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The *Romanian Economic and Business Review* (ISSN 1842-2497) intends to provide a forum for academic analysis of the economic phenomena and institutions affecting the world economy in general, and Romania, in particular. *REBE* examines a wide variety of phenomena related to economic growth and business development and attempts to publish 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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The ROMANIAN ECONOMIC AND BUSINESS REVIEW (REBE) is a refereed journal published four times annually by the Romanian-American University. The editors invite submissions of articles that deal with important issues in economy and business. Papers that focus on specific phenomena and events affecting Romanian economy are particularly encouraged. Because REBE seeks a broad audience, papers should be comprehensible beyond narrow disciplinary bounds.

Manuscripts should not exceed 8,000 words and must conform to the REBE's style requirements, which are guided by The Chicago Manual of Style (14<sup>th</sup> edition). All submissions must include a cover sheet explaining the scope of the article, and including the authors' names and affiliations, telephone and e-mail address. The text should be single-spaced. References are cited with parentheses using the author/date/page style. *Example:* (Marcus, 2005, p. 74). Authors should use footnotes, not endnotes to add only short comments. Bibliography should include only references cited in the text, in the alphabetical order of authors. An abstract of no more than 200 words should be included.

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# Services Marketing in the Era of Disruption and Digital Transformation

Theodor Purcărea  
Anca Purcărea\*

## Abstract

*Recent sound academic research reconfirmed that at the core of many successful service firms is an adequate services marketing (people, technology, strategy) approach by building the relationships and maintaining loyal customers within the targeted, acquired, and retained segments, beyond their necessary but not sufficient satisfaction, better understanding the drivers of customer churn, and acting accordingly, using an effective CRM strategy. Two years have passed since the World Economic Forum launched the project “The Digital Transformation Initiative (DTI)” as part of the “System Initiative on Shaping the Future of Digital Economy and Society”, and at the beginning of this year the World Economic Forum in collaboration with Accenture already published the white paper “Digital Transformation Initiative. Aviation, Travel and Tourism Industry”, by highlighting, among other aspects, the importance for the companies along the Aviation, Travel and Tourism industry journey of optimizing customer experience (CX) by collecting and exchanging data, and continuously generating insights. There is no doubt that the current modern marketing landscape has been redefined by faster changing technologies and customer expectations, and it has become essential having a capability of testing fast new ideas, refining them, and bringing them rapidly to the relevant market, better understanding the customer journeys and delivering a great CX, by building out a maturity model for CX. There is a real need of a holistic approach of revenue management and its relation to agile marketing, considering the tourist experience in the current customer-driven era. Recent evidence comes in favor of successful service firms which are moving further in the direction of: so-called experiential offerings as differentiation strategy by optimizing experience for sizable groups of “connected” traveling customers; focusing on high priority CX initiatives involving big-data or technology interventions which improve traveler perceptions; using algorithms which provides tailored travel recommendations by drawing data from users’ social media; winning the social media fights by right managing online sentiments and so on.*

**Keywords:** Aviation, Travel and Tourism Industry; Services Marketing; Disruption; Digital Transformation; CRM strategy; CX initiatives

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### **Introduction: *MLIBCW, actually valuable topics on the Academic & Business Partnership***

The Conference “*Management, Leadership and Innovation towards a Better Changing World*” (MLIBCW) is continuing to build on the progress made through capitalization of scientific research results achieved in the tourism and related areas, stimulating technological development and innovation efforts for the applicability of scientific research results, and strengthening the collaboration between the academic research environment and the economic environment by promoting interdisciplinary research. This year’s MLIBCW Conference reinforced its key message, challenging participants to come up with great contributions.

As its name implies, MLIBCW Conference is focused on the key message of committing to building a Better Changing World through an adequate approach to Management, Leadership and Innovation. The Father of *Management*, Peter Drucker (considered also to be the Grandfather of Modern Marketing by Philip Kotler, the Father of Modern Marketing, on the occasion of Drucker Celebration in November 20, 2009, in Vienna), teaches us that: “*The purpose of a business is to create a customer;*” “*Business has only two functions - marketing and innovation. All the rest are costs;*” “*The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself;*” “*The aim of marketing is to make selling unnecessary;*” “*The best way to predict the future is to create it;*” “*The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.*” (Kotler, 2009)

At the beginning of the 50’s Drucker highlighted in his book “The Practice of Management” (1954, p. 37 - Harper Business, October 3, 2006) that: “What business thinks it produces is not of first importance—especially not to the future of the business or to its success. What the customer thinks he/she is buying, what he/she considers « value » is decisive - it determines what a business is, what it produces, and whether it will prosper.” It was a pity that his wise words were often neglected.

But as the Roman poet Virgil said: “Time passes irrevocably”. And today we are already speaking about “*Management’s next frontier: Making the most of the ecosystem economy*”, finding out that businesses need a new set of managerial skills and capabilities in order to engage in digital ecosystems, knowing that an ecosystem must have a compelling value proposition (which is attractive, open, and relevant to multiple businesses) to be successful. Within this new framework, the investment in building an ecosystem relationship-management (ERM) capability with dedicated staff is an unavoidable requirement. (Meffert and Swaminathan, 2017)

At the beginning of the 21st Century and the third Millennium, while approaching “Management vs. Leadership” topic (Planning & budgeting vs.

Setting the direction; Organizing & staffing vs. Aligning people; Controlling & problem solving vs. Motivating people) it was again underlined that if *Management* is about coping with *complexity*, *Leadership* is about coping with *change*. (Gonzalez, 2002) *Change?* The famous Romanian sculptor Constantin Brancusi (1876 - Hobita, Romania, 1957 - Paris), and August Rodin's disciple said that: "*To see far is one thing, going there is another;*" "*What is real is not the external form, but the essence of things.*"

On the other hand, the reputed Management and Leadership consultant Tom Peters – recently recognized with a Lifetime Achievement Award from Thinkers50, a well-known organization that ranks management thinkers, founded by Stuart Crainer and Des Dearlove, the reputed authors of many popular books and editors of the Financial Times Handbook of Management (Mosca, 2017) – attracted our attention on the fact that excellent firms believe only in constant improvement and *constant change*. Former Navy Seabee and McKinsey partner, Tom Peters argued in September 2014 that today we are in the "*big-change business*," where change is not about overcoming resistance, but about: "*recruiting allies and working each other up to have the nerve to try the next experiment;*" "*giving reinforcement at precisely the right moment.*" (Heywood et al, 2014)

Seven month later, in May 2015, McKinsey's representatives underlined, among other aspects, that: "*... we tend to be slow to adapt to change... There is a powerful human tendency to want the future to look much like the recent past... Gaining a clear-eyed perspective on how to negotiate the changing landscape will help us prepare to succeed.*" (Dobbs et al, 2015) And in July 2015 other McKinsey's representatives highlighted that a critical competitive advantage is now *mastering the art of changing quickly*, and that *in order to accelerate and amplify the ability of an organization to change it can be helpful to digitize five areas* (provide just-in-time feedback; personalize the experience; sidestep hierarchy; build empathy, community, and shared purpose; demonstrate progress). (Ewenstein et al, 2015)

While in the same year, in September 2015, Jeffrey Pfeffer, a reputed Professor (of Organizational Behavior, Career & Success, Leadership, Management) at Stanford Graduate School of Business, Finalist for the 2015 Financial Times and McKinsey Business Book of the Year, considered by "The Economist" as one of the great management thinkers of our time, and also well-known author of "Power: Why Some People Have It and Others Don't (HarperBusiness, 1 edition, September 14, 2010), showed in a new book – entitled "Leadership BS: Fixing Workplaces and Careers One Truth at a Time" (HarperBusiness, September 15, 2015) – "*how leadership really works and why so many leadership development efforts fail*," arguing that: "*much of the oft-repeated wisdom about leadership is based more on hope than reality, on wishes*

*rather than data, on beliefs instead of science,*” and recommending a better understanding of the realities of organizations and human behavior, going *“beyond the half-truths and self-serving stories that are so prominent in the mythology of leadership.”* (Pfeffer, 2015) He was recognized as pledging for “facts culture”, for doing the right thing. (Hill, 2015)

Also in September 2015, analyzing the making large-scale organizational changes (as suggested by the results from a new McKinsey Global Survey), other McKinsey’s representatives approached the topic of “The science of organizational transformations,” pointing out that *change efforts are hard work*, implementation being critical to overall transformation success, while critical to shifting mind-sets and behaviors being *four key actions* (role modeling, fostering understanding and conviction, reinforcing changes through formal mechanisms, and developing talent and skills). They pledged for focused transformations by treating design as a science, involving multiple stakeholders, considering the above mentioned elements along with complementary initiatives aligned with the broader organizational context. (Basford et al, 2016)

A debate organized by McKinsey Quarterly in March 2016, and approaching the topic of “Leading in the digital age,” revealed that *“the automation of work and the digital disruption of business models place a premium on leaders who can create a vision of change and frame it positively.”* And a month later, in April 2016, to help companies to understand the opportunities and threats faced by them, *McKinsey & Company* recommended *its supply and demand guide to digital disruption* (undistorted demand; unconstrained supply; new market-making; new value proposition; reimagined business systems; hyperscaling platforms).

So, it is not by chance that other McKinsey’s representatives approached more recently, in February 2017 the topic of “The seven decisions that matter in a digital transformation: A CEO’s guide to reinvention”, considering that the defining challenge for today’s generation of CEOs is Digital. Pledging for *reinvention by digital transformation of the core – value proposition, people, processes, and technologies* (which are the lifeblood of the business) – they recommended seven decisions (occurring in four phases) for a successful digital transformation program. (Dahlström et al, 2017)

Within this framework we also have to remember that:

- *digital disruption* “happens when an existing industry faces a challenger that offers greater value to the customer in a way that existing firms cannot compete with directly”, (Rogers, 2016) *digital transformation* being the “realignment of, or new investment in, technology and business models to more effectively engage digital customers at every touchpoint in the customer experience lifecycle” (as defined by Brian Solis, a principal analyst at Altimeter Group); (Tarling, 2017)

- according to the reputed James McQuivey, Forrester’s Vice President, Principal Analyst, serving CMO professionals, and author of “Digital Disruption: Unleashing the Next Wave of Innovation,” (McQuivey, 2013) *companies must disrupt their products and processes in order to enable the next customer experiences*; (McQuivey, 2014)
- according to Lisa Bodell, an award-winning author and CEO of Futurethink (who as a futurist and expert on the topic of change serves as a global council member of the World Economic Forum), it is very important to understand what is happening at *the intersection of innovation and disruption*; (Bova, 2017)
- according to Henrique Schneider, Chief Economist, Swiss Federation of SME, Switzerland, and author of “*Creative Destruction and the Sharing Economy: Uber As Disruptive Innovation*,” (Schneider, 2017) while *creative destruction*, one hand, means “*the overall process of change and adaptation of actual industries to novelties*,” on the other hand *disruptive innovation* is “*primarily technology-backed innovation starting at the low end of markets or creating a new market foothold*,” disruptive innovation making it impossible for the market processes to exist without it; (Schneider, 2017)
- the term (concept in economics) “*creative destruction*” was coined in 1942 by the great economist Joseph Schumpeter, who was a Peter Drucker’s Family friend in Wien, being well-recognized Schumpeter’s tremendous influence on Drucker.

And as for Peter Drucker “*Innovation*” is “*change that creates a new dimension of performance*,” allow us to also remember that:

- on the occasion of a new edition of the Forum Entreprises 2.0 (Productivity, Growth and Technologies) organized on November 5, 2014 at Montreal’s Palais des congrès by “Technologia” (Québec training leader since 1996), and moderated by Martin Cloutier, associate and organizational psychologist at SPB Organizational Psychology, it was underlined that *innovation must be an organizational priority* (according to Marc-André Bovet, CEO of Bone Structure), and *combine processes, specialized labor, tools and systems* on the most advanced stage in the development, *Big Data making it possible to provide every customer with a tailored product or service* (according to Yves Harvey, a Microsoft specialist), *a key factor in the innovation process being change management*; (Cloutier, 2014)
- McKinsey’s representatives identified in 2015 the “*eight essentials of innovation*:” *Aspire, Choose, Discover, Evolve, Accelerate, Scale, Extend, Mobilize* (the first four being considered as strategic and creative in nature, helping setting and prioritizing the terms and conditions under which innovation is more likely to thrive; the next four essentials being considered as dealing with

how to deliver and organize for innovation repeatedly over time and with enough value to contribute meaningfully to overall performance); according to them, when it comes to innovation there's no proven formula for success: *“In the digital age, the pace of change has gone into hyperspeed, so companies must get these strategic, creative, executional, and organizational factors right to innovate successfully;”* (De Jong et al, 2015)

▪ at the level of The Association of Governing Boards of Universities and Colleges (AGB, Washington, D.C., the premier organization centered on governance in higher education, founded in 1921) – that pledges for a *“Culture of Innovation”* – it was recently highlighted *“The Innovation Imperative”* (September/October 2017), being considered that: *“Innovation is the watchword in higher education today, the antidote for what ails a sector confronting one of the most disruptive eras in memory.”*

All of the above mentioned issues entitled us to propose a more nuanced approach, so as to be managed as a project for a better change, starting from a better understanding of how these topics are actually valuable and helpful for the Tourism and Aviation Industry, ensuring information sharing and the development of new ideas and thoughts within the Academic & Business Partnership, even stimulating controversial ideas, while trying to build a support for new knowledge, and also hopping to have the necessary feedback to go farther, strongly believing in the role played by every person involved in the inspired MLIBCW debate, on the way of Digital Transformation. We appreciate that there is now clear evidence of the current heavy competition and the increasing disruptors' pressure on the relevant market (the existing business models being disrupted by digitization), which has made it necessary for incumbents to focus more on services marketing, on distribution and merchandising, on shopping experience, on customer and brand experience, while enabling the Digital Supply Chain by using new technologies at different points of their value chain, and not anyway but in new, different ways.

### **Abundance of Information, the 3 V's of Information, and Data, the Catalyst for Digital Transformation in a VUCA World. Lessons to learn for the Industry**

Paraphrasing social scientist Herbert Simon, we can say, within the current abundance of information, that in our information-rich world information consumes the attention of its recipients, this wealth of information creating a poverty of attention. (Brisbourne, 2009) So, we have to pay attention to... also what Bill Gates pointed out seventeen years ago: *“How you gather, manage, and use information will determine whether you win or lose.”* (Gates, 1999)

Early in 1989, Bill Gates vigorously supported the cause of the 70s motto of the Information Industry Association – *“Putting Information at Your Fingertips”*,

transforming it in his more important than any other goal for the next two decades (“Information At Your Fingertips - 2005,” COMDEX keynote speech, 1994) – and step by step we were witnessing how all kind of devices gave rise to ecological computing and information surfacing, to ubiquitous computing, and how pervasive computing became transparent computing. (McFedries, 2009) Coming back to the always challenging present, allow us to show that already in April 2015 it was a clear evidence of different determined efforts to deal with the 3 V’s of information (Volume, Velocity and Variety), being also underlined that: “The technology today enables faster decision making, but it also requires the ability to change existing operating models faster when required.” (Nikula, 2015) Two months later, in July/August 2015, at the level of the above mentioned premier organization centered on governance in higher education, AGB, it was highlighted that: “... *we are entering an era of information abundance driven by increasingly mobile and ubiquitous information technology and its partner in disruption, “big data” – large digital databases that allow information to be aggregated, tracked, and manipulated in ways that were impossible in the past.*” (Smith, 2015)

On September 9, 2016, something to be seriously considered in dealing with *the new reality of leadership in a turbulent environment* – the turbulence described by VUCA (an acronym coined by the U.S. Army, and representing: Volatility, Uncertainty, Complexity and Ambiguity) appearing to be confirmed by market data – and *building on the essential skills to the tomorrow’s leaders*, has been approached at a conference at the International Congress of Human Resources (held in Montreal, and hosted by Julie Carignan, CHRP, Organizational Psychologist and Senior Partner at the above mentioned SPB), where it was underlined, among other aspects, that: the decisions makers need both to understand and deal with the quantity and quality of available information, and to decide on its immediate usefulness (taking into account the volatility, the quantity and the complexity of the involved information); *in a VUCA world, a leader needs to anticipate change and to be a visionary, in other words to confirm the competence of agility, maintaining the balance between feedback and feedforward (by making requests or proposing future-oriented solutions), inspiring trust and fostering and proving commitment, initiating action, unlocking collective creativity, and innovating, quickly assessing results.* (Therrien, 2016) The just before mentioned SPB’s article approached finally the key issue of managing information as part of the decision-making process, revealing that while the human brain has a memory capacity of only one gigabyte approximately, the amount of information people are getting per day is of 35 gigabytes, *this amount of information becoming increasingly developed thanks to social networks.* It is well-known that *social networks* are business and/or social contacts made by connections through individuals (often through social media sites such as Facebook, Twitter, LinkedIn and Google+), fostering the relationships at the

level of this network of fans/followers, while social media, as another important marketing tactics, represent forms of electronic communication (for example, Web sites for social networking and microblogging) through which users create online communities (so as to share information, ideas, personal messages, and other content as videos), trying to drive engagement. (Schauer, 2015) A map of the world's most popular social networks (ranked 1<sup>st</sup> and 2<sup>nd</sup>) is shown below: (Hutt, 2017)

## WORLD MAP OF SOCIAL NETWORKS

January 2017

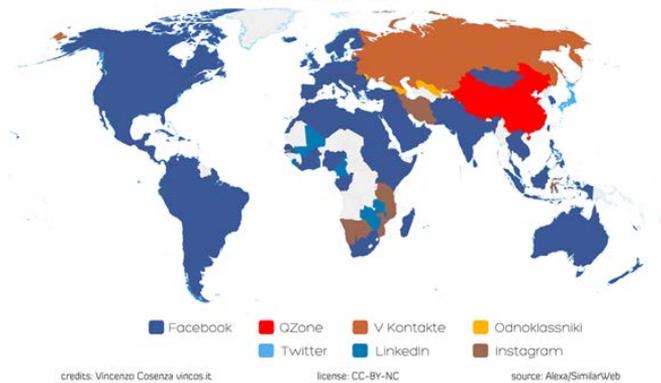


Figure 1: World map of social networks, January 2017 (Image: Social media strategist Vincenzo Cosenza)

Source: Hutt, R. (2017). The world's most popular social networks, mapped (cited work)

## WORLD MAP OF SOCIAL NETWORKS

Ranked 2<sup>nd</sup> - January 2017

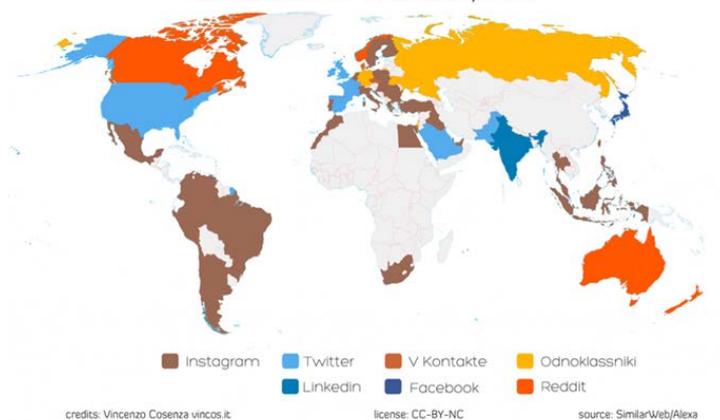


Figure 1: World map of social networks, Ranked 2<sup>nd</sup> - January 2017 (Image: Social media strategist Vincenzo Cosenza)

Source: Hutt, R. (2017). The world's most popular social networks, mapped (cited work)

Today (after 25 years since Tim Berners-Lee made the “World Wide Web” available to the public), (Kemp, 2017) as 66% of the world uses mobile devices, marketers absolutely need to have a mobile-first strategy in place (91% of social media users accessing social platforms via mobile devices) applied to a brand’s overall online experience (not only to social media marketing but also). (Forer, 2017) According to the cited infographic by Marketo and Salesforce consultants Grazziti Interactive, based on a report by We Are Social and Hootsuite, in 2017 there are 2.8 billion global social media users (27% of the world).

In October 2015, a Phocuswright White Paper entitled “Influencing Travelers in the New Digital Funnel,” and made with the active support of Amadeus IT Group (leading provider of advanced technology solutions for the global travel industry), drawn a pertinent conclusion: “... today’s travel companies have unprecedented opportunities to engage and influence travelers. As *mobile adoption continues to grow, device choice is likely to play a key role in swaying channel selection. Metasearch may be just one of the technology-driven disruptors to come.* But the gold standard in influencing travelers remains simple: *Give the people what they want. The travel brands that win in the years to come will be those that succeed in delivering the services travelers seek at the moment they are seeking them.*”

It is also good to remember that as early as September 2016 our attention was drawn by an article in the prestigious Harvard Business Review entitled “The businesses that platforms are actually disrupting”, and that showed, among other aspects that: “Platforms are all the rage these days. Powered by online technologies, they are sweeping across the economic landscape, striking down companies large and... so we have 13 online platforms. All but one of these new matchmakers directly disrupted an existing platform industry. *Airbnb is the one exception. It has mainly disrupted the hotel chains, which are not platforms, but it may well disrupt online booking sites, which are.*” (Evans and Schmalensee, 2016) Seven month later, in March 2017, the Director of Digital Marketing at Travel Tripper (a provider of award-winning hotel booking technology and full-service digital marketing and distribution solutions; Central Reservations System - CRS, booking engine, websites, and more) showed, among other aspects, how *Google’s (which makes \$12+ billion per year on advertising from travel industry alone) focus customer is actual search users, ensuring them in the quickest way the wanted information*, what means that many digital marketers in travel are creating ads that people want to click on. (Heaword, 2017) Two month later, the Marketing Director at Travel Tripper interviewed (a Skift’s interview) Facebook’s Head of Travel Christine Warner (which described Facebook as a “discovery platform” and Instagram as “a place for inspiration” - terms used by Google in its own “micro-moments” language), and revealed that Facebook is aiming to

become a force in the booking journey (with the help of Dynamic Ads for Travel and the recent release of City Guides): “... *Facebook (an early influencer) has the potential to be a major travel industry platform in its own right, and it’s starting to offer an array of marketing and direct booking opportunities for hotels...* Facebook’s own study found that *consumers make 56 visits to travel-related digital touchpoints across devices...*” (Huang, 2017)

More recently, the European Traveler Technology Survey 2017 (Series), published in October 2017, confirmed that the nature of the travel experience itself is transformed by technology, European travelers continuing to evolve in using mobile devices (before, during and after their trips), and embracing a range of websites, apps and services to facilitate their trip planning, purchasing and sharing (considering technological advancements in terms of the travel-related functionality available to consumers at home and on-the-go). Also in October 2017, an analyst from the well-known provider of travel, tourism and hospitality market research Phocuswright showed that one of the fastest-growing segments of the world’s largest travel site TripAdvisor (TripAdvisor, Inc., NASDAQ: TRIP; includes 24 other travel media brands that operate in 48 markets worldwide) – having the largest online marketplace of both supply and demand – is Tours & Activities (Phocuswright predicting that travelers will spend \$147 billion in 2017 on tours, activities and attractions worldwide, considering TripAdvisor’s lots of work still to do to make listings online bookable). (Quinby, 2017) The Phocuswright’s analyst also drawn the attention in the same month on the so-called “Modern Road Warrior” (a hipster term for the modern traveling salesman) considered as travel’s most coveted bunch, seriously impacting the tourism and aviation industry (at least eight business trips each year, and representing 16% of all U.S. business travelers). (Quinby, 2017)

Within the context of the challenge of embracing digitization, the leader in real-time customer data solutions, enterprise tag management and unified marketing, Tealium, drawn our attention in June 2017 to the once-futuristic technologies’ real impact on CX, the catalyst for digital transformation being data, and invited us to view Gartner’s research note “100 Data and Analytics Predictions for 2021”. According to Tealium, the new report’s predictions (Tealium has partnered with Gartner to round up the top data and analytics predictions) offer an in-depth view of the key themes of a necessary digital transformation’s approach so as to ensure a positive transition. And as a data-driven business adopts data as a strategic resource, it is worth mentioning *Tealium Case Study* entitled “*TUI Start their Journey to Data Excellence. Building a Data Driven Business,*” taking into account that in early 2017, *the world’s number one tourism business* (well-known for its unique hotel portfolio, cruise lines, six European airlines, the distribution strength of their tour operators, both online and through their travel agencies all over Europe), *TUI*, purchased *Tealium DataAccess* which: is acting as an extension

of Tealium iQ and AudienceStream; has given TUI the ability to consume clean, relevant data about their visitors within their data warehouse and chosen business intelligence tools. The results of using the recommended solution – Tealium Universal Data Hub – were impressive.

But as according to Stijn Viaene, Full Professor and Partner at Vlerick Business School in Belgium, Director of the school's Digital Transformation strategic focus area (also a Professor in the Decision Sciences and Information Management Department at KU Leuven), "*Digital Reality No.1*" is "*Customer Experience is Value*" (value being attributed to the total experience of engaging with customers in ways that fit with their modern connected, mobile and social lives, the new normal being given by access and convenience), (Viaene, 2017) allow us to come with a recent example of CX approach at the level of a reputed travel company as Thomas Cook Group. On August 15, 2017, Jeanne Bliss, the Founder and President of CustomerBliss, and the Co-Founder of The Customer Experience Professionals Association (one of the foremost experts on customer-centric leadership and the role of the Chief Customer Officer; pioneered the role of the Chief Customer Officer, holding the first ever CCO role at Lands' End, Microsoft, Coldwell Banker and Allstate Corporations), approached the topic of "*CX Design Thinking in the Travel Industry*," with Annette Höher-Bäuerle, Group Customer Experience Director for the Thomas Cook Group, who built out together with her team a maturity model for customer experience (first re-assessment of where they are will occur at the end of this year, hoping to have a fully mature model by the end of 2019); the experiment consisted of launching a 24-hour promise product within Destination (on a smaller scale in some hotels), clearly defining pain points, and considering "quick wins" important (Thomas Cook deals with customers on holiday), and achieving finally an increase of NPS/customer satisfaction scores. (Bliss, 2017)

So, there are many lessons to learn for the Industry...and not only, and facing such abundance of information consuming our attention, we have to avoid the poverty of attention!

### **Dealing with Disruption in Travel and Hospitality, and in Airline Distribution**

We see above that customers disrupt and businesses are disrupted, but customer-centric organizations disrupt too. We also see that organizations must disrupt their products and processes in order to enable the next customer experiences (CXs). Other lessons to learn came recently from *Deloitte's popular Patterns of Disruption series* which offers critical insight into the manifestations of disruption, and advises businesses to become laser-focused on five specific catalysts of change (the economy, enabling technology, platforms, consumer mindsets, and public policy), Deloitte offering at the beginning of this year a valuable "*2017 travel and*

*hospitality industry outlook.*” (Langford et al, 2017) Their research findings revealed that the travel landscape in 2016 has been reshaped by a combination of forces (being expected a similar climate in 2017), and invited leaders to accept the current frenetic pace of disruption, to remain vigilant, being responsive to change. We can easily observed that *Deloitte’s research findings correctly anticipated the evolutions mentioned above*, by revealing aspects such as: the link between the confident consumers the good perspective of hotels, airlines and online players; the impact of flooding the marketplace given to online private accommodation aggregators like Airbnb; the need of the online travel agencies (OTAs) to contribute to online travel planners’ best-in-class shopping and booking experiences; the need of travel brands to learn from non-travel brands and to meet new expectations with a differentiated experience, by infusing elements of on-demand, personalization (knowing that consumers are different travelers on different trips), and authenticity so as to provide the customer with a seamless shopping experience, ensuring brand’s conceptualization as a platform, seeking new avenues to scale, and making CX paramount.

