and development, women participation in economic activity is still lagging relative to men. Collier specifies four distinctive aspects -hinging on 'social conventions'- that restrain women from properly participating in economic activity. First is the existing discernment that extends beyond the household to the labor market and access to credit and funding. Second is the fact that 'role models' in economic and production activity tend to be highly 'gender-specific'. Meaning that boys tend to follow the example of men preceding them while girls feel inclined to follow in the footsteps of other women. Consequently, when a new economic opportunity emerges if it is assumed by a man it will automatically, thereafter, be readily available to men rather than women. Third is the distribution of responsibilities and compulsions within the household that falls primarily on the shoulders of women that make them reluctant to surge their burden by more labor outside their domicile. And lastly -and foremost demanding- is the duty of reproduction that is the entire responsibility of women with what it entails in terms of time, physical and mental health strain on them (Collier, 1989:8, cited in Miller & Rasavi, 1995).

Palmer builds on the verdicts of Collier and takes the notion of reproduction burden way further as he labels it a 'reproduction tax' on women labor that they have to submit prior to engaging in any other labor activity. In this sense the 'reproduction tax' levied on women not only limits the time at their disposal to participate in economic activity but also confines their choice solely to work opportunities suitable to their household obligations. Evidently, the economic consequent is misallocating a valuable resource exemplified in the forgone opportunity of women productivity, which is a distortion to the market forces leading to extensive economic inefficiency (Palmer, 1991:163 cited in Miller & Rasavi, 1995). Macro-economic policies -thereafter- have been criticized by many researchers for its male bias, Elson calls on policy makers to grant some attention to 'human development aggregates' instead of just "considering the monetary aggregates of productive economy and ignoring the human resource aggregates of the reproductive economy (Elson, 1993, cited in Miller & Rasavi, 1995, P.27).

3.2. The Employment Setting of Women in Egypt

Recent statistics have revealed that 30% of the Egyptian households are entirely supported financially by women in addition to an evident percentage co-supporting their families. In 2018 the Central Agency for Public Mobilization has released statistics stipulating that 14% of Egyptian families are headed by women (El-Behary, 2018).

Currently, employment apprehensions are central to every policy deliberation in Egypt. It is at the core of the economic goals of 'Egypt's 2030 Strategy' that aim to reduce the unemployment rate to 5% (ILO, 2016 A). The unemployment rate has stayed almost constant since 2014 around the 13% figure. However, this figure -like any other aggregate statistics- does not reflect the variations relating to different social clusters in the society. As such the differential employment ratios pertaining to different age groups, ethnic groups, inhabitant groups (urban/rural, upper/lower Egypt, or rich/marginalized

areas) or genders are not accounted for. Of course -needless to say- gender issues cut across all these mentioned categories. This is as women tend to make the majority of those who are likely to be underemployed, to exit the workforce -based on discouragement- and to be among the marginalized social groups.

Therefore, despite the fact that unemployment poses a critical apprehension literary to every citizen -seeking a job- in any given society, it can be asserted without hesitation that the pursuit is by far more intense when it comes to women who are naturally more venerable in the job market. This is especially true in a country like Egypt where the general consensus is that in times of economic hardship and limited job opportunities men should come first as they are perceived to be more deserving and more entitled while a woman work is perceived as an accessory . Consequently, while male unemployment for the age of 15+ rests on a 6.8% threshold corresponding female unemployment hovers around 21.4% (Al-Masry Al-Youm, 2019).

The labor office – falling under the jurisdiction of the Ministry of Manpower – administers all policies initially mandated by the Ministry. It is also responsible for the provision of all services pertaining to employment or required by those who are actively pursuing a job. A survey conducted in 2006 provided that over 90% of workers with a formally paid job received information that aided them in attaining this job via one of the labor offices. That being said, when considering women job seekers, a number of inadequacies have been detected. First, there has been no eminent effort of offering any special services to women especially for those raising infants or young children. Second, no exerted work on toning the employers' requests with the qualification of those listed at the office as seeking a job has been detected. Finally, the lack of provision of any sound counselling to the named women diminished their opportunity in being properly prepared to pursue the available jobs (JICA, 2018).

In light of the above, the International Labor Organization has issued a report suggesting the subsequent recommendations to the Egyptian administration in order to boost the employment rate of the youth in general and that of women in particular. The named recommendations include integrating and supporting women through decent working conditions and environments that take in consideration the women role as care takers for their families. Make more information available on the different industries and sectors hiring women as well as enhancing the skills of women and coaching them into becoming competitive enough for acquiring these jobs.

It is worth noting that a number of amendments have been made to the labor law pertaining to women. Examples of these amendments are; the exemption of women from working the night shift in the industrial sector (No. 183 of 2003); granting women with a nursing infant the right to either sign in – to her job – one hour late or sign out one hour early (No. 155 of 2003 and the Child Act); as well as extending maternity leave from three months to four months (No. 126 of 2008). This is in addition to excluding women from partaking in jobs endangering them (Article 90). The legislation also grants women a maximum of two –three month- paid maternity leaves (Article 91) in addition to an unpaid childcare leave for up to six years (Article 94), to be taken once or subdivided for different children (JICA, 2018).

3.3. Gender Disparity in the Egyptian Labor Market

Gender gap is defined by the World Economic Forum as the “difference between women and men as reflected in social, political, intellectual, cultural, or economic attainments or attitudes” (World Economic Forum, 2017). The Egyptian labor law is gender equitable if not even favorable to women, that being said however, it can pose a hurdle rather than a privilege to many women seeking job opportunities. This is as -in absence of specified female quotas- many employers especially in the private sector are not in favor of recruiting women consequent to their law stipulated rights of maternity leave, nursing hour and childcare service provision. All of which making women a more expensive option to employers compared to men recruits, therefore resulting into more discrimination than support towards women and hence defying the whole essence of the law.

Profound manifestation exists in the literature displaying the humble labor participation of women in the formal economy. The percentage of women participation in labor force as a ratio of the total labor market fluctuates pending the demand of that market that primarily hinges on whether male workers are available to satisfy this demand or not. Although no obstinate cultural norms are detected regarding the employment of women in particular careers, it is undoubtful that consenting their participation in certain fields depends -for the most part- on that is perceived as modest, appropriate and the repercussions of such employment opportunity on her domestic obligations (Dorlet, 2005). It is important to note here that the political ideology -inaugurated in Egypt amid the 1960s- promoting for more women participation in economic activities has not been complemented by support schemes for these women. The state has continued to take women reproductive obligations and domicile duties as given basically as part of their biological disposition (Dorlet, 2005), delegating the entire responsibility of child-caring to women rather than endorsing a ‘shared responsibility approach’ (Elmenoufi, Ibrahim, Elkashawy 2017).

As such through the years little attention has been given to helping women balance their responsibilities at the household with those at the work place in a way that caters for both their productive and reproductive function, the matter that possesses a constraining challenge to women up to this date (Dorlet, 2005). The latter justifies the ILO statistics indicating that only one out of three women leaving work to attend to family related obligations manages to resume work again (Elmenoufi, Ibrahim, Elkashawy 2017).

Equitable job opportunities for both men and women in the labor market is at the core of gender parity and hence women economic empowerment. Nevertheless, attaining gender equality with regards to economic activity extends beyond being a matter of social righteousness and fairness to an inevitability for economic growth and hence development. Unfortunately, however, Egypt rates among the lowest female participation in labor force amid the entire world where only one in four females is economically active (ILO, 2016 A). Women participation in economic activity in Egypt, therefore, hinges around 23% which is almost half as much as the world’s average for women participation in economic activity registering 53% (ILO, 2018). This is while a survey by the Central Agency for Public Mobility and Statistics - in 2019- asserts that female participation in the labor force in Egypt is less than 20.9% compared to 79.1% for males (Al-Masry Al-Youm, 2019).

Additional statistics pertaining to workforce participation -in 2015- display substantial gender disparity, where female participation in the labor market register a humble 22.8% resulting into a diminished employment rate of 19.6%. Moreover, data indicates that a significant percentage of female employees -amounting to 35%- are unpaid for their work compared to 5% only for males (Ilo.org., 2016).

Egyptian women not only face higher challenges in finding a new job but also struggle to keep it for extended periods of time subsequent to the hardship they encounter in balancing their productive and reproductive roles. This is in addition to the social discrimination they face in the job market, all leading to a 25% female unemployment rate -in 2015- compared to 8.3% for males (Ilo.org., 2016). Chart 1 depicts the gender disparity in labor force participation in Egypt for the period between 2012 and 2016.

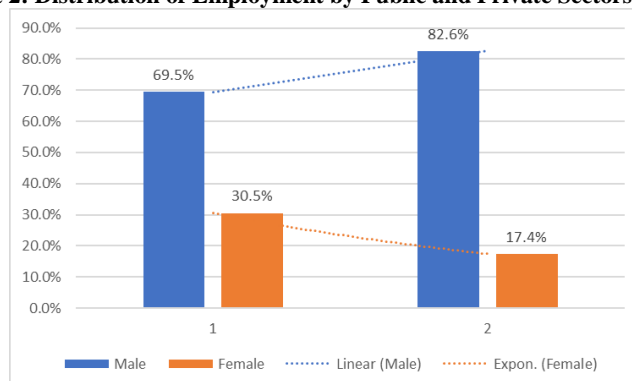
Chart 1: Labor Force Participation Rates by Sex in Egypt 2012-2016



Source: ILO KILM statistics http://www.ilo.org/global/statistics-and-databases/WCMS_424979/lang--en/index.htm [accessed 30 August 2016].

Furthermore, women only hold 17% of the private sector employment while men hold a substantial 83% of this sector. Likewise, women participation in the public sector employment amounts to 31% as opposed to 69% male participation (ILO,2016).

Chart 2: Distribution of Employment by Public and Private Sectors in 2014



Source: Calculations based on CAPMAS statistics (2014).
“Annual bulletin for labor force survey 2014”.

Moving forward, in 2017 the Statistical Yearbook shows that male employees have registered 20 million as opposed to only 5.4 million women employees, women participation –therefore- in the labor force has only amounted for a humble 23% (JICA, 2018). Moreover, a comparison between the unemployment rates by gender - in 2016 - has shown an evidently higher unemployment rate for women registering 23.6% as opposed to 8.9% for men.

Nevertheless, what is even more alarming is that 88.9% of those who are unemployed have finished higher education (university graduate or post graduate level), which points out a much higher education level of women compared to men with equal qualifications. What further asserts this notion is the fact that only 3.2% of the unemployed women are found to be illiterate compared to a 6.4% illiteracy rate among unemployed men (JICA, 2018).

Table 1 demonstrates what is previously mentioned as it shows the highest group of unemployed women to be those who hold a university degree or higher amounting to 31.3% in 2017. The figures also show the immense parity in the percentages of men and women participating in the job market despite holding the same academic credentials. All of which confirming the pressing need for the enforcement and timely implementation of the above-mentioned recommendations.

Table 1: Participation in Labor Force and Unemployment Rate by Sex & Education 2017 (in 00s)

Education Status	Total	University Degree or Higher	Upper Intermediate	High School Diploma	Below High School	Read & Write Level	Illiterate
Labor Force							
Total	294,743	56,582	13,558	5,121	39,693	28,929	53,531
Males	224,730	35,905	10,236	4,065	32,523	26,053	40,459
Females	70,013	20,677	3,322	1,056	7,170	2,873	13,072
Unemployed							
Total	34,681	11,777	1,460	200	2,728	825	1,171
Males	18,530	5,299	613	119	2,336	498	928
Females	16,151	6,478	847	81	392	327	243
Unemployment Rate (%)							
Total	11.8	20.8	10.8	3.9	6.9	2.9	2.2
Males	8.2	14.8	6	2.9	7.2	1.9	2.3
Females	23.1	31.3	25.5	7.7	5.5	11.4	1.9

Source: Compiled based on CAPMAS, 2018, Statistical Yearbook – Labor

Another distressing report shows that the participation of women of age 15 and above -in the labor force- is only 22% compared to 75% for men, while globally women account for 52% of the labor force. The same report indicates that women's labor participation between the ages of 15-24 is 20% compared to 53% for men (UNISEF, 2011).

The substantially high unemployment rate for women - who have a university degree or above- is not only attributed to the lack of sufficient job opportunities in the private sector but also to the equivalent insufficiency of opportunities in the public sector relative to the increasing number of yearly graduates. In spite of that a lot of women will still be waiting in line in hope of an opportunity opening in the public sector that is known to require less skill level as a criterion for hiring. This is since despite the high degrees some of the women hold, they tend to lack the proper skills that would make them competitive enough in the private sector, i.e. language, computer, leadership skills, etc.

Many business owners claim that finding employees -especially fresh graduates- with the needed skill level and qualifications poses an evident challenge to them. Subsequent to this incongruity, a substantial percentage of the 800,000 graduates entering the job market annually with high degrees experience profound hardship in procuring matching job opportunities (ILO, 2018). Naturally, the situation is more dire when it comes to women seeking appropriate jobs consequent to their confinement with many other social, physical and cultural hindrances.

The immense demand of female graduates for government and public sector employment is also a function of the discernment of the private sector against women stemming from discriminatory social norms discouraging female employment within certain occupations. Additionally, the labor regulation pertaining to maternity leave and working hours preferential treatment elevates the cost of hiring females, further discouraging the private sector from employing them (Mensch, 2003, cited in Dorlet, 2005). As such the public sector becomes their only resort otherwise, they are obliged to turn to the informal work sectors, where they would have to consent to lower wages, low to no benefits or job security together with incongruous work environment.

3.4. The Paradox of the Education Sector

An assessment conducted by the World Bank Gender Unit assesses that the conventionally solid correlation between the education achieved and participation in the labor force is diminishing. This is consequent to a shrinking public sector -traditionally a chief employer for educated women- coupled by frail opportunities available for them in the private sector. Despite the fact that a higher ratio of men is being employed in the majority of sectors, certain sectors remain to be dominated by female employment. Quantifiable research attest that specific sectors are more accepting to women than others, especially to those who are married.

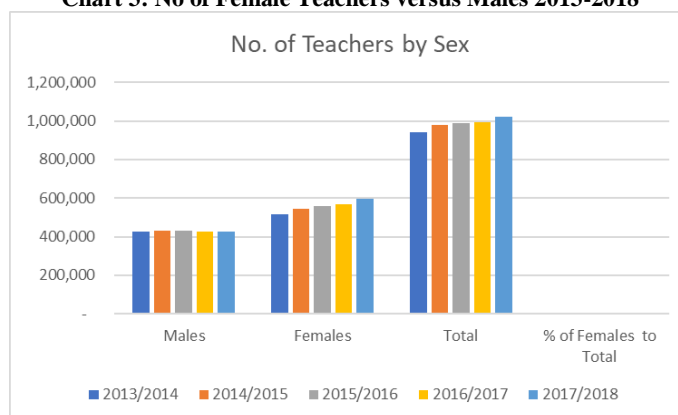
The education sector – that show a substantial demand for women hires – employs 48.1% of women. Table 2 and chart 3 below confirms that women continue to seek more jobs in the education sector where they believe will be more accepted and where the working conditions will allow a more suitable balance for their productive versus reproductive responsibilities. The numbers show a steady increase in the numbers of women employed by the mentioned sector -between the years 2013 to 2018- as opposed to stable to lower numbers of men seeking the same job during the same span of time.

