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**SECTION: INTERNATIONAL BUSINESS AND EUROPEAN
INTEGRATION**

SUB-SECTION: INTERNATIONAL BUSINESS

FIGHTING ECONOMIC CRIME IN THE EUROPEAN ARENA

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The present paper tries to put together a modest study on the actions taken at EU level in order to fight economic crime. A series of measures have been implemented at national and European level to create a framework for fighting criminality. The European institutions and the national authorities are improving their cooperation in order to fight the increasing number of economic crimes committed both in the private and public sector, while Member States are approximating their legislation to the provisions of the Community acquis. We have divided these efforts into five categories corresponding to the five main areas of economic crime identified at EU level: fight against fraud, which affects the financial interests of the European Union and mainly comprises fraudulent practices in the use of EU funds and in taxation, fight against piracy and counterfeiting, public and private corruption, money laundering and organised crime. In order to combat the negative influence criminality exerts on the development of the economy and of the overall society, for each of the above mentioned areas legislative, institutional, technical and administrative measures have been adopted. We have presented these measures considering their efficiency in meeting the targets set out and the role played in their implementation by the European and national institutions.

Key words

Economic criminality, European cooperation, legislative framework, fraud, organised crime

JEL classification

K42 Illegal behaviour and enforcement of law

F53 International agreements and observance; international organisations

With the creation of an area of free movement for persons, goods, services and capitals the European Union has managed to improve both the economic and social climate but also to create a borderless area for criminals to move and act. In order to solve this new problem the transformation of the area of free movement into an area of liberty, security and justice was need. The transformation began with the signing of the Maastricht Treaty in February 7th, 1992, which entered into force on November 1st, 1993. The Treaty managed to present a European perspective on what has previously been just a series of bilateral or multilateral agreements and conventions between the Member States on justice and home affaires issues. The legal basis of this area of cooperation is represented by the Title IV of the Treaty establishing the European Communities and Title VI of the Treaty on European Union (Maastricht Treaty). Since 1999, the year the Amsterdam Treaty has entered into force, the area of freedom, security and justice has been regulated both by the first – the Community Pillar and by the third Pillar – Justice and police cooperation in criminal matters – the intergovernmental cooperation Pillar. For the time being the area is guided by the Hague Program, which recommends strengthening up the cooperation at European level in justice and home affaires related issues for 2005 - 2010 period. The programme contains a series of measures to be implemented at national levels in order to improve the cooperation between Law enforcement authorities in the area: improving the information exchange and availability, increasing the attention paid to the spreading of religious fundamentalism and citizens involvement with terrorist acts and increasing the role of Europol (European Police Office) and Eurojust (European network for judicial cooperation, which facilitates civil and criminal cross border cooperation and also the application of the principle of mutual recognition). Fighting economic criminality and organised economic criminality is part of this EU policy and is divided into five main areas of action: fight against fraud, counterfeiting and piracy, corruption, money laundering and organised crime.

1.Fight against fraud

All European policies, irrespective of the area of action, are financed from the Community budget, which in its turn is made up of custom duties, value added taxes (VAT) and a quota of the National Domestic Product of the Member States. It is estimated that around 1% of the EU budget, which means more than 1 billion EUR, is being misappropriated every year. The legal basis for fighting this phenomenon is set out in the Article 280 of the Treaty establishing the European Communities. The actions taken in order to fight this problem are concentrated on the protection of the financial interests of the Union and consist of fighting fraudulent practices in the use of EU funds, fighting tax or VAT related fraud, signing agreements with commercial partners and establishing European institutions responsible with fighting fraud.

1.1.Protecting the financial interests of the European Union

Protecting the financial interests of the European Union is mainly ensured by means of internal controls, enforcement of criminal Law, administrative cooperation and agreements with third countries that benefit from the financial support of the Union. **A general legal framework is provided by the following acts:**

Communication from the Commission to the Council, European Parliament and the European Court of Auditors of 17 January 2006 entitled “Commission Action Plan towards an Integrated Internal Control Framework”. It contains the guidelines to be considered in the creation of an integrated framework for internal control at European level: simplification of the legislation for the 2007 – 2013 period, integration of the common internal control principles in the proposal for the revised Financial Regulation [1], establishment and harmonisation of the presentation of control strategies and evidence providing reasonable assurance, initiation of inter-institutional dialogue on risks to be tolerated in transactions, promotion of the operational level management declarations and synthesis reports at national level, examination of the utility of management declarations outside shared and indirect centralised management mode, promotion of best practices for increasing the cost-benefit of audits at project level, construction of effective tools for sharing audit and control results and promotion of the single audit approach, initiation of pilot projects on evaluating benefits, analyzing the controls under shared management (in particular Structural Funds) at regional level and the value of existing statements, providing greater guidance for Structural Funds on managing the risk of error [2]. For 80% of its budget the Commission shares the implementation with the Member States. This is the reason why it is of outmost importance that Member States have a legal framework suited for making controls and, more important, that this framework is properly observed. Member States need to make sure that the administration of EU funds is without fault and subsequently to reduce the risk of irregular expenditure to an acceptable risk and also to be able to demonstrate this to national and European auditors. A Report from the Commission to the Council, European Parliament and the European Court of Auditors on the implementation of the Action Plan has been published in 2007, with positive conclusions.

Council Regulation (EC, EURATOM) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests [3] establishes a set of rules to be applied in all EU policies to fight fraud. The act provides for administrative measures and penalties to be implemented in order to protect the financial interests of the EU. It contains measures to harmonize controls in all Member States and administrative measures and penalties to be applied in case of irregularities related to the observance of the community acquis. The Regulation defines these irregularities (as the prejudice caused by the economic operators to the community budget), sets out a general set of rules for all community policies and defines the framework for carrying out national and European controls.

Council Act of 26 July 1995 drawing up the Convention on the protection of the European Communities' financial interests [4]. According to the Convention fraud affects both expenditures and revenues of the Communities and has to be discouraged by means of efficient, proportional and dissuasive penalties. Managers of companies or any other person with decision power or a person who exercises control within a company has to be liable for criminal prosecution, in accordance with the national legislation concerning fraud affecting the financial interests of the European Communities. Member States have to cooperate effectively during the investigation, prosecution and enforcement of the penalties by means of judicial assistance, extradition and transfer of proceedings or enforcement of sentences passed in another Member State. The act defines fraud affecting expenditures and revenues. Two additional protocols to this act have been signed in 1996 and 1997.

Communication from the Commission of 28 June 2000 on an overall strategic approach to the protection of the Communities financial interests. It was adopted by the Council on 17 July 2000 and approved by the European Parliament on 13 December 2000. The purpose of this Communication is to elaborate a general antifraud strategy, based on four main challenges: development of an overall anti-fraud policy, enhancement of a culture of cooperation amongst all the competent authorities, an interinstitutional initiative to prevent and combat fraud, strengthening of the penal judicial dimension

Decision No 804/2004/EC of the European Parliament and of the Council of 21 April 2004 establishing a Community action programme to promote activities in the field of the protection of the Community's financial interests (Hercule programme)[5]. The programme has initially been created for the 2004 -2006 period and subsequently extended for the 2007 -2013 period. It promotes activities related to the protection of the financial interests of the European Union and is focused on training the personnel, organizing seminars, offering technical assistance, exchange of information and coordination of the activities related to protecting of the financial interests of the Communities. The overall budget for this programme is EUR 110.5 millions.

In this general framework a series of strategies are used in order to fight frauds related to the use of European funds:

Together with improving the legislation and the management of contracts, in order to make them less permissive to fraud, a set of **controls and inspections** on the premises of economic operators are carried out by the European Commission in close cooperation with the authorities of the Member States for the purpose of fighting economic criminality related to the Community budget. The legal framework for these measures is provided by the *Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities [6].* Controls are carried out by Commission inspectors and focus on studying budgetary and accounting files, electronic information contained in computers and financial and technical implementation of subsidised projects. At the end of such an inspection a report is elaborated and presented to the Member State; it can then be used as proof in an eventual administrative or judicial investigation.