On the other hand, another interesting aspect was underlined at the end of the last year by Maksim Izmaylov, Founder and CEO of Roomstorm (he also helped to start Travel Tech Con and Winding Tree), who show that *disruptors as Airbnb and Uber could be potentially replaced in the future by a blockchain company*. Izmaylov insisted to distinguish private blockchains (all the computers in the network being controlled by one organization; there is free access) and public blockchains (such as Bitcoin, Ethereum and Hyperledger). (Izmaylov, 2016) While in April 2017, Trond Vidar Bjarøy, Head of New Product Development and Implementation for Nordic markets at Travel Management firm ATPI, explained “*How Blockchain Could End Travel Industry Pain,*” from the viewpoint of: overbooking, fraud, identity and reputation, traveler profiles, settlement, loyalty, policy and compliance, duty of care, smart contracts, removing silos. (Bjarøy, 2017)

As we underlined from the very beginning, there is a clear evidence of the redefining of the modern marketing landscape by faster changing technologies and customer expectations, becoming essential to have a capability of testing fast new ideas, refining them, and bringing them rapidly to the relevant market. Making the marketing organization fit for the future presupposes to orchestrate the marketing ecosystem, to build marketing capabilities, and to apply agile ways of working at scale (agile operating model innovation and product development). (Buck et al, 2017) And in the last time we were witnessing the development of experiential offerings as differentiation strategy by optimizing experience for sizable groups of “connected” traveling customers, (Michelli, 2017) an increase in focusing on high priority CX initiatives involving big-data or technology interventions which improve traveler perceptions, (Michelli, 2017) the

development of algorithms which provides tailored travel recommendations by drawing data from users' social media, (Annicelli, 2017) or social media fights won by right managing online sentiments. (Dua, 2017)

What concerns the *prominence of disruption* (which requires creativity and money) in airline distribution, this was correctly revealed by the valuable study "*The Future of Airline Distribution, 2016 – 2021*" (International Air Transport Association/IATA 2016, Atmosphere Research Group), which recommended the incumbents to "Innovate and Disrupt" (taking into account that the greatest disruption will result from companies that aren't in airline distribution), and where it was underlined, among other aspects, that: the silos between Distribution (the target for each airline being to have the best possible "shelves" on which to sell its products) and other airline functions (particularly Marketing, Digital Commerce, and Sales) have been destroyed with the help of three disruptive factors (which affected airline distribution between 2012-2016: technology, ancillary products, and the embrace of retailing by smart carriers; the need of considering the fact that airline industry will be inspired and catalyzed by disruptive technology, social events, and commercial behavior outside this industry; the better retailing experiences that airline distribution professionals need to introduce will be based on: initiatives such as IATA's NDC and One Order, one hand, and constructs such as "the three I's", or by Full Retailing Platforms, on the other hand; true airline retailing is a real challenge, the interaction between the connected travelers and connected airlines (enabled by new strides in technology and distribution) being governed by new intuitive shopping experiences in relation with the traveler's discretionary purchases, and mobile viewed as being the channel, the travelers wanting more relevant offers and better service, and by 2021 the so-called "Active Distribution" (characterized by the link between the user experience and interface, and four passenger-centric factors: Connected consumer; Information clarity; Relevancy; Passenger-centric shopping processes) ensuring them more flexible flight shopping experiences and more personalized results. (Harteveldt, 2016)

Within this framework, it is interesting to also consider the following significant recent aspects:

- on November 15, 2016, reputed representatives of PwC's Strategy& (Strategy& was formed on March 31, 2014, when Booz & Company combined with PwC to create a new kind of consulting business) argued that airlines are challenged to adapt their distribution business model, showing the global trends reshaping travel distribution business models and threatening to weaken the connection between airlines and their customers, and identifying opportunities and pitfalls for airlines; they also underlined the airlines' need of enhancing internal capabilities and managing digital innovation very skilled, so as to improve direct

channel sales, marketing, cross-selling, and dynamic pricing and inventory management;” (Borgogna et al, 2016)

- on September 20, 2017 SAP News informed that *SAP Hybris Commerce, Travel Accelerator* (having significant recent enhancements), *received IATA NDC Level 3 Certification*, this certified solution including proper features as shown above (such as personalized offers, enabling airline companies to deliver a cohesive customer experience across digital and physical touch points) and enabling airlines to determine which products are offered to whom and at what price (based on: current activity, booking history, loyalty status and sales channel), in a central catalog being stored individually products, fares, flight ancillaries (like extra leg room and partner products);

- before the official beginning of the latest edition of the Digital Marketing Exposition & Conference, Cologne, Germany (“dmexco”), took place on September 11, 2017 “Lufthansa # FlyingLab: The dmexco”, a dmexco pre-conference held on board Flight LH 405 (for this group of visitors, dmexco 2017 already began in New York in the before mentioned Lufthansa FlyingLab, this exclusive conference high being broadcasted to all passengers via video live stream). There were discussed the most important trends and innovations in the sector (answering the passengers’ questions in the subsequent Q&A session), top speakers such as Cindy Chin and David Meza talking about NASA innovation, digital transformation, and new competitors, also speculating about *what could potentially be the next big thing in travel*;

- as highlighted by “Adweek”, the leading source of news for marketing, media, and advertising professionals, on the occasion of the above mentioned DMexco Conference in September 2017, Jon Suarez-Davis, Chief Strategy Officer at Salesforce Marketing Cloud expressed the opinion (in a interview with Adweek) that in order to be successful in providing modern and competitive sales, service and commerce, *companies’ transformation around structure and strategy still needs the oxygen of data flowing across departments via intelligent systems, seeing this as a work in progress.* (Cooper, 2017)

### **Instead of conclusions**

Ten years ago, the reputed Services Marketing specialists Christopher H. Lovelock and Jochen Wirtz clearly showed: the need of implementing services marketing by managing relationships and building loyalty (knowing that the foundation for true loyalty lies in customer satisfaction, for which service quality is a key input), considering customer feedback and service recovery, improving service quality and productivity, and organizing for service leadership; the importance of understanding the challenge of building relationships with customers; that customers loyalty extends beyond behavior (including preference,

liking, future intentions etc.); how also important is to identify the reasons why customers defect and then take corrective action. (Lovelock and Wirtz, 2007) Recently, in September 2017, we took the opportunity to analyze the latest approach of Jochen Wirtz on this topic (Wirtz, 2017).

Within this framework, we considered three issues (the wheel of loyalty, what drives customers to switch away from a service firm, and an integrated framework for CRM strategy), *looking then at identifying why CRM (Customer Relationship Management) is not still offering a big picture of what customers are really experiencing in the Era of Disruption and Digital Transformation, taking the case of the challenging and challenged under analysis industry.*

As we see above, the digital reality no. 1 is CX value. And trying to clarify our concerns, we find out that on the way of “toward a new CX” approach it was underlined that to create a better CX over the lifetime of the customer by engaging them and delivering value was always the promise of CRM. (Fish, 2017) We also find out that CX needs strong leadership, passionately driven to do what is right for the customer, understanding the importance of customers and colleagues, doing what is right for the organization. (Golding, 2014) On the other hand, Chief Marketing Officers (CMOs) understand very well the significance of the opinion expressed by Geraldine Calpin, CMO, Hilton Worldwide (former Hilton’s global head of digital before becoming CMO in 2015) and made known by Adweek Staff on March 26, 2017: “...*the emergence of tech-savvy CMOs is really important - because we have tech-savvy customers.*”

**And as in the last time we also approached significant related topics** – such as: “*A holistic approach of revenue management and its relation to agile marketing. Tourist experience in a customer-driven era;*” (Purcarea, 2016) “*Looking at trends and designing a next-generation operating model putting CX reshaped by digital at the heart of it;*” (Purcarea, 2017) “*Marketing’s renaissance by committing to improve CX;*” (Purcarea, 2017) “*Strategic thinking, value creation, ecosystem revolution, growth strategies, CX value chain and CX policies*” (Purcarea, 2017) – **a question asked by a Siemens Financial Services specialist came to our mind:** “*When we see disruption or innovation, should we look to the disruptor or the incumbent? ... Those disruptors & innovators, they are literally the bane of the industry incumbent, not excluding the fact that these businesses throw things like age/gender/experience on their heads and “invert the triangle” almost without blinking – their rulebook is definitely not the same as it is for others. What these businesses do so well, is to look at the incumbents, scan them and pick out their weaknesses and then exploit them – not only in deliverables but in the approach, the manner and the way in which the go about creating the deliverable.*”<sup>1</sup>

<sup>1</sup> Gajre, S. (2017). Disruption is happening... so what are you going to do? Oct 20, 2017, retrieved from: <http://customerthink.com/disruption-is-happening-so-what-are-you-going-to-do/>

*So what are you going to do after the MLIBCW debate? In our opinion it would be better for companies to take the first step and act...* by continuously learning and doing the best in providing just-in-time and relevant offerings for customers, delivering the right content at every touchpoint, uncovering the right insights (by mixing digital, social, big data and analytics), sharing real-time actionable data, embracing the mobile mind shift, better knowing brand purpose (considering customer service and support) and promise, better understanding the customer journeys and delivering a great CX, by building out a maturity model for CX... and the last but not the least looking at the incumbents.

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# CURRENT ISSUES OF SOCIAL TOURISM IN ROMANIA

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## Abstract

*Social tourism provides more and more people access to holiday regardless of age, cultural environment, availability of economic and physical capacity, and is based on the socialization of values, the educational and formative, emotional growth of a person, in connection with the environment. Social tourism then comes from an ethical requirement whose legitimacy is based on a law, the right to tourism, a natural consequence of the right to work and rest, to a paid holiday and holiday. Last but not least, the social tourism sector can be said to carry a humanistic vision of tourism, and represents millions of people, being probably the most promising niche in recent years. Its evolution and development are also related to the new demographic context. In Europe, new opportunities for social tourism have been opened with the enlargement of the European Union. Since 2000, several social tourism programs have appeared and developed in Romania. These are also closely related to the social policies that are taking place at national level.*

**Key words:** *social policies, demographic evolution, social tourism*

## Introduction

Tourism economically values and capitalizes on the riches generated by nature and climate, or those due to history, folklore and civilization, also holding an important role in human terms, which is materialized in a number of positive effects as far as, the tourist is concerned, and, on the other hand, the population in the areas of tourist destinations.

Setting out from the hypothesis that the industry of tourism and travelling represents a branch of activity having deep implications on the economic-social

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life of society, one can say it contributes to social development. The question that arises is to keep the best quality standards possible, even at modest prices.

After 2000 various periods of economic crises started to occur, inequality between people came about, all very obvious effects of climate changes, and aspects that urge world-wide debates concerning the sense and course of development of the countries. This is why increased attention is to be wished for a “social economy of solidarity”, as a distinct approach that promotes sustainability and development within the context of observing human rights. These aspects directly influence social tourism, too.

Through the Nucleus scientific research Programme<sup>1</sup>, financially supported by the government, a short research was started concerning the situation of social tourism in Romania. The goal was to see which are the interferences of social tourism with other social and economic domains. Then it was outlined which are the tourist programmes used as a support in social tourism, which support tourist destinations in having turistic flows all over the year. That approach was useful when there are few researches, and it gives a starting point for drafting strategies meant to help the tourist industry.

### **The motivational context of social tourism**

A product of both nature and society, and also of man’s constant fight with his own self, man has a threefold image, with a biologic, a social and a rational dimension. Man’s existence and his development imply satisfaction of multiple needs.

Consequently, human needs appear in the shape of what human feel, directly or indirectly, as needful for their existence, for molding and developing human personality. The people’s wishes, aspirations and expectations of having, being, knowing and believing represent their subjective side. The need of relaxation and entertainment is a human datum that dates back to the very beginnings of human society.

From going through a rich documentation, it turned out that there is a variegated range of manifestation of tourist motivation, backed by this context of human needs, namely:

- ➡ *the motivation of escaping* everyday medium, which, as a rule, is stressing and boring, and can have negative aspects for the unprivileged social categories;
- ➡ *the motivation of retrieving and surpassing* a number of disabilities, as a biologic necessity of self-excelling and inner satisfaction;

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<sup>1</sup> That research was made through the Nucleus programme conducted with the support of ANCSI (National Authority for Scientific Research and Innovation), contract no. 42N/2016, project no. PN 16-03 02 02.

- *the ethnic motivation* – the opportunity of going back to the roots, strengthening family ties, especially for migrants of all ages;
- *the playful motivation* – the need to go back to childhood, to know the changes occurred in the areas where one's family comes from;
- *the motivation of getting the opportunity to get or keep prestige* for coming up to the living standard at a certain point, which ensures a certain social prestige;
- *the motivation related to the opportunity of self-recovery*, the spiritual necessity of the individual who wants to come closet o nature, to a certain culture or a certain life-style.

These motivations of travelling evolved once with human society, and consequently the needs multiplied at superior levels. Some researchers in the field of tourism states that “the study of needs can supply an explanation to motivated behavior” (Witt and Wright 1992).<sup>2</sup>

The concepts of such interpretations are based on is meeting the needs or wishes to know, and the balance that results from satisfying them, and such hypotheses are also taken over in the attempt to explain tourist motivation. There are authors concerned by this form of tourism (Minnaert 2011<sup>3</sup>), who state there is an implicit presupposition in all the studies, which explains motivation for tourism, and the consumer will choose the holiday destination or type that will best meet the wishes or needs which they feel.

Conversely, most researches in the field of tourist studies have traditionally been based on the idea of tourism as a consumer, and the factors that stimulate or facilitate demand. While the economic constraints were included in the demand models, emphasis was placed on the tourist that reaches the destination, rather than the future tourist who is left behind. Recently, that feature started to change.

While research of tourism failed to become oriented towards wellbeing, the researches in the field of tourism have nevertheless begun to admit that a wider examination of constraints can lead to a better understanding of tourist motivation, of decision-making models and the destination of image and of destination (Witt & Wright, 1992;). Once the constraints have been identified, the field focuses on a relative hierarchy of constraints and the manner in which constraints are negotiated for those who do not still want to participate.

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<sup>2</sup> Witt, C.A. & Wright, P.L. (1992). Tourism motivation: Life after Maslow. In, Peter Johnson and Barry Thomas (eds) Choice and Demand in Tourism. London: Mansell, p.2-29.

<sup>3</sup> Journal Current Issues in Tourism /Volume 14, 2011 - Issue 5: social tourism: perspectives and potential/Lynn Minaert, Robert Maitland, Graham Miller, *What is social tourism?*.

### **The current concept of social tourism**

Over time, social tourism has been present very little in tourist industry in keeping with the economic level reached. The lengths of time largely differ from one country to the next, according to their degree of economic development, their national holidays, and also from one social group to another, the profession practised, respectively from one age group to another. At a certain level of general development, spare time appears, an dis individualized as a direct interval of time budget, remaining, however, largely determined by working time. Once with the expansion of the use of robots, there are all the premises that the duration of spare time should increase in the decades to come.

Therefore, the appearance and evolution of social tourism is related to the respect of the Declaration of Human Rights and the first signs of trade union movements that brought to the fore, among other things, the duration of the working weeks and granting work holidays and days of weekly resting days. After World War Two, the trade unions recorded a time of strenghtening, while enterprises saw a more difficult period. In 1936, the adoption by the Convention of the International Labour Organization (ILO), of recommendation no. 52 concerning paid holiday, the starting point of social tourism was envisaged. The principle of this agreement was an official recognizance of social tourism, which was included in the Universal Declaration of Human Rights of 1948, which states that “any person has a right to rest and relax, including a reasonable limitation of working time, and periodic paid holidays”.

Over the decades, the pool of issues concerning social tourism evolved with the improvement and expansion of the application of the right to social protection. However, development of social tourism distinguished itself in the sixth decade of the past century. Worldwide, in 1963 there appears the **International Bureau of Social Tourism (BITS)** based in Brussels, founded by the first 15 European organizations that supported this form of tourism. While travelling is part of the life style of modern societies, we often forget that there still exists a very large portion of the population for whom the right to holidays and tourism remain a utopia or far-off dream. The first interpretation of social tourism was generically designated as “Tourism for everybody”, and the next one has in the meantime become an action generically called “Solidarity of tourism”, which includes both hosts and tourists.

Later, in 2010, BITS became the **International Social Tourism Organization (ISTO)**<sup>4</sup>, initially by the name of the International Bureau of Social Tourism (BITS) in 1963, being an international non-profit organization, whose task is to promote access to spending free time, holidays and tourism for everybody namely young time, families, elderly people and disabled people.

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<sup>4</sup> <http://www.oits-isto.org/oits/public/section=1179>

Subsequently, during the fortieth anniversary meeting in Belgium, from 28 to 30 April 2004, at the international congress, ISTO took the chance to express the idea that social tourism can be considered a type of development tourism, which can combine tourist activities and protection of the environment, conservation of traditional art and culture, efficient and effective support of local economies.

Currently, ISTO has extended, from its starting point, Europe, to the two American subcontinents, and also to Africa, in order to share and consolidate its convictions in the field of social tourism, and keep on working together to serve a right, noble and fair cause, to ensure access of more and more social categories to taking part in tourism.

Together with ISTO, since 2006, the Economic and Social European Committee (CESE)<sup>5</sup>, explicitates, in a public document, the idea of social tourism through the existence of three conditions:

- existence of a situation, real, total or partial, of an incapacity of fully exerting the right to tourism, on a medium and long term;
- necessity to act through a public or private institution, a company, a union, or simply an organized group of people, who propose to take action to surpass, or reduce, the obstacle that hinders a person to exert their right to tourism;
- this action is efficient, and actually helps a group of people to participate in tourism in a manner that should observe the values of sustainability, accessibility and solidarity.

CESE recognizes that social tourism “includes all the initiatives that make tourism accessible to people having special difficulties and have a positive impact on social and economic order, also, in various sectors, activities, communities and capitalizing on real estate by investment in tourism, as direct and indirect effects of that domain of activity. The young, families of several children, elderly people and people with physical disabilities are the main customers implied by the policies of social tourism, which also have significant economic repercussions.

After 2008, and the economic crisis, many European nations were compelled to create and bring to light new modalities and solutions that can answer the social needs appeared in society. Social economy and solidarity have to be seen as an instrument of social cohesion. The main aim of social economy is to create as many workplaces as possible, to strengthen social cohesion, and integrate marginalized population. It is here that the role of social tourism intervenes.

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<sup>5</sup>AVIS du Comité économique et social européen, le „Tourisme social en Europe [archive]” (INT/312), 14 septembre 2006.

Consequently, *social tourism promotes access of a growing number of people to holiday, irrespective of age, social milieu, availability of economic and physical capacity, an dis based on socializing of values, growing of the person and protection of the environment.*

When it comes to social actions dedicated to tourism, especially for people having low incomes, the most important things are facilitating the possibilities of travelling, and also expanding tourist services at the level of destination. **The International Social Tourism Organization – ISTO** adopted different terms for the two interpretations/connotations:

To differentiate this form of tourism from other types of tourism, economists Minnaert, Maitland and Miller (2007, 2009)<sup>6</sup> defined social tourism as being a “**tourism with a moral added value**”, whose main aim is to make either the host or the visitor benefit from tourism, in a procedure of change of value and experiences. Likewise, this definition makes a distinction between the initiatives that mainly aim to increase participation in tourism for disadvantaged groups and those that mainly aim to increase the economic benefits of tourism for disadvantaged groups through capitalizing on local resources.

This concept has 10 action coordinates:

- Grouping/associating, at a local level, all those actors who can make a contribution to supporting social tourism;
- Representing/delegating, at the level of local public administrations, other public and private bodies (at the level of districts and local communities), of a representative for social tourism;
- Defending, at the level of the legislation and juridical regulations, of the values of social tourism and the right to holiday for everybody;
- Defining and promoting a genuine policy of development of social tourism for all underprivileged social categories;
- Including the needs of social demands in the plans of land and town planning and the policies of development of tourism;
- Establishing relationships and ways of information reporting between local and district communities, tourism bureaus, trade unions and employers' unions in tourism, and managers of tourist structures;
- Periodically promoting, via the mass media, of the initiatives of social tourism, for participation and obtaining sources of funds through donations and sponsoring;

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<sup>6</sup> *Social tourism as a potential measure to reduce social exclusion* by Dr Lynn Minnaert, Prof Robert Maitland– University of Westminster Dr Graham Miller – University of Surrey (For full text and references please refer to Minnaert, L., Maitland, R. & Miller, G. (2009), “Tourism and social policy – The value of social tourism”, in: “Annals of Tourism Research”, Vol. 36, n° 2, 316-334).

- Conveying official data concerning social tourism also through modern means, towards all those who adhered and supported social tourism;
- Achieving a supply and a range of tourist services specific to social tourism, and promoting the ethical values that underlie this form of tourism.
- Initiating changes of experience and meetings with representatives of social tourism in various countries, in order to apply the best formulas of action and support.<sup>7</sup>

It is through social tourism that the phenomenon occurs of diversifying the domain of services, especially the tourist supply in the field of balneary, mountain and seacoast tourism, with beneficial effects on the dimensions and the manner of using free time, as well as increasing the population's life quality, especially in the conditions of heightened stress which characterizes 21<sup>st</sup> century civilization.

### **Types of social tourism**

The spectacular evolution of social tourism, in its two correlative sides: production and consumption, followed by the amplification and diversification of its implications, shows the receptiveness of this phenomenon to the dynamics of society, its evolution under the incidence of a complex system of factors, mutually differentiated through their nature, role and participation, in various proportions, in determining the phenomenon of tourism.

The field of tourism is currently undergoing very deep changes, connected with the evolution of communication technologies, the appearance of new motivations and demands from the potential tourists, as well as the appearance of new products and players. From this angle, social tourism, especially associative tourism, has in itself undergone a number of changes at the same time as human society has been evolving, especially as these were complemented by the difficulties due to the constraints on which the more and more expensive social policies are based, and also the policy of uncertainty for the evolution of global economy and the EU economy, under the reserve of the much more rapid liberalization of the market of social tourism.

For the Commission of the European Communities (CEC), "social tourism, also often called popular tourism, is supported, in some countries, through associations, mutual societies, cooperatives and trade unions, and its aim is to efficiently and more widely make available tourist activities, especially for the most underprivileged categories of the population"<sup>8</sup>

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<sup>7</sup>[https://www.economie.gouv.fr/ess/tourisme-social-cest-quoi/le\\_portail\\_de\\_l\\_economie\\_des\\_finances\\_de\\_l\\_actions\\_et\\_des\\_comptes\\_publics\\_du\\_Gouvernement\\_Francais/2012](https://www.economie.gouv.fr/ess/tourisme-social-cest-quoi/le_portail_de_l_economie_des_finances_de_l_actions_et_des_comptes_publics_du_Gouvernement_Francais/2012).

<sup>8</sup> <http://www.michel-garrabe.com/pdf/2008-Article%20UNAT%20Tourisme%20social.pdf>

The existence of social tourism is connected with the level of social protection secured in each country, in keeping with the dynamics and structure of the population, its degree of economic development. As a result of the research conducted, several types of social tourism emerged:

- tourism for children, in organized forms;
- tourism for families with several children;
- tourism for various categories of young people;
- tourism for the third age – seniors;
- tourism for people with disabilities.

Children, as either preschool or school pupils, can become young potential tourists. Their first contact with nature and adventure activities, can represent a unique, ideal moment for them in expanding their horizons of knowledge. Many tourist activities, which also have an educative role, take place in the form of the holiday camps dedicated to them. They are going to become the future passionate, confirmed tourists. For them, the most suitable form is going to holiday camps.

Since the emergence of the European system of paid holidays, many nations considered it adequate to adopt a social policy, in order to make holidays and tourism accessible to a growing number of wage-earning people. Later on, it was extended to other states world-wide. To this type the concept of family tourism is applicable. There are tourism agencies and tour-operators focusing on tourist products devoted to families with children. Hotels and guest-houses can boast special tariff offers, children-tailored menus and tall chairs for the small ones. There are numerous offers for families with children under the age of 12.

The society of the 21<sup>st</sup> century brings to the fore another generation of young people whose horizons and motivations in their own lives and professional careers are different. The distance between generations seems greater during this period full of changes, when the new digital and robotized technologies placed their imprint on the character and education of those born between 1990-2000. Many tour-operators are aware of the fact that the current generation, called Y, focused on technology, will not follow the same style as their parents in generation X. However, up to the present there have been no significant researches relative to the tendencies and changes which this generation will bring to the industry of hospitality. Actually, these tourists require real-time information, flexibility, authentic local experiences, social and environmental responsibility. These are major criteria for this generation, who no longer trust their colleagues to make the selection of a holiday tourist destination, apart from what the tourist sites – some less credible – promote <sup>9</sup>

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<sup>9</sup> <http://pro.auvergne-tourisme.info/articles/clientele-la-generation-y-577-1.html>

Active aging is a concept recently developed by the World Health Organization, and several governments use a set of measures taken to approach the “problem“ of aging population and in order to encourage elderly people in remaining active and becoming active in a personal, family and professional or social line. Elderly tourists are identified through a few peculiarities: many of them are the most experienced tourists, have more time at their disposal, own more savings, and travelling becomes a strong motive of knowing other cultural horizons. They have a greater flexibility to the duration of the sojourn of trip, off the peak season, they ask for quality services including some extra commodiousness features, they prefer to travel as a group, carefully choose the tourist destination, especially if they have health problems.

The likelihood of disability is due to pollution, over-chemicalized food, hereditary diseases and undetected genetic causes. A society’s degree of civilization is largely determined by attitudes towards those with a disability.

In the context of increasing social participation, the issue of access to recreation and tourism for people with disabilities has become an element of international law since 2006, through the **United Nations’ Convention on Disabled Persons**, Article 9 (Accessibility), which provides for “identifying and removing obstacles and barriers to accessibility”, and Article 30 (Participation in cultural life, recreation), which emphasizes the need to “ensure that people with disabilities have access to places for cultural activities such as theatres, museums, cinemas, libraries and tourist services”.<sup>10</sup>

### **Social tourism in Romania**

From all the documentation done and the information provided by some institutions with social functions, it is clear that the functioning of this form of tourism is dependent on several factors, namely:

- the existence of some social policies, in combination with action strategies;
- major socio-demographic changes in the population;
- the degree and risk of poverty at national level;
- the presence of professional tourism associations with social tourism activities;
- the existence of special tourist programs dedicated to social tourism.

In Romania, social policy is coordinated by the Ministry of Labour, Social Solidarity and Family, and supported by other ministries, such as the Ministry of

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<sup>10</sup> Law No. 221/2010 concerning the ratification of the Convention on the rights of persons with disabilities, adopted in New York by the General Assembly of the United Nations on 13 December 2006, opened for signature on 30 March 2007, and signed by Romania on 26 September 2007. The United Nations’ Convention on the rights of persons with disabilities has been published in the Official Gazette of Romania (part I, no. 792 of 26 November 2010)

Health and the Ministry of Education. Priority funding of social policy is from budgetary sources, and is coordinated by the Ministry of Economy and Finance. However, the state is no longer the only body that can intervene through certain regulations, but also the social partners, multinational corporations and firms. Every social policy system is made up of various social benefits and services, focusing on health and education, and very little on housing and jobs. The amount of social spending was 18.2% of GDP in 1999, 40.9% in 2010, and reached 42% in 2016.

**The level of poverty has increased in Romania over the last two decades. The transition of the economic system from the centralized economy to the market economy was the first and most important cause of the degradation of social protection and the appearance of the phenomenon of poverty. The categories severely affected by poverty are: children, young people with no professional qualifications, families with many children, single-parent families, especially rural ones, the unemployed, farmers, retirees, the elderly and their families, or the single, homeless people, part of the Roma population, abandoned children and street children.**

**The poverty and social exclusion rate in Romania was 42% of the population in 2012, and 38.9% in 2016<sup>11</sup>. If in 2008, at the height of the economic crisis, Romania had over nine million citizens at risk of poverty and social exclusion, in 2016, the number of those entering this category was almost eight million. According to recently published data, Eurostat warns that 66% of Romanians did not afford to take a holiday in 2016.**

Many other studies, including some conducted by international organizations, show that four out of ten Romanians live on the brink of poverty. The phenomenon is generally and cyclically addressed, depending on the governance system. Social assistance passed into the responsibility of local communities, and is uneven and incongruent, depending on the possibilities of the community, precisely where the needs are highest, the community being poorer and there is not enough local funds to give.

The phenomenon of economic transition in Romania has led to profound demographic changes in the number and structure of the population. On 1 January 2017, the resident population was over 19.63 million people, down 122.000 compared to January 1, 2016. The main reason for this decrease is the negative natural increase (the number of deceased persons surpassing the number of live births by 68.061 persons). The phenomenon of demographic aging continues to increase, the gap between elderly people aged 65 and over and the young

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<sup>11</sup> Data from the National Statistics Institute.

population aged 0-14 reaching 440,000 people (3,494 million compared to 3,054 million people), up from 371,000 on 1 January 2016.<sup>12</sup>

The long-term international migration balance was equally negative in 2017 as in 2016 (-76,208 people). These demographic phenomena make labour resources shrink, increase poverty and increase social spending.

The *Federation of Romanian Tourism Patronages* (FPTR) is a professional and non-governmental organization created in 1992, which has the role of a flexible and useful tool for this economic field. The *Romanian Spa Tourism Employers Organization* (OPTBR) was established in 1993 with the main purpose of supporting the promotion and development of spa tourism. The *National Association of Tourism Agencies* represents the professional interests, at the national level, as well as European and international levels. *ANTREC* is a non-governmental and apolitical organization founded in 1994, which identifies, develops and promotes Romanian hospitality and rural tourism. The association “The most beautiful villages in Romania” – AFSR, founded in 2010 in Braşov, after the French model, supports modest tourism in terms of tourist services, yet having a high value as far as the natural and cultural environment of these villages is concerned.

They are followed by a series of regional associations supporting the development and promotion of tourism, represented mainly by the *Association for Promotion and Development of Tourism SEACOAST-DANUBE DELTA*, which is a tripartite structure, founded in 2007, *Prahova Tourism Promotion and Development Association* represents a public-private partnership set up in May 2008, *Bucovina Tourism Association*, created in 2001, whose main objective is to promote the overall tourist offer of the region and to promote its members, *Braşov County Tourism Promotion and Development Association (APDT Braşov)* founded in 2006 by the County Council for Development and Promotion of Tourism.

From the statistical data available, it was possible to get an image of what social tourism in Romania really is, based on the number of tickets sold at reduced rates, from the spa resorts situated in the spa, mountain and seaside resorts. Table 1 shows the correlation between the total population, the overall mortality rate, and the number of tourists who benefited from social tourism.

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<sup>12</sup> Data from the National Statistics Institute.

Table no. 1 – The level of development of social tourism in Romania

Year	Total population in Romania	Rate of mortality ‰	Persons with treatment and rest tickets	Percentage of total population %
1994	23093262	11.5	193,426	0.83
1996	23009075	12.5	142,961	0.62
1998	22885802	11.8	192,108	0.83
2000	22825288	11.2	239,060	1.04
2002	22779441	11.9	330,030	1.44
2004	22688392	11.4	291,699	1.28
2006	22614980	11.4	272,653	1.20
2008	22561686	11.2	250,786	1.11
2010	22516004	11.5	169,816	0.75
2012	22433741	11.4	202,143	0.90
2014	22346178	11.4	210,359	0.94
2016	22260798	11.6	211,930	0.95

Source : INSSE 2017

These data demonstrate the very low level of social tourism in this country. Social protection through recreation and relaxation in tourist resorts is very low. Until the onset of the economic crisis, this form of tourism had a slightly upward trend, with the positive economic outcomes. We have a high mortality rate, which reflects the lack of forms of disease prevention and forms of complementary medicine. The period 2009-2016 shows an involution of the tourist phenomenon. Reverting to values of more than 1.0 percent will be even more difficult in the context of the current economy facing many tax and impost issues and rising inflation.

The tourism programs encouraging social tourism are supported by the aforementioned associations and by some initiatives of the Ministry of Labour and Social Protection. These are the following:

- **“Seaside for All”** was designed to reduce the phenomenon of seasonality. Approximately 5,000 accommodation places are offered each year during the start and end times of the tourist season.