Table 2: No. of Teachers by Sex 2013-2018

Sex	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Males	424,999	431,650	430,464	426,056	427,904
Females	517,826	545,415	559,043	566,741	595,929
Total	942,821	977,065	989,507	992,797	1,023,833
% of Females to Total	55%	56%	56%	57%	58%

Source: Compiled based on CAPMAS, 2018, Statistical Yearbook – Education, Data supplied by the Ministry of Education

Chart 3: No of Female Teachers versus Males 2013-2018



Source: Compiled based on CAPMAS, 2018, Statistical Yearbook – Education, Data supplied by the Ministry of Education

4. Findings of the Empirical Research

The findings of the research can be clustered into three distinct themes: (1) the impact of earning own income on women empowerment; (2) the significant role women exhibit as providers for the household; (3) challenges facing women in the private sector of Egypt. The following section will utilize the responses of the sample participants to shed light on these themes in an attempt to better comprehend the employment environment facing women in Egypt and what justifies their limited participation in the labor market. This is while establishing -through the carried investigation- the importance of having a paid job and earning income on attaining women empowerment.

4.1. The Correlation between Earning Income and Women Empowerment

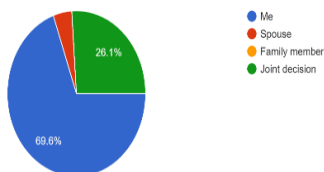
Various studies stipulate the positive correlation between wealth or working for money and women empowerment as manifested in greater participation in decision making. Women undeniably are more empowered when they have access to a paid job that secures a consistent income and when this income constitutes a significant percentage of the total household earnings. In the sample surveyed 95.7% of the women indicated having their own income, 100% of which confirmed that the source of this income is a paid job.

The following indicators will be used to establish the positive relationship between earning income and women empowerment: having a bank account; making decisions

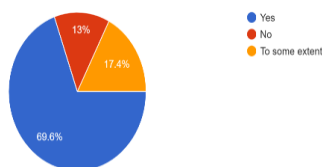
regarding savings; making decisions pertaining to substantial purchases; making reproductive decisions; making decisions relating to having a job and earning money.

All the participants affirmed having a bank account and 87% confirmed that they exercise agency over when to assume employment and earn own income. When asked about saving decisions 69.6% of the women asserted the ability to decide how much to save and 60.9% said they were able to decide when and how to spend these savings, while the rest responded that it was a joint decision with the spouse. Only one participant out of the sample indicated that her husband takes all decisions relating to saving. Moreover, 69.6% of the women stated being able to make decisions regarding purchasing major acquisitions (i.e. house, car, appliances, ...etc.). The manifested agency women possess over saving and spending decisions -as conveyed by the data- stems from the fact that these women are earning money and contributing to the household finances. Therefore, it can be asserted that a positive correlation exists between earning own income and women empowerment.

8. Who decides how much to save?
23 responses



13. Are you involved in major household decisions, i.e. large purchases or sale of (car, house, household appliance), agricultural decisions?
23 responses

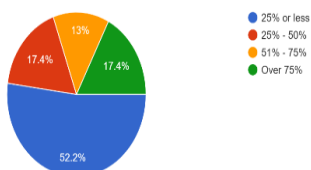


However, when asked about the ability to negotiate reproductive decisions only 56.5% out of the women interviewed indicated that they are always capable to do so while 34.8% said sometimes. Being conservative about discussing such matters is attributed to cultural inclination, nevertheless a financially independent women is more able to make such decisions.

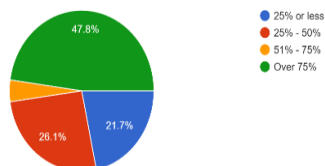
4.2 Women Contribution to the Household Income

The vast majority of working women make substantial contribution to the total income earned by the household. Nevertheless, such significant financial contribution to the earnings of the family does not necessarily translate into supremacy over household decision making. Through the sample a wide range of responses convey full control over the household income to no control at all.

4. What share of household income is provided by you?
23 responses



5. Do you have freedom to spend some cash or savings?
23 responses



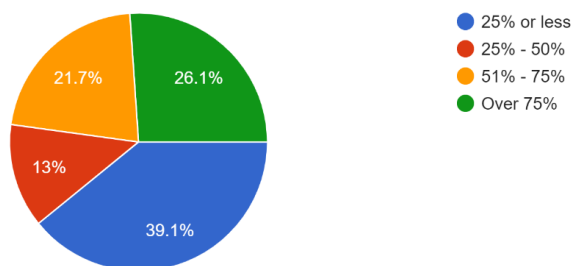
When asked about the share of household income they provide almost 48% indicated providing more than 25% of the family income out of this percentage 17.4% provide up to 50% of the income, 13% provide up to 75% while 17.4% provide more than 75% of the household income. However, when asked about the power they possess over-spending cash or saving 47.8% -almost half the sample- indicated having control over 50% or less of the income out of this percentage 21.7% have control over 25% or less of the income. Moreover, when asked whether they feel comfortable discussing household finances with their spouses when they were not in agreement 21.7% answered: no. when asked why among the responses were: “it felt awkward”, “it caused fights and disputes”, “he is unclear regarding anything concerning money”, “he always perceives it as an acquired right that I support with my entire income.”

It is important to note here that despite the aforementioned, earning own income is still among the chief influences enabling women empowerment. This is as 47.8% indicated having control over more than 75% of spending decisions and even the ones displaying less control over financial decision making in the household would not have any power over such decisions if they were not earning money and contributing income.

It is also crucial to signify here that the majority of working women in Egypt seek employment out of necessity rather than luxury as they assume a crucial role as sole providers or co-providers for their families. When women in the sample were asked about the percentage of their income they spend on the children and the household almost 60% indicated spending more than 25% of their income for that purpose. Out of this percentage 13% provide up to 50% of their income, 21.7% provide up to 75% and 26.1% provide more than 75% of their income to children and household expenses. The numbers therefore, clearly manifest that women act as providers for their families which defies the prevailing argument deeming men more worthy of job opportunities because they are bread winners of their families while women’s work is merely an accessory to the household expenses.

11. What Proportion of your income is spent on the household & children?

23 responses



4.3. Challenges Facing Egypt in Private Sector Employment

Work/life balance is among the principal challenges deterring women participation in economic activity. Conclusions from a Time-Use Survey conducted in

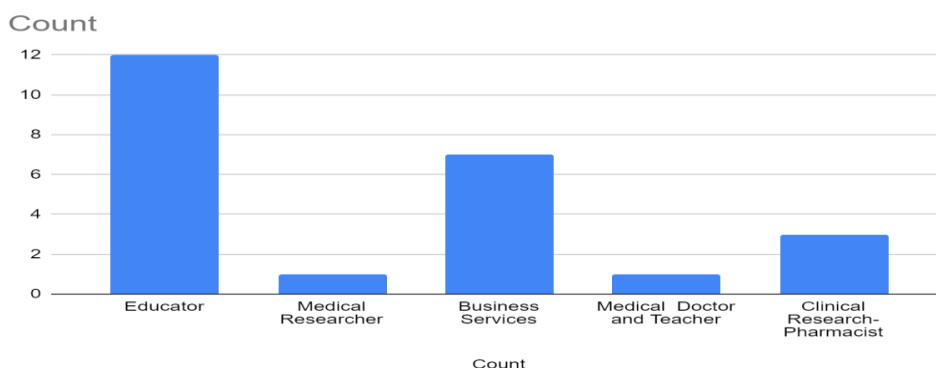
2015 signify that women in Egypt are almost entirely responsible for care taking and housework responsibilities even when they have paid jobs (Zeitoun, 2018). Only 3 out of the 23 participants stated they receive some form of help with household duties from their spouses. Moreover, research show that household obligations assigned to women do not decrease upon their employment (Zeitoun, 2018). In the sample 60% of the married women in the sample stated that they spend 8 to 9 hours a day on their paid job while 50% indicated that they spend 4 to 5 hours a day on housework. This “double burden” can dissuade women from seeking employment and committing to a job as it becomes highly challenging to maintain a career, which explains why a lot of women exit the job market post marriage consequent to household and reproductive obligations.

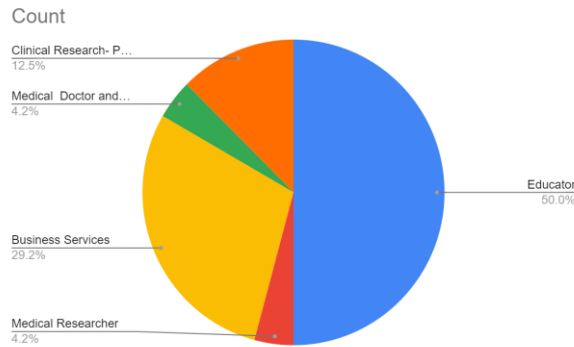
Public mobility is also an important determinant in facilitating women participation in economic activity. When asked whether you are able and feel safe to use public transportation/travel in public spaces 47.8% of the participants replied that they do not and that they actually avoid using public transportation in fear of their safety. Even those who can afford private transportation in Egypt struggle with heavy traffic, overcrowding, harassment, and the cost encountered to go to work, all of which pose hindrances to women participation in the labor force, especially when coupled by the long work hours of the private sector.

Women preference for public sector employment in Egypt is justified by unsuitability of work conditions in this sector for women -especially married ones- manifested in unequal pay, lessened environment safety, harassment, lack of childcare services, and extended working hours. The mentioned apprehensions not only cause women to refrain from labor participation but also influence their career choices if they have to assume employment.

As indicated by numerous studies in the literature, the education sector is deemed one of the most hospitable employment sectors for women even if it operated within the private sector canopy. Although it is not the intention of the research to concentrate on women employed by this sector it is inevitable as 50% of the research participants - although not deliberately chosen-held jobs within the education system consequent to the suitability of the work conditions.

Chart 4: Sample Distribution by Occupation

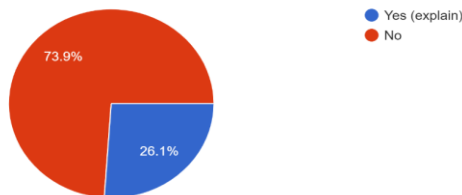




To achieve insight of the **work conditions** challenges confronting women in the private sector of Egypt the suitability of the following indicators are addressed: (1) work hours; (2) safe environment (3) harassment; (4) availability of childcare services. The responses yeild a critical observation, essentially, all the participants proclaiming the suitability of work hours, the safty of enviroment, the absence of harasment and the availability of childcare facilities are all working in the education sector. Participants employed within business services and medical/clinical industries all asserted otherwise. The matter that justifies women opting for employment in the education sector even when they were more qualified for the job offered, which is proven by the fact that some of the teachers interviewed are engineers and doctors and holders of Ph.D.

Lastly, the problem of **unequal pay**, it is well-known that in the labor markets of many developing as well as developed countries, women who are equally as qualified as men are still earning significantly less. Berniell and Sánchez-Páramo postulate that in earning prospects, women have a lesser chance to have formal job opportunities, they usually earn less than men for doing the same work (Duflo, 2012). To combat this injustice, Article 9 in the 2014 Constitution stipulate that the Egyptian State “shall ensure equal opportunities to all citizens without discrimination” therefore contesting any discernment against women. The government as well as the public sector abide by this legislation and enforce equal pay schemes, regrettably however, this is not the case in the private sector. This is confirmed by a study -in 2015- attesting that the private sector pays women 34% than their male counterparts despite the Labor Law provisions stipulating for equal compensation, which evidently demotivate women from seeking employment in the private sector.

21. Have you been paid less than a man (with the same qualifications) for doing the same job?
23 responses



There are exceptions -of course- of this predicament as vastly exhibited in the education sector even the privately owned and managed segment of it, which is verified by the research participants responses. When asked whether they have been paid less than a male colleague for doing the same job 73.9% said no while 26.1% said that they do. It is worth noting here that the sample participants affirming receiving equal pay chiefly hold education posts, all indicating that this sector provides more equitable opportunities for women. Those who affirmed receiving less elaborated that they are receiving the same as a male working less or getting the same pay as a less experienced male. Justifications alternated between: “having less negotiating power”, “men are stronger in getting what they want”, and “Simply we are in man environment, so everything is for men first”.

5. Conclusion

Presently, Egyptian women are still constrained by the social and cultural framework stereotyping women role in the public arena in spite of the diversity of their contributions to the economy and the multiplicity of the economic roles they play as orderly, unregulated and care labor. Despite the preceding women’s access to employment opportunities - specifically in the private sector- remain limited by work/life balance struggle, challenging public mobility, frail enforcement of labor laws that permit unsuitable work conditions, unequal pay as well as diminished ‘gender-sensitive’ policies.

In spite of the evident discernment and gender-based milieu women are subjected to in the workplace, Egyptian women bear economic burdens and contribute to spending on the family, either in partnership with men or as the primary breadwinners of the family. Findings of the research affirm that women in Egypt are not working for luxury or merely for their independence but are rather obligated out of the necessity of supporting their families, if not as the sole providers then as co-providers for essential. It is therefore irrational to limit their access to equal labor opportunities based on the predisposition that men are the providers of their families and hence more worthy of claiming work opportunities.

The research shows concrete evidence of the positive correlation between having a paid job thus earning own income and women empowerment. Contributing to the collective income of the family gives women rights to share in vital decision making in the household which is normally not possible for them otherwise. Through making sizeable contributions to the necessities of the household they earn the right to make decisions pertaining to saving, spending, and making substantial purchases.

Through the years -however- little attention has been given to helping women balance their responsibilities at the household with those at the work place in a way that caters for both their productive and reproductive function, the matter that possesses a constraining challenge to women up to this date (Dorlet, 2005). Evidently, women economic participation positively correlates with the adequate recognition and protection of their needs, rights as well as physical and mental security in the workplace, the matter that entails sincere exertions on behalf of the government as well as employers.

Women preference - in Egypt- for public sector employment is justified by the discrimination they face in the private sector, owing to the anticipated higher cost associated with hiring them. Consequent to their reproductive and care taking role employers believe women are not a good investment, which is reflected in diminished growth opportunities and

discriminatory compensation. This is in additions to the unsuitability of work conditions in this sector for women - especially married ones - manifested in extended working hours, lack of childcare facilities, and unequal pay.

Nevertheless, this research detects an exception to the aforementioned apprehensions, namely, in the education field even when it is operated within the private sector. The singularity of the educational sector is that it offers women equal opportunity in recruiting, compensation, and promotion. Moreover, presents decent work conditions in terms of reasonable hours, safe environment, equal pay, and opportunity for growth as well as child-care services. Thus, enabling more participation in the labor market and hence better chances of women empowerment.

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SCIENTIFIC RESEARCH METHODOLOGY AND BUSINESS CYCLE IN THE VISION OF CONSTRUCTAL THEORY

Radu Isaic*

Abstract

How do we define a crisis? Etymologically the word comes from the Greek and means: to decide, turning point. The crisis is the moment of truth, a line between the past and the present. The failure caused by the crisis makes the world, in two successive moments of time, no longer look alike. During the crisis, the changes are wide and deep. But there are difficult aspects of a scientific and empirical nature in: delimiting the duration of the crisis; in determining the economic aspects that are considered important and whose qualitative and quantitative evolution must be followed; and to determine the frequency of occurrence of these turning points so that the changes are not too superficial or an effect of gradual evolution. The moment of truth is a challenge. It creates a tension that requires adaptation, the old problem-solving techniques become useless. If new adaptation techniques are innovated and emerging, the crisis is over. But the line between success and failure is gray. Success can only be temporary and the crisis reappears. There are various ways in the literature to define a crisis depending on: frequency of occurrence, duration, magnitude, depth and impact. Some economists study rare and large-scale crises, other economists study frequent and small-scale crises. Most crises are the culmination of gradual changes. Tensions accumulate over long periods; they gain critical mass and are observed at that moment, followed by the reaction of decision makers and ordinary individuals to the pressures that gave the pot to boil. We will use the narrative argument in the article. A crisis is usually identified by the values of GDP over the next two quarters. Is the GDP indicator correct for tracking crises? It can be artificially increased through consumer loans. Are the values that this indicator takes for two quarters enough to characterize a crisis? In China, the symbol for crisis means: danger + opportunity.