The fight against fraud in the financing of the Common Agricultural Policy is achieved by continuously improving the cooperation between the Member States and the Commission in order to create a set of rules for protecting the financial interests of the Communities; the application of these rules has to be ensured. The main piece of *acquis* governing this area is *Council Regulation (EEC) No 595/91 of 4 March 1991 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the common agricultural policy and the organization of an information system in this field and repealing Regulation (EEC) No 283/72 [7].* According to this act Member States have to communicate to the Commission the national legal provisions, regulations and administrative measures taken in order to make sure that the transactions financed by the European Agricultural Guidance and Guarantee

Fund (EAGGF) are properly managed, as well as the national authorities responsible with the accurate enforcement of these measures. Member States have to report to the Commission any irregularities which have been the subject of a criminal or administrative investigation. Other measures adopted with a view to facilitating the fight against fraud in the functioning of the Common Agricultural Policy are:

- monitoring the expenditures of the European Agricultural Guarantee Fund (EAGF). In 2007 the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) was replaced by the European Agricultural Guarantee Fund (EAGF). Member States are responsible for preventing and detecting the irregularities as well as for recovery of the funds lost due to such irregularities and negligence in transactions financed by the Fund. *Council Regulation (EEC) No 4045/89 of 21 December 1989 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund and repealing Directive 77/435/EEC* and the amending acts *Commission Regulation (EC) No 4/2004 of 23 December 2003 laying down detailed rules for the application of Council Regulation (EEC) No 4045/89 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund* and *Commission Regulation (EC) No 2311/2000 of 18 October 2000 establishing the list of measures to which Council Regulation (EEC) No 4045/89 does not apply and repealing Decision 96/284/EC* are designed to help Member States prevent and fight irregularities by checking the documents concerning payments to or from European Agricultural Guarantee Fund. These legislative acts form the legal framework for the checks carried out with the purpose of ruling whether the transactions related to EAGF financing are or are not carried out according to provisions of the Law. The Commission can coordinate joint actions involving mutual assistance between two or more Member States;
- introducing a community system which allows the national authorities to identify economic operators who have committed or are suspected for having committed irregularities that brought prejudice to the community funds. This system is governed by the *Council Regulation (EC) No 1469/95 of 22 June 1995 on measures to be taken with regard to certain beneficiaries of operations financed by the Guarantee Section of the EAGGF* [8]. According to this act, Member States can take the following measures against an economic operator: reinforced checking of all operations performed, suspension, until the administrative determination of the existence of an irregularity, of payment of amounts relating to current operations and their exclusion for a period of time from operations;
- introducing the Single Farm Payment System, considered to be a reform of the Common Agricultural Policy. The act making possible this reform is the *Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) No 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001*. The two main improvements it brought are the decoupling of direct aid to producers by means of cutting the link between support and production and the introduction of the single payment scheme. The result of the decoupling of the aid to producers is that the aid does not depend on the type of production. Farmers can receive direct payments if they maintain a good health of the land and if they meet the public health standards for plants and animals and the environmental and animal protection norms mentioned in the Regulation. The amount of payments is decreasing on a yearly basis and the money saved is assigned to rural development measures. According to the single payment scheme farmers are granted aids irrespective of the nature of their production in order to ensure them a stable income [9].

Another area of great importance for the protection of the financial interests of the Union is based on the measures taken in order to protect the resources of the Community budget; the most important ones are the **measures taken in order to fight tax related frauds**. Because of the increasing number and seriousness of tax related frauds Member States need to cooperate in order to improve European legislation on taxation and in order to increase the number and the efficiency of the actions taken against taxation frauds. The European Commission supports this strategy in its *Communication, dated 31 May 2006, to the Council, the European Parliament and the European Economic and Social Committee concerning the need to develop a coordinated strategy to improve the fight against fiscal fraud*. In order to ensure the proper application of the Value Added Tax (VAT) and fight against fraud, the European Union introduced a system for mutual administrative cooperation and information exchange between the Member States. *Council Regulation (EC) No 1798/2003 of 7 October 2003 on administrative cooperation in the field of value added tax and repealing Regulation (EEC) No 218/92* provides for the conditions and terms of cooperation between national authorities responsible with the **enforcement of the legislation on VAT** on goods and services, intracommunity acquisition of goods and import of goods. The Regulation provides for the framework for cooperation between Member States and the Commission, for the rules and procedures which support national authorities to cooperate with each other and exchange information in order to accurately evaluate the VAT [10].

The deficiencies of the legislation related to customs activities and operations that breach customs legislation, including infringement of the intellectual property rights, bring prejudices to the economic, fiscal, social, cultural and commercial interests of the Member States and the Community. For this reason European Union has signed a series of **agreements with commercial partners all over the world** in order to fight fraud and other criminal activities affecting its financial interests.

1.2 Institutional development

For the best results in fighting fraud, together with setting up a legal framework, several **institutions** have been created at European level.

In order to improve the means for preventing and fighting fraud, the European Commission has set up the **European Anti-Fraud Office (OLAF)**. The official act establishing the Office is *Commission Decision of 28 April 1999 establishing the European Anti-Fraud Office (OLAF)*. The office has responsibilities in carrying out administrative investigations and has been granted a special status. It began its activity on June 1st, 1999. OLAF enjoys all investigative powers granted to the Commission by the Community acquis and by the agreements with third countries for fighting fraud, corruption and other illegal activities affecting the financial interests of the European Community. The Office has over 400 employees. Together with protecting Community's financial interests, the responsibility of the Office concerns all the activities connected to safeguarding Community interests against irregular behaviour likely to lead to administrative or penal proceedings. In order to coordinate the actions of the Member States in their fight against fraud detrimental to the interests of the Community, OLAF provides them with the support of the Commission, aimed at organising close and regular cooperation between the competent national authorities. Additionally, the Office, as a Commission service, contributes to the planning and the development of prevention and anti-fraud methods. [11]

The Advisory Committee for the Coordination of Fraud Prevention (COCOLAF). This Committee coordinates the actions of the Member States and the Commission in the fight against fraud affecting the financial interests of the Community. The legal basis for its functioning is the *Commission Decision 94/140/EC of 23 February 1994 setting up an advisory committee for the coordination of fraud prevention*. The Committee may be consulted by the Commission on any matter related to the protection of the financial interests of the Community and the protection of Euro notes and coins against counterfeiting.

The European Court of Auditors. It was established in 1975, with the headquarters in Luxembourg. The Court sees that the Community budget is properly implemented, which means that the funds are properly collected from the taxpayers and that they are legally economically spent. It is made up of 27 members, one for every Member State, and supported by 800 auditors. It sets its own Rules of Procedure, which are approved by the European Council. The Court can not impose sanctions, it does not have judicial powers; instead it drafts annual reports which are then published in the Official Journal. The audit carried out is meant to improve the financial management of the European institutions and to show European citizens the way their money is spent. The irregularities observed are then transmitted to the competent authorities, including OLAF.

2.Fight against counterfeiting and piracy

Counterfeiting and piracy is seriously affecting the functioning of the common European market and has a negative impact over the public safety and security. Both economic and social life is affected as commerce is hampered and the free competition is inhibited, leading to the loss of confidence in the economy by the economic operators and to the reduction of investments.

It is estimated that these activities represent between 5% and 7% of the international trade and are responsible for the loss of over 200,000 jobs. Moreover, European companies with activities outside community area are losing between 400 and 800 million US Dollars on the European market and around 2000 million US Dollars on the global market every year. The software market is mainly affected by this distress. One of the worst aspects of this phenomenon is the high risk for European consumers presented by the dangerous counterfeited goods such as medicines, auto parts and food.