- **“Free Holidays Day”** was started in 2010 by the National Association of Tourism Agencies.<sup>13</sup> This program translates into hotels offering a free day of accommodation for a certain number of paid days.

- **“Early registrations”** was initiated by the Bibi Touring Agency in Ploiești in 2004. Subsequently, ANAT took it over from 2009, together with the most important tourism associations: ANTREC, FPTR, the Seacoast-Danube Delta Association, and with the support of the Ministry of Tourism.

<sup>13</sup> [https://www.litoralulromanesc.ro/zile\\_gratuite\\_litoral.htm](https://www.litoralulromanesc.ro/zile_gratuite_litoral.htm)

○ **“One week in the mountains”** provides access to rest, at special tariffs, for a large number of Romanian tourists. It started in 2008.

○ **“One-Week Relaxation”** is a national programme launched by the OPTBR and the Employers of the National Association of Tourism Agencies, for the periods 25 January to 30 May, and 1 October to 15 December.

○ **“Let Us Go to the Bathing Places”** is another OPTBR programme, including five full-board accommodation nights (three meals a day), two treatment procedures a day, five days of treatment and a medical consultation with lower rates

○ The **“Spa 10-Day Period”** programme includes 10 days of full-board stay, for at least 7 days of treatment, two procedures per day and a medical check-up during off-season periods.

○ The **“Wellness Spa”** program, which includes three nights of accommodation, two days of half board, a festive meal, access to the swimming pool, sauna, gym, and two wellness procedures (massage or facial maintenance/cosmetics) for those enrolled in this programme.

○ **“Country holidays”** is organized by the National Rural and Cultural Tourism Association (ANTREC), and includes 5-night stays in Romanian villages, with discounts.<sup>14</sup> The offer is valid from April 15 to June 15, and September 20 to October 30.

## Conclusions

Tourism is placed within the category of *created* needs, i.e. by the growing economic development, people’s mentality, habits, traditions, cultural level, and living standards. In the analysis and development of social tourism there are strategies and approaches that require minimizing social spending, especially in the public sector. It is therefore very important to have a workable smaller and progressive tax system, which maintains a revenue scale to ensure decent living and the formation of the middle classes. As a result, it is the most disadvantaged categories that receive facilities in the tourism sector, with a prevalence of children and young people, as well as retirees, and low-income people.

From the whole analysis of social tourism, through the study carried out, quite a few important conclusions were drawn, namely:

○ Social tourism is subdimensional as compared to the real needs of the population categories that should benefit from low-priced tourism activities;

○ Social spending is not well targeted to support domestic tourism, and is allocated more to encourage work disinterest;

○ In the practice of tourism, the most disadvantaged are families with more children, who should actually benefit from special programs;

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<sup>14</sup> <http://www.infotravelromania.ro/programul-vacante-la-tara.html>

○ Decreasing specific forms of social tourism for children and young people in modern formulas focused on attractive themes (nature, informatics, mathematics, plastic arts, etc.);

○ The formulas of tourism programmes in social tourism should take into account the number and structure of the population, and also address the Romanians in the diaspora.

○ Statistically, there is no complete information on social tourism other than that considered from the perspective of the tickets sold;

○ The tourist associations that run social tourism programmes do not have annual analyses of the participation data with more details about the participating companies, accommodation units, places, number of tourists, etc.

As an economic process, social tourism would entail the existence of an institutional redistribution system of welfare, viewed in a broad context of access to various resources: opportunities, income, goods and financial power. Such redistribution is necessary to correct at least natural inequalities, but also the structural inequalities generated by the current social system. The lack of such institutional redistribution mechanisms (made up not only of government actors, but also of private actors and civil society, as associations), as well as their inefficiency, shows the low level of this form of tourism in Romania.

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# POLICIES AND STRATEGIES CONCERNING THE DEVELOPMENT OF BALNEO-TOURISM

Marian-Florin BUSUIOC\*

## **Abstract.**

*Health-oriented tourism has been assessed as a segment of increasing importance within the scope of the global tourism industry for the last decades. Fast developing processes of segmentation and fragmentation resulted in the establishment of separate categories and subcategories of health tourism such as spa, wellness and spa-oriented tourism. Their wide popularization across the world, and customer satisfaction are a precondition for their differentiation into independent industries going beyond the scope of tourism. This paper analyzes the most important problems related to the strategies of spa, wellness and balneo-oriented industries and their specific features in tourism.*

**Keywords:** *spa tourism, strategy, development, wellness, valorisation.*

## **1. SPA TOURISM, EVOLUTION AND TRENDS IN THE WORLD**

Today, tourism is one of the phenomena that dominate the contemporary world, one of the most profitable segments of the world economy, remarkable through their dynamics, multiple motivations and a great diversity of forms of manifestation.

Health tourism, also known as balneal or curative tourism, can be considered the oldest type of tourism. Health restoration and treatment needs have led people, since ancient times, to seeking and exploiting the healing effects of thermal and mineral waters, sludge and heliomarine treatment. Evidence of an intensive curative practice was found at Herculaneum (Băile Herculane), GERMISARA (Geoagiu Băi), Aix-les-Thermes, Pamukkale. The need to establish characteristic features of the categories of people practicing this form of tourism is widely debated by Pompei Cocean, Gheorghe Vlăsceanu, Bebe Negoescu<sup>1</sup> and Dinu Mihaela<sup>2</sup>, who considers that this form is addressed to all age groups, most of the people taking part in it being older people who are often accompanied by children.

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<sup>1</sup> Cocean Pompei, Vlăsceanu Gheorghe, Negoescu Bebe, *Geografia Generală a Turismului*, Editura Meteor Press, București, 2005, p. 202-203.

<sup>2</sup> Dinu Mihaela, *Geografia Turismului*, Editura Didactică și Pedagogică, București, 2006, p. 246.

The spa sector can be defined as the set of medical, social, sanitary and administrative means, created for the therapeutic use of mineral and thermal waters, sludge and thermal gases. The word “balneary” implies the use of water with curative (i.e. chemical, mechanical and thermal) effects recognized by the medical body.<sup>3</sup>

The word *spa* comes from the name of the Belgian town of Spa, where a 14<sup>th</sup>-century thermal spring was discovered, whose name was known since the Roman era, when the place was named *Aquae Spadanae*. It is one of the oldest and most famous spa resorts in Europe. The place name *Spa* is the origin of the English word *spa*, meaning spa resort, mineral springs, etc.<sup>4</sup>

It is also believed that the term “spa” is an acronym from various Latin phrases, such as “Salus Per Aquam”, or “Sanitas Per Aquam”, but this explanation is rather unlikely because the derivative does not appear before the beginning of the 21<sup>st</sup> century.

Another approach, referring to the content of a spa center, states that it is located in a hotel or resort, and consists of: a reception area, dressing rooms and separate facilities for men and women; sauna, jacuzzi, steam room, separate pool, and lounge for women and men; an option could also be a common area for both women and men with the same facilities mentioned above; dry rooms for facial treatments and massage; wet rooms for treatment services such as body wrapping and rubbing; hydrotherapy chambers used for baths and hydro-massage therapies; a fitness studio equipped with practise machines; an area with shops; a beauty salon.<sup>5</sup>

Spa resorts have a long tradition in Europe. They were traditionally visited to derive medical benefits. In recent years, hoteliers have realized the various benefits that a spa can bring with respect to the hotel’s incomes. This has led to a significant increase in the number of spa centers and hotels. Traditional European spa resorts are facing strong competition from Asian spa resorts, which have gained a strong position both in spa hotels in Europe and on the market of spa venues.

### **Types of spa centers**

Most of us know that there is not only one type of spa, and that the end of the 20<sup>th</sup> century has brought about a large number of spa centers, which have conquered the hospitality industry. These are known as: day spa, spa town, spa destination, spa hotel/resort, health and wellness center, medical spa, country spa, spa cruise line, and, more recently, Premier Class airport lounge spa.<sup>6</sup> Differences between these spa centers can be significant, for example, a spa day center does not provide accommodation facilities, compared to a spa or spa hotel that offers guests

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<sup>3</sup> Faza 1- Master Plan pentru dezvoltarea Turismului Balnear final, p. 94.

<sup>4</sup> [http://en.wikipedia.org/wiki/Spa#Origins\\_of\\_the\\_term](http://en.wikipedia.org/wiki/Spa#Origins_of_the_term)

<sup>5</sup> Patricia A Monteson, Judith Singer, *Marketing a resort-based spa*, p. 283, 2005.

<sup>6</sup> Dr. Axel Brandt, *Spa Success Strategies – Design and Implementation*, 2009.

accommodation facilities, as well as a variety of health services and entertainment. Or differences may be minor, or even non-existent, for example between a spa destination and a country spa – both are destinations for guests and are generally located outside urban centers. Medical resorts are obviously mainly focused on medical procedures, which may include, among other things, botox, anti-aging procedures such as laser treatments, as well as plastic surgery after the care services.

At the basic level, the notion of *wellness* can be equated with “health”, which, according to the World Health Organization (WTO), is a complete state of social, physical and mental well-being, not just the absence of disease or infirmity (WTO, 1992). The notion of *wellness* can be extended to include not only the social, physical and mental dimension, but also the emotional, cultural, spiritual, educational, sexual, professional, financial, environmental, ethnic and existential dimensions. *Wellness* is a holistic concept, so it assumes that, if one of these dimensions is deficient, then the whole concept of wellness is not achieved. These definitions are more descriptive than defining, as they attempt to encompass the essence of the notion of *wellness*, referring to “health”, “harmony of body, mind and spirit”, “quality of life” and “well-being”.<sup>7</sup>

The sector of health recovery and wellness differs from the spa sector through the absence of medical prescriptions.<sup>8</sup> Therefore, wellness is the best form of preventive medicine, providing the best alternative for fighting stress and illness.

Spa and wellness resorts can be sociologically designed as today’s modern temples, where people can experience rituals and deepen wellness practices, all of which have a beneficial effect on the physical and mental state of individuals.

The evolution of the spa and wellness industry can be understood as a natural consequence of the evolution of human consciousness, through which people become aware of the importance of living healthy on the planet.

## 2. POLICIES AND STRATEGIES USED BY SPA CENTERS

The concept of *strategy* is very often addressed, both at a macroeconomic and a microeconomic level. Bibliographic sources include general or economic dictionaries. The *Explanatory Dictionary of the Romanian Language (DEX)*<sup>9</sup> refers to strategy only in the military field: “a component part of military art that deals with the problems of preparing, planning and conducting war and military operations”. In the *British Universal Encyclopedia*<sup>10</sup>, *strategy* is: “Coordinated application of all the forces of a nation to achieve their purpose during a war. Unlike tactics, the

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<sup>7</sup> Marc Cohen, Gerard Bodeker, *Understanding the Global Spa Industry: Spa Management*, Editura Elsevier, 2008.

<sup>8</sup> Fața 1 - Master Plan pentru dezvoltarea Turismului Balnear final, p. 96.

<sup>9</sup>\*\*\* *Dicționarul explicative al limbii române*, ediția a II-a, Editura Univers Enciclopedic, București, 1998, p. 1024.

<sup>10</sup>\*\*\* *Enciclopedia Universală Britanică*, Editura Litera, București, 2010, vol. 15, p. 17.

components of a strategy include an overview, resource preparation, and resource planning, before, during, and after the operation. The term has gained another connotation in addition to the strict military one". It extended to other areas of activity to designate a set of coordinated actions to achieve very good results.

The notion of *strategy* has entered economic science through the *Game Theory*. By economic strategy, we understand the set of plans, methods, stratagems and objectives that address a situation in the economy. It can be considered as a model or project that supports decision-makers in choosing solutions to determine the paths to be followed, and in allocating resources. In the literature, there are different views on strategy, but in all definitions there are some common elements: "objectives", "ways to reach them", "time horizon", and so on. Strategies need to target future periods, and therefore they pose a high degree of risk and uncertainty. They define the ways and means through which a society progresses and achieves its goals. Their diversity is due to the multitude of factors of influence.<sup>11</sup>

The strategic approach is also mentioned in the National Development Plan (NDP), a plan for economic and social development, which is a component of the National Economy Development Strategy<sup>12</sup>. It represents a fundamental tool for mitigating the disparities in economic and social development between the European Union (EU) and Romania. According to this plan, "The tourism industry in Romania has the capacity to contribute to this reduction of discrepancies, and includes tourism on the list of public investment priorities"<sup>13</sup>. As an aid instrument, the Master-Plan for the Development of Tourism in Romania proposes a number of references to the strategy that should be applied in this field<sup>14</sup>.

A successful plan is a unique plan, and the professional man must have the needed resources to learn as much as possible about business and marketing strategies, vital strategies to own and operate a day spa. The following business concepts are considered important: marketing, finance, technology use, sales promotion, improved communication, and also the development of excellent skills in delivering flawless customer service. The owner of a day spa or its manager must develop the ability of critical thinking, which will lead to the development of solid business practices.

All resorts certainly have in common selecting and offering flawless products and services to customers, and one of the key challenges in this industry is that the right staff must be recruited and managed! Attractive facilities need to

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<sup>11</sup> Sava Cipriana, *Strategii de dezvoltare a activitatii de turism*, Editura Eurostampa, 2006.

<sup>12</sup> \*\*\* Guvernul României (2005), *Strategia de dezvoltare economic a României între 2007-2013*, București.

<sup>13</sup> \*\*\* Planul național de dezvoltare 2007-2013, București, 2005, p. 3.

<sup>14</sup> \*\*\* WTO, *Master Planul pentru dezvoltarea turismului național al României 2007-2026*, București, 2007.

be implemented, maintained and expanded, or tailored to the market needs, and, last but not least, each company needs specific promotion and sales policies on that market in order to be profitable. Obviously, without generating consistent visitors traffic, no spa center, or spa business will ever thrive.<sup>15</sup>

In order to understand and organize this overwhelming variety of spa offers, the International Spa Association (ISPA) has defined “ten spa areas”, or industry segments, such as: 1. “Waters”; 2. Food (stuffs), Diet and Nutrition 3. Movement, Exercise and Fitness; 4. Touch, Massage, and Bodywork; 5. Mind / Body / Spirit; 6. Aesthetics, skin care, natural beauty agents; 7. Physical Space, Climatology, Global Ecology; 8. Arts and cultural/social values, Spa culture; 9. Management, Marketing, and Operations; 10. Time, Rhythm, and Cycles.<sup>16</sup>

Spa centers need to develop compelling strategies that aim to encourage customers and persuade them that spa treatments are a necessary thing to do (a must do), rather than a luxury. The strategies that they can apply include the following:

*Undertaking a competitive analysis.* Identifying the services, prices and other specific features offered by the competitors. Increasing work schedule if a competitor has a limited schedule. Practicing lower rates than the competitors in order to attract new customers. Implementing a competitive concept to differentiate themselves from the competitors, such as the introduction of unique market procedures or products.

*Identifying target customers.* The statistics from the Chamber of Commerce or National Institute of Statistics concerning demographic information on average age, income, civil status and others will be analyzed. As a rule, it has been observed that women tend to have the largest share in using spa facilities. In terms of civil status, urban resorts located in the center of cities might focus on single women as a target segment, those who would like to visit a spa after work

*Developing creative incentives.* Applying significant discounts on spa treatments offered to mothers and daughters, outside peak hours during weekdays, or even on Sundays. Proposing nearby companies to develop a reward programme for employees by offering spa treatments.

*Implementing loyalty programs.* A major goal is loyalty to customers, and for this it is necessary to develop strategies and programmes to build a sustainable customer base. One way to do that is offering discounts and the ability to accumulate points that customers can turn into free products and services or giving gifts. Each customer will receive additional points for a spa visit. Spa staff should be instructed about the importance of promoting loyalty programmes to each client they serve. Calling on a specialist company to create an attractive

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<sup>15</sup> Dr. Axel Brandt, Spa Success Strategies – Design and Implementation, 2009.

<sup>16</sup> Xenios Tourism & Business Travel – SPA Destinations February 2010, E-magazine & Guide for the MICE & Tourism Professionals.

brochure describing the services the spa offers and introducing a discount coupon into the brochure for new or potential customers.

*“At-home” services.* Because of the alert, rapid life styles, there are people who would like to come to a spa, but they do not have the time to do it. Thus, the alternative to provide customer service at home was considered. This type of “at-home” service can represent a way for employees to earn extra income, but will make the spa services more competitive.

*Determinating the brands.* Creating a specific brand is a very important element. Conceiving the brand and using it in promotional materials, printing it on gift bags and gift cards. A successful branding process includes factors such as creating a logo and a slogan that reflects the lifestyle of the target customer base. A well-chosen logo is one that leads to brand identification. It has to be suggestive, created in close connection with the products and services offered by the spa, to associate the name of the spa center with absolute relaxation.

*Making a website.* Designing a website using a template that is calm, induces silence, can be incorporated into an audio file with relaxing music. A page will be created that lists all the services offered by the spa, as well as future promotional events. Articles will be posted that show the benefits of spa treatments, and how important it is for people to take care of themselves via massage and relaxation services. It is very important that the site should be updated frequently.

*Customer relationship management.* Developing programmes that provide vital information to managers about their clients’ names, birthdays, treatments they prefer, the products they use, and the time of day that is most convenient for the customer to provide services. Through these data and feedback, services and products will be evaluated and business strategies, and business opportunities will be formulated.<sup>17</sup>

A business strategy can help a spa center to position itself on the market, which in turn can increase revenue and profit. A spa can choose from three basic business strategies: price leader, market leader, and market niche.

*Leading in terms of prices.* This strategy aims at combating price-based competition. It cannot be the best strategy for a spa, because lowering costs to offer lower prices also has the effect of lowering the degree of luxury that people expect to find in a spa

*Market leader.* In order to be perceived as a market leader, the spa centre has to offer services, products and facilities at a much higher level in terms of quality than the competitors. “In order to satisfy the consumers’ needs in the best possible conditions, it is necessary to have an efficient and effective collaboration between the marketing and the design compartment, which has the role to put into practice the consumers’ demands. The design compartment transposes the client’s

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<sup>17</sup> Spa Marketing Strategy by Cheryl Munson, 4 iulie 2010, [http://www.ehow.com/about\\_6696675\\_spa-marketing-strategy.html](http://www.ehow.com/about_6696675_spa-marketing-strategy.html)

demands into the technical specifications related to raw materials, products and processes. The specifications and design have to be implemented so that the product can be obtained, verified and kept under control, in the conditions provided by production, installation and functioning.”<sup>18</sup>

*The niche strategy.* It targets a small market segment: such a spa could meet the needs of a specific demographic segment, such as the elderly or the domestic persons.<sup>19</sup>

A survey of business strategies during the global economic crisis in the spa sector shows that many of the spa centers are not immune to changes in supply and demand on the market, and the way is analyzed, in which spa centers can take advantage of these market changes during the recession economic. Here is an example: due to the lack of qualified and experienced staff in the sphere of spa and healthcare, in the long-term it can be more cost-effective to maintain staff so that when the market returns the business will not be affected by the recruitment activity, which takes time and involves high costs.

One of the best strategies at a time of economic crisis is to act ahead of competitors by intensifying communication activities and increasing market share. Given the current economic situation, many companies are afraid to invest in advertising or marketing, thinking they are making the right choice by saving funds. Stopping all communication activities, such as PR, advertising, promotions or special events, is one of the worst common mistakes that companies make. At the present time, those who want to stay on the market need to continue their marketing activities, because many competitors allocate an ever smaller budget to the marketing actions, and this is an ideal opportunity to win new customers. Although cost-cutting decisions seem to be a good solution for many spa centers, they ultimately lead to the loss of their customers in the long run.<sup>20</sup>

Many spa resorts have been too busy during the economic boom to focus on ways to improve business, so that this period of economic downturn can provide the opportunity to make the necessary changes. A complete business reassessment is a difficult task, and to facilitate this process, it is advisable to divide it by key areas.

*Management.* Revision of financial reports to identify the sectors that could reduce costs and improve profitability within the spa. Industry analysis and identification of areas where the spa has performances above or below the average spa industry. Anticipating activities to improve the weak points of the spa and maintain its strengths.

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<sup>18</sup> E.A. Budacia, *Ensuring the Quality of Marketing Activities within a Modern Company*, articol publicat in Romanian Economic and Business Review, Special issue, vol. 11, nr.1 , 2016 ISSN 1842 – 2497, p. 15.

<sup>19</sup> Spa Business Strategy by Mathijs Van de Graaff, 23 august 2010 [http://www.ehow.com/facts\\_6869007\\_spa-business-strategy.html](http://www.ehow.com/facts_6869007_spa-business-strategy.html)

<sup>20</sup> <http://hotstonecommunications.com/wordpress/?p=3>

*Marketing.* Ensuring that treatment prices remain competitive as changes occur in the local economic market. In order to establish a competitive level of difference, it is advisable to put in added value in terms of treatments, products and services offered, rather than providing discounts for standard products and treatments.

*Operations.* Checking and ensuring that employees properly implement service standards so that customers are fully satisfied, and loyal to the spa.<sup>21</sup>

Another very effective and important strategy that a spa center can use is to train staff by offering training programmes so that the services provided are of the highest quality. Likewise, large spa centers can choose to hire a smaller number of staff having considerable experience in training or supervising the other employees.

It seems that many spa centers are confronted with the problem of the customers who have used the center's services for a while but have not returned. This category includes people who are no longer found in the database in the last 3-6 months. One way to solve this problem is getting in touch those customers, by phone, e-mail or mail, and offering significant discounts or promotional packages. In this way, spa owners can use e-mail marketing technology, a very handy and cost-effective tool to communicate with their customers on a continuous basis.<sup>22</sup>

No customer should ever leave the spa without being advised to get a new appointment. Customers should be properly informed of the date of the next appointment and these details must be specified during their visit.<sup>23</sup>

An essential promotion strategy is establishing collaborative relationships with nearby companies that share the same values and serve the same target audience. For example, the spa centre can work with dental clinics, local gyms or wedding photographer studios by creating an incentive offer. The offer of a wedding photo studio can be: "A peeling treatment from the Dream Spa Center is included when you purchase an image package".

An effective way to get popularity on the market, which spas can make use of, is staging mass-media campaigns through which they can highlight their services and increase their income. Promoting through television, the press or the radio can be expensive, but it allows the spa centres to reach their target customers in the shortest possible time. To begin with, a modest investment will be considered by placing an ad in a specialist magazine. For example, travel and tourism magazines attract readers who may be interested in buying such an offer.<sup>24</sup>

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<sup>21</sup> [http://www.intelligentspas.com/Newsletter/Newsletter\\_I250811T.asp](http://www.intelligentspas.com/Newsletter/Newsletter_I250811T.asp)

<sup>22</sup> <http://www.onlinebusinesswatch.com/money-making-strategies/7-key-strategies-for-building-your-day-spa.html>

<sup>23</sup> <http://www.articlesnatch.com/Article/Easy-Rebooking-Strategies-For-Salon-And-Spa-Professionals/866030>

<sup>24</sup> [http://www.ehow.com/list\\_6875287\\_promotional-strategies-health-spa-retreat.html](http://www.ehow.com/list_6875287_promotional-strategies-health-spa-retreat.html)

A study conducted by Ernst & Young Middle East's Hospitality, by Paul Arnold and Nikita Sarkar of the Leisure and Real Estate Services Department on a number of 17 five-star spa hotels in Dubai, shows three strategies that spa resorts/centers should take into account in doing business.

The first line of action concerns the management of spa centers using forward-looking strategies to successfully meet future trends. Given the economic situation and consumer sensitivity to tariffs, to maintain business volume, managers can use discounts or promotions to boost demand by promoting affordable services. Particular importance must be given to treatments and fitness because they make the best contribution to the total income of a spa.

The second line of action is to use the RevPATH (Revenue per Available Treatment Room Hour) parameter, which is conceptually similar to the hotel industry parameter, i.e. RevPAR. Applying this indicator, once a month or day by day, can help managers to identify peak times and declines in demand. The key factor is the research of every element of the spa centre: peak or unused hours, the most popular treatments, the least used treatments, the clientele profile at different moments of the day, and other spa offers on the market. The results of this research will be used as a basis for creating a spa supply that will have different prices and will offer promotions to meet the specific needs of customers. Given its unstockable character, the main objective is the maximum capacity utilization of treatment rooms.

The last line of action is to establish a differentiated position on the market. It is important that spa centre operators make an effort to understand the different needs and value perceptions of their customers because the best value for money consists in the attention paid by staff to their guests. The experience of a spa should be designed to keep guests at the center for as long as possible, including the time spent before or after treatments, in the fitness centre, or having a healthy meal. The longer the time that a customer spends in a spa center, the higher the chances of increasing the amount of money spent there. That is why every contact point of the guest with the hotel is identified and treated as an important point of sales. It is important that spa managers generate a concise, convincing sales and promotional plan that can be easily understood and executed by members of the spa staff. Internally, staff should focus on increasing the number of bookings or increasing the sales of specific products, and incentives given will be based on performance. Externally, brand image consolidation will be promoted through marketing and promotional campaigns.<sup>25</sup>

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<sup>25</sup> <http://www.arabianbusiness.com/cash-in-with-new-spa-strategies-12570.html?page=0>

In recent years, the value of prevention, healthy lifestyle and relaxation have been rediscovered, and spa centers are once again seen in modern society as a unique and qualified place to meet those needs. Spa centres no longer have exclusive use to over-average revenue customers, which are instead currently accessible to a larger segment of the population.

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# COMPARATIVE ASPECTS ON SOME BENCHMARKING MODELS APPLIED IN THE TOURISM FIELD AT INTERNATIONAL LEVEL

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## Abstract

*Benchmarking is a method of management that involves an organization to compare with other reference organizations (leaders) in its field and to adopt similar techniques with these leading organizations in order to improve its own performance. Particularly in the tourism field, instead of organizations we can also have tourist destinations (preferably managed through Destination Management Organizations –DMOs). The purpose of this paper is to present a short analysis of five well-established benchmarking models applied in the field of tourism at international level. In this regard, a number of issues related to data accessibility (dissemination), benchmarking types and benchmarking areas were discussed. Being used by the tourism industry, particularly by the private sector and also by the public sector, the five models might be considered as being representative for the tourism sector at international level. It has also been established that although the applicability of benchmarking in the field of tourism refers in most cases to the organizations operating in this field, there is a good representation of the area of applicability at the tourist destination level also.*

**Keywords:** *benchmarking, tourism, tourist destination, comparability.*

## 1. Introduction

Benchmarking is a relatively new concept that derives from the English word “benchmark”. In a simple manner, benchmarking is a management method that involves an organization to compare itself with other reference organizations (leaders in its field of activity) and to adopt similar techniques with these organizations that are leaders in their field in order to improve its own activities.

In the literature lot of benchmarking models are found. Some authors such as Anand and Kodali (2008) identified and analyzed a number of 35 such models. Actually, even earlier, Kozak (2000) mentions the existence of almost 40 models

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that come both from consultancy firms and individual organizations or researchers in this field. More recently Watson cited by Jetmarova (2011) identifies a number of 69 different models within the benchmarking process.

Also in the period January 1980 to January 2002 some authors such as Dattakumar and Jagadeesh (2003) have identified a number of 382 articles in the field of benchmarking out of which only 21 were in the service field (representing only 5.5% from the total number of articles); moreover, Wöber (2002) states clearly that benchmarking is “still a vague concept in the service industry, particularly in the field of tourism” (p. 2).

The purpose of this paper is to present a short analysis of five well-established benchmarking models applied in the tourism field at international level. In this regard, the starting point will be an explanation of the theoretical framework pertaining to the concept of benchmarking and some benchmarking types. Then, a brief presentation of the five benchmarking models applied in the tourism field at international level will follow. The core part is represented by performing a comparability of these models considering a number of issues related to data accessibility (dissemination), benchmarking types and benchmarking areas.

## **2. Benchmarking – some conceptual clarifications**

In the literature, different definitions of benchmarking are found, provided by various authors and organizations. The first one and one of the most complete definition of benchmarking (as a basis of an adopted strategy) has been given last century by the director of Xerox company as “a continuous process of measuring own products, services and practices in comparison with the toughest competitors or those companies recognized as leaders in the industry” (Slave, 2017, p. 1). Similarly, one of the concise definitions for this concept has been presented by Kempner, cited by Andreescu et al (2009, p. 9) that defined benchmarking as an “systematic and permanent process of measuring and comparing work processes of an organization with other organization”.

Jackson and Lund, cited by Andreescu et al (2009) defined also benchmarking as being “a learning process structured so as to allow those involved to compare their own services / activities / products, in order to identify the strengths and weaknesses in order to improve them” (p. 10). Other authors, such as Stevenson, Maclachlan and Karmel, cited in Ilie, Maftai and Colibășeanu (2011, p. 572) emphasized the fact that benchmarking as a method defines both an initial diagnosis and a management instrument focused on learning, collaboration and leadership for a continuous improvement.

Miron et al (2011) considered that benchmarking is a “special type of quality management instrument being included in the SR EN ISO 9004-4:1998 standard, Quality management and elements of the quality system, part IV: Guide for improving quality” (p. 19). In fact the benchmarking programs according to

Grigorescu and Grecu (2010) are included in the initiatives of total quality management. This represents a long term commitment to satisfy the needs of customers in any aspect.

As mentioned by Tripon (2017, p. 7) benchmarking can be used in any type of organization respectively enterprises, units from a certain enterprise or public services, that wants to use benchmarking to improve their competencies, efficiency and/or competitiveness.

The concept of benchmarking is seen as an evolving phenomenon, a dynamic phenomenon. Watson cited by Kyro (2003) suggests that benchmarking is an evolving concept that has been developed ever since 1940 to more sophisticated forms. He mentioned that this concept has passed through five generations. The first generation, named “*reverse engineering*” was product oriented and made comparison between characteristics, functionality and the performance of product competition offers. Most of the authors consider this development of the generation as taking place in the 80s at Rank Xerox. The second generation - “*competitive benchmarking*” – entails the comparison of organizational processes with the ones of direct competition. The third generation - “*process benchmarking*” – was based on the idea that the experience of some companies outside its own industry (field of activity) can be a model to follow. The fourth generation in the 90s introduced “*strategic benchmarking*” which entails a systematic process of evaluation of options, implementation strategies and performance improvement through understanding and adopting the success strategies of external partners. With the fifth generation the concept of benchmarking has been completed by the global perspective – *global benchmarking* (Ahmed and Rafiq, 1998), while the sixth generation considered *benchlearning*.