Keywords: economic crises, economic cycles, empiricism, apriorism, hypothesis

JEL Classification: B530

1. Introduction

We live in troubled times. It seems that the old theories about economic cycles and crises are no longer valid. We should have a great crisis now; crisis predicted by all great economists. And yet this crisis is stubborn not to happen. GDP has fallen, but the economic calamity is not occurring properly according to economic theory. Economically

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we are on the border between the living and the dead. We are neither in crisis nor out of the gray area. What awaits us: a major crisis or a lost decade.

In this article we try to understand the period through which we go through a new theory: Constructal Theory. The theory is constructed by Professor Adrian Bejan of Duke University. Also in this article we try to lay the methodological foundations of this theory through the prism of the scientific philosophy of another great Romanian: Lucian Blaga.

C.T. it is originally built in thermodynamics; based on a mathematical intuition. Everything is a flow; like the basin of a river or the branches and roots of a tree. There are two types of flow: laminar and channeled. Channel flow occurs according to fixed mathematical ratios between: channel types; channel dimensions; speed and mass of flow between different types of channels. The mass and velocity ratios are fixed between the diffuse flow and the laminar flow in the channels.

Flow forms a system with a certain architecture that constantly evolves towards a lighter and wider flow; towards a coverage of an area as large as possible. The resistances form the type of architecture and configuration. Flow systems are composed of hierarchical levels. The system tries to overcome the resistances and distribute them evenly. The system is constantly adapting and changing its configuration, constantly evolving. The engine of a flow is as important as the braking system (flow resistances)

But the most important aspect of the presented theory is the S-shaped evolution of a system. That is, slow growth then accelerated then slow again. S-shaped systems overlap. The main flow is taken over by the new system, but the old system does not disappear, but it will contain a diminished flow. There are no collisions with a wall, ie catastrophes; no system disappears, it will contain flow, but in small quantities. The high flow will be taken over by the new S-shaped system that overlaps the old one.

Our analysis begins with laying the methodological foundations of C.T. These bases are in the methodological analysis of Lucian Blaga. He said clearly that the new theories will be architectural, constructivist theories and with holistic pretensions, based on mathematics, but which are based on a magical-mythical thinking.

At the end of the introduction we say that we do not believe in the current definitions of crises based on GDP, its statistical dimension, its definition and the lengths of time taken into account in the current definition of crises.

2. Problem Statement

A direct explanation of crises: the macroeconomic system evolves faster than the systems of which it is composed or there is an asynchrony between the evolution of systems at different hierarchical levels. The organization of a system emerges spontaneously from the actions of individuals.

Innovation (more precisely the rate of occurrence, the mode of spread, the cumulative effects) is a major cause of crises. Innovation breaks the old order, the old connections, the old flows and modes of production and implicitly creates other relations and systems of production and distribution. In the transfer from one mode of organization to another (it takes time) some will certainly suffer.

The flow of the system is relative. Flow is compared to something, and man's perception of the change in the flow system is related to how man perceives time.

The price expresses a quantity of volume of mass (commodity) that is transferred (in act or potential) from one entity to another or a service (which is performed in act or potential). The service is a work that is carried out and consumes fuel. Money is the expression of movement, it is a registered movement or a potential act of movement that is registered prior to its actual execution.

Money is: a power of motion preserved, stored, generated in one place and used in another place. Usually the power of movement exceeds the consumption needs in the place of occurrence, so it is used elsewhere. In this way money moves the power of movement in areas where it does not exist. Money is the only means of storage, preservation of the power of movement.

The banking system is the way to spread the power of movement. Without money and the banking system the movement would be much reduced as during the barter.

The elimination of private property and free initiative during communism reduced the movement within the flow system. In fact, it was an attempt to force a return in time to a stage that had been overcome. Evolution is in logical stages, once a stage is completed there is no return to it but there is a transition to a new stage of development, necessary in terms of the logic of evolution. Communism tried to flow upstream

Wealth is given by the flow, by the movement in the channels and not by the quantity of goods that stagnate. The price difference works like flow switches. Being a good businessman means noticing a possibility to speed up the flow in a certain area and access a flow switch, to unlock it. To see a business opportunity is to identify a flow switch before others.

Jevons paradox: the more we create engines that consume more fuel efficiently (consumption per unit of good produced / transported), the higher the fuel consumption is.

All financial innovations (new types of currency, the use of ATMs, the use of information systems), agreements between states, the single currency in the EU; they did nothing but submit to the immutable tendency to move goods or mass, more easier, faster, over greater distances.

The evolution has an S-shape. It starts with a slow growth, the growth rate is increasing, then at a certain inflection point the growth rate increases sharply. From the second inflection point the growth rate is decreasing and the growth is slow.

3. Research Questions/Aims of the research

To explain the evolution and existence of a good Adrian Bejan introduces two curves. The S-shaped curve of the income from the asset and an investment curve (for simplification at 45 degrees on the coordinate system). The two curves overlap and intersect in two places. On the first side (up to the first intersection point) the investment curve is greater than that of income. Then, between the two intersections, revenues are higher than investments. After the second intersection, we return to the first situation, ie investments exceed revenues even if investments are increasingly attracted due to the reputation built previously.

For a start, a product is difficult to enter a market, it has obstacles to remove. Obstacles range from prejudice, habits to old opposing producers. Gradually a product conquers a market, a territory. During the beginning, the product is subject to modifications, tests of any kind, adaptations to various tastes, etc.

In the beginning, the investments exceed the income that this product brings. Profits are negative.

Over time, the product brought to market attracts the confidence of investors and buyers for various reasons. The right investment curve intersects the S-shaped curve of income and from that moment the profits become positive and accentuate. Profits attract more and more investment, but the product reaches its maximum capacity and its sales decrease. The law of decreasing returns appears. The second intersection of the increasing investment curve with the income curve takes place on the final part of the S. So negative profits are happening again.

If investors do not realize that they have to stop investing and direct their investments to another asset then the losses increase and increase as it passes. It takes the appearance of another good, product to stop the bleeding of money.

If instead of the product in this argument we introduce certain branches of the economy we have at least the explanation of the crisis of 2001: the dot-com crisis and the last crisis of 2008 the real estate crisis. In light of this theory we will probably now have a crisis in the car industry (so I think from the existing data)

There are two points in the S-shaped evolution of a product, at these points a critical mass is reached. The first point where a product manages to conquer a market and gain the trust of investors and the second point where buyers turn to other products, have other expectations.

Why invest in a product, industry? Future profits are anticipated. Why a product (industry) is no longer wanted? There can be several explanations: there is the law of decreasing returns; more profitable ways of doing business are foreshadowed; the old system becomes frozen and freezes for the new ones; tastes change; more is wanted.

Every product, political system, economic branch at a certain moment freezes, freezes and leaves no room for innovation. He builds a fortress in which he no longer allows access to anyone, so that he has absolute priority over the good of the business or anything else. Envy gets control. So the S-shaped curve begins to enter its final side. As long as an economic branch, economic system is flexible and leaves room for adaptations, compromises, evolution is possible. The strict, exclusive rules that stifle the new are the sure way to the end. Those in the city do not want to let others in, and those outside have no choice but to build another city.

All economic branches (oil, cars) at the beginning are effervescent, with many competitors, with many products in a permanent change and adaptation. Then there are few competitors, competitors who try to create artificial barriers to entry into their field. Towards the end, the products are few and with reduced changes over time.

4. Research Methods

Empiricism is a mistake. Man's spiritual horizons cannot be restricted to utility and sensation. Empiricism is a funny perversion of sensation and an exaggeration of its importance as a basis for the feelings of the spirit. Empiricism is an exaggeration of the importance of logistical rules as the only reason for the functioning of the mechanism of the spirit.

Although it may seem strange, magical thinking penetrate scientific thinking with all the seriousness of scientists' thinking. Scientists believe that various particles and their

motion produce consciousness. But in this way the particles acquire a power similar to Religious Miracles. If we do not think from the beginning mythical and magical materialism; this - materialism could not enter our minds. This type of thinking is activated immediately when too many unknown variables appear. Scientific certainty occurs when the researcher reaches a point where he thinks he is reaching the Absolute.

Pragmatism is also a mistake because it breaks the logic and values of science and sticks it only to successful actions.

Some thinkers (Kant) believe that knowledge is given by intuition through the senses and thinking through the concept. Only these two sources ensure a certain knowledge. But nevertheless the indivisible act of the human mind must be recognized: thinking and intuition at the same time.

There are aspects of human thinking that have their starting point in concrete, but are totally achievable only in the logical plane. That is, they become unachievable in concrete and fulfilled only in logic. The thinking mechanism has a concrete beginning and an abstract ending. Example: physical point without dimensions; the economic man.

The main difference between scientists and primitive people is the accent that the scientist puts on the senses (observation and experimental); as a tribunal of the certainty of knowledge. Primitive man does not believe in the senses.

There are two major obstacles to true knowledge: pure intuitionism and extreme positivism.

At the moment there is a rebirth of architectural, configurationist theories. These are theories about hidden connections in the world and are of the morphological type, meaning they want to discover the whole from the analysis of a piece of reality. This is the Constructal Theory. To admit the existence of architectural theories represents the opening of the door to magical-mythical thinking.

True knowledge (during its construction) is not completely subject to logical principles. Logical principles change knowledge only after the concepts have been outlined and the palpable reality has been arranged according to the concepts. Intuition gives concrete reality, and the categories of reason arrange the material of sensations into abstract concepts, inventory reality and establish the types of connections.

The discoveries that were too new for a certain period (unprepared in advance) did not affect or disturb the consecrated theories. This clearly indicates that concrete reality is viewed through the lens of an existing theory. More precisely, old ideas explain new facts, and old concepts are real dynamic centers of thought. A theory with only empirical potential is a theory that explains nothing, it is without value.

In the process of knowledge in all sciences, including mathematics, different paradoxes appear (antilogical aspect, contradictions), which each science hides. Usually to explain is either to identify the cause, or to reduce that something to something of a general level. Classically it is considered that the effect is related to the cause without an analogy of content. That is, there are two successive moments of time of a phenomenon, which necessarily appear. C. T. with a magical thinking at its base, he suspects that the effect by its essence contains something analogous to the essence of the cause.

In fact, in science when we talk about something that is rational, that something is the object of thought and is related only to logic. The rational appears when the irrational

is simplified, when the rules appear in the darkness of chaos. Reducing several phenomena to a single concept, or reducing phenomena to a single one, is rational. But only the simplification itself is rational, not its product. Simplifying the irrational only moves the problem to another pocket, moving the limit of the irrational a bit. The irrational does not disappear through the rational; it is not replaced. The rational is just a simplification, a numerical reducibility and not an overlap. The rational is a relationship between the irrational. Simply put: the irrational is rational by numerical simplification, not by conversion. Knowledge is meant to simplify the unknown through abstraction. Example. Visual phenomena replaced by the theoretical construction of waves of a certain frequency. The knowledge of images is replaced by the knowledge of waves, but it does not show the truth of this phenomenon.

There is always a leap of faith in science and scientific theory. That leap that the world is more than what we perceive through the senses and the explanation of this world. The truth is profound.

Man does not only have senses and is not limited to feeling and observing but he acts to change the world around him. He changes the world and he changes himself. It produces tools to dominate nature and it produces tools that produce tools.

In antiquity in science, mathematics is used rudimentarily and little. Ideas on the intimate composition of the structure of nature, tangentially attack mathematical hypotheses. Plato imagines corpuscles with geometric shapes, Aristotle tries to find some laws of nature associated with mathematics, and Archimedes alone combines observation and experiment more systematically with mathematics. But Archimedes does not have a conscious and methodical approach to combining different methods with mathematics. In Plato, the world of Ideas (of which mathematics is a part) is known dialectically and by ecstatic visionary methods.

Modern science, starting with Galileo and Newton, has only one scientific method, which is to couple any kind of theoretical action with mathematics; in the form of methodological couples. The expansion of current knowledge is in fact the coupling of any method with mathematics. In current science, it is not the simple empirical observation, as in ancient science, but the experiment combined with mathematics. It is desired to identify a strong link between certain parameters of nature. Scientific law is the ratio of the variation of two parameters that have a certain connection between them, and the ratio has a mathematical expression. Thus, the experimental coverage of the law is indirect and a little unclear.

In this way relational concepts appear, concepts that express connections without a direct empirical expression. These relational concepts are used to open the empiricism for thinking because they correspond to elements that exist in reality, but secretly and not openly. The hypothesis is a theoretical construction that aims to reveal elements belonging to the transempirical area of existence with the help mainly of image concepts.

The hypotheses want to enter a secret area of existence where they advance through approximations one after the other; with a high degree of uncertainty and very common changes. In Western science, a supermethod is used: reducing concepts to images and combining them with mathematics.

In ancient science, abstract theorizing was used in terms of laws, a plan in which concepts are identified. Aristotle's physics uses for the movement of bodies an image rooted in psychology: nostalgia for natural places. Goethe uses combinations of light and dark to indicate the appearance of colors. In modern science, concepts such as images located on a transempirical plane are used. All kinds of science seek the essence of reality. Aristotle seeks the essence of a thing, modern science seeks the essence of relationships. Imaginary theorizing is used only in conjunction with mathematics.

Analogies are widely used in science. With these, knowledge is enriched related to phenomena and their substrates. The very interpretation of people's deeds in the social sciences is done by analogy with the facts of our personal lives. We project our intimate experience on the surrounding reality. And in antiquity the analogy was used: in Plato based on the visionary ideation, in Aristotle on removing and delimiting the concepts from the empiricism.

Newton draws an analogy between the movement of the Moon around the Earth and the fall of a body on the earth. The moon does not fall, but Newton sees an identity between its movement and the fall. Einstein sees many analogies between phenomena that apparently had none. But in modern science analogies are formed only in conjunction with mathematics.

Modern science has detached itself from empiricism, theories have almost lost touch with empiricism, and are even in contempt for pure empiricism. But at the same time the hypotheses are verified directly (rarely) or indirectly (most of the time) on the path of empiricism and experiment. The value of a hypothesis is to anticipate phenomena implicitly included in its concepts. But most of all, the value of the hypothesis depends on anticipating completely new facts that were not initially related to its concepts.

From the very beginning it was considered that there is no reliable information except by forcing reality to enter the patterns of mathematics. But the use of mathematics has fertile results only in combination with other methods, and mathematics does not replace the values and virtues of the various methods used. The various methods used in science penetrate mathematics, and mathematics adapts to the various requirements of the methods. Example of organizing facts and empirical knowledge in logical forms. But the rationalization of empiricism can be exaggerated along the lines of logic. Reason artificially fixes the world and eliminates the paradoxes and contradictions that give life to science.

Modern science, in reality, often uses hypotheses that ridicule empiricism and have nothing to do with direct empiricism but only at most indirect. Example: treating motion in theory. Compared to ancient science, the relationship between theory and observation is indirect and lax. A fact identified by the senses can fall under various interpretations. Many facts are identified only after the construction of a theory, otherwise it would have remained unknown. New facts are taken from various theories losing their anonymity and are verified with the help of experience.

Simply expressing a hypothesis in mathematical format is not enough. That hypothesis must enter into a system of relationships that confirms it. The hypothesis must withstand the attack of various methods, united only from the perspective of the supramethod: that of the couple with mathematics. The set of methods decides on a

hypothesis. These methods are driven by the Western scientific method, ie the couple with mathematics.

Regarding the intuition of science, I. Kant best expressed the connection between theory and intuition: "a concept without intuition is empty, an intuition without concept is blind".

A great mathematician Poincare suggests that in today's science mathematics is so used because in an event a large number of basic elements and phenomena that are similar intersect. Mathematical concepts are relational hypotheses, while in antiquity generic concepts were used. At the moment, there is a transition between two opposing scientific methods: maximum methodological expansion and the purism of the unique method.