Due to the important role it gained on the international economic arena the Euro has become a preferred target for the international counterfeiting organisations, both in European Union and in third countries. In order to **protect the Euro against counterfeiting** European institutions have adopted legislative, technical and institutional measures. A series of legislative acts have been adopted for this reason out of which we mention the following: *Council Decision 2001/887/JHA of 6 December 2001 on the protection of the Euro against counterfeiting* provides a general, cohesive and efficient system to protect the Euro against counterfeiting. In order to ensure that the Euro is appropriately protected against counterfeiting by the criminal laws of all Member States, the *Council Framework Decision 2000/383/JHA of 29 May 2000 on increasing protection by criminal penalties and other sanctions against counterfeiting in connection with the introduction of the Euro* has been adopted.

Council Regulation (EC) No 1338/2001 of 28 June 2001 laying down measures necessary for the protection of the Euro against counterfeiting sets up the legal framework for the cooperation between Member States, the Commission, the European Central Bank and Europol. The cooperation implies exchange of information and mutual assistance in preventing and fighting counterfeiting of Euro notes and coins [12]. The **European Technical and Scientific Centre (ETSC)** has been created, with the role of analysing counterfeit Euro coins and assists the national authorities in their efforts. The Centre functions within the European Commission in Brussels and is attached to the European Anti-Fraud Office. The legal basis for its functioning is the *Commission Decision 2005/37/EC of 29 October 2004 establishing the European Technical and Scientific Centre (ETSC) and providing for coordination of technical actions to protect Euro coins against counterfeiting* [13]. In the *Council Decision 2005/511/JHA of 12 July 2005 on protecting the Euro against counterfeiting, by designating Europol as the Central Office for combating Euro counterfeiting*, the Council designated **Europol** as the central European office for combating Euro counterfeiting and for stepping up cooperation among Member States, Europol and third countries. The main role of Europol in this field of activity is to centralise and

processes all information of a nature to facilitate the investigation, prevention and combating of Euro counterfeiting and to forward it to the national central offices of the Member States.

Together with fighting counterfeiting of notes and coins, **counterfeiting of non cash means of payment** is dealt with at European level. According to the *Council framework Decision of 28 May 2001 on combating fraud and counterfeiting of non-cash means of payment* [14] fraud involving any form of non-cash means of payment is recognised as a criminal offence that is punishable by effective, proportionate and dissuasive penalties in all EU Member States. It defines criminal behaviour concerning offences related to payment instruments, such as cards or cheques, offences related to computers and offences related to specifically adapted devices. According to this act each Member State has to take the necessary measures to ensure that legal persons can be held liable for criminal conduct committed for their benefit by any person, acting either individually or as part of an organ of the legal person.

Together with legislative and institutional measures, technical measures have also been taken. The **Pericles programme** promotes cooperation between the national, European and international authorities responsible for combating counterfeiting of the Euro. The measures envisaged include exchanges of best practices in seminars, workshops, meetings and conferences, training, exchanges of staff and technical, scientific and operational assistance. The act setting up this programme is *Council Decision 2001/923/EC of 17 December 2001 establishing an exchange, assistance and training programme for the protection of the Euro against counterfeiting (Pericles programme)*. The aim of the Pericles programme is to raise awareness of the Community dimension of the Euro among all those concerned, to encourage a climate of mutual trust by way of practical measures such as training, specialist workshops and staff exchanges or to make known the results attained as part of the exchange of information, experience and best practices [15].

In order to ensure an equivalent level of **protection for intellectual property** in the Member States the *Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights* has been adopted. The main objectives of this Directive are to promote innovation and business competitiveness, to safeguard employment in Europe, to prevent tax losses and destabilisation of the markets, to ensure consumer protection and to maintain the public order [16].

Customs controls have been tightened in order to help combat counterfeiting and piracy in the Community. *Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights* clarifies the means and conditions for customs action against goods suspected of infringing intellectual property rights [17].

3.Fight against corruption

The European Commission considers that it is vitally important to address corruption wherever it occurs, be it in the public or in the private sector. In the public sector, corruption means prejudices to the local, national or European budgets as well as to economic environment, by offering unfair advantages to few while being detrimental to society at large. Corruption in the private sector has a direct impact on competitiveness and economic development. By tackling private sector corruption, Member States are reinforcing the internal market and strengthening their economies. Furthermore, these measures have a positive impact on relations with the European Community's external trade partners.

On the basis of the Council Act of 26 May 1997 drawing up the Convention made on the basis of Article K.3 (2) (c) of the Treaty on European Union, on the fight against corruption involving officials of the European Communities or officials of Member States of the European Union Member States must take the necessary measures to ensure that conduct constituting an act of passive corruption or active corruption by officials is a punishable criminal offence.

Council Framework Decision 2003/568/JHA of 22 July 2003 on combating corruption in the private sector requires Member States to penalise acts intentionally carried out as part of business activities and corrupting a person or demanding an undue advantage. The aim of this Framework Decision is to involve the liability not only of natural persons in the capacity of employees but also of legal persons such as firms [18].

On 15 September 2005 the European Commission and the Council Presidency **signed the United Nations Convention against Corruption** on behalf of the European Community. The purpose of the Convention is to promote and strengthen measures to prevent and combat corruption more efficiently and effectively, to promote, facilitate and support international cooperation and technical assistance and to promote integrity, accountability and proper management of public affairs and public property. The Convention lays down the preventive anti-corruption measure to be taken by the signing states in both public and private sector, measures for criminalisation and Law enforcement, international cooperation, asset recovery, technical assistance and exchange of information and the mechanisms for its implementation. The Convention recommends the States Parties to adopt legislative and other measures as may be necessary to establish a whole series of criminal offences, such as: corruption of national or foreign public officials and officials of public international organisations, embezzlement, misappropriation or other diversion by a public official of any public or private property, trading in influence, abuse of functions and illicit enrichment.

4.Fight against money laundering

Because of the need to protect the financial system from abuse and in order to support the efforts to fight organized criminality in the financial system, the fight against money laundering became a top priority for the European Union. In the conclusions of the Tampere Summit the European Council stated that money laundering is at the very heart of organised crime and that it should be rooted out wherever it occurs and concrete steps must be taken to trace, seize, freeze and confiscate the proceeds of crime. This means employing several strategies such as preventing the use of financial system for money laundering or terrorism financing and preventing money laundering through customs cooperation by making everyone who enters or leaves EU to declare any amount of money greater than 10,000 EUR.

In order to **prevent the financial system from being used for money laundering and terrorist financing**, the Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing has been adopted; subsequently amended in 2007, 2008. The Directive applies to credit and financial institutions and to natural or legal persons working as auditors, external accountants and tax advisers, notaries and other legal professions, real estate agents. It describes money laundering as the conversion or transfer of property derived from criminal activity or from an act of participation in such an activity, for the purpose of concealing or disguising the illicit origin of the property, assisting any person who is involved in the commission of such activity to evade the legal consequences of his action, the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property or the acquisition, possession or use of property, knowing, at the time of receipt, that such property was derived from criminal activity. Credit and other financial institutions are forbidden to keep anonymous accounts or anonymous passbooks. Each Member State is required to set up a **Financial Intelligence Unit (FIU)** which has to be responsible for receiving, requesting, analysing and disseminating to the competent authorities disclosures of information which concern potential money laundering or potential terrorist financing. The institutions and persons covered by the Directive are required to inform the FIU as quickly as possible when they know, suspect or have reasonable grounds to suspect that money laundering or terrorist financing is being or has been committed or attempted. At the FIU's request, they

must furnish all necessary information in accordance with legislation. Where money laundering or terrorist financing is suspected, the institutions and persons covered by the Directive are required to refrain from carrying out transactions until they have informed the FIU of them. [19] In addition to the above mentioned Directive, in order to introduce preventive action to **combat money laundering and terrorist financing through more effective customs cooperation**, the European Parliament and the Council adopted the *Regulation (EC) No 1889/2005 of 26 October 2005 on controls of cash entering or leaving the Community*. The Regulation places an obligation on any natural person entering or leaving the Community and carrying cash of a value of EUR 10,000 or more to declare that sum to the competent authorities. The authorities may check the compliance with the obligation to declare the money by carrying out controls on natural persons [20].