Benchmarking is the method where one can look outside its own organization or from outside of the organization to the inside of the organization in order to find, introduce and raise the performance. Starting from this, different references were found in the literature regarding various types of benchmarking, depending on the organizational level, the purpose pursued and the field under analysis. In this regard, Wöber (2001, p. 5) distinguished between two main types of benchmarking, respectively external benchmarking and internal benchmarking. According to McNair and Leibfried, cited in Andreescu et al (2009), *internal benchmarking* is focused on the internal structure of an organization, on its functional domains. Within this type of benchmarking, the internal information within enterprises is compared, referring to enterprises with more branches and enterprises that are active at international level, where there are similar functions in different operational units. *External benchmarking* according to Andreescu et al (2009, p. 14) looks outside the organization, in order to identify the level of performances of direct competitors. *Competitive benchmarking* is, as mentioned

by Ilie, Maftai and Colibășeanu (2011) a continuous process that allows institutions to make a self-evaluation compared with other organizations in the same field, organizations that are real or potential competitors, in order to obtain information and results, in order to compare this with its own performances and to improve its entire activity.

Instead, the *sectorial benchmarking* (according to Andreescu et al, 2009, p. 14) goes beyond the “one to one<sup>2</sup>” comparison proposed by the external benchmarking and considers the identification of trends. The focus is now on the methods and key characteristics (production or delivery of services) that can provide a competitive advantage in relation with the direct competitors in the field/sector. In other words, sectorial benchmarking entails comparison with the organizations that demonstrate the best practices in delivering the products or services.

The literature mentions that *performance benchmarking* is focused on quality elements, on customer satisfaction and qualitative measures. Therefore, Scurtu (2007, p. 7) has defined performance benchmarking as being “*an analysis of relative performances in business between direct and indirect competitors, focused on published official data from the considered organizations or conducted as “blind studies” by consultancy firms*”. Performance benchmarking allows an organization to assess its own competitive status regarding price, quality and the characteristics of the product or related services and reliability, by comparing products and services.

*Collaborative benchmarking* is undertaken by more than two organizations, where many or ideally all partners are acting as models for each other in some cases and as organizations that are learning to compete with other organizations in other aspects.

*International benchmarking* is the benchmarking process that is carried out at international level. The comparison is made with companies located in other countries, especially when the needed information is not available internally or when the company wants to be competitive at international level.

Finally, the type of benchmarking will be chosen depending on the organization objectives, on the competitive environment they are activating, on the level of development and its evolution as well as on the state of economic environment.

### **3. Benchmarking models applied in the tourism field at international level**

As it follows some models already applied in the tourism field will be briefly presented. In this regard five models have been chosen. In many cases

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<sup>2</sup> "One to one" benchmarking is undertaken by a model organization that acts as a standard and an organization that learns to compete with this organization.

these are in fact detailed reports, provided either free of charge or on a fee basis. More, it has to be mentioned that the selection of these models has been made considering these to be periodic updated exercises.

### **3.1. Model used by the World Travel and Tourism Council (WTTC) – Benchmarking in the field of Travel and Tourism comparing with other economic sectors**

This benchmarking model is a research sponsored by American Express Company and considers a comparison of the Travel and Tourism sector with other eight economic sectors both globally and for each region<sup>3</sup> and 27 individual countries<sup>4</sup> (WTTC, 2017). One can consider that “the results of these comparisons provide new perspectives on the relative significance of Travel and Tourism, as well as some of its unique advantages in driving current and future global economic growth” (WTTC, 2017). The results are published free of charge on the WTTC website at <https://www.wttc.org/research/economic-research/benchmark-reports/>.

Within the WTTC model the focus is on more on the obtained results and less on the methodology that is used. Regarding the results of the benchmarking model, it has been estimated that, by considering the direct, indirect and induced effects, at global level in 2016 Travel & Tourism sector accounts for more than 10% from the world GDP, thus exceeding industries such as automotive manufacturing, chemicals manufacturing, agriculture or mining industry and represents around 60% from the GDP generated by the construction industry. Another element of comparability of Travel and Tourism sector is given by the prognosis regarding the annual average growth of the GDP generated by each economic sector in the following 10 years, respectively the period 2017-2027 (real growth, inflation adjusted). Therefore, the Travel and Tourism sector is foreseen to increase in average annually with 4%, a level which is superior to the economic growth at global level (2.7%) or some sectors such as agriculture (2.2%), mining industry (2%) or construction (3.6%).

One has to admit the fact that the figures provided by WTTC are the only data in this field at global level, therefore it is difficult to discuss too much on these. However, from the methodological point of view there are some issues such as overlapping of some sectors for which comparability is achieved, the exceeding of 100% threshold in relative terms (by considering the total effects - in the case of sectorial GDP or generated jobs) and these entitle us to show some caution in using

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<sup>3</sup> The following regions are analysed as detailed reports Europe, Americas, Asia-Pacific, Africa, Middle East

<sup>4</sup> Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Jamaica, Japan, Kenya, Malaysia, Mexico, Peru, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Thailand, Turkey, USA, United Kingdom, UAE

these data coming from the benchmarking model used by WTTC (INCDT, 2017, p. 33). However, the WTTC model is an illustrative macroeconomic example of how travel and tourism sector is compared with other economic sectors.

### **3.2. Canadian model of benchmarking the performances of tourism within the economy**

This model is one that allows the comparability of tourism performances with other sectors of the Canadian economy. The model has been conceived by the Conference Board of Canada. Unlike the WTTC benchmarking model which is one exclusively applied at macroeconomic level, the Canadian model considers also some indicators at microeconomic level, more precisely at enterprise level. Practically, the Canadian model consists in comparing the performance of tourism sector (defined as a group of interconnected industries) with other sectors of the economy as well as comparing the tourism industries with other industries in the Canadian economy<sup>5</sup>.

The intersectorial comparability is achieved by calculating a sort of “composite performance index” that “integrates the performance of all economic and financial indicators over three separate time horizons, while also capturing the degree of volatility in performance reported across each of the 10 indicators.” (The Conference Board of Canada, 2013, p. 4). In fact, the data regarding the performance indicators are combined in a benchmarking index for each perspective used in the analysis: current performance, recent performance, trend performance and the so called volatility performance. As variables, both the size of each sector and its growth rate are presented.

Regarding results, comparing with the other 10 economic sectors, tourism ranked 6 (according to the composite performance index) ahead of sectors such as primary industries (Agriculture, Fishing and forestry), Mining, and oil and gas extraction, Public utilities, Manufacturing, Transport and warehousing. Regarding analysis at the industry level, this showed that not all tourism industries performed in a same manner. For instance, the tourism component of other tourism industries ranked 5 among the 48 industries from the Canadian economy due to the strong financial performance registered while the tourism component of transport ranked 32, “dragged down by particularly weak financial performance” (Conference Board of Canada, 2013, p. 23).

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<sup>5</sup> From the terminological point of view, one should distinguish between tourism “sector” and tourism “industries”. Following the definition used by the Canadian Tourism Satellite Account, the tourism sector is defined as “group of industries that provides goods and services to visitors and that would be significantly affected if the tourism activity had been eliminated from the Canadian economy” (the Conference Board of Canada, 2013, p. 27). The industries that are part of the tourism sector are defined following NAICS 2002 – The Standard Classification of the Industrial Activities in the North America.

Also, the results showed that tourism is an important sector of the economy with growth rates which are pretty good compared with other economic sectors. Also, on the other hand, particularly on short term, the results proved that tourism is unlikely to generate the best economic and financial performance due to the diversified structure of the Canadian economy.

### **3.3. The model used by the European Cities Marketing – ECM for city tourism in Europe**

Based on data provided by over 100 cities in Europe, the European Cities Marketing – ECM produces the report entitled *European Cities Marketing Benchmarking Report*. The ECM's scientific partner in this project is Modul University in Vienna.

At present the benchmarking report is now at the 13<sup>th</sup> edition and includes “the latest figures on the performance of leading European cities in 2016 and illustrates the main trends in city tourism between 2012 and 2016, enabling individual city destinations to benchmark themselves in terms of volume and other parameters, especially key source markets” (European Cities Marketing, 2017).

The considered indicators are number of overnight stays (in nominal values) and average annual growth rate for overnight stays in the last 5 years. A ranking based on these indicators are included for all the cities incorporated in the report and separately the top 15 cities. The data consist of a breakdown of number of overnight stays by types of tourists (the volume and growth performance of each source market– in this regard the following source markets are considered: Germany, Italy, France, Spain, United Kingdom, USA, Japan, Russia and China). Also, data on accommodation capacity (number of beds) is included as well as a comparability of city tourism with national tourism regarding the main source markets.

Also, one has to admit the fact that there are still some challenges from methodological point of view since there are some differences between cities and countries in Europe regarding the collected statistics. The main purpose for performing annually this type of benchmarking analysis for more than one decade is the fact that the ECM benchmarking report is seen as being very valuable for city marketing managers who need data to be used in their campaigns, strategies and plans (UNWTO, 2014).

The ECM Benchmarking report pays special attention to definitions and methodologies, and in this regard ECM favours a certain harmonization by clearly presenting the differences that occur between city tourism statistics hoping that this will lead to a better understanding and an increase in the credibility of the data.

### **3.4. The STR benchmarking model for hotels**

This benchmarking model was initially launched by the American company Smith Travel Research (STR) ever since 1988 once launching the STAR (Smith Travel Accommodation Report) product as a monthly report with data on the performance of a hotel compared with a defined competitive set of hotels (Wikipedia, 2017).

As an output, three basic indicators are found in the STR benchmarking reports: Room occupancy, Average Daily Rate – ADR, REVENUE Per Available Room – RevPAR. These three indicators are considered the **Key Performance Indicators**. **In this regard, it is illustrative to present the definition of benchmarking from the STR perspective as being: “a strategic and analytical process in which key performance indicators (KPI) are compared with a competitive sample for the purpose of improving performance results” (STR, 2017).**

As a general rule, being performed by a consultancy firm, data are provided on a fee basis both for external users and for participating hotels. The participating hotels get free of charge only a report entitled Hotel Survey while on a fee basis the hotels receive the STR benchmarking product, the so called STAR report where a hotel choose its own set of competitor hotels and has the possibility to compare its own performance with that of the competitor hotels. Also as a basic rule, a special attention is paid on data confidentiality, not being provided individual data on the competitor hotels/hotel chains but only aggregate data at the market level or for the whole competitive set chosen.

Being a private company, the number of hotels providing data for each country/tourist destination is not made public. However, STR owns another product entitled Hotel Census Database, a database containing data at global level for a number of over 156,000 hotels having over 14.5 millions of rooms.

### **3.5. The model used by the Cornell University – Hotel Sustainability Benchmarking**

The prestigious Cornell University from the United States has published starting with 2014 the study entitled Cornell Hotel Sustainability Benchmarking (CHSB). Up to now, three such studies have been published through the Cornell Centre for Hospitality Research in collaboration with Greenview, a consultancy firm activating in the hotel sustainability field.

In the first study, carbon emissions and energy usage from over 2,000 hotels have been analyzed (Chong and Ricaurte, 2014). However, the last study available in July 2016 included data referring to 4,557 properties across 191 locations (Ricaurte, 2016). The participant hotels provided the following information: identification data, number of rooms, the property’s surface and separately the surface of rooms and exhibition spaces, STR segmentation, type of location

(urban/suburban, rural/low density, airport, conference, resort, timesharing), duration of operation, existence of laundry, number of occupied rooms, monthly water consumption, monthly energy consumption by types of source of energy.

Practically, through the benchmarking model implemented by the Cornell University a hotel can compare itself with a set of hotels in certain segments and geographical areas regarding energy consumption, water consumption and greenhouse emissions. However, in the benchmarking analysis the following caution is given: “due to the variability among hotels, comparisons among hotels are generally not appropriate without further analysis of their drivers” (Ricaurte, 2016, p. 1).

#### **4. The comparability of benchmarking models presented**

The five models presented above can be considered representative for the tourism sector. Therefore, the first two models envisage benchmarking of tourism as a distinct economic sector compared with other economic activities. The third model presented above considers city tourism benchmarking while the last two models illustrate strictly benchmarking in the hotel sector. As stated before, all these models are used in the tourism industries, predominantly by the private sector but also by the public sector.

Another important observation refers to how benchmarking data are made public. For the first two benchmarking models, data are provided free of charge (both of them envisage benchmarking of tourism as an economic sector) while for two models there are no public data (STR model and ECM model) but data are obtained on a fee basis. The model used by the Cornell University presents freely only partially data using the dissemination means used by the university.

Another characteristic is given by the fact that these benchmarking models are produced by private organizations/consultancy firms and provided to customers either public authorities, or private operators from the tourism industry. Being products of consultancy firms, in many cases the results have a restricted dissemination, being only known to a very specialized target audience, especially to tourism professionals.

It is important also to frame the five models presented above according to the types of benchmarking presented previously (see table 1).

**Table 1 Identification of benchmarking types in the analyzed models**

Benchmarking types →	Sectorial	Competitive	Performance benchmarking	Collaborative	International
Benchmarking models ↓					
WTTC model – Benchmarking Travel and Tourism compared with other economic sectors	√				√
Canadian model of benchmarking the performances of tourism within the economy	√		√		
ECM benchmarking model for city tourism	√	√	√	√	√
STR model for benchmarking hotels	√	√	√	√	√
Cornell University model – Hotel Sustainability Benchmarking	√	√	√	√	√

Source: *INCDT (2017)*, p. 45

One can see that all five models presented in this paper are included in the sectorial benchmarking type, envisaging exclusively tourism sector or hotel sector. At the same time, all benchmarking models presented above (excepting the Canadian model of benchmarking the performances of tourism within the economy) are international benchmarking models, the process of benchmarking being conducted internationally (allowing a comparison between different countries / international destinations or between organizations / hotels in different countries). At the same time, three of the analysed models (ECM, STR and Cornell University) are included in the collaborative benchmarking type since all participating organizations in these models decide to provide its own data and want to learn from their competitors by comparing with them.

Excepting the WTTC model (which envisages exclusively the sectorial comparability of tourism at macroeconomic level) all the other models consider measuring the performance and from this point of view they are framing in the performance benchmarking typology. Last but not least, three of the five models presented (ECM, STR and Cornell University) are within the competitive benchmarking type, as these models directly allow comparability with similar organizations.

On another level, one can analyze for each of these models presented above the areas of benchmarking in tourism as defined by Wöber (2002) respectively benchmarking at tourist destination level and benchmarking at the enterprise/organization in the tourism industry level; therefore three out of five benchmarking models (ECM, STR and Cornell University) are considered both

benchmarking models that are used/applied at the tourist destination level and benchmarking models that are used/applied at the enterprise/organization level. Instead the WTTC model as well as the Canadian model can be applied only at the tourist destination level and cannot be internalized as a benchmarking model for a enterprise/organization in the tourism industry (see table 2).

**Table 2 Areas of benchmarking in tourism identified in the analyzed models**

Areas of benchmarking in tourism →	Tourist destination	Enterprise/organization in the tourism industry
<b>Benchmarking models</b> ↓		
WTTC model – Benchmarking Travel and Tourism compared with other economic sectors	√	
Canadian model of benchmarking the performances of tourism within the economy	√	
ECM benchmarking model for city tourism	√	√
STR model for benchmarking hotels	√	√
Cornell University model – Hotel Sustainability Benchmarking	√	√

Source: *INCDT (2017)*, p. 46

## 5. Conclusion

This paper aimed to present some comparative aspects of several benchmarking models particularly used in the tourism field considering the multitude of benchmarking models that come both from consultancy firms and individual organizations or researchers from this field. In this process a number of five models have been chosen representing strictly some applications of using the benchmarking concept in tourism at international level.

However, at the very beginning, the presentation of the conceptual framework of benchmarking was included, as an essential issue in a better understanding the benchmarking concept, and in this regard several definitions from the literature were illustrated. It is important to mention the fact that there is no common accepted definition of benchmarking at global level, each author making his own contribution to developing the benchmarking concept. Also, one can say that these definitions reflect also a certain stage of development of benchmarking over the last few years; the same applies to the existing benchmarking types (from product benchmarking to competitive benchmarking, from process benchmarking to strategic benchmarking and to global benchmarking).

As mentioned before the five benchmarking models presented in this paper have an applicability specific to tourism which is suitable at the tourist destination level and, in most cases, also at organization level in the tourism industry.

Therefore, from this point of view, the models presented are useful to the practitioners in the tourism industry.

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# STUDENT MOBILITY – DRIVER OF GROWTH IN THE TRAVEL AND TOURISM INDUSTRY; CASE STUDY: ERASMUS STUDENTS' TRAVEL PREFERENCES

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## **Abstract:**

*International students represent a substantial growing market to the global economy with a significant impact on the tourism industry. In this context, tourism organizations, travel agencies and transport providers started to focus on attracting this segment. According to World Tourism Organization (2016), it is estimated that this market will rise to 370 million young travelers by 2020. Therefore, it became important for tourism organizations to identify, understand and concentrate on the typology of international students, in order to better respond to their needs. The purpose of this paper is to highlight the importance of student mobility in tourism development and to emphasize the noteworthy role that tourism companies have in supporting this trend. The article's research was based on an analysis of secondary data from different scientific publications and a primary data collection using a survey applied to both incoming and outgoing Erasmus students from the Romanian-American University.*

**Keywords:** *Erasmus, Student Mobility, Internationalization, Tourism, Travel.*

## **JEL Classification:**

### **1. Introduction**

This article investigates the connection between international student mobility and tourism growth as well as the travel preferences of international students, given the premise that most people from that age group are interested to purchase cheap tickets, sometimes choosing options that are more costly effective than looking for an increased quality of services. This market represents a good opportunity for airline companies to focus on, in order to create a steady influx of customers for the next five to ten years, which can be accomplished by creating a good relationship of trust and familiarity. Throughout the information gathered from secondary data (scientific articles, books) investigating the dynamics of the travel industry, we discovered numerous connections between student travels and

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tourism growth but also how relevant comparison websites are in today's market and the factors of choosing a specific airline. The youth and student travel market is worth around \$165 million dollars and 20% of all global travel. These figures show that international students represent a major growth market to the global economy (WYSE Travel Confederation, 2013). Approaching the year of 2020, it is speculated that the market will rise to 370 million young travellers (World Tourism Organization, 2016). The statistics put forth give indication as to which direction the travel sector is progressing.

## **2. Literature review**

This section of the article investigates the existing literature following several directions: the relationship between international students and tourism development, the expectations of young travellers in terms of airline ticket prices and services offered, as well as the characteristics of one particular category - mobility students.

### *2.1. Youth and Tourism*

There is a symbiotic relationship between transport and tourism. Tourism cannot happen without readily available transport options that take tourists to their destinations. Travelling to and from a destination can be a quintessential part of the tourist experience, that is why the key emphasis on quality service is fundamental (Prideaux, 2000). Looking at the range of tourism transport modes, travelling by airplane no doubt is the most widely used mean of transport for globetrotters and is an essential component for international travel to work in general. (Bieger & Wittmer, 2006). Moreover, air travel is vital for international students, allowing them to connect easily with friends and family while being abroad for studies and also visiting new places. International students definitely represent a market for educational institutions but they can easily become a pertinent market also for transportation providers, tourism organisations or travel agencies.

### *2.2. International Students expectations towards air travel*

Previous research has investigated the expectations of international students in terms of ticket prices and air service quality.

Students from many different backgrounds tend to expect different ticket prices based on their financial class or country of origin (Chiou & Chen, 2012; Jager, Zyl, & Toriola, 2012). Gaining an understanding of their financial background and the quality of service they desire is relevant information for tourism agencies, in order to stay competitive and adjust accordingly to the customer demands (Sherwin Shenwei Lim, Aaron Tkaczynski, 2017).

The quality of airline services also represents a key element. Service quality showcases an attitude around the supremacy of a service. Customer expectations

play an imperative role in the evaluation of service quality (Parasuraman, Zeithaml, & Berry, 1988). International students will collate their assumptions of the service quality with what they have encountered in the past. Customer happiness will be achieved if the highlighted service quality surpasses what customers expect (Gronroos, 1984; Parasuraman et al., 1988). A multitude of studies measuring airline service qualities from the perspective of the international students have been conducted. In spite of increased growth in travel, it is conceived that the converge of airline business models and the competition for attracting the same consumer will notably impact how airlines make their services affordable and convenient (Dieter, 2012).

International students are not left with many options when purchasing airline tickets due to the limited number of offers affordable to them. In a more demanding tourism market with fierce competition from many airlines, the method of operations for airlines has changed. Rather than focusing on a competitive pricing scheme, they chose to pivot their attention to better marketing and service quality (Eldad, 2006). A competitive tourism market sparked the need for consumer-friendly policies. The move to strive for greater service is well-renowned as a crucial advantage in gaining customer satisfaction, although for international students, it is more important to have access to an affordable offer, rather than luxury service (Tiernan, Rhoades, & Waguespack, 2008).

### *2.3. Low-cost ticket options for students*

Few comforts and luxuries are offered by low-cost carriers (LCCs) with the known benefit of lower fares being available for international students (O'Connell & Williams, 2005). The notion of a budget airline was first conceived by an American airline. Southwest airlines brought forward the idea first back in the early 70's as an alternative option to existing price models (Franke, 2004). Airline customers are starting to become more self-aware about the market that is presented to them when choosing a specific airline. With the growing trend of comparison websites, customers are utilising these sites to find the cheapest possible route to their destination. They are one click away from finding the best cost-effective model for them. This dichotomy in the market has forced airlines to strategize their plan. First on their agenda is thinking about the levels of services they would provide for the price models advertised (Dolnicar, Grabler, Grun, & Kulnig, 2011; Forgas, Moliner, Sanchez, & Palau, 2010). Although it may seem that customers tend to be enticed by cheaper fares, service quality remains supreme in customer satisfaction and is the decisive factor in a customer airline choice (Chiou & Chen, 2012, Jou, Lam, Hensher, Chen, & Kuo, 2008).

#### *2.4. Erasmus Students and financial logistics*

In 2017 Ryanair announced their partnership with the Erasmus Students Network (ESN website news 2017). They included discounts and free bag checks for all students that are part of the ESN. It is expected that this partnership stirs more aviation companies to realise how lucrative the Erasmus students are to the tourism industry and associate themselves with ESN. Increased academic mobility is encouraged with this affiliation. Building for the next generation of Erasmus students is the key principle here. According to WYSE Travel Confederation (2015) and World Tourism Organisation (2016), Erasmus students are the key element in an ever-growing tourism market. They can be a vital money source for many local economies which rely on the tourism industry. Despite Erasmus students garnering attention from researchers as a collective, they have been neglected and are coupled together with youth travellers in most research studies. (Gallarza & Saura, 2006; Litvin, 2003). Several studies have looked into why students study abroad. Common reasons like increased employment prospects, less educational options back home and a need for cultural integration internationally are some of the many responses from the conducted research (World Tourism Organization, 2016). The emerging number of Erasmus students vacating to holiday destinations is testimony to the importance of the international student market (Thrane, 2015; World Tourism Organization, 2016). Students who benefit of increased mobility are more than likely going to attract more visitors such as family and friends. (Bischoff & Koenig-Lewis, 2007; World Tourism Organization, 2016). If we look at the literature detailing the international student experience, it reveals a strong connection between students and finances. As stated by Forbes-meweet, Marginson, Nyland, Ramia, and Sawir (2009) and World Tourism Organization (2016), international students rely on a medley of sources such as funding from relatives, scholarship funds or paid employment studies. A key point to add is international students may incur some level of difficulty with their financials, with notable factors being currency volatility, restricted access to reasonable resources and insufficient knowledge of knowing how to cope with a foreign financial climate (Abu-Ein, 1995; Forbes-meweet et al., 2009). It is highly envisaged that Erasmus students will travel multi-nationally outside of normal semester periods due to time-sensitive celebrations like the end of semester holidays and cultural celebrations within their place of origin (Bicikova, 2014; Thrane, 2016). The Erasmus students predominantly use air transport as their preferred travel method. For many years, this routine has been a costly option for the international students travelling frequently by air.

### **3. Methodology**

The method of choice used was conducting a questionnaire with several questions designed for Erasmus students. The study was conducted by collecting data from thirty-two Erasmus students of the Romanian-American University

coming from various countries around the world. Personal data from the students was collected (gender, country of origin, degree level, field of study). Students were also asked if they travel accompanied or not, in order to gain a better understanding of the mobility process.

#### **4. Results**

Most of the subjects were from Western Europe (most of the students came from Italy with 21%, followed by Germany with 15% and after France with 9%. The remaining students were from countries such as Spain 6% and Russia, Poland, Belarus, Turkey, Kyrgyzstan all of which share 3%. From the group of students from whom data was collected, the majority was made up of women with 66% and men with 34%. The students were asked about their university and what degree they were pursuing. From here we could conclude that most of them were getting their bachelor degree and only a couple were in a Master programme. The most common field of study was International Business with 30%, followed by Finance with 9%, Tourism 6%, but also Marketing, Management, Computer Science.

The countries where most of them were doing their Erasmus mobility are Romania 24%, Spain 12% and Netherlands 9%, followed by Finland, Romania and UK. When asked about the number of occasions they had to travel during their Erasmus semester, 59,4% answered “more than 7 times”, 21,9% from 4 to 6 times and 18,8% between 1 to 3 times. This indicates that Erasmus students are highly interested to travel while studying abroad and therefore, that they represent an important potential market for tourism companies.

The majority of 75% travelled accompanied and only 25% travelled alone. When referring to what kind of transport students have used frequently, 53% chose airplane, 25% train and 22% car. The high percentage of students choosing air travel over other means of transport is related to the accessibility of air travel nowadays, both in terms of connectivity and affordability. It also constitutes an argument for airlines to start focusing on developing offers for international students and attracting them.

The airlines they mostly preferred were Ryanair, Blueair, Wizzair, Lufthansa, Pegasus, which shows that most international students choose low-cost airlines over traditional carriers, mostly because of the ticket prices. Moreover, this can also be a result of the strategy adopted by Ryanair, offering discounts to Erasmus students.

The average cost of the airplane fare during their mobility was 35,5% 51-75 EUR, 32,3% 21-50 EUR, 16,1% over 101 EUR and 6,5% less than 20 EUR. The results confirm international students' choice for low-cost airlines, usually not spending over 101 EUR for a plane ticket.

Erasmus students mostly benefited from discount when purchasing train tickets 51,7%. Only 3,4% benefitted of discounts when buying airplane tickets,

showing that most airlines do not have special offers for students, unlike other means of transportation.

## 5. Discussions and conclusions

The results of our research suggest that students who benefit of educational mobility can contribute to more money being fused into the tourism market. Our collected data indicates that a vast number of students travel to various different countries during their mobility. The data collected from these questionnaires indicate that the most frequent use of travel was air transport. An important aspect here is that, although the preferred mean of transport is air travel, most of the subjects didn't receive discounted fares. From this angle, nothing differentiates this group from the mass population in terms of price ranges for the ticket fares. Broader dialogue between airlines and international students is needed for this issue to be rectified. The partnership between Ryanair and ESN is a first step in this direction but with the market value worth, it shouldn't be long until more airlines start paying more attention to this share of the travel market.

## Conclusion

As a conclusion, international students are active travellers while being abroad for studies and they also generate travels from family or friends who are visiting. This trend is supported by the development of low-cost airlines, which made air travel accessible and affordable. But this can go both ways: while academic mobility generates travel, at the same time, affordable travel can also become a factor in students' decision to travel abroad for studies. This angle can further be investigated. Low-cost carriers made travelling by airplane more accessible, therefore determined a rise in the number of students willing to travel globally.

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# BALNEARY TOURISM FACE TO FACE WITH MEDICAL TOURISM - A COMPARATIVE EXPLORATORY RESEARCH

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## **Abstract:**

*Medical tourism is a new trend in tourism practice and has been a subject of debates in the last ten years in conferences reports, scientific studies and articles. The phenomenon has been explained and defined by several authors, but they have not agreed yet on the definitions and dimension of this movement. Part of health tourism, medical tourism is usually considered assigned to tourists searching for invasive treatments or recovery, being in opposition to wellness tourism, which focuses on healthy lifestyle tourism. The balneary tourism, as a form of health tourism, is placed between wellness and medical tourism, with many specific particularities retrieved in both mentioned categories. The limit of these tourism forms is difficult to establish, considering that frequently there are different opinions regarding the demarcation and assignment of specific health tourism services for each type. This study tries to underline the percentage of medical tourism coverage of balneary tourism services. If the balneary tourism was considered generally a medical tourism form, then its business model could be useful for tourism companies performing in this field. This paper aims to reflect the development of balneary tourism in the light of the medical tourism business model.*

**Keywords:** *medical tourism; balneary tourism; health tourism.*

**JEL classification** I150, Z320

## **Introduction**

Medical tourism is now considered a modern tourism niche trend which has increasingly drawn the attention of academic researchers in the past 10 years. This concept engages more and more argues and debates about its contents and nexus but is still far away from being defined and assigned. Even if medical tourism has begun to be studied relatively recently, the history records facts related to the habit of traveling for health purposes was encountered 4,000 years before Christ, when the Sumerians built a place around a thermal spring with healing properties. Visitors looking for health wellbeing are still attracted by the Indian Yoga and Ayurveda healing techniques practiced for 5000 years, while in Japan, people keep on travelling for health purposes to the “Onsen” mineral springs, a habit for over 1000 years old. The origin of medical tourism seems to be in Greece, where the suffering people were traveling to Epidauria, the “Sanctuary of the healing

God – Asklepios” where they were accommodated over the night and benefited of facilities such as hot baths, gymnasiums and temples. Later, through the 1200s, in Cairo, the Egyptians raised the biggest and most modern hospital of that time, meant to serve everyone, which attracted travelers throughout the world looking for proper medical treatment. Starting the 16<sup>th</sup> century, Europe became a medical tourism destination, due to the attention paid by the elite to the Roman baths with healing hot waters, around which started to develop spa towns. Resorts known today as Bath (former Aquae Sulis) or Baden Baden (former Aurelia Aquensis) became famous because of the royal support and the frequent visits from celebrities of that time.