Common sense differs from the scientific spirit because it does not understand the dynamism of existence, its constitutive dialectic and implicitly the contradictions that appear. In fact, common sense is close to the ancient spirit of Aristotle. Empiricism and the belief in the existence of essences that can be taken out of reality and thus the constitution of concepts bring common sense closer to Aristotelianism. The mind in common sense and in Aristotelianism focuses only on empiricism and the construction of conceptual classes.

The connection between common sense and modern science is lax. Because modern science focuses on movement and the dialectical and contradictory aspect of movement. These are hard to catch by common sense.

Modern science is not satisfied with the simple empirical identification of a phenomenon experimentally, but wants its theoretical identification, even if something empirical is lost in this way. The experiment is not only used to clarify and expand the empiricism but its purpose is to deepen it, to detect the inner mechanism of the world in order to control it. Experimentation is not a simple interpretation of facts but a manipulation of facts to dominate them and understand the DNA of reality.

Without theory-oriented experimentation, not all scientific achievements of modern science could have been possible. Modern science has transferred empiricism to a theoretical level, and transferred theory to supra-theoretical levels. The supermethod of modern science is the couple with mathematics. Failures were experiments that only wanted to expand the empiricism using only the inductive method. Conflicts broke out when scientific methods that used the qualitative experiment of the ancient type overlapped with the mathematical type experiment (of current science). Modern science aspires to replace simple empiricism, and the ancient experiment only wanted to extend simple empiricism.

In order to achieve a successful experimental method, the scientist must leave the contemplative attitude; because the limits of reality must be forced, and the experimental method must be conquered. The experiment occurs when knowledge wants to dominate nature, Cognitive theoretical attitude is insufficient is necessary and a practical attitude compared to nature.

As I said (and I emphasize) there are two types of experiment:

The ancient type experiment of common sense that widens the empiricism. It is a qualitative experiment that leads to certain laws of nature that are in fact empirical regularities.

The experiment of modern science that not only amplifies empiricism, but also replaces empiricism. Thus appear the mathematical laws that have great necessity and generality. It is an experiment that takes into account the dynamic and dialectical nature of reality and the interdependence of phenomena and investigates phenomena in terms of their efficiency.

5. Findings

The economic world is wandering between Chaos and Rigidity.

Chaos represents the lack of rules in the economy, the impossibility of creating connections between nodes - individuals. It is the world of pure competition, of the absolute lack of cooperation, each for himself, man becomes a wolf for man. It is impossible to build flow systems in such conditions. There is no well-being, only survival.

Stiffness is a frozen rule that can no longer be changed: a stage of frozen evolution due to bureaucratic rules and mastery of the forces of the absurd. Example: communism and former Asian social systems (China). The result is a system of flow stuck in eternity until external conditions change and destroy it or emergent events from within that destruct it. An example is the system based on the fiat currency which self-destructs through the abusive use of the ability to issue such a currency.

The particular and detailed properties of the flow system are emergent and irreducible to the properties of its components (nodes, individuals). General anticipatory descriptions of system development can be given, but not in detail. The whole influences the parts of which it is composed by descending influence, and each part of the system must be explained and described by its relation to the whole. Example: an individual has no absolute metaphysical value; from an economic point of view, it is described and understood according to the added value it brings to the system (trade, studies, profit, salary), only in this way it acquires significance.

Using the theory we can find out at a general level what will happen to the system to give it the general characteristics: it will try to expand; to cover the entire surface; to transport more and more efficiently; to adapt to change. But we will never be able to predict how he will do it. Where the innovations appear, what kind of innovations appear, how the system will change, what new properties will appear; these will remain unanswered questions. Short example: if we combine 5 chemicals through the theoretical formulas we have we can find out the composition of the new resulting substance and probably some general properties, but the rest of the characteristics of the new substance can only be given by describing observations and experiments on the new substance. That is, we cannot anticipate them from the properties of old substances.

System outline: freedom of nodes - emergent properties - final goal: the developed FLUX.

Cycles and crises must be explained from the following perspectives:

The configuration of the system during the cycle and the changes that occurred after and during the crisis.

Location. Where exactly the innovations in the system appear, innovations that generate a new cycle and where exactly in the system appear the problems that give rise to the crisis.

Intensity. It is necessary that any change for better or worse reaches a critical mass to give rise to a significant change, a change that can spread in the system at a certain rate and visibly change the architecture of the system. As I explained, the changes have a certain distribution and change the system on certain hierarchical steps. The accumulation of minor changes, invisible to rational analysis, can bring about total changes in configuration.

Frequency. The time that elapses between changes. It is important to establish measures in advance to reduce the negative impact of change.

The economical flow system can also be described by the following characteristics:

It is open. It suffers from outside influences and influences the environment in which it is submerged.

It can turn into a chaotic system due to uninspired and forceful interventions. Chaotic represents random.

This is nonlinear. Unimportant, small inputs lead to large unpredictable changes.

It is a system with emerging features. Based on self-organization, it regulates the flow of energy and information both indoors and outdoors.

Relationships, connections are the key to the development and evolution of the economic system. Relationships based on freedom of movement.

There was a lot of talk about energy in this article. Energy from the point of view of T.C. signifies potential for power of motion. The money, as I mentioned, is the stored power of movement (preserved, stored). Following these meanings, information is a pattern of energy to which a symbol (sign) is attached, so information is a pattern of the power of movement potential.

One idea that has never been emphasized enough is that a system is all the more stable and capable of adapting and evolving as its components are more differentiated from each other, and as many and more lasting connections are established between them.

Characteristics of a viable flow system:

Flexibility. Connections between nodes - individuals have many degrees of freedom so that they (as a result of changes), can change, break, redo or appear in new places and between previously isolated nodes.

Adaptability. There is no change in the environment that cannot be assimilated by the flow system. Some architectural changes, in response to the changing external environment, take time, but the system never stops flowing.

Coherence. The flow system changes its architecture only for the purpose of a more efficient and productive flow. Architectural changes are directly related to the purpose.

Consistency. One change attracts another. An architecture emerges naturally from the previous architecture and not as in communism a (foreign) architecture is superimposed by force over the naturally evolved system in that area.

An energy flow passes through the system, ie a potential of the power of movement.

The flow system is stable in instability. It constantly tends to a larger and more efficient quantitative flow and cover - wet as much of the surface as possible.

6. Conclusions

In this chapter I will try through a small effort of geometric imagination to unite the most important theories about cycles and crisis.

I will start by defining the problem in Marxist terms which are in fact Hegelian terms

Thesis: gold and the independent banking system. Without Central Bank and political interventions

Antithesis: Central Banks and the system of fiat currencies. The system is regulated by bureaucratic decisions at the center

Synthesis: Electronic money issued by several economic agents

The synthesis turns into a thesis and the cycle resumes in other ways.

Next I try to express at the level of geometric representation the Marxist Theory, C.T. and Konradiev's Theory of Long Cycles.

Marxist theory sees the evolution of the world as a spiral wrapped in a cylinder. We return to the same stage, but to a higher level of wealth.

C. T. sees evolution as a succession of overlapping "Ss". There are no endings for the "S" end. It extends indefinitely, but the main flow is taken by another S superimposed over the first.

Long Wave Theory sees evolution as an upward trend wave. Unification in geometric description of the three theories: A cylinder of a certain thickness and height (depending on the type of cycle we are thinking of: 12 years, 25 years, 50 years, etc.). A spiral that wraps around this cylinder. Once it has reached the position near the starting point, the cylinder thickens (a new cylinder of different sizes overlaps the old one; the line between the two cylinders is a fragmentation point) and a new spiral starts. The old spiral remains to rotate indefinitely at the point of separation between the two cylinders.

The disassembly of the cylinder and its design in the two-dimensional plane for a classical representation (like the globe in horizontal projection) is done in two stages. The first is identical to the Constructal Theory, the next stage is the graphical representation of the Long Wave Theory.

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COMMUNICATION MANAGEMENT ACROSS CULTURALLY DIVERSE TEAMS

Roxana Bîrsanu*

Abstract

The unprecedented trend of person mobility and active interactions across cultures and borders has triggered an increasing number of challenges and, with them, the imperative need to find valid solutions. In organizations and institutions across the globe, – regardless of whether they operate in areas such as business, hospitality, education or entertainment – teams are a much-needed instrument for innovation, problem solving or increased productivity. This paper sets to investigate the relevance of communication in culturally diverse teams, the main factor that ensures the cohesion and efficiency of such teams, namely the acquisition of intercultural competence, and the application of a cultural model to the complex structure of international groups. By the same token, we identified a series of benefits and drawbacks of cross-cultural teams and presented some suggestions to overcome them.

Keywords: intercultural competence, multicultural teams, cultural diversity, intercultural communication

JEL Classification: Z13

1. Introduction

One of the main features of the twenty first century, which will definitely continue to develop despite the forced hiatus caused by the global SARS-COV2 pandemic, is the great mobility of people and information across borders and cultures. The ability to travel the world and witness the spectacular variety of the human and natural landscape has reached a level unparalleled in previous centuries. The world became physically smaller as it grew bigger and richer in terms of forms of interaction, experience exchanges and willingness to acknowledge the presence of the Other.

The dynamics of cross-cultural interactions is obviously not limited to leisurely travelling; with the increasing interest in what cultural and economic differences have to offer, the scope of intercultural relations has gone beyond the travel industry to encompass areas such as business, education, health care, migration, to mention but a few. Consequently, the parties involved in such interactions find themselves faced with the challenge of having to cope with work in multicultural teams, which means that they need to develop a set of skills – social, linguistic, professional – that could assist them in becoming valuable members of the team and contribute to its performance.

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In this paper we take a closer look at the composition and challenges faced by culturally diverse teams. The discussion relies on an outlook of intercultural communication as the essential tool in cross-cultural interactions. Hofstede's pyramid of mental programming is used as a frame of reference for the composition of a team, with the complexities its components entail. The approach to multicultural teams is centered on the acquisition of intercultural competence deemed quintessential in the build-up of a cohesive and productive team. The second half of the paper investigates some advantages and drawbacks of multicultural teams, in an attempt to identify the benefits, but also the challenges prompted by the existence of a multicultural work environment.

2. Remarks on intercultural communication

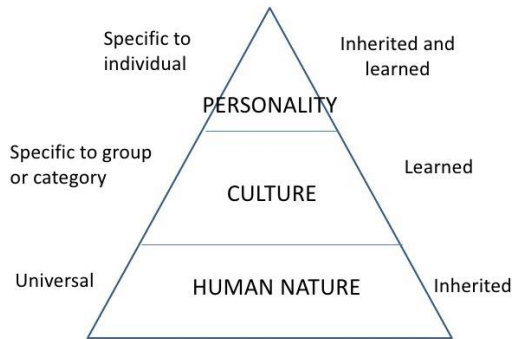
In the broad context of ever-growing contacts among people belonging to various cultural spaces, issues connected with intercultural communication have become increasingly important not only for individuals, but also for organizations and institutions. Multinational corporations have become well-aware of the fact that the cohesion and efficiency of their multicultural teams, but also their culture-dependent approach to work ethics, perception of authority or gender roles influence directly professional outcomes and, ultimately, company productivity. Similarly, in academic settings undergraduates are assigned to various groups or teams which are, at least to some extent, of international fabric. The success of the group/team work depends on how the members understand to work as such, and their behavior, apart from individual, personal manifestations, is largely conditioned by their cultural heritage.

Success in intercultural communication is almost impossible to achieve unless there is awareness of the potential and very likely manifestation of differences between the interacting parties. This is the reason why we believe that one of the most inspired approaches to this form of communication belongs to Samovar et al. According to these researchers, it "involves interaction between people whose cultural perceptions and symbol systems differ enough to influence the communication event" (2013: 8). In other words, communication events are inevitably marked by cultural divergence; this does not necessarily mean that the influence will be negative. Very often, interlocutors discover that their dissimilarities are actually a great opportunity to learn about some other culture and, in turn, make their own cultural heritage known to others. But such culturally distinct encounters may also represent the ground for clashes, for confrontations that could have detrimental effects for all the parties involved, in the absence of tolerance and openness to accept the existence of equally valid and valuable alternatives to one's own view of reality. As Lin (2020) argues, cultural diversity is not merely limited to the coexistence and simultaneous manifestation of distinct languages, values, customs, religious, political or sexual orientation, but also includes people's reactions to this variety and how they choose to fit it (or not) in their own cultural and mental framework.

Intercultural communication is actually a tool for the inclusive consideration of culture in interaction. One of the most famous approaches to culture in all its diversity and richness is G. Hofstede's definition of culture as human software. This suggests that every manifestation of culture-dependent behavior is a reflection of values, conventions, symbol systems acquired by an individual through interactions in the culture to which

s/he belongs. In cross-cultural groups, every member comes with a different form of cultural programming, as, according to the Dutch researcher (2012), mental programs are as different among themselves as are the social media in which they were acquired.

Figure 1. Hofstede's hierarchic levels of mental programming



When transplanted to a multicultural work environment, Hofstede's pyramid illustrated in Figure 1 hints at the complex composition of such a working context. All team members share in common the basic level of the pyramid, which is universal, inherited and which developed within the same parameters across the human species. It mirrors the human ability to feel a wide range of emotions such as fear, joy, anger or the need to interact with peers; but how we process and what we do with these inherited abilities is the result of culture.

Therefore, the second layer of the pyramid starts to differentiate team members significantly, as the "culture" stratum is the place of manifestation of who individuals are as members of their respective cultures; they introduce themselves as the products of Hofstede's mental programming. Difficulties and challenges in communication start at this level, with the potential clash between components of so many diverse "programs". The hierarchy is completed with personality, which is how each individual puts into practice his/her cultural programming. The personality layer adds to the complexity of the interaction context, which is already complicated by the cultural aspect. An individual's personality is both genetically inherited and acquired; this acquisition is a blend of cultural influence and personal experience.

3. Multicultural teams

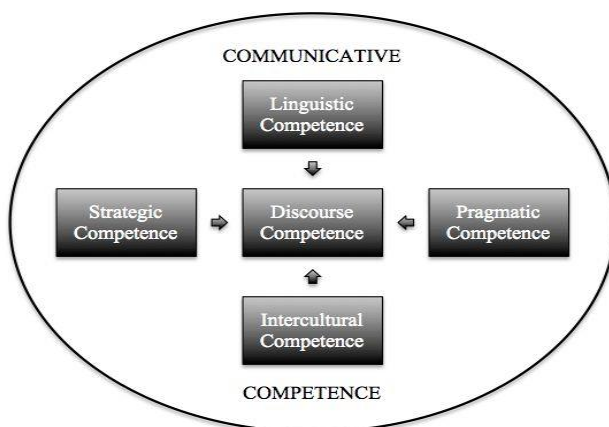
In multicultural environments, an essential element is the existence of teams whose members have distinct cultural backgrounds and who have to collaborate in order to achieve a common goal. Whereas collaboration is one of the most powerful and efficient tools of human interaction (it actually ensured the survival and development of our species through combined and complex processes of decision making and obstacle fighting), the situation gains in complexity when the persons who have to collaborate do not share the same outlook on aspects that are paramount for the efficiency of their joint efforts. Cohen & Bailey (1997) provide the following definition of an international team:

it is a “collection of individuals with different cultural backgrounds, who are interdependent in their tasks, who share responsibility for outcomes, who see themselves and are seen by others as an intact social entity embedded in one or more larger social systems, and who manage their relationships across organizational boundaries and beyond” (241). The key concepts in this view of international teams are distinct cultural backgrounds and shared responsibility for outcomes, a mix that may generate considerable mishaps and miscommunication, but which, with the appropriate attitude, contains a huge potential for creative solution finding and problem solving approaches.