5.Fight against organised crime

Organised financial crime undermines legitimate economic actors and strengthens the shadow economy, thus inhibiting economic growth and reducing public resources. Reducing the organised financial crime has a broader impact on the fight against organised crime in general as money is the lifeblood of organised crime. Removing access by organised crime groups to money is bound to erode their power base. Fighting organised crime includes prevention and fight against organised crime in the financial sector. It covers a range of illegal activities, including money laundering, financial fraud and counterfeiting of the Euro when they are committed by criminal organisations. Another line of action is fighting corporate and financial malpractice, which can be achieved by four means: internal control in a company and corporate governance, help from independent third parties, supervision by specialised institutions and Law enforcement. Identification and confiscation of the proceeds of organized economic crime is also used in order to discourage criminal organisations. A European framework for mutual recognition and cooperation between Asset Recovery Offices in the Member States has been created to help.

In its Communication to the Council and the European Parliament of 27 September 2004 on preventing and combating corporate and financial malpractice the Commission identifies four lines of "defence" against **corporate malpractice** that focus on a series of measures divided into four lines of defence: the internal control in companies and corporate governance, the use of independent third parties, such are auditors, accounting firms, banks, lawyers, rating agencies and financial analysts, the supervision, conducted by specialised institutions of the Member States and by European supervisory authorities, such are the Committee of European Securities Regulators, the European Banking Committee, the European Insurance and Pension Committee, the Committee of Insurance and Occupational Pension Supervisors and the Committee of Banking Supervisors. The fourth line of defence is enforcement of the Law and is provided by police and judicial authorities responsible with investigations and prosecutions that may have both a preventive and a repressive effect [21]. According to the Commission, several improvements have to be made in order to prevent and fight corporate and financial malpractice: exchange of information between national authorities and European institution such are Europol and Eurojust has to be improved, cooperation between financial and other business sectors and law-enforcement authorities has to be increased and traceability of financial flows for the recording of electronic payments has to be introduced. This communication is part of the EU framework for dealing with financial issues, made up of the Financial Services Action Plan, implementing the framework for financial markets and the Action Plan on Modernising Company Law and Enhancing Corporate Governance in the European Union.

According to the Joint Action 98/699/JHA of 3 December 1998 adopted by the Council on the basis of Article K.3 of the Treaty on European Union, on money laundering, the identification, tracing, freezing, seizing and confiscation of instrumentalities and the proceeds from crime [22] each Member State must ensure that its legislation and procedures enable it to permit the

identification and tracing of suspected proceeds from crime at the request of another Member State where there are reasonable grounds to suspect that a criminal offence has been committed. Such legislation and procedures enable assistance to be given at the earliest possible stages in an investigation. Member States must encourage direct contact between investigators, investigating magistrates and prosecutors of Member States to ensure that requests for assistance through formal channels are not made unnecessarily. Member States must take all necessary steps to ensure that assets which are the subject of a request from another Member State can be frozen or seized expeditiously, so that a later confiscation request is not frustrated. Member States must harmonise their activities with the best practices in international cooperation in the **identification, tracing, freezing or seizing and confiscation of instrumentalities and the proceeds from crime** and must provide appropriate training to all officials concerned with international cooperation in this area. Several acts have taken this action further: Council Framework Decision 2001/500/JHA of 26 June 2001 on money laundering, the identification, tracing, freezing, seizing and confiscation of instrumentalities and the proceeds of crime [23], Council Framework Decision 2003/577/JHA of 22 July 2003 on the execution in the European Union of orders freezing property or evidence [24], Council Framework Decision 2006/783/JHA of 6 October 2006 on the application of the principle of mutual recognition to confiscation order [25] and Council Decision 2007/845/JHA of 6 December 2007 concerning cooperation between Asset Recovery Offices of the Member States in the field of tracing and identification of proceeds from, or other property related to crime [26].

Fighting criminality by means of confiscating and recovery of the assets resulted from crime requires the establishment of national structures that can facilitate the tracing of criminal assets, participate in confiscation procedures, ensure the proper management of the seized assets and act as central contact points for confiscation activities at national level. In order to meet these needs **Asset Recovery Offices** have been set up in the Member States, but fully operational structures can only be found in several Member States (Austria, Belgium, Estonia, France, Germany, Ireland, The Netherlands and the United Kingdom) and even these present large differences in structure, powers and practices one from another. From the experience gathered by the functioning Asset Recovery Office several **best practices and recommendations** are to be followed when setting up a national structure: it should have a multidisciplinary structure comprising expertise from law enforcement, judicial authorities, tax authorities, social welfare, customs and other relevant services. The representatives of these authorities should be able to exercise their usual powers and to disclose information within the Asset Recovery Offices without being bound by professional secrecy. Asset Recovery Offices should be adequately resourced and provide a central point for all incoming requests of assistance from other countries. They should collect all relevant statistics on asset freezing and confiscation. Where Asset Recovery Offices do not directly manage seized assets, they should at least collect information on seized assets from the authorities managing them. They should exchange information rapidly, possibly within the time limits foreseen by the Council Framework Decision 2006/960/JHA of 18 December 2006 on simplifying the exchange of information and intelligence between law enforcement authorities of the Member States of the European Union. The legal possibilities for each Asset Recovery Office to spontaneously exchange information should be further analysed. The information that can be obtained from each Asset Recovery Office without resorting to mutual legal assistance procedures should be clarified. The certificates to request the execution of freezing orders and confiscation orders in another Member State, as well as the mutual legal assistance forms, should be revised in order to make them easier to use. Detailed guidance should be provided on how to complete them. A standardised secure channel of communication between Asset Recovery Offices should be established. Asset Recovery Offices should have access to all relevant databases (both open and closed databases, such as Land Registry, Company Records, Vehicle Registration, Convictions and databases from the financial institutions, the police, tax

authorities, social welfare agencies, etc.) to identify and trace assets, including financial information (ideally to a central bank account registry at national level) and should have coercive powers to obtain such information. They should have the powers to provisionally freeze assets in order to prevent dissipation of the proceeds of crime between the moment when assets are identified and the execution of a freezing or confiscation court order. They should also be able to conduct joint investigations with other authorities

Conclusions

The efforts of the European Union in fighting economic criminality have been directed to five areas, corresponding to those crimes severely impacting on the European economic and social environment. The fight against fraud affecting the financial interests of the European Communities is mainly carried out by combating fraudulent use of European funds and by combating tax fraud. It is in this area that the European authorities are most present and visible, having control powers over national and European institutions. Fighting counterfeiting and piracy, as well as corruption, is financially supported by the Commission, while fighting money laundering implies setting up national structures responsible with the exchange of information and best practices between Law enforcement agencies. As far as fighting organised crime is concerned, the accent is on the identification, tracing, freezing, seizing and confiscation of instrumentalities and the proceeds of crime and on the cooperation between national authorities.

As far as fighting economic criminality is concerned, the Law enforcement authorities in the Member States are supported by the European institutions. Moreover, due to the negative effects it has on the economic and social environment, the fight against this phenomenon has become a priority for the European Union. Together with establishing a legal framework for fighting criminality, a series of technical and administrative measures have been taken at European level. One of these measures is setting up specialised structures acting at European level, which, even though without judicial powers, have a very important role in coordinating the efforts of the national authorities and in facilitating the exchange of information and best practices between them.

Nevertheless, although an impressive number of European legislative acts have been adopted, largely elaborated on by the national representatives within Council's working parties, their effect is not the expected one, mainly given the different levels attained in the implementation of their provisions into the Member States national legislation. This, together with the disparities still present in what concerns national legislations and practices, makes it difficult for the Law enforcement authorities to fight economic criminality in the European Union.