In the 1900s, USA and Europe became important medical destinations, but merely for wealthy people, because of the costs of health travel. The modern aesthetic surgery and dentistry determined the outbound travel starting the 80’s – 90’s. These medical tourists are motivated for medical travel by low costs medical services, available medical procedures, state of the art technology or the coverage of insurance policies. Medical tourism encounters these days a fast expansion, in a context of the globalization of medical trade and tourism services supported by the newest technology of communication.

### **Main concepts**

The academic literature on medical tourism has thrived in the past decade to define and characterize the particularities of this phenomenon and since 2010 there were published more empirical studies opening in this way a second wave of medical tourism researches. (Lunt, Horsfall, Hanefeld, 2015). Even though researchers make efforts to understand and define the concept, there is not, until now, a global consent on the definitions and measurement of medical tourism.

Taking into consideration the “Classification of tourism trips according to the main purpose” by the World Tourism Organization and the United Nations Organization, one of the major categories is “Health and medical care”. Each tourism trip has just one main purpose and each main purpose is associated with a group of main activities undertaken during the trip. The “Health and medical care” category includes: „receiving services from hospitals, clinics, convalescent homes, (...) health and social institutions, visiting thalassotherapy and health and spa resorts and other specialized places to receive medical treatments when they are based on medical advice, including cosmetic surgeries using medical facilities and services”.

Starting with this classification, it is important to consider also the definitions of health and health tourism, as starting points of understanding the medical tourism concept.

According to the Constitution of the World Health Organization „health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity”

“Health tourism is the branch of health and tourism economies that contributes to maintaining and restoring health and holistic well-feeling by using medicine-based services.” was the definition stated at the 9th National Health Conference - Rostock/Germany

Munro (2012) explains the term medical tourism including „all facets of consumers seeking treatment, improvement or change through medical or wellness practices – provided they cross an international border to do so”. Upon Munro, the travel must be international and there are not considered in any way the tourism destination or tourism facilities.

Bookman and Bookman (2007) describe medical tourism as not being „only a journey in order to improve health”, but „an economic activity implying service trade, representing a merge of at least two economic sectors: tourism and medicine”.

In the opinion of the Medical Tourism Association, medical tourism „involves people who travel to a different place to receive treatment for a disease, an ailment, or a condition, or to undergo a cosmetic procedure, and who are seeking lower cost of care, higher quality of care, better access to care or different care than what they could receive at home”. The definition of the Medical Tourism Association takes into consideration the medical tourists’ motivations but does not point the aspects of tourism activities as supplement of the medical period spent. In addition, the association uses the general expression “people who travel”, without specifying tourist.

Smith and Puczko (2014) consider the medical tourism a „trip outside one person’s place of residence for the purpose of receiving a medical treatment, investigation or therapy, the tourists making use of the destination’s infrastructure, attractions and facilities”. This definition is more related to tourism considering the purpose and the place of residence, but the time spent is not specified. In tourism, the time spent must be under one year, and in some exceptional medical circumstances, the patient should allocate more than one year to medical treatment (cancer treatment, etc.). In this case, we may consider people as medical travelers, not medical tourists.

In a report presented at the Global Spa Summit, Johnston, K., Puczko, L., Smith, M., Ellis, S., (2011) define medical tourists as „people who live in one country and travel to another country to receive medical, dental and surgical care” looking for getting identical or superior medical services than in their country and traveling with the medical purpose related to affordability, better medical facilities and amenities, quality or quick access to medical procedures and services.

These definitions focus in different ways on the medical tourism as travel in a different place of people seeking medical treatments not only to obtain healing (using invasive procedures or not) but to maintain the good condition of health and to prevent the illness or to postpone aging troubles.

It is debated if the medical tourism implies the same activities as medical travel.

Smith and Puczko (2014) state that medical travel has just a single purpose of travelling: medical treatments, interventions and therapies. In this situation, the travellers do not value the destinations in a touristic meaning, even if they are using the accommodation and transport facilitations.

Munro (2012) is more accurate and defines medical travel as the process by which a consumer (a patient) gets treatment for a medical condition. Treatment is nearly always invasive. It includes dental implants, fertility treatments, alternative or experimental procedures, addiction treatment, Lasik eye surgery, cancer therapies, as well as major surgery procedures. Considering Munro's definition, the long term medical procedures and therapies are activities impossible to run with leisure activities or other activities specific to tourism.

Bookman and Bookman (2007) distribute medical tourism services within the following typologies:

a) Invasive medical tourism, including here the most requested dental procedure and plastic surgery whose costs are merely uncovered by the insurance policy. Other invasive procedures often demanded by medical tourists are eye surgery, bariatric surgery and joint replacements.

b) Diagnostic medical tourism in increasing demand in the last decade, as tests of blood, bone density, heart stress, lipid analysis and electrocardiograms. Ever more, preventive health check-ups are done where tourist are on vacation.

c) Lifestyle medical tourism includes wide-ranging services related to wellness, nutrition, stress reduction, weight loss, anti-aging procedures

Johnston, K., Puczko, L., Smith, M., Ellis, S., (2011) split the wellness tourism from the medical tourism affirming that, in this case, there are involved „people who travel to a different place to proactively pursue activities that maintain or enhance their personal health and wellbeing, and who are seeking unique, authentic or location-based experiences/therapies not available at home”.

### **Research methodology**

The health tourism based on natural treatment factors (balneary tourism) still need consistent description, but it is accepted that it refers to travel being motivated by the performance of a medical procedure or activities based on using water in order to promote physical and psychical welfare. (Iordache, Sarbu, Ciochina, 2016). In Central and Eastern Europe countries as well as in former Soviet countries the mineral and thermal waters were used for healing in resorts with medical staff, equipment and amenities. This form of tourism was domestic tourism (mostly social tourism) under the government administration, but as in the Romanian case, several agreements with foreign travel companies brought in the

1970 –1980 tourists and currency from countries as Finland, Sweden, Norway, Austria, Germany, Israel, etc. In present, the past flourished balneary treatment resorts have serious difficulties related to the decline of demand caused by dropping out of the former agreements and the limitation of the government subventions for treatments. The new generation of tourists prefers more to use the spa and leisure facilities of the balneary resort in the detriment of medical procedures based on natural healing properties of thermal and mineral water, salt caves, mofettas (therapeutic gas), therapeutic mud, salt lakes, etc. The balneary resorts have to adjust their business to the new forms of demand or to understand their activities as a medical tourism business and to adapt them to this model. Romanian balneary resorts already have medical equipment, procedures and treatments supervised by physicians and balneary medical staff working in tourism companies, accredited by government. The science of balneotherapy is recognized as medical specialty and there are appropriate evidences to confirm the healing properties of the natural factors.

In this context, the research objectives relate to balneary resort managers' perceptions about medical tourism industry and also to their awareness of the similarity of balneary tourism with medical tourism.

The research is based on semi-structured interviews undertaken with managers in the balneary tourism industry in September 2017. They are representing companies which focused on traditional spa treatment (before 1989) and which now have partially changed the orientation to the wellness industry, sustained by investments in new or renovated hotels. Their products have been updated to the new trends in the spa tourism industry but still put a lot of effort to become efficient. These companies still have as major client segments the seniors looking for treatment funded completely or partly by the National Social Security Fund or by the National Health System.

### **Results and discussion**

By medical tourism, the responders understand the travel for an invasive medical procedure: esthetic, orthopedic, dentist, bariatric, etc. The other activities related to medical tourism, cited in our literature review are not associated to medical tourism, in their opinion.

The responders agree about the necessity of an international accreditation and certification (used by international medical tourism providers) but, in Romania, a sufficient condition for balneary resorts to operate is to have an accreditation from the government.

For balneary spas, the respondents believe it is required to have better trained staff to take care of tourists (basic medical knowledge, foreign language skills, etc) both for treatment procedures and for hotel, restaurant and

entertainment. They appreciate the wellness and recreational importance and militate for investments in this field, to improve the offer and to adjust it to the existing demand. The responders conclude that there is a lack of responsibility of the population in terms of health prevention and think about the necessity to make people aware of its importance as in the nearest future the demand for medical tourism services to rise.

Tourism services in Romanian balneary resorts are mostly (50%) concentrated on medical treatment and rehabilitation, as well as prevention (10%) and relaxation (30%).

Considering the two categories of tourists, medical treatment and wellbeing/recreational, our respondents claim that the separation of flow between medical and wellness is a frequent issue of spas which has to be set on very carefully in the future.

Thinking of all categories of services related to the balneary health offer we may classify the balneary tourism services in three segments: medical, wellness and spa. To integrate the offer in medical tourism, we suggest the cooperation between balneary resorts and clinics, as well as hospitals already involved in medical tourism, in order to offer to their clients after care, rehabilitation and recuperation procedures. The complementary activities have the mission to accomplish the needs of the new tourist generation and to complete the offer for medical demand.

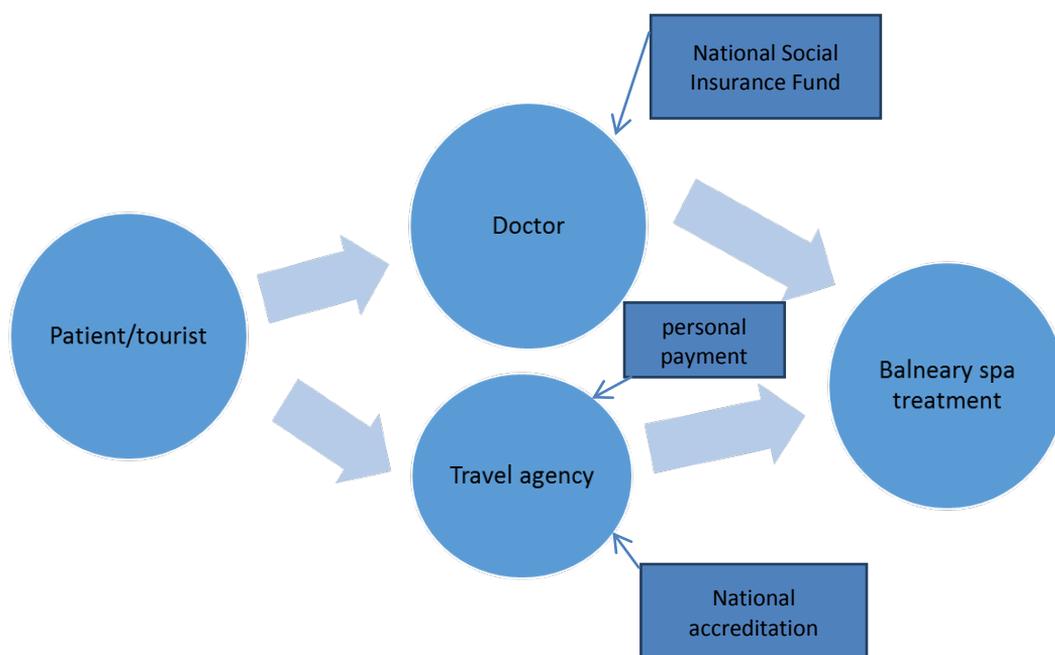
**Table 1. Typology of balneary medical tourism services**

Spa		Wellness	Medical	
Complementary activities		Main activities for balneary tourism		Activities in cooperation with hospitals and clinics
Holistic	Leisure and recreation	Medical wellness	Medical (therapeutic)	Medical (surgical)
Spiritual	Beauty treatments	Therapeutic recreation	Rehabilitation (illness related)	Cosmetic surgery
Yoga and meditation	Sport and fitness	Rehabilitation (lifestyle related)	Healing and recuperation	Dentistry
Nutrition	Weight loss	Occupational wellness	Anti aging medicine	Operations

Source: authors' own adaptation after Smith M., and Puczkó L. (2009)

At this time, the balneary system remains connected to the previous one, used before, in the communist time, focused on medical treatment and dedicated to senior tourists seeking for healing natural procedures, with the financial support of the state and the social protect system. Resorts are promoted now in a contradictory mode, using both spa products and medical treatment packages.

Romanian balneary resorts obtain the majority of clients as a result of an agreement with the National Social Insurance Fund, negotiated at very low prices and just a small part from the travel agency system or through direct payment. In this condition, company owners have to search for new ways to develop the business and to work for limitation of the state payment.



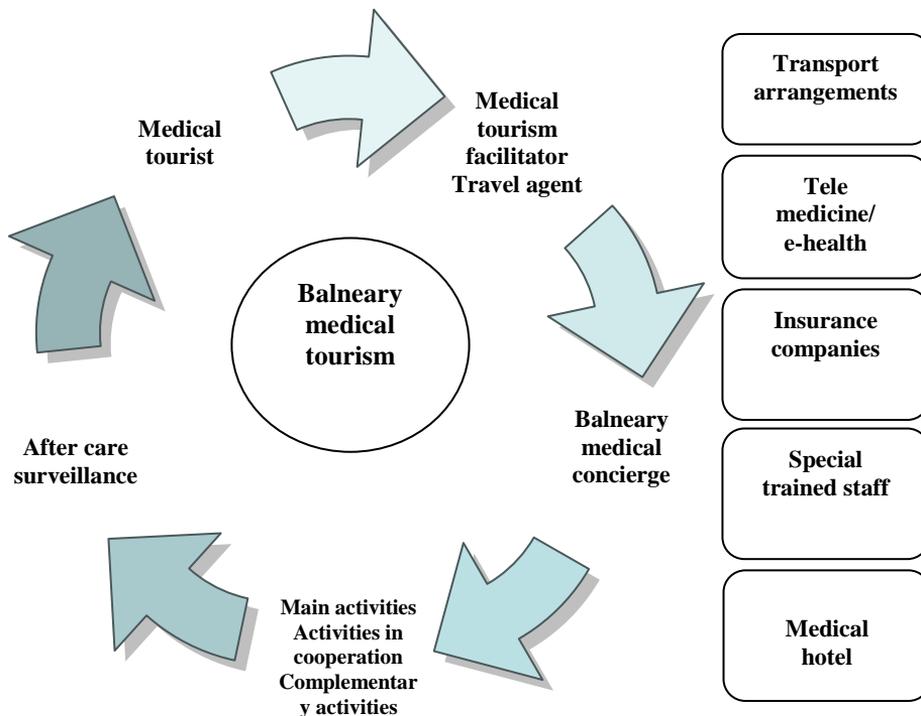
**Figure 1. The actual process of getting balneary services**

Source: Authors' own design

Implementing the medical tourism business model consists of the intervention of new categories as facilitators, new activities as after care surveillance, tele medicine, complementary activities, special trained staff, partnerships with insurance companies and hospitals and clinics involved in medical tourism.

We propose a new model of balneary tourism business, with new entries and in circle shape, starting from the medical tourist and going back to him, in a continued support offered by the balneary medical team.

**Figure 2. Balneary medical tourism process**



Source: Authors' design

In order to have a medical tourism business model, the management of balneary resorts should proceed to making changes at the organizational level and additionally at the governmental and political strategy. The necessity of tourism development prioritization should be enclosed in the governmental policies with a focal point on an outstanding strategy for foreign and national investments in the tourism field. Considering the medical tourism, the strategy must be oriented to the Romanian medical achievements popularization with an accent on the concept of country specialized in healing by water therapies. Also, the Cross border EU Directive (2011/24/EU) implementation and the extension of the national insurance system coverage could be trigger factors for medical tourism development in Romania. The governmental policies have to be oriented as well on improving the international travel facilities such as medical and tourism visas, simplified frontiers formalities, financial support for medical tourism airfares or sustain for airlines with medical tourism facilities.

Related to the organizational developing, the regional's Destination Management Organization may possibly focus on the balneary/medical tourism

offer located in their area and develop regional strategies working along with local and regional medical tourism clusters (companies acting in related fields: spa resorts, medical hotels, air and ground transport, hospitals and clinics, facilitators, travel agencies, etc), educational institutions, local and regional authorities, consultants, etc. The balneary and medical tourism offer can be the promotional headliner of a Destination Management Organization serving this way to differentiate its main tourism product.

The challenge for a balneary medical tourism resort could consist in changing management strategies and functioning as a medical tourism company. The cooperation with medical tour operators and facilitators, airlines companies, hospitals and clinics engaged in invasive medical tourism could help to improve the balneary medical product.

New products and innovations should be promoted (aftercare protocol, tele-medicine and e-health apps for pre, during and after treatment) as well as a new attitude oriented to personalization of care (one of the newest trend - 4P in medicine: predictive, preventive, personalized and participatory) or differentiation and specialization (the unique value) for each balneary resort. Considering the market, balneary resorts should position themselves on the market as sellers of healthcare and wellbeing, focusing on solving medical problems of tourists, not on the global resort offer and, not least, getting international accreditation and certification. Even if finding the appropriate staff is an issue difficult to solve at this time, the personnel of the resort must be better trained to reduce or eliminate the language barrier or to behave as a medical concierge team. In view of the development of new techniques, activities or procedures, resorts should militate to introduce new healthcare professions, specialists or animators specialized for medical tourism.

Medical tourism must be understood as more than medical invasive procedures and must be differentiated from medical travel. The managers and owners of balneary tourism resorts should consider their global activity as medical tourism integrated in health tourism and should renew their offer through personalization of treatments, alternative procedures, dedicated and specialized team, etc. The management and marketing strategies of balneary spas should be adapted to the medical tourism business considering the similarities, the influencing factors of demand and the new trends in the health tourism industry.

## **Conclusions**

Balneary resorts may possibly reposition on the market as health resorts and not just as spas, widening their offer to attract not only tourists merely using resorts for relaxation, but also wellness tourists or tourists looking for health rehabilitation. Balneary resorts' offers are differentiated in each country based on the category or quality of the natural healing resources, medical equipment, know-how, evidences

of healing properties, tourism facilities and destination, etc. Our research is limited to the Romanian balneary offer, but investigating the literature we may observe the resemblance between countries from Central and Eastern Europe. Considering balneary tourism as medical tourism and taking into account all factors of the medical tourism demand and all elements of the medical tourism business, balneary resorts may renew and raise following the newest trends in medical tourism, the common branch between the two areas: tourism and health economy.

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# HOW IS POPULATION AGEING INFLUENCING GLOBAL AND LOCAL TOURISM?

Ioana Cristiana PATRICHI\*

## **Abstract**

*Tourism is such a complex activity and it involves all types of population, no matter the age, race or religion. At the global scale, it is well known that the proportion of older people is dramatically increasing and this may have major implications on global market due to the specific needs of this age group. Because of his age an older consumer acts rationally, is usually more experienced and very demanding, needs more information about the offered product and has more time to verify this information. They are more flexible with regards to travel times, often preferring to travel in off-peak seasons, which can bring a major advantage to some tourist destinations. Already many countries in Europe, USA, Canada or Australia have recognized a goldmine from including older people into tourism market. The objective of this paper is to analyze whether the ageing of world population will lead to negative or positive effects for the tourism industry.*

## **Introduction**

The increase in the number of inhabitants of the planet has led to a gradual increase in the number of tourists, so tourism has gradually become a social phenomenon.

After World War II, as a result of industrialization and urbanization, the living standards of the population increased and the demographic explosion was more pronounced in developing countries.

This has inevitably led to an increase in the number of tourists. The structure of the population by age group influences the volumes of tourist flows, the choice of the place of destination, the travel period, the means of transport used and the type of tourism practiced.

Statistics show an increase in the share of the population aged 15-24. At the same time, the share of the population aged over 65, especially in developed countries, is increasing<sup>1</sup>.

Also, the organization of transport is differentiated by age groups. Elderly people pay more attention to the type of transport and services compared to young people.

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<sup>1</sup> *Turismul internațional. Evoluție, particularități și tendințe*, Edit. Pro Universitaria, București, 2013.

As for the professional structure of tourists:

- there is a higher participation rate of those with higher education and secondary education than those who do physical work;
- the trip to travel is in relation to the income earned on the family;
- the trip depends on the place and the role occupied in the branches of activity, the duration of holidays and their distribution during a calendar year.

The desire to travel is different:

- maximum level of professional freedom and intellectuals (75-80%);
- minimum rates for agricultural population (5-10%).

In this context, the following questions arises.

When does the third-age population travel and where? How do the seniors influence the tourism industry? What are the characteristics of the senior travel market?

### **Evolution of world population**

The evolution of the number of the world's population has experienced leaps which correspond to the technical progress and the geographic distribution of the population on the surface of the planet is conditioned by several factors: physic and geographic conditions (relief, climate, hydrography, natural resources, etc.), historical conditions, economics and demographics, etc.

The UN estimates that 7.5 billion people live today, with the world population rising to 8.1 billion by 2025, with most of the growth going on in developing countries, especially in Africa. UN specialists estimate that in 950, 9.6 billion people will live on Earth. In 2100, it is estimated that nearly 11 billion people will live on Earth, with 800 million more than in the estimates released in 2011.

At the same time, the average age has increased and some countries are experiencing an aging population (table 1). Statistics shows that every 6 seconds someone in the world becomes a senior<sup>2</sup>. The number of older persons has more than tripled since 1950 and it will almost triple again by 2050.

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<sup>2</sup> Sniadek J, *Age of seniors – a challenge for tourism and leisure industry*, published in Studies in physical culture and tourism, Vol. 13, Supplement, 2006, Poland.

**Table 1. Evolution of world's population by age (over 50 yr old)**

Year	60-64	65-69	70-74	75-79	80+	80-84	85-89	90-94	95-99	100+
1975	118.514	93.205	65.556	39.244	29.843	...	...	...	...	...
1980	119.716	103.828	75.513	47.619	35.821	...	...	...	...	...
1985	140.893	104.958	84.816	55.190	44.345	...	...	...	...	...
1990	159.871	124.700	86.417	63.046	...	34.851	14.467	4.034	771	90
1995	171.754	141.790	103.628	64.805	...	40.652	17.832	5.389	987	118
2000	188.830	153.396	118.770	79.104	...	42.485	21.323	6.827	1.349	150
2005	196.305	169.596	129.981	91.607	...	53.373	23.061	8.525	1.785	213
2010	237.763	177.953	145.309	101.812	...	63.804	30.344	9.740	2.386	301
2015	294.105	216.506	153.908	115.532	...	71.831	37.295	13.475	2.917	434

Source: UN Population Division, June 2017

Globally it will be around 21% of the total in 2050 (1.6 billion). The oldest old population in some Asian and Latin American countries is predicted to quadruple by 2050. America's 65-and-over population is projected to nearly double over the next three decades, from 48 million to 88 million by 2050.

Demographics experts say this was to be expected, due to years of advances in medicine and diet, which reduced the likelihood of heart disease and stroke or heart attacks<sup>3</sup>. People are living longer, but that does not necessarily mean that they are living healthier<sup>4</sup>.

The largest concentration of the elderly population is found in Japan and some European countries (table 2).

At continental level the phenomenon of aging is particularly present in Europe and North America. These differences across continents can be explained primarily by the different levels of natality and fertility rates, but not least by migratory phenomena and the average lifetime, the overall mortality rate, especially infant mortality.

<sup>3</sup> Serghescu A, *Populatia lumii imbatraneste – milioane de oameni peste 100 de ani, 2016.*

<sup>4</sup> \*\*\* (2016), *World's older population grows dramatically*, article published online at <https://www.nih.gov/news-events/news-releases/worlds-older-population-grows-dramatically>

**Table 2. Countries with the largest concentration of elderly population**

Countries with highest share of 60+ population		Countries with highest growth of 60+ population and share		
	% of population over 60		Increase 2011-2050 (%)	(%) of population over 60
Japan	42	UAE	35	36
Portugal	40	Bahrain	29	32
Bosnia and Herzegovina	40	Iran	26	33
Cuba	39	Oman	25	29
Republic of Korea	30	Singapore	23	38
Italy	38	Rep. of Korea	23	39
Spain	38	Vietnam	22	31
Singapore	38	Cuba	22	39
Germany	38	China	21	34
Switzerland	37	Trinidad&Tobago	21	32

Source: Adapted from Bloom et al (2011)<sup>5</sup>

Population aging is a long-lasting global phenomenon that has affected the entire world over the last few decades and it will have a large impact over the global economy in the future (including tourism industry).

### **Evolution of tourism, trends and ageing**

Until 1950 the evolution of the number of tourists was slow and relatively constant, but after this year tourism has seen a spectacular increase in the number of international arrivals. Tourism has evolved from the "obscurity" of the 1950s to one of the most important industries of the 21st century (table 3). Even though some tourist destinations have been confronted with various crisis situations over time, the development of tourism has been positive in the period mentioned above.

Stagnation in the 1980s may be associated with the world economic recession preceded by the 1973 Oil Crisis and followed by the 1991 Gulf War. After 2000, there were two situations of decline in international arrivals.

The first drop occurred in 2001 when the whole world was shocked by the terrorist attacks of September 11, 2001. Another fall was recorded in 2003, and was considered an anomaly from the US invasion of Iraq.

In 2012 the tourism industry reached a milestone - 1 billion international tourist arrivals which is an important record for the industry. International tourist arrivals worldwide are expected to increase by 3.3% a year between 2010 and 2030 to reach 1.8 billion by 2030, according to UNWTO's long-term forecast report *Tourism Towards 2030*.

<sup>5</sup> Telfer David J, Sharpley Richard, (2016), *Tourism and Development in the Developing World*, Second edition, Edit. Routledge, New York.

Table 3. Evolution of international arrivals between 1950-2017

Year/Arrivals	Year/Arrivals	Year/Arrivals	Year/Arrivals
1950 25	1976 229	1993 520	2010 953
1960 69	1977 249	1994 551	2011 995
1961 75	1978 267	1995 527	2012 1035
1962 81	1979 283	1996 596	2013 1087
1963 90	1980 288	1997 613	2014 1134
1964 105	1981 290	1998 625	2015 1189
1965 113	1982 290	1999 650	2016 1235
1966 120	1983 293	2000 674	2017 1322
1967 130	1984 320	2001 684	
1968 131	1985 330	2002 703	
1969 144	1986 341	2003 694	
1970 166	1987 367	2004 750	
1971 179	1988 394	2005 809	
1972 189	1989 425	2006 847	
1973 199	1990 435	2007 901	
1974 206	1991 463	2008 920	
1975 222	1992 503	2009 880	

Source: Tourism highlights, UNWTO.

A number of factors have helped to increase the number of international arrivals. Among them are: improving living standards especially in developed countries, increasing leisure time, lowering the cost of tourist packages, growing population demand for travel, etc. Also, major demographic trends at the global level – rising populations, increased life expectancy, urbanization, migration, changing family structures – present fresh challenges for the tourism sector.

An important segment of the international arrivals of tourists is represented by the elderly population. Seniors travelers market characteristics are:

- It is the market with the greatest budget of free time. Studies show that senior citizens devote 40% more time than younger people to tourism and recreation<sup>6</sup>.

- For example, the buying potential of French seniors is estimated at €150 billion per year. The U.S. seniors have at their disposal the buying fund of \$2 billion and they spend annually over \$30 billion on trips.

- Elderly tourists are more inclined to choose guided package tours than those in their 50s and 60s. Coach tours are especially popular, as they are relatively inexpensive and provide security and companionship for those

<sup>6</sup> Sniadek J, *Age of seniors – a challenge for tourism and leisure industry*, published in Studies in physical culture and tourism, Vol. 13, Supplement, 2006, Poland.

travelling alone<sup>7</sup>. Also, because of the numbers involved, tours are often discounted, especially in low season, and older travelers seem more willing to travel off-season to take advantage of the reduced costs.

- 70% of all passengers of cruise ships are seniors and also they are 80% of luxurious trips customers. They spend 74% more on “typical” holidays than people between 18 and 49 years of age.

- In Europe, seniors from Germany, Spain, France, Italy or Nordic Countries use to travel a lot, especially in the Eastern Europe and Southern Europe (for seaside).

- However, more than half of European residents aged 65+ (52 %) did not participate in tourism, with major discrepancies between countries.

- Over 5 million elderly Chinese citizens travel each year. And 47% of them even go long-distance. They use to travel two times during the year – one being long-distance to Europe or America, and the other short-distance to other parts of Asia.

- For the American seniors top international destinations include Mexico, the Caribbean, and/or the U.K. and Ireland); within the U.S. Florida and California were top choices.

- In Australia and Japan population over 65s now account for over 20% of all leisure travelers.

## **Conclusions**

For the tourism and leisure industry, the consequences of ageing society and the resulting challenges connected with the senior consumer service include:

- increasing demand for off season holidays;
- increasing demand for health tourism and rehabilitation of old spas and wellness facilities;
- demand for quiet places with a mild climate;
- demand for quality services;
- development of the coach tours.

As for senior travelers, they are more experienced travelers; they have more time to spend on travel and leisure and are more flexible with regards to travel times; they are less likely to be influenced by ‘frills’ and extra amenities; travel is often a lifestyle priority, and many are prepared to pay for travel on a regular basis and have more savings and assets and fewer financial commitments, especially in the early years of retirement.

In the future, tourist’s profiles and preferences will become increasingly fragmented and destination’s competitiveness will depend on their ability to

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<sup>7</sup> \*\*\* *Senior tourism*, article published online at <https://www.acsedu.co.uk/Info/Hospitality-and-Tourism/Tourism/Senior-Tourism.aspx>

develop and market tourism products to an ageing, multi-ethnic population. Younger tourists who are still working full-time may look to relax on holiday, while older tourists may go on vacation to try new activities.