Going into further details, Sogancilar and Ors (2018) mention several types of multicultural groups classified according to categories of members. Thus, “a team may consist of members from diverse cultural backgrounds including expats or ethnic minorities working together in the same country. Secondly, it may possess members who are dispersed across many countries but occasionally meet up in person. And thirdly, virtual teams that possess members from various countries, working together via electronic devices and medias and not meeting in person” (261). As can be inferred from this multicultural group taxonomy, potential issues stemming from culturally distinct views of the world can be completed by a series of other problems such as dependence on technology, different time zones, lack of direct and, as such, insufficient use of nonverbal language (in the case of virtual teams) which has a great influence on the communication of a group.

In order for teams with a rich and diverse cultural structure to reach a common ground of understanding that would benefit the entire group, it is paramount for the members to acquire a certain level of communication competence. Regardless of whether we speak of multinational work teams, study groups or entertainment associations, the persons interacting in the same context and striving to achieve a shared performance goal need to be in possession of a set of skills that can be obtained through training, independent documentation or repeated exposure to certain communication situations. The process of adaptation to new cultural settings entails a change or an enrichment of paradigms and cultural references (Georgiu, 2010: 127) that assists the individual’s adjustment to a potentially challenging situation.

Figure 2. Components of communicative competence



As can be noted in the figure above, the core of this set of skills is represented by discourse competence – the use of language in distinct social contexts and to various ends – which is built through the layering of four other types of capabilities. Linguistic competence is probably the one with the easiest acquisition, as in this type of teams, English is the lingua franca in all discussions and debates. Lack of or insufficient English language mastery can be a serious roadblock in communication and even a factor which may decide the inclusion of a person in a given team. The level of linguistic competence dictates the degree to which differences in accents, pronunciation, word choice, jargon, grammar rules are handled. In close connection with this type of knowledge is the acquisition of pragmatic competence, which reflects the connection between language and socialization. It refers to the use of already acquired language in social contexts, the purpose of the communicative act, degrees of formality/informality, covered topics – overall language adaptation to the communication situation.

The development of strategic competence is the practical implementation of techniques and strategies, both verbal and nonverbal, that are used in order to bridge communication gaps or find solutions to difficult situations triggered by a lack of sufficient competence. The acquisition of this type of competence is essential because it boosts individuals' confidence and helps them control their communicative performance (Meenakshi, 2015). Finally, the efficient operation of any intercultural group is highly dependent on the members' awareness of the relevance of intercultural competence. From among all the above-mentioned abilities, this is probably the most complex one, as it is built in time, not through training alone, but more likely through a constant exposure to a given cultural frame and an active process of self-reflection. It comprises the development of a multitude of skills that inform appropriate behavior in multicultural contexts. In order to be truly useful in interactions, thorough intercultural competence requires much introspection, as it involves connecting distinct cultural perspectives with one's own inherited baggage and the willingness to embrace these dissimilarities as opportunities for learning and growth.

4. Advantages of culturally diverse teams

Multicultural environments, regardless of whether they are the reality in business ventures, hospitality industry companies or education institutions, represent a blend of ethnic and cultural views. Despite the inherent difficulties triggered by the encounter of such diverse perceptions and perspectives, cross-cultural teams or groups present numerous benefits for the respective entities. Perhaps one of the greatest advantages is the plus of creativity brought about by the pooling of ideas emanating from individuals who contribute to the team not only with their own experience, but also by sharing efficient work principles and strategies from their respective cultures, which could be exported to the newly shared environment. The higher the number of members pertaining to a vast area of cultural experience, the more valuable ideas to harness within the team.

In close connection with the creativity aspect is the increase in productivity, because multiple and diverse cultural backgrounds stimulate innovation and, as such, productivity. In an international team, each member pitches in with his/her own experience, attitude and mindset which translate into more ideas that in a company could

mean a wider range of products/services offered and in a student group, for instance, could represent more complex and innovative solutions to a project. Likewise, with culturally diverse teams there is also an increased openness to meet the requirements of an international customer base.

Another economic perk is that a multicultural work environment which is known to offer respect for and appreciation of diversity will most likely attract talented employees of various cultural origin, willing to bring their input to an organization that would value their specific contribution. If the organizational culture is inclusive of intercultural cooperation, this will foster a deeper sense of stability and acceptance among team members, who feel thus encouraged to demonstrate their loyalty to the company.

There is another huge advantage of being part of a multicultural environment, although it is rather to the benefit of individuals than to the team as part of an organization. Constant, sometimes daily contact with a culturally different Other is a great opportunity to learn and have unmediated access to a distinct mindset and manner of doing things. If there is openness and willingness to learn, every situation that represents a potential challenge is actually another chance to improve one's communication and cultural skills and to diminish one's natural propensity for stereotyping and prejudice. In the process, gains translate into a heightened sense of tolerance, flexibility and readiness to collaborate. Bonding with international peers is also an excellent means to build an international network that may prove beneficial for professional advancement.

5. Obstacles to cohesive multicultural groups

The situations, constructs and attitudes that represent potential barriers in any context of intercultural communication can all turn into stumbling blocks for the efficiency of a multicultural team. They are, however, completed by others that are specific to work environments such as ethics, different perspectives on authority and hierarchy, distinct work cultures, different approaches to problem solving etc.

The obstacle that is apparent even at a superficial look has to do with *communication*, both verbal and nonverbal. While it is generally agreed that English is the universal language used in multicultural group interaction, not all members of the group have the same level of linguistic proficiency in all language levels – grammar, vocabulary, pragmatic use, fluency, comprehension etc. While these can be to some extent solved with the help of translations and interpreting (which are also prone to miscommunication because of errors and subjective interpretation), the nonverbal component of communication requires heightened attention paid to the context, and serious documentation. Oculistics, haptics and proxemics are categories of the nonverbal that carry the highest risks for triggering communication problems. For instance, in a multicultural work group, if some members avoid or use insufficient eye contact this is not a sign of disrespect, lack of interest or of competence, it is just a manifestation of an internalized cultural rule which dictates that intense eye contact is best avoided as it conveys negative meanings. Similarly, touching and personal and professional distance are regulated by cultural conventions, the breach of which caused by ignorance can seriously damage relations among team members, with a negative impact on group cohesion.

When members of a group interact, they are more than individualities – they are also representatives of cultural patterns inherited and acquired following exposure to a set of the values owned by a given community as the basis for its existence in and view of the world. Differences in *cultural patterns* comprise aspects that are particularly relevant for the work environment such as relationship to authority, time perception or ethical behavior. Whenever people act upon their inherited cultural values, they have a sense of belonging and stability, which is essential especially in an unfamiliar environment or when faced with so many other cultural systems, as is the case with a multicultural group. “When enacted, a culture’s value system establishes the expected, normative modes of behavior for members of that culture and institutes the criteria used to judge people’s conduct. Unfortunately, those criteria are often applied to members of other cultures who have different values, and this frequently results in misunderstanding and even conflict” (Samovar et al., 2003: 175). Divergent cultural patterns turn into a problem when they are used inflexibly and strictly as a measure for cultural alterity.

Time orientation can be particularly troublesome for the performance of a group which normally has to respect deadlines and which relies on the input of every member for the achievement of the final common goal. According to the perception of time, researcher Edward T. Hall divided cultures into polychronic and monochronic, according to how they handle tasks and the priority they give to relationship formation. Thus, it would be a genuine challenge for an M-culture person (a Finn or a German, for instance) to work on the same project with several colleagues belonging to a P-culture (e.g. a Nigerian or a Columbian). M-culture persons focus on one task at a time, value individual achievements (which in itself can be an issue in a team) and have a strict compliance with deadlines and scheduled events, as opposed to P-culture representatives who have a more holistic approach, have a greater availability for work group, as they express a high appreciation for personal relations, and feel comfortable juggling with several tasks simultaneously. Consequently, task-oriented groups with a multicultural composition may face serious challenges if the members are not willing to compromise and learn how to adjust their perspective in such a manner that would benefit the entire team.

The same researcher designed another cultural model based on the appraisal by various cultures of the communication context. Thus, he classified cultures as high- and low-context, respectively, with the observation that no culture is absolutely at one extreme or the other. Members of high-context cultures such as Mexicans, Africans or Asians consider that the context can contain many essential clues for an efficient communication event. As such, they rely heavily on body language as a complement to language, have a flexible view of time (are usually polychronic), manifest a strong sense of community and favor processes instead of outcomes.

Conversely, low-context cultures such as the Scandinavian ones, the French or North American cultures, place less emphasis on the nonverbal and prefer explicit and overt messages, have a very strict commitment to deadlines (which makes them monochronic), a flexible approach to relationships and, hence, to group structure and are particularly centered on the end results of work rather than on the processes performed to obtain them. A multicultural work environment is most likely the place of high- and low-context cultural manifestations, whose differences have a bearing on the tackling of a task

and on the priority that various team members give to the accomplishment of an objective: some will focus on the end result, while others will give prominence to the actions needed in order to reach there. It is the responsibility of the (formal or informal) team leader, but also the members' individual willingness to accept such gaps and strive to bridge them through flexibility and mutual tolerance.

In groups that host divergent opinions and modes of behavior stemming from inherited cultural frameworks, stereotyping and ethnocentrism are two major barriers to productive communication. *Stereotyping* is the result of perception organization into classes and categories for the aim of making sense of events or encounters that do not fit our frame of reference. The main problem with this form of categorization is the overgeneralization that tends to apply a one-size-fit-all label to members belonging to the same linguistic, geographic or cultural community. Patel et al. (2011) claim that a stereotype is a “shortcut in collecting, processing and interpreting information about a cultural group by perceiving people according to their social categories rather than their individual characteristics. The shortcut is used as a handy tool to help us reduce our memory load by making inference and prediction about the group without having to perceive it first-hand” (30). Although the mechanism of stereotyping may be useful in helping people cope with new situations to which they apply a familiar frame, it becomes a problem especially in teams with a weak sense of connection and solidarity because it ignores the uniqueness and specificity of each individual and considers him/her solely as the embodiment of a set of traits collectively applied to the community where s/he belongs. While some stereotypes are positive – Germans are hardworking, Italians are generous, Americans are optimistic –, negative ones can have a detrimental effect on group productivity. The situation acquires even darker overtones when there are culturally fueled antipathies such as the famous ones between the French and the British or the Polish and the Germans, who have to work together and do it efficiently.

While there may be some positive aspects of stereotyping under certain circumstances, *ethnocentrism* is almost entirely a negative perception of cultural diversity. It starts from the assumption that one's culture is superior to others in all respects and encompasses judgments connected to what is good, moral or ethical, but from a narrow perspective; it is the idea according to which “other cultures should be measured by the degree to which they live up to our cultural standards. We are ethnocentric when we view other cultures through the narrow lens of our own culture or social position” (Nanda and Warms, 2011: 10). Ethnocentric views affect all the parties involved, including persons belonging to the host culture, who may start judging outsiders. The solution to the elimination or at least curbing of ethnocentric manifestations in a group is, as in the case of stereotyping, the acknowledgment of its existence and of its impact on others and the development of abilities to treat everyone fairly, within the framework of their own cultural forms of representation.

6. Conclusions

It would be impossible nowadays to imagine almost any area of activity that does not contain and benefit from an interaction among actors with diverse cultural backgrounds. In actual fact, to a significant extent, success in many fields is highly dependent on the existence of a plurality of perspectives that offer unique, but equally valid stands on reality.

Team or group work is among the most productive mechanisms that organizations tap into as a means to find and establish their place in a world that is in a continuous state of transformation, remodeling traditional paradigms into newer structures.

This paper approached the topic of multicultural teams from the communication standpoint. Consideration was given to the broader context of cross-cultural communication, with emphasis on the acquisition of intercultural competence skills, which are the main condition for success in cross-cultural encounters. A number of benefits were identified in connection with a multicultural work environment, followed by a series of potential obstacles to efficient communication in culturally-diverse teams. The detected problems were accompanied by suggested remedying solutions, some of which involve a constant and conscious effort of adjustment and collaboration. As the key concepts of our analysis were culture, cross-cultural representation, interaction and communication in culturally diverse environments, the solutions to almost all the identified obstacles involve respect, tolerance and openness to embrace otherness as the main ingredients for a superior performance in complex collective contexts.

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BRAND COMMUNICATIONS AND CUSTOMER EQUITY: THE MEDIATING ROLE OF BRAND KNOWLEDGE AND WORD OF MOUTH ADS

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Kianoosh Moradi**

Abstract

Brand communication and customer equity are two important concepts in the field of online stores and businesses and considered as criteria for marketing success. The purpose of this study is to investigate the effect of brand communication on customer equity in online stores. In this research, the role of brand knowledge and word-of-mouth advertising has been evaluated as two intermediary variables. The present research is in terms of purposeful research among the applied research, from the perspective of data collection, descriptive and survey type and in terms of research strategy, this research is correlation. The statistical population of the research is the participants (including visitors and buyers) residing in the provinces of Bushehr and Fars from internet stores. 384 questionnaires were completed and analyzed by convenience sampling method. Data analysis using SPSS and AMOS software showed that the use of brand communication increases the customer equity. Brand communication has a direct impact on word-of-mouth advertising, and brand knowledge and word-of-mouth advertising also affect customer equity. In addition, was not confirmed the indirect impact of brand communication on customer equity by the role of mediator brand knowledge and word-of-mouth advertising, and the direct impact of brand communication on brand knowledge.

Keywords: Brand Communication, Brand Knowledge, word-of-Mouth Advertising, Customer equity

JEL Classification: M1, M2, M3

1. Introduction

Due to the increasing intensity of competition in the business sector, especially in the Internet shops, the concept of customer equity and value creation by customers for companies has become more and more important. This concept was introduced for the

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first time in 2000 and has been proposed as a general measure of marketing success that brings together value for the customer, brand management and customer relationship management, and provides a new framework for identifying and implementing powerful marketing programs that It also has the ability to measure financially (Mir Ahmadi, 2011). The customer equity is based on the value equity, brand equity and Relationship equity, understanding of these factors will help to increase the customer equity and company's value (Ahmadi Eskandari, 2013). As the customer equity creates a reliable source of benefits and revenues by current customers, understanding how the customer equity development is important and doing the right it, creates an important competitive advantage (Lemon, 2001). Brand communication as one of the effective factors in creating a strong brand, play an important role in how consumers perceive of products and brands and can help to increase the customer equity (Guèvremonta and Grohmann, 2012). According to Kempf and Smith (1998), brand communication is one of the main factors in integrating brand relationships with customers and creating positive attitudes towards brands, such as brand satisfaction and brand trust (Sahin et al. 2012). Strong brand communication maximizes customer awareness of the brand and increases brand awareness in the minds of customers, so customers will choose a brand that will have the highest reminder for them (Talebi Asadi, 2014). Brand communication play an important role in creating a strong brand and turning it into a competitive advantage for companies, especially online stores where there is no physical (face-to-face) interaction possible. The appropriateness of brand communication can lead to customer returns and create more value from them and, ultimately, increase company profits. Researchers have shown that brand communication affects brand equity as one of the components of customer equity. Therefore, the customer equity that defined as the creation of value through customers and relationships with them (Wang et al. 2016), can be strengthened by the use of appropriate brand communication.

Brand knowledge includes brand-related thoughts, brand awareness, and brand image and various information such as awareness, features, Benefits, images, beliefs, feelings, attitudes, and brand-related experiences directly affect consumer responses (Keller, 2003). Brand knowledge established the relationship between advertising mix and brand equity, as one of the dimensions of Customer equity (Ansari and Nasabi, 2013).word-of-mouth advertising is an informal communication about a product, brand and service that does not have a commercial origin (Angraenia and Rachmanita, 2015). Customers who do not have a purchasing experience or a complete understanding of the specific features of a product or service typically relate to word-of-mouth advertising for information purposes. Therefore, in comparison with Outward marketing strategies, word-of-mouth advertising has a significant and important effect on customer attitude and behavior (Dehdashti Shahrokh, 2015). Word-of-mouth advertising is one of the influencing factors on brand equity and customer equity.