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CONSIDERATIONS ON THE BANKING PRODUCTS AND SERVICES IN THE GLOBALISATION CONDITIONS

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The changes occurred in the banking marketing in our country have their origin, firstly, in the changes of the organisational culture which has evolved in the last ten years from the bureaucratic behaviour, categorised excessively, to a specific behaviour for the market economy, based on the knowledge of the clients, on the competition and on the promotion of the mentality of a winner. The organisational culture can be changed in time, as long as the employees are aware of the objectives followed, as long as they are selected and promoted in conformity with these objectives and as long as the feeling of belonging to the organisation has formed which depends essentially on the satisfaction that the employee feels towards the activity he/she enrolls. Due to the stimulation of the own personnel, the banks, through superior wages as for the best paid sectors of the national economy, have managed to attract the interest of the existing professionals, as well as of the young specialists willing to dedicate to a banking carrier. The training programs organised through the means of the Romanian Banking Institute or through distinct programs organised by the banking companies in our country have contributed to the motivation of the personnel, as well as to the consolidation of the new organisational culture.

Key words: globalisation, banking products, banking services
JEL code: A1, E5, G00

Everywhere in the world the card industry is revolutionised constantly. In Holland, the banks are in full process of massive introduction of the electronic wallets, while in Romania, on Sept. 30th, 2008, the number of cards issued exceeded the number of the population (21.8 million cards issued). The application of the "smart cards" technology for the transfer of funds creates the premises for the substantial reduction of the quantity of paper and metal money in circulation. The extension of the payments through the cards has increased in the West, and lately in other parts of the world, fact that determined the reduction of the cash circulation, not exceeding 20% from the transactions volumes. The passing to the Euro currency offers the smart cards the great chance of fulfilling the central place in the fund transfers. The more electronic money is used, the easier the new currency introduction will be. The beginning of the third millennium has meant the début of a new process which will lead, in only a few years, to the total replacement of the magnetic stripe cards with the smart cards, this type of cards offering a higher degree of safety for the users, the information stored on them being impossible to alter or copy. It is designed with a chip and the card will operate as a "bag" previously loaded with money that can be used for payments, and the balance will be reduced in proportion with the purchases. The cards can be funded at the automatic banking desks or at the special terminals within the banks. The microchip technology will continue to become more and more popular. The high degree of safety - the well-known reason of the migration towards the chip cards, is placed into the shade by the optical card performances. The optical card is formed of two layers between which the optical stripe is introduced, based on the CD-ROM technology. This card can be scratched, pierced, but the stored information can still be read. The safety is conferred by the impossibility of data alteration and by the possibility of confronting the card holder's identity with the user's one. Moreover, the optical card disposes of a memory capacity far larger than the one of the chip card. The very large memory of the optical card allows the storage, for example,

of the holder's fingerprint image or the retina, so that the identity theft can become impossible. Moreover, the safety is strengthened by the storage on the card of the user's hologram and of a file which contains the personal identification data.

The necessary investments in such a project are insignificant, in comparison with the advantages that can be obtained. The only necessary change at the level of the banking ATMs and the POSs consists of the installation of an optical stripe reader. Moreover, the high memory capacity will allow banks to offer a wider range of services. However, it is hard to believe that, if, on a world level, the implementation of the chip card has just begun, Visa and MasterCard, the great organisations in the field without which one cannot imagine the generalised implementation of the optical card for the payment solutions, will embrace this project on a short or medium term.

Without a doubt, there is a segment of clients whose needs must be satisfied through the services outside the subsidiary. Taking into account that the clients are subjected to an environment in constant change, the factor time plays an important role in the decision to use a new service or a new product. The holders, because of the long working time, do not find the time to use the banking services, also because the majority of the banks have very limited public hours. The easier the clients access their accounts, the higher the competitive advantage is. Many banks have reached this conclusion, and, consequently, they offer new market products, known under the generic name of home - banking. In this category of products we can find components that serve a single purpose: the possibility offered to the client to access the banking services offer from his/her home, without the necessity of his/her travel to the bank office where he/she has opened the bank account. The globalisation of the banking market through the means of informatics has favoured the movements of capital, eliminating the geographical distances. Thus, the loans, the speculations of any kind have become world activities, "the market barriers" being eliminated. At the same, the changes of technological nature have been accompanied by the appearance of some new financial products and instruments, the banks representing one of the domains with the most intense manifestation of the innovation processes. Thus, the development of the electronic trading makes necessary the adaptation of an afferent system of e-banking, contributing to the creating of some world networks.

The fastest tendency to develop belongs to the electronic trading through the internet and its components internet banking and mobile internet banking. Electronic - banking is the first banking service at distance which has replaced the daily trips to the banks of the business people. The electronic banking allows the user to perform different operations in the bank accounts from the office or from home (home-banking). The instruments like the electronic banking or home-banking are based on a software application of the issuer, installed at the holder's residence, on an individual work plant or in a network. For the companies with an intense activity, the electronic-banking has proved to be really useful. The future of trading is definitely the electronic trading. In such conditions the banks must be ready to allow clients the access to e-banking services for the performance of current operations (the client saves time and reduces the costs and the processing period of the data at the bank). Also, for the clients oriented towards the electronic trading information solutions can be found that once the invoices or the payment orders are issued for the business partner, these must be transmitted at the same time to the bank, the information transmission and processing must be performed in conditions of maximum safety through: the codification and compression of information, code systems, access passwords, limited access competencies, on levels of the system's functions. For the future, it is important that the companies obtain the loans or other funds, by using the e-banking services. Internet-banking must not be seen as a simple extension of the modern products, but also as a way to reduce the transactions costs, doubled by the unlimited geographical coverage. Internet-banking aims at the freedom degree of those who order payments or transfers. They are not tied by the trip to the desk in their relation with the bank, or to be at the company's residence. If in the case of electronic-banking the service can be accessed directly from the computer of the company or

at home, the internet-banking can be used from any computer connected to the internet, wherever this is.

Practically, the service user need not own a personal computer, an internet-café being enough. Moreover, the operations that can be performed are the same as the ones performed with electronic-banking. Banks have started to skip the primary stage of electronic-banking, going straight to the internet banking. There still remains an essential problem which appears in the moment this type of service is implemented: the safety of the communications through the internet. Mobile-banking (the latest technology regarding the financial services supply) promises to revolutionise the way of performing the transactions, offering business people a virtual independence from the contact with the bank. The banking transfers, the payment orders, the transfers, as well as consulting the history of the operations, can be performed directly from the mobile phone. This type of prediction of revolutionising the banking services market at distance is determined by the explosive increase of the GSM telephone users.

According to the estimations, England, Germany, France, Italy and Spain summed up 75% of the European mobile-commerce at the end of 2007. In Italy, which has the highest penetration rate of the mobile telecommunications of the five states and a relatively smaller rate of the internet, it is expected that mobile-banking will exceed the electronic-banking, and the number of users will exceed 2.4 millions. More and more banks from Central and Eastern Europe follow the example of the Western banks in the development of their on-line banking systems. Their motivation is the same: the existing request from the clients for the complete and accessible services, the opportunity to serve more clients without a parallel development, more costly because of the network of subsidiaries, and the surpluses of efficiency in the transaction processing. The financial innovations offer new options in the context of the banking and financial phenomena enrolling at a world level. The last decade the interest for the derived financial products and their afferent markets has increased. Important financial innovations are the mobile values used on the international capital market: the Euro-estimations, Euro-loans, and Euro-bonds etc. These constitute insurance instruments against the financial risk (the so-called hedging), but also a means of speculation. At present, we assist at important reconsideration of the banking operations. Thus, the products dedicated to the capital market have appeared: for example, the GDR - Global Deposit Receipt¹, or of the futures contracts (operations type options, futures or swap on the interest rate, on the exchange rate) - all meant to serve the capital investor, seeking to avoid the risks and to favour the attractive opportunities. The personalised products have been perfected and offered the clients, type private-banking which support the strategy of loyalty of the clients with a high level of incomes, the banker, as a specialist, intervening and identifying with the client, offering him/her the suitable banking products and services for his/her business. The majority of the banks with local and foreign capitals have developed the concept of integrated financial services, offering under the same name, besides the banking products, the insurance, brokerage on the capital market and leasing services.