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# INFORMATIONAL SYSTEM FOR EARLY NOTICE – INSTRUMENT FOR MANAGING THE ECONOMIC RISKS

Secăreanu Constantin,  
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## Abstract

*In the current period, most notably known for the frequent and diversified events which generate a higher exposure of economic activities to the risk factors, any organization should identify three systems that will represent guidance for an effective management in decision making:*

- *An early notice system, which will detect and signal early on the possible turbulence sources;*
- *A system of analysis, evaluation and ranking of the identified risks, regarding the vulnerability (the possibility of materialization) and magnitude (impact);*
- *A rapid reaction system, by devising and applying risks related strategies.*

*The present study focuses on analyzing the methods and techniques used for the first system, for valorizing the quantitative and qualitative information in a general, coherent and correlated context, that will allow the identification of the major risks sources: internal or external shocks, conjunctural or mid-term, favorable or unfavorable trends for the long term.*

**Keywords:** *risks identification, risks typology, early notice systems, micro-risks, macro-risks.*

## I. Preliminary considerations

Over many decades, the risk and uncertainty field has represented one of the most fascinating research areas for the specialists from banking, insurance, and capital markets sectors. Gradually, the theoreticians and the practitioners of management, statistics, forecasting and economic modelling have developed concepts and basic instruments regarding the risk management, as a major part of complex process of corporate governance. [C. Secăreanu; 2012, p.5]

In the business world, there have always been different degrees of turbulence, at macroeconomic level (the overall economy local, regional, global) as well as at the microeconomic level. Two fundamental states of the market characterize the economic cycles with relatively linear and a largely predictable evolution: one of them representing significant growth and prosperity, the other one anticipating a falling demand and even a recession. In such context, analyzing

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the past and present information offers the possibility of anticipating future trends of different phenomena and events with the help of traditional instruments, especially the classical “company dashboard”.

In the present and the near future, the normal economic fluctuations, ascending and descending type, considered to be very predictable are replaced with the syntagma “the economy of new normality” [Ph.Kotler, J. Carlione; 2009, p.96-116]. Today, risks are mainly generated by human activities, with high frequency, more numerous and diversified and are manifesting through sudden, disordered, and unpredictable movements, being usually of dramatic magnitude. As a result, the forecasting does no longer fit into a historical trend, result of the dynamic impulse and of continuity. Major influence factors such as hyper competition and globalization, technological innovations and computer revolution, the political, economic, and social environment determine difficult to anticipate disturbances, in the context of risk probabilistically quantified, or even impossible to prefigure in unquantifiable uncertainty situations.

These conditions have led to the development of a new informational and management reporting system which will provide companies with real time and high-quality information.

## **II. The main characteristics of the system of early notice**

The early notice system represents a business administration system in the context of risk and uncertainty, that encompasses an overall conceptual framework, a set of analytical instruments (statistic and forecast) and moreover a set of strategic behaviors. This is how the early notice system transforms risk management into a cyclic, systematic, and continuous process used by companies to take the proper decisions, efficient and opportune to achieve the established objectives.

**A.** The early notice system enables the creation and understanding of an overall conceptual framework and a unitary vision of the companies’ environment by using and harmonizing all the edifying information. As a result, there can be obtained a general image, taking into consideration the macroeconomic factors, political factors, legislation, the competitive environment, new technologies etc. As each indicator is a partial reflection of reality, a hierarchical/graded system of information and indicators, coherent and correlated to different levels (national, international, firm, activity etc.) should be used.

**B.** It ensures the permanent monitoring of the companies’ activity and connections with the extern environment, using different instruments for analyses, evaluation, and diagnostic in areas, such as: the dimension and structure of the company, the performance and efficiency of the activities, human, material, and financial resources, business environment etc. and the relations and connections between them.

C. It stimulates a proactive approach with focus on the predictive aspects, by developing forecasting based on past trends, especially looking for the possibility of an unexpected event, an inflexion and discontinuity points to occur [C. Secareanu, C. Dridea; 2016, p. 125-133]. By elaboration flexible and adaptable scenarios, companies will be able to have fast, viable, and efficient strategies as feedback to a changing environment.

D. It stimulates the constant communication at all levels, the implication of all activities, structures, and human resources to identify, evaluate and react to the potential risk phenomena. Many of the risks that affect companies remain unidentified, not for the early signals, but for the lack of an adequate organizational culture, an ineffective communication within.

In conclusion, the early notice system should perform three essential functions:

- to detect positive and negative events as fast as possible, including the weaker signals that can provide companies with hints of future trends;
- to issue warnings in the case of possible threats, identifying the vulnerable points;
- to notice and capitalize the opportunities in the case of positive events.

### **III. Conceptual analysis methods**

The first steps in creating an early notice system require the research of the external and internal environment, for the general framework that sets the parameters for implementing, developing, and perfecting the integrated management of risks for the entire organization.

In this stage, there are two very efficient methods used for identifying risk factors.

The first one is PEST [A. Gregory; 2009, p.68-72] analysis, or the extended form EPISTLE (Environment, Political, Information, Social, Technological, Legislation, Economical. These represent the major risks factors from outside the company, which are beyond the firm's ability to fully control them, but for which measures can be undertaken for their attenuation by valorizing the company's capabilities. These are *systemic risks* because most of the companies are exposed to them at global, national, regional, or local level, according to the magnitude of risks. For instance, every company is interested in detecting important risks, such as:

- *political risks* generated by politic instability manifested as intern and extern conflicts, political crises, riots, terrorism etc.;
- *economic risks* determined by the general state of the economy (economic unbalances such as recession, inflation, and diminishing of the real income of population, unemployment, budget deficit and public debt, external balance of payment deficit and changes in the exchange rate);

- *social risks* as consequences of major disruptive events like: large demographic transformations that reflects in the reduction of birth rates and aging of population; reflects in reconsidering the needs pyramid and the change of mentality and traditions, that lead to reorienting the population's expenditure structure, and therefore, essential changes of demand (demand risks);

- *technological and informational competitive risks* determined by new technologies and computer revolution, the pace of changing and diversifying new offers, in general by globalization as effect of the expansions of direct foreign investments and portfolio investments, as well as the free movement of capital, labor force, goods and services with powerful effects on increasing competitiveness;

- *legal risks* that consists of unexpected modifications of legislation that influences the business environment, including the tax regime;

- *environmental risks* refer to natural calamities and manmade ones (pollution).

After the PEST analysis it is necessary to approach the specific and relevant problems of the company. The internal risks are depended on the company's activities (the nature of activity, the actors involved, the financing methods, the logistic system, the available resources, the commercial relations etc.) without affecting the entire economy, branch, or sector. These are *specific risks* of the companies, that are rather easy to distinguish, evaluate and manage for avoiding or diminishing the negative effects.

Every analysis at company's level should take into consideration:

- *strategic risks* come from the wrong direction of activity towards a sector, product or service, or a geographical area;

- *marketing risks* resulted from the incertitude of consumers' behavior in the context of hard to control information, or from the practice of unsuccessful marketing activities (promotion risks, innovation risks, price risks etc.);

- *contractual risks* that can occur as legal risk, when the provisions of the various legislations are not respected, or the risks of compliance with the contractual clauses;

- *operational risks* generated by the management and execution activities, like: noncompliance with various current, operational, and administrative procedures; human resources risks, management risks etc.;

- *financial risks* manifested as indebtedness risk and debt default risks and liquidity, solvency, bankruptcy risks.

This research can be undertaken by using SWOT analysis, which has two objectives:

✓ identifying the specific characteristics of the company that reflects the its internal situation: strengths (capabilities, achievements, sufficient resources) and weaknesses (insufficient resources, failures);

✓ detecting risk factors with important impact of company's activities: opportunities (chanced provided by the business environment that can be

profitable) and threats (events or situations that can affect the ability of the company to reach its targets, reducing its performance).

Using SWOT method is more efficient on major areas: the dimension, structure and dynamic of the company (its history and tradition) in relation to the trends of its field of activity; the mission, business type, product portfolio; the company's reputation on the market, regarding its consumers, providers, mass media etc.; the financial and development resources (profit and self-financing, investments and debts etc.); human resources, organization and company's management; the customers and distribution channels for products and services; the competition; technologies and future progress etc.

#### **IV. Risk research techniques**

The general framework, based on PEST and SWOT analyses provide the proper opportunity for identification the most important risk factors: intern or extern, conjunctural or on long term etc. This is the case for representing rather the symptoms than the risks generation event, that should be carefully analyzed.

For this there can be used a set of research techniques that combine the documentary research with the qualitative investigation and quantitative analyses.

**Documentary research** is represented by selecting, grouping, systematization and analysis of existing information: from the company's archives (activity reports, financial documents and statistics, investment projects technical documentation, commercial contracts etc.); other published sources (scientific papers and studies, national and international data bases, papers and magazine articles, conference presentations etc.).

**Qualitative research** investigates the unquantifiable variables, for instance: opinions, reactions, preferences, aptitudes of experts, clients, providers, specialists, and consultants. This type of research uses individual techniques (standard questionnaires and structured interviews) and collective techniques (Brainstorming and Delphi). These methods can translate qualitative input into indicators which can be the subject of ordering, hailing, and processing.

**Quantitative research** consists in a series of methods and techniques for identifying and evaluating risks in business administration. Many of these methods has a theoretical approach which makes it difficult to put in practice, or are specific to some activity areas where the risk management is very developed (banking, capital markets, insurance etc.) and where there are relevant historical data.

At present, the most suitable quantitative techniques are: the method of risk exposure, the comparison method, the methods based on specific indicators and the scoring method.

### **A. The method of risk exposure**

Measures the consequences generated in relation to the established objectives, the interaction of the two dimensions of risks (probability of risk materialization and risk impact).

The risk exposure (E) [ C. Secareanu; 2012, p.21-24] is the result of the interaction of the two-risk dimension ( $E=P*I$ ):

- probability of risk materialization (P) measures the possibility of occurrence of an event on a scale of 0 to 100%;

- the risk impact (I) represents the physical or value effect on the company's results if the risk were to materialize.

The widespread use of this method can be explained by its ability to combine the quantitative techniques (based on theory of probabilities), with the qualitative, intuitive techniques.

### **B. The comparison method**

It is used for risk evaluation and generating warnings and alerts, for 2 situations: comparing the level of an indicator with a standard level and comparing the dynamics of different interdependent indicators.

*The first situation* requires setting a standard level for each indicator and therefore, an acceptable or avoidable area (range) regarding the associated risks. The standard level becomes an important reference system that offers a comparative measurement of the company's performance; it could be represented by: a pre-established standard validated by practice; a level registered by the competition, leaders in the field; a medium level of performance of that domain.

This method is successfully applied in the case of financial rates (liquidity, solvency, debt, and debt repayment etc.) as well as for operating risks, determined by the threshold of profitability and the volatility coefficient. Based on the difference between the level of the indicators registered by the company and the standard one, it falls into one of the preset risk classes.

*The second situation* assumes checking for compliance with basic correlations between different economic variables, for a company. By comparing the performances obtained or desired, for the next period it can be identified the deviations from basic correlations. According to the deviations dynamics, the firms can be classified differently in rapport to the risks, from insignificant risks to major one.

All the techniques used for a long time offers a suggestive image of the company's trends. It allows the detection of high risk areas, and also, it represents an early notice system of unfavorable event.

### **C. Methods based on specific indicators**

These methods present the advantage of quantifying different risk associated aspects, using two indicators: the variation coefficient and the informational energy.

Utilizing *the variation coefficient* in risks analysis is consistent with the general approach, that the risk has a speculative character, in the sense that managing a business and the risks involved can either lead to a loss situation (this representing risk as a threat and shouldn't be tolerated) or to a win situation (this representing an opportunity and therefore capitalized).

This approach is focusing on the volatility of performance variables (profit, total revenue, market share etc.) and their positive or negative deviations in regard with the established objectives.

Taking into consideration the undeniable advantages of the variation coefficient, it can be said that this is the most complete measure of risk (the normalized standard deviation). It provides the comparison opportunity of decisions/projects regardless of the economic context of the variables, the measurement unit, and its order of magnitude. The value of the variation coefficient is situated between [0%-100%], the higher the value, the higher the risk degree.

It is universally recognized and mathematically demonstrated, that diversifying the business portfolio is a considerably diminution factor of associated risks, rather than concentrating the entire activity on a single product/service, or reliant on a limited number of providers.

Diversifying, spreading the company's activity can be realized in different ways:

- ✓ From diversifying to vertical integration (upstream and downstream) which refers to adding new business to the existing portfolio as complementary to the original one;

- ✓ The conglomerate diversification that involves adding a new business field for the company, unrelated with the original one, which offer a high potential for development;

The process of diminishing business risk by diversifying product portfolio, can be studied with the help of many indicators, the *informational energy* [A. Isaic-Maniu, C. Mitrut, V. Voineagu; 2004, p.195], being one of them. This indicator, especially in the form of the normative information energy, represents an estimation of risk exposure of the company in the context of concentration or diversification of activities [C. Secăreanu<sup>2012, p.123-130</sup>].

#### **D. The scoring method**

This method is frequently used for evaluation of aggregate risks, for instance bankruptcy risk, which assembles all the performance/failures results from point analysis (on different segments of the activity), based on financial rates, the comparison method (or other methods).

As a result, the bankruptcy risk [Anghel Ion; 2002, p.35-54] of a company, for a future period is synthetically evaluated based on the scoring function -z- as a linear function of many variables, this being the actual selected financial rates,

with permanent and intense action. The weighting coefficients are determined based on the registered information regarding the level of financial rates of companies from a sample, over a period of several years. Using the discriminatory analysis technique, the sample encompasses firms in financial difficulty and even bankruptcies, as well as, firms with no financial problems. At the end, for the determined scoring function there can be identified several intervals that are consistent with the delimitations of the financial states of the companies: the area with a stable financial situation, favorable and with low risk of bankruptcy; the area with uncertain financial situation; the area with hazardous financial situation and high risk of bankruptcy. So, the scoring method provides an important image of risks on different segments of activity and identify the areas of major risks.

Each company can find the area in which is situated or will be situated in the near future, by replacing – in z function – the actual values of their own financial rates, already obtained or predicted.

Nevertheless, the informative value of the scoring method, as an early notice model, shouldn't be overestimated, requiring additional information with quantitative and qualitative analyses. More than that, for diminishing the unfavorable effects of the successive aggregations of statistical information, is recommended the determination of scoring functions for different branches of national economy.

## V. Risk management tools

The most efficient risk management instrument is the *risk register*. Elaborated for each compartment of the company, the register represents a database and by centralizing all previous registers, it generates the *general risks register*.

It contains information regarding: the risk area (area, activity, compartment); risk affected objectives; the description of identified risks; the responsible with risk management; estimating inherent risk (probability, impact, exposure), representing the risk before undertaken any measure to respond to it; the risk strategy (monitoring, avoidance, transfer etc.), the residual risk estimation (probability, impact, exposure) representing the risk after undertaken measures to counteract it.

Based on the registers there can be obtained the *Risks matrix* [ Ghita Marcel; 2008, p.252]– an instrument for synthesis, ordering and ranking risks, ensuring the integration of information regarding their magnitude and severity. This “a map of risks „offers a proper image of the company's risk profile: from the assumed risks, whose exposure is below the acceptable risk tolerance limit, until the unacceptable risks that are jeopardizing the company's strategy and its financial situation.

## VI. Conclusions

For a long period of time, managing risks was the responsibility of the general management of the company, as a component of strategic development.

Nowadays, the early notice system determines the transition from a fragmented, punctual, and reactive risk management, based on the traditional techniques of risk management towards an integrated management system, as a continuous process, proactive, predictive, located in the center of the actual model for corporate governance.

Each company can use different techniques for risk management, according to the specific of its activity, available resources, and management approach. In this context, an efficient system for early notice offers a conceptual framework and a management system able to face uncertainty, with new behaviors and strategic instruments integrated in the organizational culture. In conclusion, the early notice system can: detect positive and negative events and provide forecasts of future development; issue warnings and alerts and identify the vulnerable areas; seize and capitalize opportunities in the case of positive events.

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# THE IMPACT OF POLITICAL INSTABILITY AND TERRORISM ON THE EVOLUTION OF TOURISM IN DESTINATION ISRAEL

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## Abstract

*Considering the extent of terrorism and its impact on tourism destinations and flows, Israel, by its geo-political positioning represents a major current topic. This paper highlights the consequences of political instability and terrorism on Israel tourism activities. Acknowledging these by the society and the government has led to developing strategies for tourists' protection and security, new tactics of attracting Arab and Palestinian tourists and sustainable programs of destination. The analysis of economic performance determined by the main macroeconomic indicators and tourism flows are showing Israel as a model destination for tourism development for countries affected by political instability and terrorism.*

**Keywords:** *terrorism, tourism, political instability.*

## 1. Tourism

Tourism is a highly competitive industry and due to the desire to compete effectively, destinations must deliver an excellent value among visitors<sup>1</sup>. From the moment visitor reach the destination, until they leave, their perception is affected by several services and experiences, including a series of public services, private, products from different areas of interaction, community and/or hospitable<sup>2</sup>. The idea of creating rich and memorable experiences for consumers is a key component of the development of the tourism industry. With the proliferation of choices for destinations and the increase in competition, they have become critical points for destinations, so it is necessary to deal with the various innovative ways to differentiate the goods and to create experiences that provide value to the tourist<sup>3</sup>.

It is vital that favorite activities for guests to be managed and coordinated by the specialized entities to maximize the value of the services throughout their

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<sup>1</sup> Kumar Suresh, *International tourism and hospitality in the digital age*, Edit. Business Science Reference.

<sup>2</sup> <http://www.cerere-turism.ro/doc/en/5.pdf>

<sup>3</sup> Barbara Neuhofer, DimitriosBuhalis, Adele Ladkin, (2012), *Conceptualising technology enhanced destination experiences*, Vol. 1, p. 36-46.

visit. Efficient management allows destinations to maximize the touristic value for visitors, ensuring at the same time benefits as local and sustainable development.

At the same time, tourism is one of the most complex industries in the world, as the entire society is involved. Reflecting the activity of a society as a whole, can be considered a true barometer.<sup>4</sup> Among the determinants of tourism we can include political factors, they must be looked through the prism of political ideologies and practices, but also by the so-called peace situations favorable (peace and understanding between people) or unfavorable (wars, armed conflicts, international tensions). Political instability, terrorism, economic recessions, the crisis of natural resources (energy, food, water etc.) determine the restriction of tourism activities and reduce the intensity of the phenomenon. By placing tourism in the context of other activities and models to promote peace, it can be said that tourism contributes to the enhancement of peace in a destination.<sup>5</sup>

## **2. Israel - an important tourism destination of the world**

One of the most sought-after and controversial tourist destinations internationally is considered to be Israel. It is recognized as a top tourist destination not only because it is a huge realm in which religion has its foundations, hence the name of “The Holy Land” that hosts the three great religions Judaism, Christianity and Islam, but also because it is a tourist destination extremely controversial in the media plan. The media often portrays Israel as a country divided which is constantly in a state of alert because of the extremism, political instability and terrorism. What is true, and so without hesitation we can say that Israel is a country that still writes history with blood.

However, Israel is a place where many technological innovations are being developed, in which rich biblical history can be explored, in which young and vibrant cities can be experienced and in which breathtaking views can be explored for a long time.

Israel is a young State which impresses tourists with its developed scientific, economic and cultural aspects. It has a lot to offer and even if it is perceived as a dangerous destination, many tourists are interested in travel within the State. Religious pilgrims, relatives of Jewish families or simple travelers, eager for rich experiences, return each year to Israel, and the touristic circulation indicators provided by the Ministry are clear proof.

A fascinating tourist destination for many reasons, Israel has the highest concentration of museums per capita in the world and is brimming with history and

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<sup>4</sup> Firoiu Daniela, (2008), *Industria turismului și a călătoriilor*, Editura Pro Universitaria, p. 9.

<sup>5</sup> Cordula Wolhmueller, Werner Wintersteiner, *International Handbook on tourism and Peace*, Centre of peace research and peace education of the Klagenfurt Austria in cooperation with World Tourism Organisation, pag. 31.

religious significance for many people<sup>6</sup>. Compared to the previous year, 69% more Chinese tourists arrived in 2016, and Chinese tourists spend more in Israel on average than tourists from any other country. Tourism is important to Israel's economy.

### **3. War and violence and their impact on tourism**

Israel is a country that had encountered many intercultural conflicts. Since its confirmation as a State, it has become a focal point for wars and violent attacks and that due to its geo-strategic location, the Middle being famed for its rich history in cold blooded conflicts and struggles.

The Israeli Government and the Ministry of tourism in collaboration with the security forces always devise defensive and safety solutions, both for the people of Israel and for tourists who spend their time and vacations in the Israeli State. Strict security systems and defensive strategies, implemented by the authorities always help, but these should be constantly reinvented or replaced.

The tourism industry has suffered badly after the beginning of the Second Intifada, year 2000. Even if in the following years they have generated large flows of foreign tourists, the decline continued. Perpetuating a state of insecurity and exaggerated panic led to the most disastrous effects over the tourism sector.

It has been proven that tourists who travel for purposes other than those for leisure are less concerned by the terrorist attacks and most of the time those who wish to spend their vacations there, cancel trips during periods of conflict. Close collaboration between the Ministry of tourism and the Israeli intelligence service for the development of improved strategies for national security for both residents and tourists; increased involvement of partners in the tourism industry in informing and training employees in terms of terrorism and taking measures for a more extensive protection for tourists, have boosted confidence of travel agencies and tourists to come or come back to this destination. Bringing low-cost airlines, as well as encouraging the development of investment in the construction of springs along the Dead Sea were considered components of the strategic policy of tourism development, based in the first place, on ensuring the safety of tourists and visitors, of which the destination has so much need to reposition themselves as a top destination.

In addition to the security measures, the Israeli Government has also invested in promotional campaigns on media channels. If we see the promotion spots on media channels, all of them present peaceful and wonderful tourist destinations. In the last years, many tourists ask, why look for problem when I can choose from so many other wonderful spots that are completely peaceful? "Problem," it is understood, is perceived only when dramatically reported by the media channels. The problem for tourists is, "problem" now seems to be everywhere, even in such exotic spots as Bali, Indonesia. The specialists of

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<sup>6</sup> <http://www.jewishvirtuallibrary.org/tourism-in-israel>

tourism field told that in our days Israel suffers a 0.8% decline in gross domestic product following a 10% increase in the probability of terrorism. Worldwide the perception over Hamas, Hezbollah or ISIS are dramatic, lethal and, therefore, highly publicized with a strong impact over people<sup>7</sup>. In many other countries terrorists wreak havoc in the local economies, Egypt, for instance. As the world's oldest travel destination, from the enduring pilgrims of the Jewish, Muslim and Christian faiths to the sun-worshipping holidaymakers that flock to the Red Sea coastline, no other place can invoke quite the kind of emotion as **Israel**.<sup>8</sup>

A Bank of Israel study in 2014 showed, in general, how sensitive inbound tourism is to war and violence. Tourist arrivals fell 30%, from 110,000 a month to 70,000, after the first intifada broke out in 1987. They recovered sharply during Operation Desert Storm, then fell again in March 1996 after a Gaza war (Operation Grapes of Wrath). The outbreak of the second intifada in September 2000 had a disastrous effect – tourist arrivals fell from 200,000 a month in the summer of 2000 to 45,000 at the outbreak of the second Iraq war in March 2003. Again, sharp declines occurred during and after the Second Lebanon War, which began in July 2006, and Operation Cast Lead, at the end of 2008<sup>9</sup>.

The latest wave of terrorism peaked in the winter of 2016, when there were almost daily attacks, then subsided and rose again during the month of Ramadan. Nevertheless, 4.5% more American tourists arrived in 2016, and in the last four months of 2016, at the peak of the new terrorism wave, the Ministry of Tourism reported all-time high figures for the incoming tourism. Potential tourists learn about terrorist attacks through the media. Highly dramatic attacks – burned and blown-up buses or strewn bodies after a truck runs over victims – are shown vividly worldwide on TV news and social media. The enormous impact of the second intifada on Israel from September 2000 to February 2005, which slashed tourist arrivals by half<sup>10</sup>.

April 2017 set an all-time record high for tourism in Israel, with 349,000 foreigners travelling to the country. This number is a 38% increase from April 2016's tourism total. Israel experienced a general boom in tourism during 2017, hosting 2.3 million tourists between January and August compared to 1,8 million during the same period in 2016.<sup>11</sup>

Tourism to Israel in 2016 rose by 3.6% compared to 2015, as the country welcomed 2.9 million tourists, Israel's Minister of Tourism, Yariv Levin, attributed the rise in visitors to the Tourism Ministry's increased marketing

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<sup>7</sup> <http://www.jpost.com/In-Jerusalem/Tourists-vs-terrorists-499371>

<sup>8</sup> <https://www.shuttledirect.com/blog/country-profile-israel/>

<sup>9</sup> *Idem*.

<sup>10</sup> note the Bank of Israel economists

<sup>11</sup> <http://www.jewishvirtuallibrary.org/tourism-in-israel>

efforts. During 2016, 60% of tourists visited Israel independently instead of with a group trip, reversing a trend from previous years.<sup>12</sup>

The tourism industry in Israel is quite large, employing over 200.000 people (about 6% of Israel's work force). Israel experienced record tourism numbers in 2013, with 3,54 million visitors total (including daily visitors from neighboring countries). While it comprises only 4% of gross domestic product, it employs about 8% of the labor force – mainly in low-paying service jobs, but nonetheless vital for those without higher education<sup>13</sup>.

#### **4. Awareness of Government-wide phenomenon of political instability**

The official website of tourism in Israel presents the fact that "Israel is a highly secure traveling spot. In the year 2008, 3 million travelers have traveled to all the locations in Israel and more than that they were all returned safely home. We will not encourage tourists to come, as long as we cannot provide safe stays." It can be seen that the scale of terrorism is not presented as extremely dangerous, while the Government encourages the traveling to Israel.

According to Tucker, the counter terrorism Bureau officer from Ministry of Israel, terrorism is like boxing and you can only win on points. Namely the fight against terrorism will be solved only when the counter strategies against terrorism are developed according to new tactics of terrorism.

Tucker also describes the fact that the Ministry of internal and external information of Israel is interconnected with the National Security Agency. The latter has a department that oversees Arab terrorist attacks and cooperates with the Agency of internal and external intelligence and with Military service information.

This great collaboration to develop annual strategies, which are then checked and approved by the Israeli Prime Minister, and the annual costs of the prevention of terrorism rises to extremely large amounts.

The Israeli airline El Al has a budget for security estimated at \$80 million, covering other airlines and including Ben Gurion International Airport. Passengers are directed to go through strict security systems when they arrive at the airport, armed officers verify them in the minutest detail at both the entrance and the exit. Security guards not only do baggage screening, they also observe psychological profiles. In conclusion, the Israeli security system is extremely strict and well-developed. In addition, the Israeli Government has tried to include in schools, techniques for young people how to recover from the psychological effects through vitalization of the adaptation abilities with the support from experts specializing in terrorism.<sup>14</sup>

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<sup>12</sup> Idem.

<sup>13</sup> <http://www.jpost.com/In-Jerusalem/Tourists-vs-terrorists-499371>

<sup>14</sup> Nawara Nina, (2011), *Political Violence and its consequences for tourism in Israel*.

Boaz Ganor, Director of the International Institute Against Terrorism from Israel said that familiarizing those concerned in connection with terrorism, with all its aspects, will cause a low level of anxiety and fear of terrorists, whose main purpose is to instill among citizens the feeling of fear and insecurity at any step.

Counter-terrorism forces have never been as effective as nowadays and that was due to the fact that they have learned from their mistakes and have improved tactics<sup>15</sup>.

Israel intended to counter terrorism by separating the Palestinian areas of the Israel areas through the West Bank barrier, and this proved to be a savior.

Obviously not only tourists travelling inside Israel are exposed to the phenomenon of terrorism, its own people are just as well.<sup>16</sup> Even though the official website of the Ministry of Tourism in Israel ensures safety trips for tourists inside the country, it cannot guarantee that there will be no incidents at all. Israelis who come to visit relatives in Israel are less affected by terrorist incidents than leisure tourists coming to spend their free time in the territory. Many specialists, as well as Fielding and Shortland (2008) emphasize the idea that Israeli tourists may be less affected by terrorism due to family responsibilities, the latter attending and less crowded places, and most of the spare time they stay inside the houses of relatives.

#### **4.1. Strategies for attracting Arab and Palestinian tourists**

The constant war between Israelis and Palestinians is well known. However, despite the two political, social and cultural conflicts, there is still a need for the exchange of values and the desire to experience opposite places. After the beginning of the first Intifada, many Israeli travelers eager to spend their free time and to visit the historic buildings, ceased to visit the Palestinian territories. Also, Jerusalem's old city was searched for its culinary culture by the Palestinians, as well as the Sinai area, sought after for its splendid landscapes and Bedouin culture, shops and restaurants in Bethlehem and Ramallah to offer cheap products, and with the beginning of the first Intifada these visits were no longer possible, leading to a decline of tourism in Israel.

After the Oslo Agreement from 1993, there was a shift in thinking from the inhabitants, Arabs and Israelis that they have always coexisted together. Changing perceptions has led to transformations in the tourism industry, many travel agencies have entered the Palestinian cultural sites in the proposed tours to be visited. So, the Palestinians have been invited to participate actively in the tourism market of Israel and to show its authenticity, and Israeli tourists were interested to know more and more about Palestinian culture.

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<sup>15</sup> <https://www.modul.ac.at/uploads/files/Theses/Bachelor.pdf>

<sup>16</sup> Israel 2016 Crime&Safety Report valabilpe [https://www.osac.gov/pages/ContentReport Details.aspx?cid=190](https://www.osac.gov/pages/ContentReport%20Details.aspx?cid=190)

It was concluded that although both cultures had intentions to know each other's values, it seems that Governments have not agreed on the matter, but there is still a desire for exploration, during times of peace, a great number of Arab tourists and Palestinians alike, transcend the barriers of Israel.