Despite the prominence role of brand communication in increasing customer equity and profitability for companies, many manufacturing companies and service institutions, in the sense of customer equity and its role in the overall profitability of the company, as well as the importance of brand communication to attract customers to the company, They have not paid enough attention and brands do not establish the necessary

communications with their customers. This is especially evident in online businesses and stores that have become widespread in recent years and there is a lot of competition among them. Given the fact that there is no face-to-face interaction in the online stores, so the personal sales activities and the role of the vendor cannot be effective in attracting and retaining customers for online shops as they are important in non-online stores. Hence, it is important for online stores to focus on non-promotional extension activities. The development of brand communication is one of the most important steps in informing customers and exposing the brand to the customers and thereby attracting customers to their brand. Internet shops in Iran do not fully understand the role and importance of brand communication in value creation through their customers, and do not use appropriate brand communication, or if they use brand communication, these communication do not have the effectiveness to attract customers to the store and keep them. A review of past research has shown that little research has been done on the impact of brand communication on customer equity in various industries, and in particular, the impact of brand communication on the customer equity in online stores has not been studied so far. Therefore, the importance of applying this concept to online businesses and the existing research gap in this field has led the researchers to pursue this study. The results of this research will contribute to the development of knowledge in this area. In this research, the effect of brand communication on the customer equity (brand equity, value equity and Relationship equity) in the field of online stores is scientifically evaluated. Also, in this research, the indirect effect of brand knowledge and word-of-mouth advertising as two intermediate variables on the relationship between brand communication and customer equity is investigated.

2. Literature review

2.1. Customer equity

For the first time in 1996, Blattberg and Deighton used the concept of customer equity. They stated that companies are looking for an optimal balance between the cost of customer acquisition and maintenance (Eblagh Jahromi and Ebrahimi, 2015). For the first time in 2000, the customer equity model was introduced in a paper entitled "Customer equity drivers". This model consists of the value equity (including price, quality and facilities), brand equity (including brand awareness and brand image) and relationship equity (including customer loyalty programs, affiliation and communication, knowledge structure) (Ahmadi Eskandari, 2013). Understanding these factors will increase the customer equity and ultimately help the company value (Lemon et al, 2001). The concept of customer equity is an emerging paradigm that considers customers to be the main source of current and future earnings and is measured through the customer lifetime value index. Customer equity management is an integrated and dynamic marketing system that uses information related to consumer behavior and financial appraisal techniques (Pavlova, 2015). The customer equity is the result of creating value based on the benefits, costs, cash flow, customers and customer relationships. Berger and Nasr (1998) defined the customer equity as value of the benefits obtained from customers, minus the total cost (Wang et al. 2016).

Customer equity drivers are the value equity, brand equity and relationship equity (Figure 1) that affects customers' attitudes (Lemon et al, 2001). Organizations should

focus their marketing efforts on improving the value equity, brand equity and relationship equity, and at each stage of the customer relationship development process, select the most relevant customer equity dimension (Rust et al, 2004).

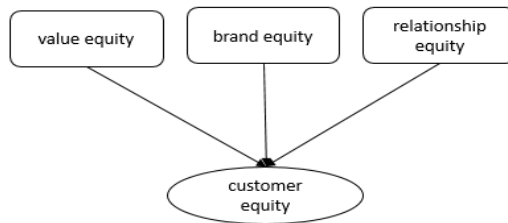


Figure 1. Customer equity dimension (Lemon et al, 2001)

2.2. Brand knowledge

Brand knowledge is an individualist inference about brand in consumer memory. Various information such as awareness, attributes, advantages, images, beliefs, feelings, attitudes, and brand-related experiences constitute brand knowledge and directly affects consumer responses. Also, brand knowledge refers to brand awareness (when and how consumers know brand) and brand image (consumer associations of brand) (Keller, 2003). Sharif (2008) argues that brand knowledge is based on a permanent relationship with customers who have a real understanding of the product and service. Brand knowledge is understood as explicit knowledge and tacit knowledge. Explicit knowledge is objective and theoretical knowledge and is expressed through various media forms such as documents, audio and video equipment, computerized records, etc., while tacit knowledge is more subjective, practical (Functional) and personal (Alimen and Cerit, 2010).

2.3. Word of mouth advertising

Word of mouth advertising is an unofficial relationship with the product, brand, and services that are not commercial in nature (Anggraenia and Rachmanita, 2015). Harrison and Walker (2001) has defined word of mouth advertising as a personal and informal communication between a non-commercial advertiser and a recipient about a brand, product, organization, and service. The main idea of word of mouth advertising is that information about a product, service, company, etc. can be extended from one client to another (Methaq, 2014). Hawkins et al (2004) describe word of mouth advertising as a process that allows customers to share information and ideas about products, brands, and services (Ismail and Spinelli, 2012). Word of mouth advertising can be defined as any positive or negative comments that are created by potential and actual customers about the product or company and are available through online and offline channels (Thurau et al, 2004). Anderson (1998) states that word of mouth advertising can be positive or negative. Word of mouth advertising encourages brand selection and positively affects the consumer's response, while negative word of mouth advertising causes the brand to not be selected and will have a negative impact (Martensen and Grønholdt, 2015). Most studies have shown that positive word of mouth advertising are more potent than negative word of mouth advertising, even though the amount of is positive word of mouth advertising greater than negative word of mouth advertising (East et al, 2007).

In general, the advertisements that firms make are a means of communicating with their actual and potential customers, and companies also spend a small part of their resources on such activities (Ranjbarian et al, 2013). But since word of mouth advertising is not done by companies, it does not cost to companies. The important point that Hawkins and Coney (2004). Expressed about the importance of word of mouth advertising is that the benefits of word of mouth advertising can help the company grow in such a way that they are positive or otherwise People will share their experiences and positive opinions with others. But when consumer experience is negative or the products and services fail to meet the expectations of the customers, the company will entertain irreparable losses (Mohebi and Niknejad, 2016). Ghaffari Ashtiani and Iranmanesh (2012) stated that the importance of word of mouth advertising is due to the fact that customer expectations when purchasing are of great importance, are affected by word of mouth advertising; since clients prefer to trust informal communication resources in their buying decisions than official sources like marketing magazines (Tavakkul et al, 2014).

2.4. Brand communication

Communication is a human activity that connects individuals and creates relationships. Communication applications play an important role in creating brand relationships (Duncan and Moriarty, 1998). Ebrahimi and Mansouri (2013) argue that brand communication maximizes brand awareness and reminds them more. Buyers buy the brand that have the highest amount of reminder and give the most satisfaction to customers. Brand communication affect the responses of customers and can be measured by analyzing variables such as brand awareness in terms of reminding, identifying brand strengths and identities in the minds of consumers (Talebi Asadi, 2014). Brand communication is the main factor in integrating brand relationship management with customers, employees, suppliers, channel members, media, government regulators and the community. The purpose of brand communication should be to strengthen brand loyalty by creating more consumer-brand links to strengthen consumer- brand relationships at any time (Duncan and Moriarty, 1998). Brand communication, is art of bridging on the perceptual gap of the target audience about the brand and, in fact, is the connection between the physical unit and the audience. Brand communication also seek to attract consumer loyalty, and it can be said that it is more than communicating with the mind of the audience, that is, it communicates directly with the listener's heart. Scott Taigo (1995) states that "a brand that conquers the consumer's mind causes a consumer's behavior, but a brand that conquers the consumer's heart, obtain consumer's commitment" (Chen and Kim, 2016).

Brand communication occurs when the consumer is confronted with the brand. Consumers are constantly faced with brand through advertising, sponsorship, and personal selling. If consumers do not pay attention to the brand, all the actions taken are unimportant, which means that the brand has not established an effective relationship with the consumer. Brand communication should bring the consumer closer to the brand and improve brand quality. The benefits of use brand and brand personality should shine in all forms of brand communication. Brand personality can be true, positive, committed, entertaining and etc. (Chen and Kim, 2016). Brand communications play an important role in understanding how

customers understand product advancements (Guèvremonta and Grohmann, 2012). Jones and Kim (2011) argue that brand communication is created when submitted an idea and image of a product or service, so that distinctions are identified and recognized by many customers. Advertising professionals use brand communication not only to create brand recognition, but also to create brand reputation (Sahin et al, 2012). Azize et al. (2012) argued that brand communication could be one-way (indirect) or two-way communication (direct and one to one). One-way (indirect) communication involves radio, television and the like. The purpose of this type communication is to inform brand in order to improve attitudes (such as brand satisfaction and trust) and the impact on the buy behavior (such as brand selection). two-way or direct communication focuses more on current customer behavior (Mahdih et al, 2016).

2.5. Conceptual model and hypothesis development

Ansari and Nasabi (2013) conducted a research entitled "Creating brand equity through mixed advertising: the mediating role of knowledge, loyalty and brand communication". The results showed that mixed advertising has been able to influence brand equity through brand knowledge. Brand knowledge establishes the link between mixed advertising and brand equity indirectly. The Research of Schivinski and Dabrowski (2015), entitled "The effect of brand communication on brand equity through face book," showed that brand communication in social media has an impact on brand equity components. Sun and Kou (2016) in a study entitled "The impact of marketing activities on customer equity", investigate the impact of environmental, economic, and social dimensions of marketing activities on Brand attitudes, word-of-mouth advertising and customer equity Components (brand equity, value equity, relationship equity). The results showed that the dimensions of marketing activities have a direct effect on brand attitude and word-of-mouth advertising, and brand attitude and word-of-mouth advertising have a significant impact on customer equity. Andrei and Pînzaru (2017) conducted a research entitled "Word of the mouth generation and brand communication strategy: findings from an experimental study explored with PLS-SEM". The results of this study showed that applying appropriate brand communication strategy influence on expectations of the company's ideality, increasing positive word-of-mouth advertising, and reducing negative word-of-mouth advertising.

Hypothesis 1: Brand communication has a direct and significant impact on customer equity.

Hypothesis 2: Brand communication has a direct and significant impact on brand knowledge.

Hypothesis 3: Brand communication has a direct and significant impact on word-of-mouth advertising.

Richards et al. (1998) conducted a research entitled "brand knowledge management: growing brand equity". They examined the impact and consequences of brand knowledge management on the growth of brand equity. Their research results indicate that Brand Knowledge Management has a significant impact on the growth of brand equity. Ansari and Nasabi's research (2013), entitled "Creating brand equity

through a mixed advertising: examining mediating role of knowledge, loyalty and brand communication", showed that the mixed advertising influence on brand relationships and loyalty through brand knowledge. The results of this analysis showed that brand knowledge indirectly establishes the link between mixed advertising and brand equity.

Hypothesis 4: Brand knowledge has a direct and significant impact on customer equity.

Armellini (2011), in a research entitled "The Effect of Word of Mouth in Customer Equity and Brand Equity," focused on whether word of mouth advertising has an impact on brand equity and customer equity? What is the direction of this effect? His research results showed that word of mouth advertising has a positive impact on customer equity, and positive word of mouth advertising improves brand equity, and negative word of mouth advertising reduces brand equity. Dehdashti et al. (2014) in a study entitled "The role of advertising and oral advertising in brand equity promotion of tourism destination in Isfahan city" examined the role and importance of advertising in promotion and improvement of brand equity of the tourism destination in Isfahan city. The results showed that advertising and oral advertising have a significant effect on customer experience, and customer experience and brand image have a significant effect on brand equity. In a study entitled "The influence of word of the mouth communication on brand equity: receiver perspectives" conducted by Virvilaite et al. (2015) with the aim of analyzing the problem and discovering the effects of word of mouth communication on brand equity, the results showed The novelty and usefulness of message features in word of mouth communication has a positive impact on brand equity.

Hypothesis 5: word of mouth advertising has a direct and significant impact on customer equity.

In this research, in addition to direct hypotheses, two other hypotheses are also examined to measure mediating role of brand knowledge and word of mouth advertising on the relationship between brand communication and customer equity.

Hypothesis 6: Brand communication has a significant impact on customer equity through brand knowledge.

Hypothesis 7: Brand communication has a significant impact on customer equity through word of mouth advertising.

According to the above, the research conceptual model is shown in Fig. 2.

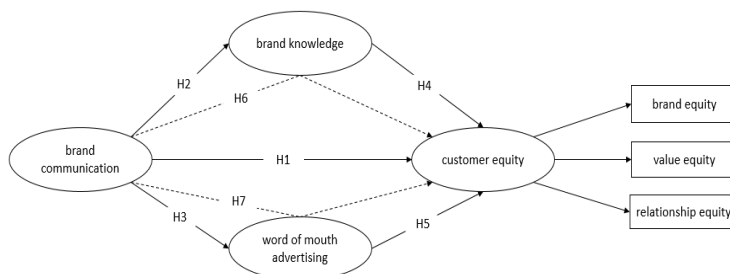


Figure 2. The conceptual model of research

Source: Authors' own research

3. Methodology

This research is in terms of purposeful research among the applied research, from the perspective of data collection, descriptive and survey type and in terms of research strategy, this research is correlation. Also, for the time scale, this research can be considered as a cross-sectional research. In this research, descriptive statistics were used to describe the characteristics of the community and inferential statistics and structural equation modeling were used to investigate the relationship between variables. The statistical population of this study includes shoppers and visitors from product supplier internet stores (such as Dijikala, Amazon, Babylon, etc.) residing in the provinces of Bushehr and Fars. In this study, due to the Being great and high scatter of the statistical population, the convenience sampling method was used. The sample size of the study is 384 samples based on the Unique Cochran statistics formula.

The data collection tool in this study is a questionnaire consisting of 2 parts. The first part of the questionnaire contains the respondents' demographic information, and the second part contains the items for measuring the brand communication, brand knowledge, word of mouth advertising and special value of the customer, which consists of 28 items. The brand communication branch is based on the research of Zehir et al. (2011), brand knowledge based on Yoo and Donthu (2001), Nguyen and Leblanc (2001) and Yang and Ha (2014), word of mouth based on Gremler and Gwinner (2000) and Jalilvand et al. (2017) and customer equity are based on Yuan et al. (2016).

Cronbach's alpha coefficient test was used to measure the reliability of the questionnaire. The results are shown in Table 2 for each variable. The Cronbach's alpha coefficient more than 0.7 is acceptable. As can be seen, the Cronbach's alpha coefficient for all variables is higher than 0.7 and this value for the whole questionnaire is 0.88, which indicates that the questionnaire has a suitable reliability. To assess the validity of the questionnaire, content validity, construct validity, convergent validity, and divergent validity were used. The content validity of the questionnaire was confirmed by the view of the professors. Validity criterion for construct validity test is the factor load of the items. Values greater than 0.5 for factor load represent a good value for structural validity. As shown in Fig. 3, the factor loads of all items are higher than 0.5, which indicates that the questionnaire has an appropriate structural validity. To assess the convergent validity, composite reliability and average variance extracted (AVE) were investigated. To validate convergent validity, these relationships must exist: $CR > AVE$, $AVE > 0.5$, $CR > 0.7$ (Habibi and Adanvar, 2016). As shown in Table 2, the average variance extracted for all variables are greater than 0.5 and the composite reliability is 0.7. Therefore, the convergent validity of the research questionnaire is confirmed.

Table 2. Reliability and validity of the questionnaire

Variable	Cronbach's alpha	Composite reliability	Average variance extracted
Brand communication	0.936	0.95	0.75
Brand knowledge	0.943	0.94	0.77
Word of mouth advertising	0.907	0.94	0.84
Customer equity	0.850	0.76	0.51

Source: Authors' own research.