It is very important to mention the bancassurance phenomenon, which represents the merge between the products and services delivered to the clients by the insurance - reinsurance companies in collaboration with the commercial banks.

The clients benefit from various insurance products, based on the agreement concluded between the insurance company and the bank, the benefit belonging to both parties, the banks becoming the strategic partner of the insurance-reinsurance companies. The dominant form of manifestation has been the sale of life insurances through the bank, accompanied by the cooperation, quite limited in general, in terms of damage insurance or other financial services.

As a consequence of the banks' initiative, this phenomenon has extended to other owners of networks like the post office and the savings banks. In Europe, this phenomenon generalised and

¹ Product destined to the capital market, through which parts of the capital of a bank or a company is purchased.

amplified in the 1990s, due to the considerable increase of the financial market role, of their institutionalisation and , in general, looking for an efficient management of the large active portfolios. The industry of the services is shaped and it gathers the life insurances, the retirement funds, the persons insurances, the consumption loan, the assets management in the third parties account. The more and more important role owned by the bancassurance is underlined by the fact that over 70% of the incomes from bonuses of the insurers specialised on life insurances from Spain come from the sector of bancassurance, and in Belgium and France, this sector has a share of 56%, respectively 62% from the total of the bonuses on the internal market of insurances. In Table 1 and Picture 1, the market rate held by each tip of distribution channel in the main countries of Europe within the bancassurance system is presented:

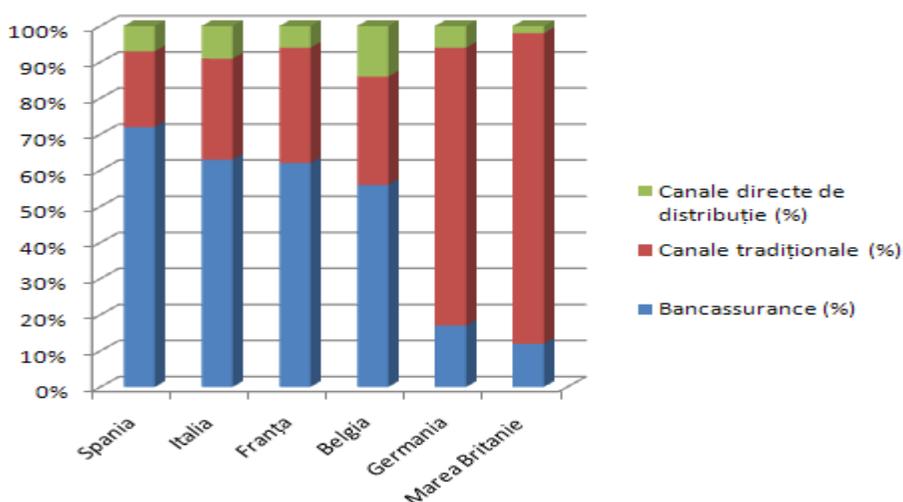
The market rate of the distribution channels within the bancassurance system

Table 2

The country	Bancassurance (%)	Traditional channels (%)	Direct distribution channels (%)
Spain	72	21	7
Italy	63	28	9
France	62	32	6
Belgium	56	30	14
Germany	17	77	6
Great Britain	12	86	2

Source: www.bis.org

Developed through the means of alliances that have formed between the insurance companies and the commercial banks, this modern distribution channels have not had the expected success in countries like the Great Britain, where the life insurance market is structured around the brokerage companies, or in Germany, where the role of the traditional distribution channels is still predominant, approximately 77% from the bonuses coming on this channel. At the level of the European Union, the transition of the banks from the traditional bancassurance deposits is, at the moment, hurried by the competition exercised by the life insurance packages and the programs offered by the private retirement funds. This phenomenon takes place in the countries where the banks have not been traditionally involved in the insurance activities.



Picture 1 The market rate of the distribution channels within the bancassurance system

The collaboration takes the form of crossed distribution of products, the creation of joint companies, the avoidance of a direct competition, the purchase of insurance companies by the banks depending on the legal regulations, which can be more or less favourable for the longer periods, and on the complexity of the products offered, with the mention that the simple ones have more success, especially if the situation addresses to less sophisticated clients.

The strategic alliances with various traders or insurance companies, together with the alternative distribution channels, not only they lead to the diversification of the sale of the banking services, but they change the costs structure as well. The more a bank manages to go towards this direction, the more it is prepared for the future. The banking services are more or less comparable, the most important criterion of competitiveness being the price. The more a bank can control costs, the more its position will be more solid on the market. Due to the severe competition for the clients, the use of new distribution channels is absolutely necessary for the banks to improve the quality standard of the supplied services, to increase the market share, to reduce the costs and increase the profit.

Conclusions

Through diversifying the banking products and services, the banks will have to take into consideration the numerous risks to which they are exposed, which have not been fully evaluated and they have to study the effects on their banking incomes, as a consequence of the expansion of the electronic banking activities. In a near future, the information technologies will completely change the current configuration of the traditional banks. More and more services will become automatic, the clients will prefer to perform themselves the operations through the internet or the telephone, thus the new bank will become more of a business centre. The current traditional bank will transform into a technical work centre, a sort of a bank without physical clients.

The implementation of some marketing and new management techniques and the automation of the majority of the enrolled operations will allow the banks to extend and diversify the activity. The process of continuous improvement of the services and products offered by the banks has favoured a series of factors, among which the evolution of the informational technology which has constituted an important vector. The information technology continues to modify the nature of the banking and financial activity through the new product and services whose purpose is the increase of the banks capacity to serve their clients.

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ROMANIA AND SUSTAINABLE DEVELOPMENT. THE STATE OF FACT AND THE DANUBE RIVER AS A KEY-ELEMENT

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This paper is focused on the evolution of economic and social situation in Romania in 1990-2007, and after that it is focalized upon possible paths to follow in order to provide a sustainable development in this geographical area, taking account of the way Romanian society and the political leadership could use the huge potential given by Danube river in order to attain this objective.

Keywords: climate change, Danube, nuclear energy, transport on Danube

Cod JEL: F59; N74; Q54

Put shortly, the period 1990-2007 could be labeled as a chaotic period in Romania's modern history; it is characterized by the absence of a coherent economic, social, and professional policies. The effect could be identified even starting with '90s, and it can be felt very strong today. When the Communism fall down in Europe at the end of '80s, Romania had a unique position among the countries with similar level of economic development, having none external debts, and much more, being international a net creditor, with a global claim of 3 billions USD in relation with USSR, Iraq, and Libya, due to the Romanian investments made in those countries during 1980-1989;² in 2007 Romania had an external debt of 30 billions USD, being on 29-th place in the world from this point of view.³ In the same time, Romania had a very strong industry before 1989. In 2007, the situation was like this: 75% from the industrial capacity of 1989 was totally eliminated, being erased from the economical map of Romania;⁴ the agriculture, and the administration of existing forests and of touristic potential have entered a total collapse. The maintenance and the improvement of *transport and communication networks* – **the cornerstone of economic and social development** – was in 2000 far behind the situation registered in 1970; the strategic industries and factories in steel industry, the aviation, automobiles, and ship's building and the competitive units in the food, leather, furniture, or pharmaceutical industries were shut down, privatized in a fraudulent way, or sold for a penny.⁵

In order to highlight the negative effect of this state of fact, it could be mentioned that a state which intends to have a *position* which can promote its foreign policy and its interests, must have a good *transport policy* (and communication policy), while the energy policy following nearby; this areas must be regarded with the greatest attention and interests by political leadership in each state which intends to have a good position in international affairs, because the *independence* in this areas mean a greater mobility in the foreign policy of that state, the state of fact in Romania being the *best example* for this and for the absence of coherence in these vital areas, with extremely negative impact in the long run. It could be mentioned that the construction and the modernization of roads and railways is made in the most slowly possible way, while the plans

² Călin Georgescu and Mircea Malița, *Back to Basics. Reshaping Professional Worth in Romania. A Report of the IIDP – Romania*, Bucharest, IIDP – Romania, 2008, p. 53.