#### **4.2 Planning and implementing the programs aimed to increase the number of tourists**

Planning and implementing a strategy for managing crises before they occur, can lead to diminishing the effects of future crises and improve the methods of recovery. The entire tourism industry, and the Government alike had to coordinate their efforts to develop plans for immediate reaction and the preparation of a marketing plan for long-term development, for potential investments during crisis but also after that.

In July 2007, Ministers from Israeli Government started the approval process and the development of a crisis management center, which became a new sub-branch of Prime Minister Office and its purpose was to inform in real time on the situations of emergency and to aid in the management of the security crisis<sup>17</sup> economic, diplomatic and social.

The Government, through the Ministry of tourism, has also taken a series of measures to develop the tourist industry and promoting travel to Israel. In August of the year 2007, the Ministry of tourism, begins working with the Vatican and initiates charter flights between the Vatican and Israel's cities, in order to increase the number of Catholic pilgrims who want to visit Israel, it targeted in particular the young Italians eager to visit the holy sites.

Israeli Ministry has developed tours who combined visits to religious sites with the attractions of modern Israel.

In addition, the Ministry of tourism in Israel was interested to introduce on tourism market, advertising and public relations campaigns, in order to encourage non-religious young Italians to visit Israel.<sup>18</sup>

Also, in August 2007, the Ministry of tourism of Israel launched the biggest advertising campaign in North America, with a budget of \$11 million that were spent on media, including television, magazines, newspaper travel sections and had channels dedicated to tourism but also the religious channels, billboards and ads<sup>19</sup> on New York City's buses.

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<sup>17</sup> Prime Minister's Office, *PM Olmert Convenes Ministerial Committee on Implementing the Winograd Committee Recommendations*, available from <http://www.pmo.gov.il/PMOEng/Communication/Spokesman/2007/07/spokewino250707.htm>

<sup>18</sup> Ynet News, *Tourism Ministry, Vatican Sign Deal*, available from <http://www.ynetnews.com/articles/0>

<sup>19</sup> Israel Ministry of Tourism, *Israel Launches Largest Ever Tourism Advertising Campaign*; available from <http://206.251.241.46/pressroom/newsTopics.asp?actiontype=show&id=241425>

Marketing campaigns were targeted on countries which offer Israel the majority of tourists and which have the greatest touristic potential i.e. United States of America, France, Russia, England and Germany.<sup>20</sup>

In addition to these efforts, the Ministry of tourism is currently determined by the Prime Minister to step up efforts to encourage capital investment in the tourism industry and also to speed up the building of additional hotel rooms to meet demand, those costs reaching approximately \$40 million.<sup>21</sup>

In 2008 there was a video-sharing campaign on YouTube, which portrayed Israel in a positive light, as a safe haven and a welcoming destination for tourists.<sup>22</sup> The videos that were posted were an effort to combat violent images in the media, which create fear and harm Israel's tourism industry. Moreover, the Ministry has asked web users to upload their own videos with Israel, directly on YouTube so that people find a collection of videos showing Israel in real time and who lead tourists to visit Israel.

Also, the Tourism Ministry has lobbied for the development of the first casino in Eilat, Israel, and has signed an agreement with the Israel Land Administration to allocate 12 acres of land on the north shore of the Eilat<sup>23</sup>.

This move was vital for the tourism industry and the economy of Eilat because of the loss of tourists, who traveled in Egypt and Jordan, countries which had already opened the casino industry. Legally opening a casino represented also a reduction in illegal gambling, which was estimated at more than \$3.6 billion per year<sup>24</sup>. The success of this first casino paved the way for the development of other casinos in other parts of Israel.

In 2010 the Ministry of tourism adopted three new political measures:

- Introduction of a new classification system compatible with the European system for classifying stars for hotels.
- Up to 20% of the cost for hotel renovation because hotels are compatible with the new classification
- Up to 28% for that entrepreneurs to convert existing buildings into hotels.

Israel found itself in a shortage of 16,000 hotel rooms because of a stagnation in hotel building over the last decade and explosive growth of foreign

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<sup>20</sup> Ynet News, *Putting Israel on the Map*, available from <http://www.ynetnews.com/articles/0,7340,L-3530714,00.html>

<sup>21</sup> Prime Minister's Office, *The Director General of the Ministry of Tourism Reports to the Prime Minister, the Acting Minister of Tourism*"; available from <http://www.sela.pmo.gov.il/PMOEng/Communication/Spokesman/>

<sup>22</sup> Ynet News, *Israel Broadcast Live on YouTube*; available from <http://www.ynetnews.com/articles/0,7340,L-3526580,00.html>

<sup>23</sup> Ynet News, *Israel's First Casino to be Built in Eilat*, available from <http://www.ynetnews.com/articles/0,7340,L-3491987,00.html>

<sup>24</sup> Idem.

tourists that have visited Israel in recent years, which has been surveyed to be about 5 million tourists annually. This could be solved by making more than 2,000 new rooms, in a way faster and cheaper by harnessing existing buildings<sup>25</sup>.

To support tourism, an Israeli organization Taglit Birthright proposed decreasing growth division between Israel and Jewish communities around the world by strengthening the sense of solidarity among youth from Israel and Jewish communities around the world and promoting the idea of a trip to Israel for all Jews in the diaspora as a critical part of Jewish life outside of Israel<sup>26</sup>.

The efforts of the Government and organizations such as Taglit, who supported and promoted the increase in Israeli tourism, are currently considered to be a success.

### 4.3. Policies for sustainable development of the destination Israel

The Israeli Tourism Ministry has adopted a policy of sustainable development in current conditions of instability, aimed to ensure future tourism and which to operate in accordance with the principles of territorial continuity, development tourism in conserving the environment, landscape integration, encouraging the use and utilization of existing structures and the ecological rehabilitation and care of rivers, as well as preparing strategic plans for sustainable, encourage investment in green hotels, giving priority to these hotels when considering the eligibility of their subsidies.

From a cultural standpoint, the Ministry promotes the conservation of archeological and cultural sites through their rehabilitation, encourages and assists businesses that exhibit the full range of existing cultures in Israel.

From a social point of view, the Ministry assists residents of peripheral area in the development of small tourism enterprises and in encouraging them to develop agricultural tourism.

Another important project is the Israeli program RESSAC which was designed primarily for Regional Activity Center MAP for remote sensing (ERS/RAC) which was officially launched in the framework of the European Commission on the environment and climate. It has sought to demonstrate the usefulness and cost-effectiveness of multi-satellite data in assessing and monitoring coastal erosion phenomena<sup>27</sup>.

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<sup>25</sup> <https://books.google.com.ph/books?id=lh4E3UUpzlcC&pg=PA420&lpg=PA420&dq=central+organisations+tourism+israel&source=bl&ots=uRs739RQJJ&sig=QFePYhkg8MPc26GZ7oV47BdH304&hl=en&sa=X&ved=0ahUKEwiXh8S8zKnMAhWlYJoKHVzka0YQ6AEISDAF#v=onepage&q=central%20organisations%20tourism%20israel&f=false>

<sup>26</sup> Taglit Birthright Israel, *FAQs*, available from [http://www.birthrightisrael.com/site/PageServer?pagename=about\\_faq#40](http://www.birthrightisrael.com/site/PageServer?pagename=about_faq#40)

<sup>27</sup> Agenda 21 – Economic aspects of sustainable development in Israel, Decision Making, International Cooperation.

All of these programs to develop tourism and to counter a dangerous destination, traditional Palestinian attacks and disturbed by an intense political instability, must take into account the increase in tourist's profile visiting Israel. Thus, the tourists have an average 8.2 nights of stay, are staying longer at hotels or resorts (71%) in the State, 41% were aged between 25 and 44 years and 22% are over 55 years old, 58% are Christian (mostly Catholic) and only 25% Jews on average, spend 142 USD/day, 49% come to visit families, 27% to inform about Israel on the internet and 39% of the travel agencies<sup>28</sup>.

## CONCLUSIONS

Israel, as a tourist destination, is trying to create a new image among tourists, one in which conflict and bloodshed are to be left behind and instead to be regarded as a destination with important touristic resources, intensely sought after in the international touristic market.

The Israeli Government and the Ministry of tourism in collaboration with the security forces always devise defensive and safe solutions, both for the people of Israel and for tourists who spend their time and their holidays on the Israeli territory.

Israel has a lot to offer to its tourists, and even if it is perceived as a dangerous destination, many tourists are interested in traveling within the state. Religious pilgrims, relatives of Jewish families or simple travelers, eager for rich experiences, return each year to Israel, and the touristic circulation indicators provided by the Ministry are clear proof.

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# RELATIONSHIP BETWEEN FDI DISTRIBUTION AND REGIONAL ECONOMIC AGGREGATES: AN EVIDENCE FROM INDIA

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## Abstract

*India is a rapidly developing country with diversified culture, language, economic status and resource distribution. Foreign Direct investment(FDI) brings employment opportunities, generate more income, lead to urbanization in the region. FDI has a growth impact on the targeted region. In India the problem of regional imbalances is very prominent and regional economic disparity is a major concern. This research paper made an attempt to check if the FDI inflow to the regions are significantly dependent on socio economic variables. The association between the variables is studied using Karl Pearson correlation analysis. The impact of regional socio economic factors on FDI inflow to the regions is also investigated in this paper using regression analysis. The data is collected for the time period of January 2000 to December 2016 from department of industrial planning and promotions, ministry of commerce and industries, Govt. of India, Ministry of economic affairs etc. The variables like income from agriculture, income from industry, per capita NSDP, population density, HDI, per capita GSDP, state GDP, annual wage per worker are found to have significant impact on FDI inflow to the regions and are in line with the existing literature. This piece of research can help the government, policymakers and analysts to introduce the policies that can attract more FDI to several regions ensuring India's economic growth.*

**Key words:** *Regional economic aggregates, Foreign direct investment, Net state domestic product, gross state domestic product, population density.*

**JEL classification:** B40, C10, C12, F21, F39, H11

## Introduction

India is a developing country with varied culture, language, economic status and resource distribution. According to the World Bank report (2016) India holds 7<sup>th</sup> position referring to nominal GDP ranking but it holds 134<sup>th</sup> rank referring to nominal per capita income. This indicates diversification in income distribution which leads to economic disparity. India is ranked at 68<sup>th</sup> position amongst all the

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countries in the world with 29.8% of the population living below the poverty line according to the world development indicator, World Bank report 2016. Thus, India still is struggling hard to eliminate the mass poverty. One of the major concerns of India is its regional economic disparity.

In India each and every region is endowed with some or the other type of natural resources which is not uniform in distribution and the government cannot redistribute these natural resources to ensure equality in the regional economic growth. Thus, the economic growth of the country is not homogeneous for all the regions.

The states and union territories in India are not identical with respect to their size, resource distribution, population density, per-capita income, literacy rate, skill and development, human development index and economic growth etc. Thus attracting foreign direct investments becomes very challenging for the Government due to these diversities. To minimize these diversities Government can build better infrastructure, educate and train the labor force to enhance the skill and improve the management. But the country lacks capital to spend in a huge scale towards the training and development and infrastructure building activities. Even though the government had adopted such programs previously, its effect takes a long time to bring 100% literacy level, well-developed rail network, road constructions, electricity supply to every citizen across the regions of the country. These heterogeneities in the distribution of infrastructure and human development index bring uneven distribution in the inflow of FDI amongst the various regional offices of RBI representing the respective states in India. As the states in India differ in their economic performance and social overhead capital, the FDI inflow to these states also varies significantly.

The rest of the paper is documented as, in section 2 literature review is discussed. Section 3 deals with objective and hypothesis, research methodology is discussed in section 4, section 5 depicts impact of socio economic variables on cumulative FDI inflow, Statistical analysis is discussed in section 6, the conclusion and implications are discussed in section 8.

### **Extant of Literature**

FDI inflow and the economic indicators are well researched. However, some of the relevant research work is discussed in this section.

Ansari & Ranga<sup>2</sup> (2010), studied the trend and status of foreign investment in India and recommended policy reforms to boost flow of FDI to India. Their empirical study was with reference to the FDI data and economic indicators of the country from 2000 to 2009. They found that the foreign investors' faith on the return on investment increases if the economy is in track of immediate growth and the growth continues for next five to ten years without break. As Indian economy in the study period was in medium term prospects of growth at a rate close to 8%

and in few years it has touched 10%, the preference of the foreign investors has been growing with confidence.

Aggarwal<sup>1</sup> (2005) found that labour market in Indian states are significantly rigid and it discourages inflow of FDI to the region. However, in his study he found that the labour market rigidity is contradicting result for export oriented foreign investment and for the foreign investment seeking domestic market effect. His study suggested that to attract higher FDI both in the export oriented sectors and domestic market targeting sectors, the factors like human development, regional development and infrastructure development are also important.

Lall and Mengistae<sup>7</sup> (2005) made a broad study on the causes of clustering of industries and industry location in the Indian Cities. He found that for the location choice decisions for the MNCs to carry out their business in India especially, the local/regional business environment has a significant role to play. The rigidity of business regulation and the insatiable enforcement of business regulations discourage the foreign investors to locate themselves internationally. It is also seen that new firms are attracted to locate their production site in the clusters where similar line of business is already established.

Santis et al<sup>15</sup> (2001) studied the FDI flows within the European union member states and found that the overall tax burden and the corporate tax rates do impact the FDI inflow to the member states. However, they found the impact of overall tax burden were larger than the corporate tax rate. It means that the MNCs give greater priority to the overall tax burden than on single corporate tax rates when decision regarding their location choices is to be made. Along with the tax burden, bilateral degrees of trade openness and status and quality of infrastructure of the member states of the European Union have a considerable influence to attract FDI.

Using an online questionnaire survey on investors' specific characteristics and a multinomial logit model Chidlow and Young<sup>5</sup> (2008) found that regional characteristics significantly affect the choice of location for foreign investment venture in Polish regions. They showed that Mazowieckie region (including Warsaw) of Poland attracted more FDI based on knowledge-seeking factors alongside market and agglomeration factors. Whereas for the other areas of Poland, low input cost, availability of labour and resources and geographic factors attracted FDI.

Luo et al<sup>8</sup> (2008) found that the factors which were considered to be very strong and well established like, availability of natural resources and low wage rate were not significant to determine FDI flows to the regions of China. They studied a panel data from 1999 to 2005 covering 98 regions/cities of China and got that policy incentive of the regional governing bodies and industrial agglomerates in the form of Export promotion zones (EPZs) were the most important determinants for FDI flows. Similarly, Xu et al<sup>17</sup> (2008), in their research study, used panel data from 1998 – 2007 for the provinces in China and found that the provinces in China have heterogeneous characteristics but they are

united. This agglomeration economy of regional economies (With two mega-cities Hong Kong, Shanghai) influenced the location choices of FDI in China.

Labour cost and labour quality are negatively correlated but they play an important role to make location choice in China when the FDI is targeted from the European countries and US. Further they opined that the new FDI entrants take a review of the record of cumulative FDI realized in an area and they generally select the one where the record shows highest number of FDI is received. This revealed a demonstration effect of location choice by the new entrants.

In an opinion survey conducted through personal interview of CEOs, managing directors and others who are intimately connected with the FDI decision of the business firms in the state of Gujarat, Morris<sup>10</sup> (2005) recognized the importance of regional factors in the decision of foreign investors' location preference. The survey brought out the significant importance of quality governance and the necessity of infrastructure in FDI decisions at regional level. In infrastructure he found the poor quality of electricity supply, high price of electricity, adverse rules and regulations for availing electricity affect adversely the investment decision at the regional level. Similarly, he found communal strikes and riots and the perception bias in the implementation of law adversely affect the FDI inflow. Archana<sup>3</sup> (2006) analyzed the impact of FDI on eight major states in India. She collected the time series data of FDI and macroeconomic indicators of the eight states along with the country data of the post-reform period from 1991-2004. She used Fixed Effects model (FE), Random Effects model (RE) and Seemingly Unrelated Regression (SUR) models. Fixed Effects model and Random Effects model give a holistic view of the FDI inflow to the eight Indian regions. Whereas the Seemingly Unrelated Regression model shows that overall FDI inflowing to the regions has a positive impact on labour efficiency and productivity and employment for the study period. She has also opined that the positive effect of FDI can be better realized when the benefit of the labour productivity exceeds the cost of unemployment resulted from technology change in the production process. The benefits from foreign direct investment in form of labour productivity arises because the introduction of advanced foreign technology through FDI spreads out a positive impact on domestic technology and improves the managerial skill. Archana<sup>6</sup> found that the variations in growth of market size, gross capital formation, physical infrastructure and social infrastructure significantly explain the variation in FDI across the states.

Using Pearson's rank correlation method, Nunnenkamp and Stracke<sup>12</sup>(2007) found per capita bank deposits, telephone density, per capita income, population density, level of education and per capita net value added have strong positive correlation with FDI into manufacturing sectors in India. Their study also revealed that FDI inflow is negatively correlated with state population. Similarly, over the period 1991-2000, Nunnenkamp and Mukim Megha (2012) used panel data

regression models and observed that, along with various constituent distinctiveness, the availability of quality infrastructure determines FDI inflows into a state. The foreign investors prefer economically advanced location readily available for investment activities. Locations with relatively high per capita income and better infrastructure are the most preferred one over others to set up business by the foreign investors so that their products can get a good response from demand side by the local market of the prospective host country. Majumdar<sup>9</sup> (2005) and Pal and Ghosh<sup>13</sup>(2007) found the state level infrastructure like transportation facility, electrification, airports, ports, education, telecommunication, healthcare and sanitization, etc have a significant influence on FDI distribution in Indian states. States with a better facilities receive major a share in the FDI distribution whereas the states poor in infrastructure get very little amount of FDI.

Shraddha& Morrison<sup>16</sup>(2006) examined the possible cultural factors like the presence of various religions, social background & cultural practices and political environment of the different states and their possible effect on FDI in different regions of India. In terms of implicit psychological attitudes, culture is often narrowly defined and very less analysis is done on the effects of cultural features explicitly on FDI to regional offices of RBI. They found a significant effect on FDI flows to the region comes from the social background and explicit cultural variables of the respective Indian regions under study. In addition, urbanization is also a significant factor having a positive effect on the FDI inflow to Indian states.

Ahluwalia<sup>1</sup> (2001), studied the relationship between the investment climate of the regions and the FDI inflow to the regions. He stated that more foreign investment comes to those states which have strong investment climate, whereas the states with weak investment climate could not attract significant amount of investment from the foreign investors.

In the studies related to Indian context, Goldar<sup>6</sup> (2007) studied 17 states of India to analyze location choice for factory setup across 100 largest cities using econometric analysis. He found that the location choice decision of both domestic firms and foreign firms is influenced more or less by the same set of factors. He found the city-size and existence of a metropolitan city in a state also has positive impact on the location decisions of industrial plants. It is because MNEs prefer to start the company head-quarters in a metropolitan city of the host country. Further, he found that multi-national companies were inclined by the investment climate of the economic environment, the availability of civic amenities like power supply, water supply, schools, hospitals etc in the cities and the accessibility of skilled educated workers in the state to select the location for factory setup and plants. Morris<sup>10</sup>(2007) supported the findings of Goldar<sup>6</sup> (2007) and argued that the preference to setup the Headquarters or Company Head offices in the metropolitan cities over small cities in India have extra advantages

in the form of added operational efficiency. That is the reason why the metropolitan cities in India attracted a lion's share of the FDI inflows.

Ramachandran and Goebel<sup>14</sup>(2002) pointed out that the political stability, strong and stable government with pro-active government policies, investor-friendly and transparent decision making process made Tamil Nadu one of the dominating locations to attract foreign investment. The state has also added advantages in the form of adequate amount of industrial infrastructure which is diversified in nature, comfortable power situation, Easy availability of skilled manpower, satisfying industrial relations and absence of labor unrest, high quality of work culture and peaceful life, best incentives package in the country, highly cosmopolitan public and high proportion of English speaking population. Tamil Nadu has got plenty of FDI in the IT sector.

Some studies on FDI inflow in India are conducted to study the region choice for setting up plant or company headquarters. But this is not enough to tell the socio-economic factors influencing FDI inflow to the Indian regions. The studies on FDI in India which has taken macroeconomic variables like wage rate, amount of natural resources, state GDP or the market size as the various factors affecting the location choice for investment by the foreign investors are not thickly available. Thus our study takes an attempt to find out the regional factors like social and economic indicators at the regional level affecting FDI inflow to the Indian regions. These variables are Human Development Index of the Regions, Literacy Rate, Percapita State GDP, Growth Rate of State GDP, Region's Income from Industry, Region's Income from Services, States Tax Revenue, etc. Thus, the present study highlights the significant determinants of FDI inflow at the regional level and finds out whether the general perception about the reasons for higher FDI concentration go true or there is any exception in the expected relationship of the described determinants with the regional FDI.

The foreign investors also follow a similar pattern while deciding the location of investment. Nurkse, an eminent economist said poverty is self-propelling. In his words, "a country is poor because it is poor". In a similar manner we can say the reason of regional economic disparity is the regional economic disparity itself. That is basically the cause of economic inequality in the regions can be found and solved in the region only. One of the methods to meet the deficiency of capital requirement is by encouraging large domestic companies and inviting Multi-National Companies (MNCs) to produce goods and services and operate their business full fledgy in the underdeveloped or backward regions. If the country is again a capital deficit country then the only alternative left is to invite MNCs. MNCs generally do come with Foreign Direct Investment (FDI) with an objective either to reduce the cost of production significantly or to conquer the market where import is discouraged to protect the domestic producers or with a hybrid objective too. Thus the inflow of FDI is dependent on the local

market whether it is the product market or the factor market. In product market the foreign investors will look at the regional income level or the market size and in the factor market they will look forward to get skilled labour, quality raw materials, etc at a cheaper cost. In our study we take the state GDP, population density and the state percapita income as a proxy of the local market size and the annual wage per worker and the state literacy rate are considered as a proxy for the quality of the factor market.

### **Objective of the study**

To check which regional socio economic factors affecting FDI inflow to the regions significantly.

### **Hypothesis of the Study**

**Null Hypothesis:** FDI inflows to the regions are not significantly dependent on socio-economic variables.

**Alternative Hypothesis:** FDI inflows to the regions are strongly dependent on socio-economic variables.

### **Research Methodology**

**Data Collection:** The data required for the study is collected from various secondary sources. The FDI data is collected from the department of industrial planning and promotions (DIPP), Ministry of Commerce and Industries, government of India. These are the published data supplied by DIPP at regular time interval on FDI received by the RBI's regional offices located in different state capital of the country. This data is available from January 2000 to December 2016. Similarly, we got the data on social and economic conditions from the published data of Census 2011 and the Ministry of Economic Affairs, Government of India. The data on Contribution of Agriculture, industry and services to the state GDP is considered for the year 2014-2015. All the periods are not identical for the various socio-economic parameters as different government agencies being the owner of the information, supply the data at different period. In this paper sixteen regional offices responsible for receiving FDI for the different states and union territory of the country are studied. As they represent their states, so the socio-economic information are mentioned against the region and they inherently meant it for their respective states.

No sampling procedure is followed in the study as the cumulative FDI Data is available since year 2000.

For the statistical test we will use Correlation, Regression and Anova to verify the link between the explained variables like state GDP (GSDP) States Tax revenue Percent ratio to NSDP, Percapita NSDP, Growth Rate, Population Density, Literacy Rate, Annual wages per worker, Agricultural Allied, Industry, Per Capita GDP, HDI with the FDI inflow to the regions or Indian states. In this

paper, attempt is made to find out the relationship of various economic aggregate of the regions/states with the dependent variable FDI inflow into the regions.

### The impact Socio Economic variables on cumulative FDI inflow

The socio-economic variables are believed to be influential in the foreign investment decision making. The state GDP, Literacy rate, Annual wages per worker, per capita GDP, Population Density, Per capita NSDP, Agriculture & Allied, Industry, Services, Total GDP in INR, Growth rate, States own Tax revenue as percent to NSDP are considered to be the proxy of market size, factor cost, factor availability, states policy, etc. to know whether these variables have any influence on the FDI inflow or not we will first see the coefficient of correlation exists or not. If significant amount of correlation exists, then which socio-economic variables affect the FDI inflow significantly? For this purpose, we will conduct the statistical tests for the following table.

**Table – 1: Socio-Economic Status of the Indian Regions**

RBI Regional Office	Cumulative inflow from 2000-2016 (in Million Rupees) #	Literacy Rate (Per cent) 2011	Annual Wages per Worker (Rs) 2009-10 #	Per-capita GDP (2014-15) #	Population Density (Persons per sq. km) 2011	Per Capita NSDP (Rs) 2014-15 #	FDI inflow in 2016 #	Agriculture & Allied (2014-15) #	Industry (2014-15) #	Services (2014-15) #	Total GDP in INR (Ten Mn) (2014-15) #	Growth Rate (2014-15)	State's Own Tax Revenue as % to NSDP 2014-15	HDI (2015)
Mumbai	5,343,691.71	82.9	103406	152,853	365	117091	1466333	150621.7	382715	715116	1686695	11.69	7.8	0.57
New Delhi	3,653,348.94	86.3	69820	275,174	11297	212219	466475	2739.35	54500	256694	451154	15.35	6.7	0.75
Chennai	1,262,361.83	80.3	68422	146,503	555	112664	91802.1	77654.53	192174	369195	976703	14.34	10	0.57
Bangalore	1,204,345.28	75.6	83219	144,869	319	89545	162814.6	74387	125990	258525	702131	14.24	10.5	0.52
Ahmedabad	866,873.09	79.3	76316	141,405	308	106831	233769.6	96862	194778	221532	775469.53	13.68	7.8	0.52
Hyderabad	705,821.64	67.7	61007	141,979	308	81397	162520.8	140343	186172	349282	520030	12.03	8.9	0.47
Kolkata	211,740.71	77.1	71626	87,672	1029	70059	7736.83	128062	99735	313788	800868	13.35	4.9	0.49
Chandigarh	65,763.57	76.6	90347	250,398	573	133427	673.42	63734	86978	158232	435310	11.93	7.2	0.55
Bhopal	68,030.22	70.6	82730	63,323	236	51798	3424.69	78717	90515	146154	508006	16.86	8.8	0.37
Kochi	95,789.38	93.9	54994	155,005	859	103820	29515.3	46586	69483	210624	405106.67	14.57	8.9	0.79
Panaji	40,421.95	87.4	126788	304,666	394	224138	412.39	2155	21962	20343	51580.95	14.02	7.3	0.62
Jaipur	81,814.37	67.1	65995	84,837	201	65974	3725.25	98564	105337	164418	574549	11	6.7	0.43
Bhubaneshwar	20,599.50	73.5	91921	71,184	269	52559	650.34	41697	82135	102404	310810	13.86	6.3	0.36
Kanpur	30,160.11	69.7	68048	49,450	828	103716	1402.11	193419	152098	342319	138723	12.88	7.7	0.38
Guwahati	4,565.88	73.2	49332	60,621	397	44263	331.14	32191	26862	56354	183798	15.26	6.3	0.44
Patna	6,087.26	63.8	43362	33,954	1102	31199	688.74	66185	46394	140113	402283	17.06	5.2	0.36

Source: SIA Newsletter January 2017, DIPP. Ministry of Commerce, India

**Normality Check:**

To check if a data follows normal distribution, we conducted a normality test by applying Shapiro-Wilks test tests. The test is also used to find out the likelihood of the data under study following normal distribution. There are two similar tests, those are, Kolmogorov-Smirnov test and Shapiro-Wilks test to ensure the sample distribution satisfies the normality of data and a bell-shaped curve is found when the data is plotted on a graph paper. The normality in the sample distribution confirms the normality of the population that the sample represents. For the tests on sample of n lesser or equal to 50, Shapiro-Wilks test is used. The normality test hypothesis can be defined as follows:

- H0: the observed distribution is normally distributed
- H1: the observed distribution is not normally distributed

**Table - 2 (A): Tests of Normality**  
(Cumulative FDI Inflow on Regional Socio-economic Variables)

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Cumulative_FDI_Inflow	.298	16	.000	.599	16	.302

a. Lilliefors Significance Correction

The test statistics are shown in table 1. Here two tests for normality are performed. In this case, though the sample size is less than 50, Shapiro Wilk's test will be referred to check with the normality of the data. The p-value is 0.302. So we are failed to reject the null hypothesis. Thus the test result confirms that the data satisfies the condition of normality and it represents the population without any biasness.

**Results of Multiple Regression Analysis**

Table - 2 (B) is the descriptive statistics that shows the means, standard deviations, and the number of sample observations when studied for the impact of **Regional Socio-economic Variables** on FDI inflow to Indian regions.



Per capita NSDP	.380	.713(**)	.594(*)	.991(**)	.505(*)	1							
	.147	.002	.015	.000	.046	.							
Agricultural Allied	.147	-.413	-.131	-.466	-.377	-.493	1						
	.586	.111	.629	.069	.150	.052	.						
Industry	.696(**)	.038	.206	.002	-.217	-.058	.676(**)	1					
	.003	.888	.443	.994	.419	.832	.004	.					
Services	.780(**)	.131	.071	.061	.034	-.008	.668(**)	.909(**)	1				
	.000	.628	.794	.822	.899	.976	.005	.000	.				
SGDP	.690(**)	.011	.081	-.050	-.117	-.113	.777(**)	.956(**)	.978(**)	1			
	.003	.968	.766	.854	.665	.676	.000	.000	.000	.			
Growth Rate	.133	-.368	-.564(*)	-.283	.240	-.358	.156	.034	.136	.117	1		
	.623	.161	.023	.288	.371	.173	.563	.900	.615	.665	.		
States Taxrevenue Perrent NSDP	.135	.233	.133	.116	-.187	.105	.111	.360	.274	.290	-.219	1	
	.617	.386	.623	.669	.488	.698	.682	.170	.304	.277	.416	.	
HDI	.396	.903(**)	.139	.778(**)	.499(*)	.744(**)	-.402	.008	.166	.024	-.107	.265	1
	.129	.000	.607	.000	.049	.001	.123	.977	.538	.931	.692	.322	.
N	16	16	16	16	16	16	16	16	16	16	16	16	16

\* Correlation is significant at the 0.05 level (2-tailed).