Correlation matrix has been used to measure divergent validity. If the correlation between tests that measure different attributes is low, then the test is divergent. The results of the divergent validity test are shown in Table 3. As shown, the correlation between tests that measure different attributes is low, so the test has a divergent validity. The Kolmogorov-Smirnov test was also examined to ensure that the data were normal. Also, in this research, SPSS and AMOS software were used for final analysis and answering the research questions and hypotheses, and modeling and testing them.

Table 3. Divergent Validity

Variable	Customer equity	Brand knowledge	Word of mouth advertising	Brand communication
Customer equity	0.71	***	***	***
Brand knowledge	0.24	0.87	***	***
Word of mouth advertising	0.34	0.23	0.91	***
Brand communication	0.23	0.06	0.12	0.86

Source: Authors' own research.

4. Research findings

The findings of this research are presented in three sections: descriptive statistics of respondents, model fitness and hypothesis testing, which are described below.

4.1. Descriptive statistics of respondents

The descriptive findings of this study show that 59.4% of respondents are male and 63% of respondents are single. The highest number of respondents with 41.1% frequency had a bachelor's degree and in terms of type of employment, the highest numbers of respondents with a frequency of 41.7% were students. The highest number of respondents with a frequency of 47.1%, income less than 500 thousand USD, and age category, most respondents with a frequency of 58.3% are in the age group of 20-29 years. On the other hand, 55.5% of respondents have shopping experience from online stores and 44.5% of them have visit experience.

4.2. Implementation of Structural Equation Model Test

In this research, we used a set of indicators that test the predictive power of the model to evaluate the fitness of the structural model. These indicators are presented in Table 4.

Table 4. Model fitness indicators

Indicator	Reported value	Acceptable value
X ² /Df	1.604	Between 1 up to 3
NFI	.958	>.9
GFI	.943	>.9
AGFI	.925	>.9
TLI	.981	>.9
CFI	.984	>.9
PGFT	.717	>.5
IFI	.984	>.5
P	0.000	>.05
RMSEA	.040	<.1

Source: Authors' own research.

Also, the design of the primary research model after the implementation of the Amose software is shown in Fig. 3. In this model, F1, F2, F3 and F4, respectively, are brand communication, brand knowledge, word-of-mouth advertising, and customer equity. After the implementation of the model in the software, the fitness indices of the structural model are calculated.

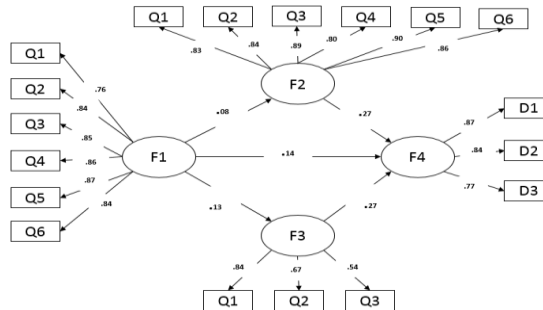


Figure 3. Conceptual model of research with path coefficients and factor load after implementation
 Source: Authors' own research.

With regard to the results of the fitness indicators of the model presented in Table 4, it can be concluded that the structural model of the research is fit.

4.3. Testing of the hypotheses

After the general fitness of the model, partial fitness or testing of research hypotheses is performed. At this stage, considering the path coefficients, t value and its significant level is decided on the rejection or confirmation of the research hypotheses. Table 5 shows the results of path coefficient, t value, significance level and confirmation or rejection of research hypotheses. As can be seen, all of the direct assumptions are approved, except second hypothesis. In this table, the mediating role of brand knowledge and word-of-mouth advertising has also been studied. As can be seen, both indirect hypotheses were not approved.

Table 5. Test results of direct and indirect hypotheses

Hypothesis	Path coefficient	t value	Significance level	Result
Brand communication → customer equity	.14	2.043	.041	Support
Brand communication → Brand knowledge	.08	1.439	.150	Reject
Brand communication → word-of-mouth advertising	.13	2.014	.044	Support
Brand knowledge → customer equity	.27	3.075	.002	Support
word-of-mouth advertising → customer equity	.27	3.430	.000	Support
Brand communication → Brand knowledge → customer equity	.0216	1.320	.170	Reject
Brand communication → word-of-mouth advertising → customer equity	.0351	1.680	.020	Reject

Source: Authors' own research.

5. Conclusion and Discussion

The main aim of this research is to investigate the relationship between brand communication and customer value in online stores. In particular, seven hypotheses were postulated. To test the proposed hypotheses, data were collected from Bushehr and Fars Province in Iran. The empirical results supported all the posited research hypotheses in a significant way except H2, H6 and H7. The findings from the analysis of the data indicate that brand communication has a significant effect on customer value (.14) and word of mouth advertising (.13), but does not affect brand knowledge (.08). Concerning the impact of brand communication on the customer equity, it can be argued that companies can raise brand awareness among customers and create positive attitudes (such as brand satisfaction and brand trust) about their brands through brand communication, using both one-way and two-way communication and promotion activities. Therefore, corporate managers must pay attention to their brand communication strategies and use appropriate brand communication to introduce their products and companies and Interaction with their customers. Concerning the impact of brand communication on brand knowledge, it can be argued that this result may be due to the fact that online stores in Iran do not use appropriate brand communication to enhance brand awareness and brand image improvement, or if used, its effectiveness is very low. Concerning the effect of brand communication on word of mouth advertising, it can be argued that companies by using brand communication more and more desirable, they can, through the loyalty and commitment of their customers, increase the positive word of mouth advertising about their brand and products, and they also reduce negative word of mouth.

Also, the findings from the data analysis indicate that brand knowledge (.27) and word of mouth advertising (.27) both affect the customer equity. In relation to the impact of brand knowledge on the customer equity, can state that in order to enhance the customer equity, information or, in other words, proper knowledge of the brand and company products must be available to customers in order to have a complete knowledge of the brand and products of the company and good image of the company and brand in their minds. Regarding the effect of word of mouth advertising on the customer equity, it can be stated that attention to the power of word of mouth advertising to introduce brand and company products to customers and the increase in the number of potential and actual customers, it improves and enhances the value of the customer and consequently leads to the acquisition of benefits for the company. Also, the findings showed that the direct impact of brand communication on customer equity is more than its indirect effect, with the mediation of brand knowledge and word of mouth advertising. The coefficient of direct effect between brand communication and customer value is .14. That is higher than the indirect effect coefficient, with the mediation of brand knowledge .021 and oral-to-mouth advertising. This result means that brand knowledge and word of mouth advertising cannot be the proper intermediary variables and increase the impact of brand communication on customer equity.

Online stores managers in order to increase the their customers equity, they should try to establish a proper and effective interaction with their shoppers in their customers' touch point, thereby introducing their brand to them completely and They will create a good image of their brand in order to retrieve the same product or service or other products and services related to the same store.

Internet shop managers should try to customer's word of mouth advertising, use bilateral or direct brand communication (which includes only print and television advertising and such advertisements) instead of single-party branded communications in order to increase and establish two-way interactions with their customers.

Since customer brand awareness is assisted in all stages of its decision-making process as well as in the value-creation process for the company, so online stores managers should strive to increase their exposure to the brand and store products and increase the probability that their brand will be a member of the consumer-oriented collection.

Online stores managers should strive to provide the opportunity to express the views of customers and visitors by designing a part on their store site, and then, by managing conversations and timely responses to the criticisms and suggestions, create a good image of their brand.

Despite the great effort that has been made to complete this research, there are several limitations that should be considered in future research. One of the limitations of this research was the low participation rate of older people in completing the questionnaire for collecting data, which led to the most sample of this study to be made by younger people. This shows that the sample is not representative of the entire community. This research was also carried out among shoppers and visitors of internet stores, and since such buyers are of great importance to spend their time optimally, they were not willing to answer the questions with more care and attention, which is due on accuracy and the generalizability of the results can be effective.

Since the impact of brand communication on the customer equity has been examined in general in this research, future researchers are suggested to examine the impact of brand communication on the particular dimensions of customer equity (brand equity, value equity, relationship equity). In addition, in this study, we considered brand knowledge and word of mouth advertising as two intermediary variables. Future researchers can measure the impact of other variables such as customer satisfaction, brand loyalty, and brand trust as a mediator variable in their research.

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VALUE INVESTING: EVIDENCE FROM LISTED CONSTRUCTION AND INFRASTRUCTURE SECTOR COMPANIES IN INDIA

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Abstract

Earning from the stock market investment is not an easy task for any investor. Due to high volatility, it is difficult to spot the correct time for entry and to make an exit from the stock market investment. Over a period of time, many investors and researchers have discovered few strategies to generate better return from the investment. One of the strategies is value investing. It refers to identify the potential stock for investment on the basis of price-to-equity (P/E) ratio. This paper is an attempt to verify appropriateness of value investing among the listed companies from construction and infrastructure sector in India. The data is collected for nine years from April 2011 to March 2020. The stocks are classified as value stock and growth stock on the basis of P/E ratio, P/B ratio. Total 648 monthly portfolios are created and monthly rebalancing is applied to compare the returns from value portfolios and growth portfolios. Risk adjusted returns are analyzed with the help of sharpe and trenyor ratio. The findings of the study are giving mixed results. The findings of the study are neither rejecting nor showing conclusive proof towards the presence of value investing in the sample data over a period of research. The probable reasons for failure of value investing are mentioned in the conclusion section of the paper. The paper is original work of the researcher and used new criteria of P/E ratio and PB ratio as weight to create the portfolio. The study will give deeper understanding about the investing pattern suitable in the stocks of construction and infrastructure sector companies in India.

Keywords: Value investing, Growth stock, Value stock, Construction, Infrastructure

JEL Classification: F65, G11, G14

1. Introduction

Over a period of time, investors have tried various strategies to earn higher and higher returns from the stock market investments. For this, numerous strategies such as active portfolio strategy, buy and hold portfolio strategy, Sharpe portfolio optimization, value investing, growth investing etc. are developed. Suitability and outcome of any investment strategy cannot be generalized but rather it depends on macroeconomic factors as well as few company specific variables. This paper is an attempt to verify the whether value investing works in Indian stock market or not, especially in construction and infrastructure sector? Value and growth investment strategies are tested by many researchers such as (Breen, 1968), (Flugel, 1968), (Basu, 1977, 1983), (Chan et. al, 1991), (Fama and French, 1992,

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1993 and 1998), (Lakonishok et. al, 1994), (Gregory et. al, 2001), (Cai, 1997), (Daniel and Titman, 1997), (La Porta, 1996), and (Jaffe et. al, 1989) across various stock markets in the world. Few studies such as (Breen, 1968), (Flugel, 1968), (Basu, 1977, 1983), (Jaffe et. al 1989), (Chan et. al, 1991) found that value stocks earn higher returns compared to growth stocks and thereby confirm the presence of value premium which makes it possible for the investor to conflict with the efficient market hypothesis.

Few studies like (Deb, 2012), (Tripathi and Aggarwal, 2018) have already tested value and growth investment approaches in Indian capital market but have produced mixed results. The present paper can be an extension to the earlier empirical evidences. To add value to the earlier researches, authors have used more comprehensive approach for data analysis. Unlike (Basu, 1977, Deb, 2012, Tripathi and Aggarwal, 2018) who used equal weighted portfolio in their studies, a new approach of P/E ratio and P/B ratio is used as weight to create the portfolios in the present study. Referring to the (Fama and French, 1992), (Deb, 2012) who used yearly rebalancing of portfolio. In the present study the author has tried for monthly rebalancing of the portfolio. This makes the research more robust in term of data analysis. The results of the research are in line with the some of international and Indian evidence which is discussed in analysis section. The findings of the paper do not support existence of value premium in the sample data during period of research. The limiting factor of the present study is that it is conducted for construction and infrastructure sector of Indian market. Therefore this sector specific study may not be generalized to the Indian capital market as a whole.

2. Review of Literature

The concept of value investing was put forward by Ben Graham and David Dodd in 1928. It was then critically evaluated and translated into a book titled security analysis in 1934. They argued that investor can generate good return if investments are based on qualitative and quantitative analysis. (Graham and Dodd 1934) In another publication by the same authors, they insisted on belief and temperament of investor to come out as successful value investor (The intelligent investor 1949). However, these books contain the findings based on research conducted on American companies only, which became major drawback of their research outcome. Therefore academicians and researchers across the globe have shown their interest to generalize the concept of value investing by conducting many studies like (Breen, 1968), (Flugel, 1968), (Basu, 1977, 1983), (Chan et. al, 1991), (Fama and French, 1992, 1993 and 1998), (Lakonishok et. al, 1994), (Gregory et. al, 2003), (Cai, 1997), (Daniel and Titman, 1997), (La Porta, 1996), (Jaffe et. al, 1989) in different geographies during different time period.

Stock can be divided into two categories based on the ratio values. (Fama and French, 1992; Lakonishok et al., 1994; Chan et al., 1991; and Ding et al., 2005). The categorization is based on price to earning (P/E) ratio, price to book value (P/B) ratio. Lower ratio values are considered as value stock and growth stocks carry high ratio values. This definition has been used to conduct the performance of both growth and value stock in most of major stock market in the world including US, Japan and India.

Value premium is the difference between the expected returns from portfolio having value stock and growth stock (Fama & French, 1993). In other study (Eakins and

Stansell, 2003) which spreads over 40 years of time span, found that value stock outperformed growth stock.

(Basu, 1977) studied the connection between NYSE traded stock performance and their price-earning (P/E) multiple. Their study was based on the outcome of analysis of 5 equally weighted portfolios created on 14 years data. The portfolios were re-ranked and rebalance annually. The study shows that low P/E ratio portfolio deliver 6 percent more yield than high P/E ratio portfolio

The US market witnessed consistent superior performance of value stock over growth stock in the 1998 and 1999. This fact again strongly recommended by Warren Buffett who became world's top richest investor by applying the concept of value investment.

In another important study by (De Bondt and Thaler, 1985) found that price to book ratio is effective indicator for stock's future performance. The findings of this study were further supported by (Fama and French, 1992). Further studies like (Capaul et. al, 1993) confirmed presence of value premium in the capital markets of France, Japan, UK, Germany and Switzerland. Their finding supported that value stock (low price-to-book, P/B) generated better returns than growth stock (high price-to-book) ratio.

Studies from emerging market such as (Kargin, 2002) studied the emerging market like Argentina, Brazil, Pakistan, Philippines, Taiwan, Thailand, Chile, Colombia, Mexico, Peru, Venezuela, India, Turkey, Hungary, Poland, Czech Republic, Romania, Sri Lanka, Indonesia, Korea, Malaysia, China, Greece, Russia, Slovakia, Israel, Egypt, Morocco, South Africa and Zimbabwe. The findings of the study confirm the superiority of value investing to generate additional returns over other investment strategies.

Since 1991, Indian economy witnessed many reforms to strengthen the nerve of Indian capital market to make them competitive investment destination at par with worlds leading stock markets. Reforms like establishment of Securities and Exchange Board of India (SEBI), abolishing Controller of Capital Issues in 1992, formation of credit rating agencies like CRISIL and setting up National Stock Exchange makes Indian capital market an attractive investment hub for global players. Therefore it is interesting to find out which investment strategies suits the investor to generate maximum return. Though comprehensive study can be conducted on various companies from different sector, this paper specially focus on construction sector companies only due to personal interest of the author.

3. Research Methodology

3.1. Sample Data

The construction and infrastructure companies listed on National Stock Exchange of India forms the sample size for this research. The construction and infrastructure sector is selected due to personal interest of researcher. The condition of availability of data pertaining to research variable during the period of research is applied to select any company as part of sample. Therefore number of companies forming the sample size varies every year. Maximum 172 companies are included as sample size in the year 2013 and minimum 156 companies in the year 2017.