³ *Ibidem*, p. 54.

⁴ *Ibidem*, p. 54.

⁵ *Ibidem*, p. 55.

regarding the development in energy sector, having as their aim the reduction Romania's dependency of costly energy imports faced in 1990-2007 the most terrible opposition at domestic level, and international level, too, especially regarding the nuclear power plant at Cernavoda, and regarding the modernization of some hydropower plants, being included here the Iron Gate System I, too.⁶ Great parts of Romanian oil and gas industries were privatized in suspect and strange conditions, reducing in this way the *ability* of Romanian state to take *independent* energy policies, which is a *unique phenomenon in the Romania's modern history*. The economical and social costs have become evident: during last years, the trend was due especially to consume, and not due to production, Romania becoming again importer of finished products, and exporter of raw materials and timber, as during the medieval times. Romania was found in a unique position among European nations: she turned around to a subsistence economy, the percentage of population working in agriculture being 39,7% in 1997, while in 1989 it was only 27,5%,⁷ and this gave predominance to family farms and to migrations from urban areas to rural areas, facts which have never met in Europe since 1800.⁸ During 1990-1996 Romania went back to economic conditions peculiar to Soviet occupation (1945-1958), and there could be identified in this period the most reduced level of *social cohesion* in Romania's entire modern history.⁹ The conclusion in this: after 1990 in Romania there was registered the destruction of the most important part of its economic potential, the setting of social chaos, cultural stagnation, and the scattering on national wealth, all being due to some deficiencies peculiar to Romanian society, well protected by the hesitation or incapacity of Romanian political leadership, which hasn't had the capacity to understand the aims of changes which it had to face.¹⁰

To these negative peculiarities there have been added the consequences of global financial crises starting with the fall of 2007, when evidence of this state of facts could be identified in USA. It could be mentioned that in the past there were economic crises, too, and their effects could be felt in the political area, too. In 2007 USA have been involved in two wars which she carried very far from her territory (for six years in Afghanistan and for four years in Iraq), their economic and political costs being considerable; on the one side, the economic crises in USA is direct connected to these "adventures", as in the past, when the wars determined a radical change in humans' perceptions and behavior.¹¹ The effects of this crises started to be felt in Romania beginning with the second part of the year 2008, bringing with them a general confusion in economic and social areas, although there could be identified beginning with 2007 some coherence due to Romania's integration with EU.

We are today in the first part of the year 2010 and we can question what we have to do in order to have some coherence in the action realized at national level in Romania. One important and wise answer should take account of national interest, and this must comprise the *Danube river*, which together with Black Sea and Carpathian Mountains, are those elements which influence in a crucial manner the life of Romanian state.

Nobody reckoned better this great importance of Danube – and of Romania, where are situated the Mouths of Danube – than King Carol I, when, as an answer to the counsel regarding "its refuse to accept the crown of a country without any future", he looked at the map and showed that here passed the most *straight line* between Europe and Indies, this country having to play a

⁶ *Ibidem*, p. 55.

⁷ EBRD, *Transition Reports*, 1999.

⁸ Călin Georgescu and Mircea Malița, *op. cit.*, p. 57.

⁹ *Ibidem*, pp. 58-59.

¹⁰ *Ibidem*, pp. 55-56.

¹¹ Charles P. Kindleberger and Robert Aliber, *Manias, Panics, and Crashes. A History of Financial Crises*, 5-th edition, New Jersey, John Wiley & Sons, Inc., 2005, p. 47.

special role in global trade.¹² Even then the geographical peculiarities were crucial for the direction taken by that great man and organizer of our modern state.

And we should never forget that since the opening of the Suez Canal the Danube has become the shortest way for transporting to the big economic and industrial centers in Central and Western Europe the food and raw materials brought from Asia, and for the export of industrial products from Europe to Asia.¹³ And from economic point of view, although Romania belongs to European family, the geographical space centered on Levant represents Romania's economic *vital space*,¹⁴ due to Danube and its direction of flow.

A strategy adopted at national level having as focal point the Danube river should be the main focal point in Romania, because the role of this river is so great, that in case such a strategy would be crowned with success, it would generate great benefits for Romania on multiple layers, both at domestic level, and in her foreign policy, too. One part of the territory which is the most valuable part given to Romania and which asks from Romanians the greatest dues and skills, in order to provide favorable conditions for development among the other nations on the Earth, is **Danube river**.¹⁵ Danube guarantees us the great future and the prosperity in the great struggle for existence among the nations on the Earth, and the same Danube is the element which dictates the Romania's *special interests*, and guides her policy.¹⁶

From *economic* point of view, Danube river could be used for multiple ends: it has a huge potential for fishing; for reed production; for irrigation systems; for energy (hydro and nuclear); for shipping industry; it is an important „tank” of water, being from this point of view a key-element with geostrategic connotations because it facilitates the human concentration in urban centers situated along its course – creating in this way the social base for economic activities, which are not possible without water; it could be used as a transport artery in European transport system, where there could navigate Romanian cruise ships, promoting the touristic potential in south-western part of Romania, bringing in these ways the greatest benefits for Romanian state and for Romanian people. Only the man's ignorance and silliness make from this natural spring of wealth not to produce the wealth at its potential, toward which we have the right look with confidence.¹⁷

The initiation of projects for fisheries' construction taking account of hydro-biological peculiarities, could create for Romania one of the greatest source of wealth and incomes.¹⁸ The material needs for projects like these wouldn't be a too great obstacle, because they generate incomes which would cover very fast the expenses generated by their construction; they are only necessary much more *seriousness, well intentions and good faith, and fewer petty politics and bureaucracy*. A bad administrated fishery is a forerunner of its bankruptcy, and although on Romanian Danube and in Danube Delta there are very good natural conditions for fish production – which are unique in Europe – the incoherence of Romanian politics sets the stage for scattering of this important natural gift. And as the fishes can't develop in a polluted environment, we could observe the direct connection between the fishing potential of Danube and *sustainable development*.

In the same time, a plethora of plants and animals find a welcome habitat along Danube – especially in Danube Delta – being another source of wealth. Let alone pasture lands and hay places, the reed due to enormous space occupied by them, have a special importance. If there could be identified a beneficial use for reed from Danube Delta, Romania could cover with reed

¹² Grigore Antipa, *Dunărea și problemele ei științifice, economice și politice*, București, Librăria „Cartea Românească” și Pavel Suru, 1921, p. 10.

¹³ *Ibidem*, p. 11.

¹⁴ Paul Dobrescu și Alina Bârgăoanu, *Geopolitica*, București, SNSPA, 2001, p. 73.

¹⁵ Grigore Antipa, *op. cit.*, p. 2.

¹⁶ Ciprian – Benjamin Benea, *Dunărea. Geopolitică și negociere*, Iași, Institutul European, 2009, p. 36.

¹⁷ Grigore Antipa, *op. cit.*, p. 82.

¹⁸ *Ibidem*, p. 84.

supply all needs in entire Europe, without fearing of any competition.¹⁹ Together with reed, there could be found huge amounts of rush, and big poplars, willow and alder forests. The profitableness of these forests is very big; even the wood has not the best quality, the forests could be cut at each 8-10 years, and through this short rotation, their exploitation would generate substantial incomes.