\*\* Correlation is significant at the 0.01 level (2-tailed).

The result of the correlation test says Industry performance, service sector performance and the volume of state GDP are significantly correlated to the cumulative FDI inflow to the states. In Table 2 (C), though the absolute value of Karlpearson's coefficient of correlation are lesser than 0.7, there is no collinearity problem exists in the data. Thus, to check how well the independent variables like Literacy rate, Annual wages per worker, per capita GDP, Population Density, Per capita NSDP, Agriculture & Allied, Industry, Services, Total GDP in INR, Growth rate, States own Tax revenue as percent to NSDP, HDI, etc., explain the dependent variable i.e.; Cumulative FDI Inflow, the R-square value is taken into consideration. Table –3 (A) provides a Model Summary through R-square value that explains the variation in the dependent variable due to the variation in the independent variables.

**Table –3 (A): Model Summary<sup>b</sup>**  
(Cumulative FDI Inflow on Regional Socio-economic Variables)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.977 <sup>a</sup>	.955	.866	309453.71687

a. Predictors: (Constant), States\_Taxrevenue\_Perrent\_NSDP, Per\_capita\_NSDP, Services, Growth\_Rate, Poptn\_Density, Literacy\_Rate, Annual\_wages\_per\_worker, Agricultural\_Allied, Industry, Per\_Capita\_GDP, HDI

b. Dependent Variable: Cumulative\_FDI\_Inflow

Table –3 (A) displays the Model Summary which provides the R<sup>2</sup> and Adjusted R<sup>2</sup> values, those are 0 .955 and 0 .866, respectively. This shows that the predictor variables in combination explains 95.5% of the variation in Cumulative FDI Inflow. There is a loss of strength in computing the Adjusted R Square value

to a very small amount (by 9%), which may be primarily because we have taken relatively a small number of predictor variables for our sample data. To check the significance of the model ANOVA is used. The result is as follows:

**Table –3 (B): ANOVA <sup>b</sup> (Cumulative FDI Inflow on Regional Socio-economic Variables)**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1021000000000.00	10	1021000000000	10.662	.009 <sup>a</sup>
Residual	478800000000.00	5	95760000000		
Total	10690000000000.00	15			

a. Predictors: (Constant), States\_Taxrevenue\_Perccent\_NSDDP, Per\_capita\_NSDDP, Services, Growth\_Rate, Popn\_Density, Literacy\_Rate, Annual\_wages\_per\_worker, Agricultural\_Allied, Industry, Per\_Capita\_GDP

b. Dependent Variable: Cumulative\_FDI\_Inflow

Table 3 (B), shows the test of significance of the model through the Analysis of Variance (ANOVA). There are 15 total degrees of freedom. The ANOVA test says that the Regression effect is statistically significant as we get the significance value to be 0.009 and it is less than 0.05. It indicates that the dependent variable can be predicted better with the predictors in our study. The detailed result of the regression analysis with their relative strength of effect on dependent variable is mentioned in Table – 3 (C) as follows:

**Table – 3 (C): Coefficients<sup>a</sup>  
(Cumulative FDI Inflow on Regional Socio-economic Variables)**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error				Beta	Tolerance
(Constant)	56473.881	1758044.39		-.032	.976		
Literacy_Rate	-7939.028	18892.463	-.077	-.420	.692	.266	3.764
Annual_wages_per_worker	7.897	6.814	.196	1.159	.029	.312	3.202
Per_Capita_GDP	.785	27.045	.042	.029	.033	.204	2.930
Popn_Density	101.694	70.146	.327	1.450	.0120	.277	5.663
Per_capita_NSDDP	.514	27.788	.026	.018	.0211	.305	3.716
Agricultural_Allied	-9.475	3.262	-.593	-2.905	.034	.215	4.646
Industry	4.852	3.795	.514	1.279	.0025	.255	3.021
Services	3.676	1.974	.715	1.862	.0122	.261	4.454
Growth_Rate	1459039.10	3037637.33	.071	.480	.651	.409	2.442
States_Taxrevenue_Perccent_NSDDP	-55581.465	59216.787	-.104	-.939	.391	.331	2.368
HDI	2103213	4030475	0.319	0.521	0.092	0.0171	5.493

a. Dependent Variable: Cumulative\_FDI\_Inflow

Table 3 (C) provides the details of the Regression Coefficients results. The Zero-order column under Correlations lists the Pearson r values of the dependent

variable (Cumulative FDI Inflow) with each of the predictors. Tolerance and VIF (Variation Inflation Factor) are the two measures used for checking the multi-collinearity in the data. It is observed here that the Tolerance limit for all the independent variables are greater than 0.19 and the VIF for all the independent variables are lesser than or equal to 5.9. It is observed that the Tolerance and VIF for all the variables lie within the acceptable range. Thus it can be concluded that the data is free from the multi-collinearity problem.

The Y intercept of the raw score model is labeled as the Constant and has a value here of 56473.881 of primary interest here are the raw or unstandardized (B) and standardized (Beta) coefficients, and their significance levels determined by t tests. The predictors like annual wages per worker, per capita GDP, Population density, Per capita NSDP, Agriculture & Allied, Industry, Services etc. are statistically significant. Literacy Rate, Growth Rate, States own Tax revenue as percent to NSDP are found to be insignificant.

The unstandardized regression coefficients are partial regression coefficients because their values take into account the other predictor variables in the model. These regression coefficients inform regarding the predicted change in the dependent variable if predictor increases by one unit.

It is observed in Table 3 (C), Annual wages per worker has got a positive  $\beta$ -coefficient. It is associated with a partial regression coefficient of 7.897 and signifies that with every one-unit increase in the Annual wages per worker, there will be a gain of 7.897 points in the cumulative FDI Inflow. Similarly, Per Capita GDP has got a positive  $\beta$ -coefficient and is associated with a partial regression coefficient of 0.785. It signifies that with every one-unit increase in the Per Capita GDP, we would expect an addition of 0.785 units in the cumulative FDI Inflow measure. Similarly, the variable, Population Density has got a positive  $\beta$ -coefficient, that is 101.694, which indicates the increase in the Population Density by one unit would help to gain 101.694 units in the cumulative FDI Inflow.

The partial regression coefficient for the variable Per Capita NSDP is found to be significant and has a positive  $\beta$ -coefficient of 0.514. It indicates that when the Per Capita NSDP increases by one additional point, it is expected that the cumulative FDI Inflow measure will increase by 0.514 points. However, the variable Agriculture & Allied has got a negative  $\beta$ -coefficient of -9.475 and it signifies that for every incremental unit in the income from Agriculture & allied, we would forecast a reduction of 9.475 points on the cumulative FDI Inflow measure. The variable Industry has a positive  $\beta$ -coefficient of 4.852 and one unit change in this variable will cause a gain of 4.852 points in the Cumulative FDI Inflow. Similarly, the variable Services has got a positive  $\beta$ -coefficient of 3.676 and one unit change in this variable will cause a gain of 3.676 points in the Cumulative FDI Inflow. Growth Rate has got a positive  $\beta$ -coefficient of 1459039.101. It indicates that for each extra point on the Growth Rate, we would

foresee an increase by 1459039.101 points on the cumulative FDI Inflow measure. At last we found HDI has also a positive impact on the cumulative FDI inflow. One unit gain in HDI will add 2103212.695 units in cumulative FDI inflow. HDI has got the highest impact on cumulative FDI inflow.

From the literature review of FDI related studies, the explanatory variables are expected to affect the FDI in a particular direction but in our studies some of the variables affect the FDI in a different direction. The resultant impact of the predictor variables along with their significance status is given in detail in table - 4.

<b>Table - 4: List of Explanatory Variables Selected for Cumulative FDI inflow to Indian Regions</b>					
Type of factor	Variables	Expected Sign	Realized Sign	Significance Status	
<b>A.</b> Market size	1. Per capita NSDP	+	+	Yes	
	2. Population Density	+	+	Yes	
	3. HDI	+	+	Yes	
	4. Percapita GSDP	+	+	Yes	
	5. State GDP	+	+	Yes	
<b>B.</b> Labour Conditions	6. Annual Wages per worker	-	+	Yes	
	7. Literacy rate	+	+	No	
<b>C.</b> Policy Environment	8. State's own tax revenue as per cent of NSDP (TAX)	-	-	No	
<b>D.</b> Economic Performance	9. Income from Agriculture	+	-	Yes	
	10. Income from Industry	+	+	Yes	
	11. Income from Services	+	+	No	
	12. Growth rate	+		Excluded	

The above discussion and the tests we conducted are for the dependent variable cumulative FDI inflow to the regions from January 2000 to December 2013 and it is done with a purpose to know what are the main determinants to influence the cumulative FDI inflow from the past till now. We will repeat the same set of test to verify what are the factors those significantly affect the percapita FDI in the contemporary period by taking the Percapita FDI of 2013 as the dependent variable and the same set of independent factors as we discussed in table 4, but some of the explanatory variables in the factors may be different.

### **Conclusion and Implication**

We found the economic variables like income from agriculture, income from industry, state GDP are significant in determining the inflow of FDI to regions. The socio-economic variables showing the demographic conditions of the regions like population density, Human development index, percapita NSDP, percapita GSDP and Annual wages per worker are significant in deciding the dependent variable that is the regional FDI. But the annual wage per worker

contradicts the expected relation with the FDI. It says that it's not the cheap labour rather the skilled labour attracts foreign investors. Thus, the Skill India programme will definitely boost the regional economies. Income from Agriculture also shows a contradicting relationship from the expected one but for the states/region it is difficult to have a control on it. Only through skill development the workers can lead a better quality of life and the economy can produce more and generate more income. Finally, this will lead to a higher demand for goods and services and in turn a higher quantity of FDI. The regions should now compete with each other in creating skilled workforce. The sooner a state or a region identifies this secret, the faster it can grow. This piece of research work will be beneficial for the Government to attract more FDI inflows to the country and the states as well and also to distribute the same in a balanced manner to ensure maximum economic growth.

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# LINGUISTIC FEATURES OF BUSINESS ACRONYMS AND ABBREVIATIONS IN ENGLISH

Mariana Coancă

## **Abstract:**

*This paper gives an insight into the development of abbreviations and acronyms and analyzes the use of English abbreviations and acronyms in business communication, the formation mechanisms of identified acronyms and abbreviations and their contexts of use. The study concludes that business abbreviations in English have various lengths and represent an increasing part of the language as they are common in business newspapers (accompanied by marginal explanations or equivalent phrases) while some of them are frequent in the general press due to their migration to the common language which assimilated them completely.*

**Key words:** *business acronym, business abbreviation, linguistic feature.*

**JEL classification:** A12, F00.

## **1. Introduction**

The 21<sup>st</sup> century is considered the century of the educational entrepreneur and of the learners as protagonists, self-motivated and self-organized learning, at scale, wherever and whenever it is needed [Leadbeater & Wong (2010)]. Also, in this century we often share and exchange information with friends or colleagues in a lapidary way, therefore we use abbreviations in our daily communication.

Comprehensive studies show that English abbreviations and acronyms are assimilated by other languages highlighting the capacity of these languages to assimilate and use an international composition process [Stoichițoiu-Ichim (2006); Kostina *et al.* (2015)]. This international trend of using abbreviations and acronyms is justified not only by extra-linguistic factors. In this age of technical-scientific revolution, the abundance of abbreviations is also related to the interaction between the internal and external norms for the development of language [Cotelnic (2013: 123)].

In what follows we compare the definitions of acronyms and abbreviations as provided by dictionary and the definitions formulated by other authors. The Cambridge Advanced Learner's Dictionary & Thesaurus defines an *abbreviation* as “a short form of a word or phrase. When we abbreviate a word or phrase, we shorten it. Abbreviations can be formed from the first letters of the word or phrase. In such cases, we normally say them by spelling out each letter”, whereas an *acronym* is defined as “an abbreviation consisting of the first letters of each word in the name of something, pronounced as a word”, according to the same dictionary. Acronyms are words which are formed from the first letters of other words, and which are pronounced as full words. On the other hand, researchers use the term *initialism* for the popular means of forming new words by taking the initial letters of multiword sequences, which are traditionally divided into two types: acronyms and

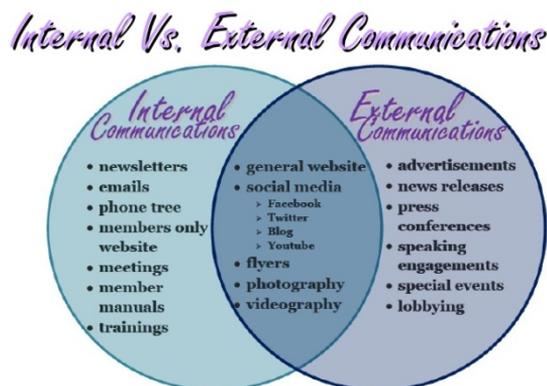
alphabetisms [Rúa, (2002) apud Altakhaineh (2017)]. While far from a novel invention, abbreviations are similar in their lexical nature to the current vocabulary. However, the abbreviations formed by initials are still specific units as their sign character is to a certain extent different from that of a common lexical unit. It should be noted that any incorrectness of business abbreviations complicates the relationship between writing and reading, between writing and decoding, hindering the real understanding of communication [Cotelnic (2013: 124, 128)]. The next section of our paper focuses on the importance of business communication, its relationship with the business discourse as investigated by recent research and highlights the characteristics of the multidisciplinary field of research referred to as *Business Linguistics*. The 3<sup>rd</sup> section makes an overview of the use of acronyms and abbreviations, describes business abbreviations in English and identifies their main features. The last section of the paper summarizes the points discussed and key findings.

## 2. Business Communication – Business Discourse

While speaking out the origin of the term “economics”, Bliss points out that ancient Greeks who gave to us the name of this subject lacked the concept of what we now call *Economics* since “Oeconomicus” would be ‘Household Management’ in modern English (Bliss, 2005: 14).

Generally speaking, communication takes place everywhere - in all social spheres:, in organizations, in management, and in the business world. Business communication encompasses all formal and informal communication within business settings. Nowadays, it is essential to achieving significant economic outcomes. Internal communication includes the communication aimed at employees to explain procedures and policies, whereas external communication comprises email and compulsory forms of marketing (posters, brochures, advertisements, etc.) to attract customers, business partners and key suppliers to conduct successful business transactions (see also Fig. 1)

**Fig. 1: Internal versus External Communication**



Source: Ashley Davis (2012 Summer Leadership Conference<sup>1</sup>)

<sup>1</sup> <https://www.slideshare.net/LAEducators/communications-101-13777029>

Many scholars have formulated various definitions of *business communication* in which they refer to business communication as a form of communication that overlaps with professional communication and communication within the organization (enterprise). A similar view is expressed by Dragoş Vasile who defines business communication as “the process of transmitting a message about something to a receiver, in direct or indirect connection with the fulfillment of professional tasks performed by people in formal organizations” [Vasile (2000: 11)]

To shed some light on the purpose of business communication, we can add that business communication is different from other types of human communication through:

- Participants. In business communication they participate as businessmen, traders, partners, clients, negotiators, etc.;
- Content. The aim of business communication is the achievement of the economic transaction, the sale/purchase of a product or a service;
- Finality. Business communication is omnipresent in commercial (business) documents (sales contracts, conventions, orders, protocols, etc.).

The features of Business Communication [Vasile (2000: 15-17)] reveal the fact that it has become of paramount importance in the business arena and as noticed by us it is an attractive discipline in the faculty curriculum due to its pragmatic feature, concern for efficiency, adjustment of the message to meet the needs of a wider audience, and creation of a trustworthy image among business actors.

The relationship between the concepts of communication and discourse has been investigated by many researchers who are active in teaching, too. In this regard, a well-crafted statement caught our attention as it highlights that the concepts of communication and discourse “focus on text and talk in the context of business”, but that business discourse “focuses more directly on text and uses context to explain linguistic phenomena” [Louhiala-Salminen (2009: 305) apud Mautner & Rainer (2017:8)].

Consequently, both are investigated within the field of Business Linguistics, which covers the following key areas [Daniushina (2010: 241-242)]:

- Business discourse, organizational, corporate and managerial communication;
- Oral, written and technically mediated communication in business, its typology and genre classification;
- Professional sublanguages of business sectors (e.g. banking, accounting, manufacturing, administration, etc.);
- Language of advertising and marketing, public relations (PR), the special language techniques for sales and marketing;
- Lingua-pragmatics in a business context and Business Rhetoric (e.g. leader’s speech, communicative strategies for conducting meetings, and negotiations, etc.);
- Documentation linguistics: business correspondence and drafting contracts;
- Instructional (teaching) and academic language of business, economics and management, used in textbooks and research, academic publications, lectures, case studies and training, consulting and coaching on business topics;
- Business lexicography (systematizing business terminology and composing thesauri of business vocabulary);

- Language of the business media;
- Intercultural business communication (including teaching/learning foreign languages for business purposes, as well as language in the workplace in multinationals, and language assessment).

### 3. The Use of Abbreviations and Acronyms

Acronyms and abbreviations have been used since ancient times. Generally speaking, they are not a novel invention and are employed to attenuate the complexity of wordiness. Relevant studies [Altakhaineh (2017); Khodorkowsky (2014)] mention the Roman origin of several abbreviations which are still in use today, such as AM and PM (*ante meridiem* and *post meridiem*, meaning “before noon” and “after noon”), AD, which indicates the time period after the birth of Christ and originates from the Latin *anno domini*, meaning “in the year of our Lord”, SPQR (Senatus populusque Romanus) “the Senate and People of Rome.” Another well-known and old acronym, cited in the Christian Bible, is INRI (Jesus Nazarenus Rex Iudaeorum) “Jesus of Nazareth King of the Jews.” [Altakhaineh (2017); Khodorkowsky (2014)]

In the 19<sup>th</sup> century, due to the Industrial Revolution, researchers exemplified the proliferation of acronyms for corporations, railroads, stock exchanges, telecommunications, oil and gas, and numerous other enterprises, whereas in the 20<sup>th</sup> century, they reveal that acronyms were used frequently as they related to tanks, planes, and weaponry for condensing and shortening information that was sent as quickly and efficiently as possible during World Wars [Khodorkowsky (2014)].

Riordan argues that World War 1 witnessed a systematic increase in the number of abbreviations, as Americans had been using them for a long time to talk about governmental, business and daily activities [Riordan (1974) apud Altakhaineh (2017)]. Additionally, Merriam collected 72 initialisms and included them in the 1945 supplement to Webster’s second edition (1934), thus becoming part of the American lexicon [Russell (1946) apud Altakhaineh (2017)].

Other researchers contend that when acronyms have a meaning that corresponds to one denoted by an established word and they are mentioned in a relevant context which both speakers are familiar with, their processing effort is minimized to a great extent. In other words, to reach a maximal relevance, positive cognitive effects (e.g., understand a certain concept, find a solution to a problem, confirm a doubt, etc.) are achieved by processing an input with a minimum processing effort [Wilson & Spreber (2004:252) apud Altakhaineh (2017)].

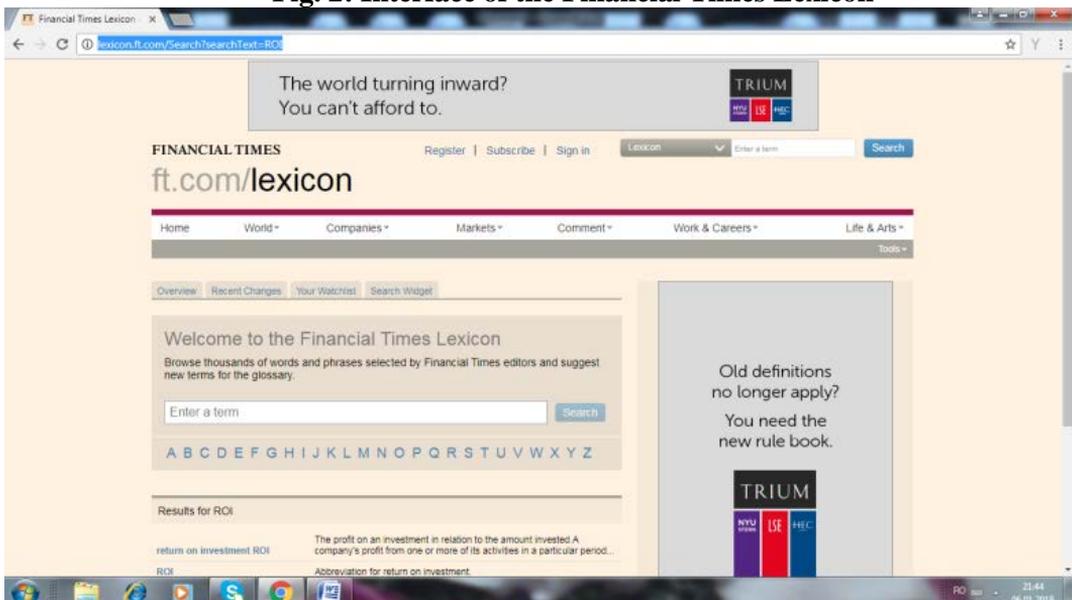
The use of English acronyms in other languages could be attributed to different reasons: (a) English is regarded as the language of science; (b) there are few acronyms in other languages in comparison with English; and (c) the significant increase in the use of abbreviated forms in writing on the Internet [Altakhaineh (2017); Crystal (2006)]. Likewise, the advent of text-speak and internet lingo has determined many of us to look for the most efficient routes of communication [Khodorkowsky (2014)].

We strongly believe that the most known and used business abbreviation worldwide is CV (Curriculum Vitae, which originates from Latin for “course of (one’s) life”) and is defined as “a short account of one’s career and qualifications prepared

typically by an applicant for a position” – in other words, a résumé [Merriam Webster Dictionary]. As we face changing conditions of social life and technological progress, the need for efficient communication plays an important role in the formation of new units of communication - a process for which there are prerequisites in the language system and which have manifested until recently only sporadically [Cotelnic (2013: 123)].

In every scientific communication the use of symbols, abbreviations, and acronyms for various business concepts has been of paramount importance for ensuring understanding; therefore, it is necessary that they be accompanied by marginal explanations when addressed to a specialist audience and by explicit definitions when addressed to a non-specialist audience. Unlike teaching books focused on business vocabulary [Rawdon (2007)], it is worth mentioning the Financial Times newspaper, which offers a useful resource - a lexicon (see Fig. 2) that facilitates the understanding of business abbreviations in English through comprehensive definitions, as shown in the examples below:

**Fig. 2: Interface of the Financial Times Lexicon**



Source: <http://lexicon.ft.com/>

USP (Unique selling point) = “is a feature of a product that no other similar products have, used in advertising etc. to try to persuade people to buy it.” [Financial Times Lexicon]

AOB (Any other business) = “the time during a meeting when people can discuss things that were not on the agenda (list of subjects to be discussed)...” [Financial Times Lexicon]

ROI (Return on investment) = “the profit on an investment in relation to the amount invested or a company’s profit from one or more of its activities in a particular period.” [Financial Times Lexicon]

NI (National Insurance) = “In addition to income tax, the self-employed may be liable to pay and employees may suffer deduction of national insurance contributions.” [Financial Times Lexicon]

MBO (Management buyout) = “A management buy-out is an acquisition in which the acquiring group is led by the company's own management and executives. The key difference between an MBO and a regular acquisition (takeover) is that the company is bought by its own management rather than by another company or by a group of outside investors.” [Financial Times Lexicon]

### 3.1. Linguistic features of Business Abbreviations and Acronyms in English

Although most of the abbreviations relate to the terminological lexicon and the nomenclature, which limits their sphere of operation, business abbreviations and acronyms have spread like any professional terminology in the journalistic style (see examples below):

“The study looked at **M&A** deals done by listed companies in America’s Russell 3000 index” (The Economist, article *Mergers and acquisitions often disappoint*)

“The trouble with **GDP**. Gross domestic product (**GDP**) is increasingly a poor measure of prosperity.” (The Economist, article *The trouble with GDP – Measuring economies*)

“**SWOT** is a handy mnemonic to help corporate planners think about strategy.” (The Economist, article *SWOT analysis*)

“It has been apparent for some time that there is something badly wrong with the way the **RPI** is calculated. This matters because although the newer Consumer Prices Index (**CPI**) has supplanted the **RPI** for macroeconomic purposes – the **CPI** is used for the inflation target - and for up rating public-sector pensions, the **RPI** is used for up rating pensions in most private defined-benefit schemes and is the basis for Britain’s index-linked bonds.” (The Economist, article *No RIP for RPI*)

“A basic government responsibility is to secure maximum value for money from the **O & M** of a country’s existing infrastructure assets. Governments can adopt various strategies to optimize the socio-economic returns.” (World Economic Forum, report *A Framework for O&M practices*)

“Meanwhile, AstraZeneca, a British-Swedish multinational pharmaceutical and bio-pharmaceutical company, pumped 21.5% of its annual revenue into **R&D** in 2015 – the highest proportion of ring-fenced investment of any of the top 20.” (World Economic Forum, article *These companies invest the most in research*)

“Why this **CEO** does not care about your **CV**?” (World Economic Forum, article *Why this CEO does not care about your CV*)

In a recent study it is pointed out that the abbreviation concept is represented by four sememes in the English language. The author argues that the concept abbreviation is represented by lexemes *abbreviate* (*abbreviates*), *abbreviating*, *abbreviated*, *abbreviation* in the English language, therefore different lexemes and various lexical semantic variants of lexemes verbalize different conceptual features of the abbreviation concept [Kostina (2015)].

Acronyms are the result of a morphological process, in which initial letters of a word are combined and written in upper case or lower case, and are pronounced as a word

[e.g. ISO (International Organization for Standardization), ICC (International Chamber of Commerce), IATIS (International Association of Translation and Intercultural Studies), ESSE (European Society for the Study of English), EaSI (European Association for Social Innovation)]. Unlike business acronyms, business alphabetisms are a combination of the first letters of the words, spelled in upper case and pronounced as a series of letters. However, other authors point out that alphabetisms might not be considered as fully-formed lexemes, as there are certain cases where they are treated as unified lexemes: emcee (MC) (< Master of Ceremonies), Veep (VP) (< Vice- President) [Brinton & Traugott (2005:42) apud Vişan (2013:241)].

Below we provide the equivalent English phrases of the abbreviations that we collected (from a Business English book, The Economist and World Economic Forum) and then looked them up in the Financial Times Lexicon.

**Table1. Equivalent Phrases of Business Abbreviations**

(Source: <http://lexicon.ft.com/>)

1.	EU = European Union.
2.	CV = Curriculum Vitae
3.	MBO = management buyout
4.	USP = unique selling point
5.	AOB = any other business
6.	PEST analysis = political, social, economic and technological analysis
7.	MD = Managing Director
8.	ROI = return on investment
9.	M&A = mergers and acquisitions
10.	OTE = on-target earnings
11.	PAYE = pay as you earn
12.	VAT = Value Added Tax
13.	SWOT analysis = strengths, weaknesses, opportunities and threats analysis
14.	CEO = Chief Executive Officer
15.	RRP = recommended retail price
16.	CFO = Chief Financial Officer
17.	RPI = retail price index
18.	p.a. = per annum
19.	PA = personal assistant
20.	APR = annual percentage rate
21.	ICC = International Chamber of Commerce
22.	FYI = for your information
23.	NPD = new product development
24.	SET = secure electronic transaction
25.	GDP = gross domestic product
26.	TQM = total quality management
27.	PPP = purchasing power parity
28.	PLC = public limited company.
29.	AGM = annual general meeting
30.	PR = public relations
31.	L/C = letter of credit

32. MBA = Master of Business Administration
33. O&M = organization and methods (or management)
34. POS = point of sale
35. P&L statement = profit and loss statement
36. CBD = central business district
37. COD = cash on delivery
38. LIFO = last in, first out
39. GNP = gross national product
40. NI = National Insurance
41. CPD = continuing professional development
42. ESOP = employee share ownership plan
43. K (e.g. £20K), where K = thousand
44. EFT = electronic funds transfer
45. R&D = research and development
46. FOB = free on board
47. JIT production = Just-in-time production

Our analysis has revealed the following:

- Pronunciation is the main feature that distinguishes business acronyms from business abbreviations;
- Business abbreviations are derivatives of word, word combinations and phrases e.g. K = thousand; P&L statement = profit and loss statement; NPD = new product development).
- Their main attributes are precision and monosemancy as these render them denominative and distinctive qualities which are quintessential for specialist languages [see also Guilbert (1975: 275), Candel (1992) apud Stoichițoiu-Ichim (2006)];
- Unless they are followed by their equivalent phrases in texts, they tend to become codes understood by receivers that possess a thorough economic knowledge (e.g. ESOP = employee share ownership plan; LIFO = last in, first out; JIT production = Just-in-time production; PPP = purchasing power parity; OTE = on-target earnings). As we mentioned earlier, CV is well-known to employed people and/or students but most often people do not know its equivalent phrase or etymology. Similarly, EU, VAT, SWOT and CEO are decoded by intermediate and advanced students and most of the times they voice its equivalent phrase instantly;
- Another type of business abbreviations is the graphic type (e.g. L/C = letter of credit; p.a. = per annum);
- Some abbreviations are frequently used in the common language (e.g. Approx., Mo = month; No = number, asap = as soon as possible).
- Many of them are used in the titles of articles and are given in the contents the source or the equivalent phrase which is usually placed in the vicinity of abbreviation or at a short distance from it. (See relevant examples in section 3.1.)

#### 4. Conclusions

People use abbreviations either in humor-based contexts or in daily tasks to deal with various issues quickly. When it comes to business abbreviations and acronyms in English, only specialists and people who have an economic background can decode them. However, the non-specialist reader/speaker can better grasp them in articles or student-oriented materials if the authors use contextual explanatory strategies like equivalent phrases or synonyms to ensure their transparency.

Business abbreviations and acronyms are a distinctive part of the English language and their number is constantly increasing due to technological innovations, political and economic measures. We should not ignore the fact that they are borrowed by other languages and many studies highlight their international proliferation and particular features.

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