3.2. Time Period

After financial crisis of 2008, the Indian economy witnessed stability in market by 2010. Thereafter slowly, the Indian economy experienced supportive political and

economic environment from the year 2011 onwards. Therefore period of study is selected from April 2011 to March 2020. This will make this research as recent research in this area. This time period is enough to come out with meaningful results to contribute new perceptions on ideas of value and growth stock.

3.3. Data Collection

This research is empirical in nature and based on the secondary data. The historical data in terms of financial variables like P/E ratio, P/B, beta of the stock, monthly return of stock forming part of sample is collected from Prowess data base maintained by Center for Monitoring Indian Economy (CMIE). Adjusted prices are taken so as to absorb the effect of dividend and other corporate announcement. Initially monthly data is obtained and converted into excel data sheet for further analysis. NIFTY index is used as proxy for market return. The required values of market return are also extracted for the CMIE database. T-bill returns are used as proxy for risk free returns. The yearly T-bill returns are obtained from tradingeconomics.com.

3.4. Research Methodology

The purpose of this research is to examine if value portfolio outperform growth portfolio in Indian Capital market in construction and infrastructure sector. The deductive approach is considered along with hypothesis testing to answer the research question. The collected sample data is divided into value, growth and neutral stock based on the value of P/E ratio and P/B ratio. Then the stocks are arranged in increasing order based on the value P/E ratio and P/B ratio separately. For every month of the every year six different portfolios are formed; three value portfolio and three growth portfolios. The three value portfolios differ with each other in terms of weight used. Portfolio one is based on equal weighted, portfolio two is based on P/E as weighted and portfolio three is based on P/B as weighted. Similarly three growth portfolios are formed using three weights as mentioned above. Table 1 indicates the details of six portfolios created for every month of the every year.

Table 1: Types of portfolio

For every month of the every year	Value Portfolio	Portfolio 1	Equal Weighted
		Portfolio 2	P/E as Weighted
		Portfolio 3	P/B as Weighted
	Growth Portfolio	Portfolio 4	Equal Weighted
		Portfolio 5	P/E as Weighted
		Portfolio 6	P/B as Weighted

Most of the earlier research on same topic used equal weighted portfolio. In this research paper researcher proposed to use new concept of P/E ratio and P/B ratio values as weighted. Thus total 648 monthly portfolios (9 years * 12 months * 6 portfolio for each month) are formed for the period of research out of which 324 are value portfolios and 324 are growth portfolios. Out of 324 value portfolios, 108 are equally weighted monthly value portfolios, 108 are P/E based monthly value portfolios and 108 are P/B based monthly value portfolios. Similarly, out of 324 growth portfolios, 108 are equally

weighted monthly growth portfolios, 108 are P/E based monthly growth portfolios and 108 are P/B based monthly growth portfolios.

For value portfolio based on P/E, stocks are arranged in the increasing order of P/E ratio. Out of sample size, the first 25% (Q_1) of the stock are considered as value stock. The last 25% (Q_4) of the stock having highest value of P/E ratio are considered as growth stock. Remaining 50% of the sample are considered as neutral and excluded from the study.

For value portfolio based on P/B, stocks are arranged in the increasing order of P/B ratio. Out of sample size for each month, the first 25% (Q_1) of the stock are considered as value stock. The last 25% (Q_4) of the stock having highest value of P/B ratio are considered as growth stock. Remaining 50% of the sample are considered as neutral and excluded from the study. This bifurcation of stock and portfolio creation is in line with method used in earlier research such as (Fama and French, 1998). In each of the monthly portfolio, value or growth three parameters are used to decide the weight of each stock in the portfolio. First all stock are equally weighted in the portfolio, in the second portfolio, their weightage in the portfolio is considered on basis of P/E ratio and in the third portfolio, their weighted is considered on the basis of P/B ratio.

According to (Fama and French, 1998; Lakonishok et. al., 1994) the portfolios are rebalanced every year at the beginning of year due to change in values of financial ratio. However, in this research, author wants to test the effect of frequent rebalancing in portfolio management used by the investor. In practice it is difficult to hold on one portfolio for a year without rebalancing. Due to availability of monthly data for all research variables from reliable secondary sources, and use of MS Excel, author proposed to go for monthly rebalancing of portfolio. This makes the research paper more vibrant and robust in terms of analysis of data.

The portfolio returns are adjusted for risks in order make outcome of the research more meaningful (Bodie et. al., 2011). The risk adjusted returns are calculated using sharpe ratio (Sharpe, 1966, Patari & Leivo 2009, Gregory et al 2003). Positive sharpe ratio represents portfolio outperforms the market index. The negative value of sharpe ratio represents risk free investments are better than stock portfolio. NIFTY index is considered as benchmark to calculate the market return. Yearly returns of Treasury bill or money market is considered as risk free rate of return.

Hypotheses are developed to test whether value stock portfolio outperforms growth portfolios during research period. Each hypothesis contains null hypothesis and alternate hypothesis. Based on the skewness and kurtosis value it is decided to apply non-parametric test to test the hypothesis with Mann-Whitney U test using SPSS. The hypotheses developed are as under:-

*Ho - The returns from value portfolio based on equal weighted are **not** higher than the returns of growth portfolio during 2011-12 to 2019-20*

H1 - The returns from value portfolio based on equal weighted are higher than the returns of growth portfolio during 2011-12 to 2019-20

*Ho - The returns from value portfolio based on P/E ratio are **not** higher than the returns of growth portfolio during 2011-12 to 2019-20*

H1 - The returns from value portfolio based on P/E ratio are higher than the returns of growth portfolio during 2011-12 to 2019-20

*Ho - The returns from value portfolio based on P/B ratio are **not** higher than the returns of growth portfolio during 2011-12 to 2019-20*

H1 - The returns from value portfolio based on P/B ratio are higher than the returns of growth portfolio during 2011-12 to 2019-20

4. Empirical Findings

4.1. Descriptive Statistics

The descriptive statistics about the monthly return of the value and growth portfolio is given in table 2. The portfolio returns are calculated as product of stock return and their weight in the portfolio. During the research period of April 2011 to March 2020, value portfolios based on equal weight generated positive return for 63 months and negative returns for 45 months. Similarly value portfolios based on P/E ratio as weight generated positive return for 59 months and negative returns for 49 months and value portfolios based on P/B ratio as weight generated positive return for 55 months and negative returns for 53 months. Growth portfolios based on equal weight generated positive return for 73 months and negative returns for 35 months. Similarly growth portfolios based on P/E ratio as weight generated positive return for 69 months and negative returns for 39 months and growth portfolios based on P/B ratio as weight generated positive return for 66 months and negative returns for 42 months. In case of value portfolio, equal weighted portfolio generated maximum positive returns followed by P/E as weight and then P/B as weight. Growth portfolio also follows the same trend showing ability of equal weighted portfolio to beat other parameters used in portfolio construction.

4.2. Value premium

Value premium is the difference between the expected returns from portfolio having value stock and growth stock (Fama & French 1993). Table 3 shows the value premium generated by the monthly portfolios during the period of research. The number of months indicates value premium generated out of 12 months in a year. Only positive values are reported in the table. Blank cell represents growth stock outperformed the value stock.

Table 3: Value Premium under various categories

	Value Premium		
	Equal Weighted	PB Weighted	PB Weighted
	Number of months	Number of months	Number of months
2011-12	---	1	---
2012-13	5	4	4
2013-14	2	3	3
2014-15	3	4	2
2015-16	---	1	---
2016-17	---	---	---
2017-18	4	2	4
2018-19	4	3	3
2019-20	3	2	2
Total	21	20	18

(Source-Authors compilation from MS excel worksheet)

Year	Value Portfolio						Growth Portfolio						
	Equal Weighted		PE Weighted		PB Weighted		Equal Weighted		PE Weighted		PB Weighted		
	Number of Months		Number of Months		Number of Months		Number of Months		Number of Months		Number of Months		
	Positive Returns	Negative Returns	Positive Returns	Negative Returns	Positive Returns	Negative Returns	Positive Returns	Negative Returns	Positive Returns	Negative Returns	Positive Returns	Negative Returns	
2011-12	8	4	7	5	6	6	6	11	1	11	1	10	2
2012-13	6	6	6	6	7	7	9	9	3	10	2	9	3
2013-14	6	6	4	8	4	4	9	9	3	8	4	8	4
2014-15	7	5	8	4	5	7	10	10	2	7	5	9	3
2015-16	8	4	7	5	8	4	9	9	3	6	6	7	5
2016-17	5	7	9	3	7	5	8	8	4	7	5	8	4
2017-18	6	6	4	8	6	6	7	7	5	5	7	4	8
2018-19	8	4	5	7	8	4	6	6	6	8	4	6	6
2019-20	9	3	9	3	4	8	4	4	8	7	5	5	7
Total	63	45	59	49	55	53	73	35	69	39	39	66	42

(Source-Authors compilation from MS excel worksheet)

Year	Sharpe Ratio				Treyner Ratio			
	Value Portfolio		Growth Portfolio		Value Portfolio		Growth Portfolio	
	Value Portfolio	Growth Portfolio	Value Portfolio	Growth Portfolio	Value Portfolio	Growth Portfolio	Value Portfolio	Growth Portfolio
2011-12	+ (1.20)	+ (0.90)	---	---	---	---	---	---
2012-13	---	+ (1.05)	---	---	---	---	---	---
2013-14	---	---	---	---	---	---	---	---
2014-15	---	---	---	---	---	---	---	---
2015-16	---	---	---	---	---	---	---	---
2016-17	+ (2.26)	+ (1.10)	+ (1.10)	+ (1.16)	---	---	---	---
2017-18	+ (1.80)	+ (1.20)	+ (1.20)	+ (1.10)	+ (0.65)	+ (0.65)	+ (0.75)	+ (0.75)
2018-19	+ (2.10)	+ (1.11)	+ (1.11)	+ (1.00)	---	---	---	---
2019-20	---	+ (1.00)	+ (1.00)	---	---	---	---	---
Total	4*	6*	3*	3*	3*	3*	3*	3*

(Source-Authors compilation from MS excel worksheet, +/- sign indicates nature of return and fig. in bracket is returns earned expressed in%)

*no. of times positive return generated by the respective portfolio out of total nine years

4.3. Risk Adjusted Return

The returns of both type of portfolio are risk adjusted to find out how well performed. The Sharpe ratio and Treynor ratio are used to evaluate the risk adjusted performance of the value and growth portfolios and results are reported in table no. 4 respectively. Monthly portfolio returns are converted into annual returns. The sharpe and treynor ratios are calculated for annual returns.

Higher and positive ratio indicates portfolio outperform the market index. For value portfolio, sharpe ratio is positive for 4 years out of total 9 years (from 2011 to 2020) with the highest value of 2.26% observed in the year 2016-17. Similarly, treynor ratio is positive for 3 years with highest value of 1.16% observed in the year 2016-17. For growth portfolio, sharpe ratio is positive is 6 years with the highest value of 1.2% in the year 2017-18. And treynor ratio is positive for 3 years with highest value of 0.75% in the year 2018-19. The difference between sharpe ratio of value and growth portfolio during the year indicate value portfolio is good investment option for that year. Only positive values are reported in the respective year.

4.4. Hypotheses Testing

The hypotheses as mentioned in the research methodology are tested for their significance. Testing of hypotheses require an appropriate test. The normality of data is tested using skewness and kurtosis. The values of skewness (0.867) and kurtosis (3.214) are not within acceptable range and thus conforming data is not-normal.

Therefore hypotheses are tested using non-parametric tests. The Mann-Whitney U test is used to test the significance of the hypothesis. The values of SPSS outputs are given the table no. 5, 6 and 7. For the results to be significant, the value of p- needs to be as low as possible (preferably less than 0.05). A look at the p-values in all the three tables gives higher values than the desired value of 0.05, which indicate that the difference between two portfolio are statistically not significant.

Table 5: p value and hypothesis testing of equal weight portfolio

Portfolio Based on Equal Weight	Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Mann-Whitney U	84	84	94	80	77	65	66	88	90
Wilconxon W	162	162	172	158	155	143	144	166	168	
p-value (2 tailed)	0.488	0.515	0.204	0.644	0.77	0.686	0.729	0.356	0.298	

Table 6: p value and hypothesis testing of equal weight portfolio

Portfolio Based on P/E Ratio	Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Mann-Whitney U	84	84	94	80	77	65	66	88	90
Wilconxon W	162	162	172	158	155	143	144	166	168	
p-value (2 tailed)	0.468	0.525	0.204	0.614	0.767	0.616	0.769	0.326	0.218	

Table 7: p value and hypothesis testing of equal weight portfolio

Portfolio	Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Based on P/B Ratio Weight	Mann-Whitney U	84	84	94	80	77	65	66	88	90
	Wilconxon W	162	162	172	158	155	143	144	166	168
	p-value (2 tailed)	0.458	0.525	0.294	0.634	0.707	0.666	0.789	0.356	0.298

(Source-Table no. 5, 6 and 7 SPSS output, relevant values only)

The p-value for equal weight based portfolio in the year 2011-12 is 0.488 which means the difference between two portfolio returns appears 48.8% of the times by chance. The similar interpretation can be taken for the remaining years. The highest value is in the year 2015-16 and the lowest value is in the year 2019-20 for equal weight portfolio.

5. Discussion and Conclusion

The very famous (Fama, 1970) established Efficient Market Hypothesis (EMH) claiming stock prices are corresponded to their intrinsic values and therefore it is impossible to beat market return consistently. In the present study, the risk adjusted return for value or growth portfolio are less than market return. Therefore the claim of EMH is supported by the data during the period of research. One of the pioneer studies (Kahneman and Tversky, 1973) contended that irrational investor will put efforts to carry the mismatch of stock market price and its intrinsic value. If it is accepted then portfolios constructed using low P/E or Low P/B or any other measure will not produce any differential return during investment period. In the present study, the difference between the value and growth portfolio is marginal thereby making it difficult for the investor to the superiority of either value or growth portfolio strategy. The results of the paper are not in line with Basu (1977), Lakonishok et al (1994), Fama and French (1998) where the value stock outperformed the growth stock. Therefore, in the opinion of the author, bifurcation of stock on the basis of value or growth is not enough to generate the better return. Investors need to consider external factors influencing market return as well during the investment horizon. However the findings of the present study support the Zhang (2005) who claimed value stocks are most of the times come from distressed companies which carry more risk and uncertainty with regards to performance. Therefore investor required more return from value investment. As seen in Indian situation, most of the construction and infrastructure companies are under heavy burden of debt, their financial distress situation failed to meet the investors' expectation. The results we get from the hypothesis testing are insignificant as in most of cases the p-value is greater than 0.05. The findings of hypothesis testing mean that neither growth not value portfolios can be accorded the superior status. The mixed results are clear indication about presence few other factors influencing the stock performance and it will be interesting to find it out in further research. Relating the value investing to the financial crisis 2008, central banks in most of the countries used quantitative easing to keep interest rates low. However, low interest rates are not perpetual phenomenon, and in future the process will blow up to witness the rise in interest rate and inflation. In such scenario, the value investor may find themselves placed better than other investor. The market efficiency in terms of available

and access to information has also changed over last few decades. Ben Graham when applied the concept of value investing during 1960, the access to information was only hard copies of annual reports. The superior information was available with very few investors and thus finding value stock was game for very few investors. Today, when secondary reliable data is available with every investor and professional managed database are available, investors have to explore the new ways to identify the value stock. May be the investment world has become flatter and demanding innovative ideas for spotting eligible stocks. The balance sheet based approach to spot the value stock needs change. The investors have to consider use of technology by the companies in their operations as the key driver to assess the value as most of the companies are technology driven in today's environment.

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