But the Danube influences in an overwhelmingly way the life of Romanian people, because this river has the most complex connection with all national and industrial activities. The Romanian Plain is one of the most fertile lands in Europe. The major disadvantage is due to the reduced quantities of water falling in this area (between 300 and 400 mm/year), the droughts generating great damages, especially in case there are consecutive drought years. It could be seen that the improvement of agricultural potential could be obtained through a vast system of *irrigations*. And the necessary amounts of water could be taken directly from the Danube, which in spring time could reach 35000 cubic meters/s.; the amount of water in excess could be stored in special pools, while during summer droughts the water could be used through canals and irrigation systems to agricultural areas, transforming significant areas in Romanian Plain in the wealthiest plains in Europe, reducing in the same time the Romania's dependency by food imports – another key-element with deep implications for foreign policy of the state – transforming Romania from a net food importer in a big cereals and food exporter, as a consequence of light industry development. The cornerstone for attaining this aim is the *association* among people living in this area, having at its base the *trust*. This is the only way for attaining a sustainable solution which could facilitate the reaching of this important aim.

From energy point of view, Danube has exceptional parameters, being the *biggest in Europe*;²⁰ the medium potential in Iron Gate Defile which has a length of 107 km. is 8050 KW/km, in Gura Văii-Sip being 81800 KW/km.²¹ While the construction of these hydro power plants was conditioned by river's peculiarities and its shores in common sector near Iron Gate Defile, the water of Danube river is an inexhaustible source for nuclear generated energy. In this way, in Units I and II at Cernavoda there is obtained 18% of necessary energy at national level; the installed capacity in for each one reactor 706 MW. And when the project was launched 30 years before, there were foreseen five units of electricity generation at Cernavoda.

Linked to the importance of creating at national level an *independence* in energy sector, this giving birth to a greater mobility in foreign policy, Danube could be regarded as the key-element which could provide that mobility for Romanian foreign policy, rising the specter of choices and its foreign policy's flexibility, with all advantages involved by these aspects. In this way, there could be obtained with inexhaustible Danube's water the needed energy in nuclear and hydro power plants – *the water becoming more and more expensive taking account of climate changes consequences* – providing a strong shield against the negative influences which could come from Middle Eastern affairs, OPEC, and Russia, or from non-state actors (as powerful oil and gas companies, companies involved in the supply of oil and gas along routes on sea and pipelines, or pirates,²² as happens near the Somali coasts).

The climate change, far away from international media coverage, is a real fact, with extremely negative consequences, and which could hardly be estimated and quantified. If we look at images taken by satellites, we could observe that in September 2007 the area of ice cap in Arctic zone is much little in comparison with the existing situation in 2001.²³ The reserves of fresh water

¹⁹ *Ibidem*, p. 91.

²⁰ *Ibidem*, p. 69.

²¹ *Ibidem*, p. 70.

²² Max Boot, „Pirates, Then and Now. How Piracy Was Defeated in the Past and Can Be Again”, in *Foreign Affairs*, July/August 2009, vol. 88, no. 4, p. 103.

²³ Scott G. Borgerson, “Arctic Meltdown. The Economic and Security Implications of Global Warming”, in *Foreign Affairs*, March/April 2008, vol. 87, no. 2, pp. 64-65.

become, in a climate where temperature's risings would be a common thing, much rare and more expensive,²⁴ which made a famous international affairs think-tank to finance a study analyzing the impact of hydro-politics upon international relations.²⁵ The Danube becomes in this context the source of fresh water, so necessary to survive, and the element which could generate the necessary energy for the multiplication of weak human being's power, providing rising of the potential which could be used by Romanians in the great struggle they have to carry among the other Earth's nations. Danube is that important fresh water "reservoir", playing as such a role with strong *geostrategic* connotations.

Taking account of climate changes, nuclear energy becomes a viable alternative; although France hasn't any natural uranium reserves, in 2005 she had 59 nuclear reactors, which covered 78% of its electricity demand.²⁶ And if we look at this example, Romania could learn and use – taking account of her obligations assumed by NPT – the Danube's water to create nuclear energy on a greater scale in comparison with present situation, reducing in the same time the share of energy produced in coal power plants (which create a lot of pollution), oil and gas power plants (which emit gases which hurt the environment, and which create great dependence upon countries where those resources are located). Furthermore, this is in the context of European Union's desire to reduce the emissions which generate greenhouse gases.²⁷

The shipbuilding is another economic activity which is stimulated by Danube's existence, the whole production being export oriented, Romania having the 2-nd position, after Italy in Europe. In order to develop the navigation, it is necessary to develop the activities connected to deposit and transit business in Danube's ports, and to intensify the transit of goods in river and maritime-rivers ports, and the development of cruise navigation on Danube, in the same time with the modernization and development of the fleet for passengers' and goods' transport. Furthermore, Danube is the seventh European Pan-European Transport corridor, having a great importance for EU; the negotiations carried on before the establishing of this route had taken place under the auspices offered by a multilateral institution – UNECE – and they had been carried in parallel with the negotiations regarding the AGTC (1991), and with the negotiations finalized with the AGN (1996). And this is a strong proof for presenting the importance of Danube in Europe, this river being mentioned in all these accords.

Danube has benefitted by international focus, but to fulfill its role and purpose for Romanians, they have to construct a coherent and strong *national strategy* aiming at providing permanent conditions for navigation for ships with draught greater than 2.5 m all over the year, the take over of an important part of the road traffic – which pose great challenges due to its risks and pollution – and heading that part of traffic toward river navigation; and the development of deposits and expedition facilities, the reduction of the fees paid at the passage through Sulina and Danube-Black Sea canals; in the same time, there must be created access on rail and road infrastructures which are direct connected to Danube ports in order to stimulate the river transport; the development of reliable services in Romanian ports; stimulating Romanian ship-owners to develop a strong fleet well adapted to competition which they would face due to European integration process. These things correlated with better facilities regarding combined transport in Danube ports for loading or unloading of goods – and especially containers – could rise the role of Romania, transforming it in a real trade plate in Nord-South, and East-West trade. It could be noted that Danube's water represents in this case *union, energy, food, industry, transport, trade, but man must fight for the creation and development of these achievements.*

²⁴ *Ibidem*, p. 65.

²⁵ Arun P. Elhance, *Hydropolitics in the 3-rd World. Conflict and Cooperation in International River Basins*, Washington DC, USIP Press, 1999.

²⁶ Sharon Squassoni, *Nuclear Energy. Rebirth or Resuscitation?*, Washington DC, CEIP, 2009, p. 9.

²⁷ Mehdi Abbas, "L'Europe face au changement climatique" în *Futuribles*, Fevrier 2009, No. 349, p. 53.

From politic point of view Danube line is the key-element which connects Romania to Western European countries; during history Danube played a “polarizing role for Romanian state”, because a free navigation at the mouths of Danube could be provided only when Romania was strong, the only one county direct interested that navigation on Danube to be free.²⁸ And if we think about the role of communications networks which facilitate not only the movement of persons (and as a consequence, of ideas) and of goods, they are in the same time those elements which create *political bridges* among different nations; and we can observe the great importance on Danube for a healthy Romanian integration with EU. Taking account of Danube flow’s direction from West to East, through the middle of European continent, her importance lays in facilitation of economic, social and political cooperation at European level. And the harmonization of the regime specific to Rhine with the Danube regime would remove the legal and administrative barriers which hinder the traffic between North and Black Seas.

During history, there have been were “two” Danube rivers: one *peaceful* regarded as such by riparian states; and one strategic, regarded as such by European powers. And if the first one is dictated by *economic interests* and by welfare, the second would have as cornerstone *geopolitical* aspects, the mouths of Danube being one of the global red points on military maps.²⁹

Danube, together the Black Sea and Carpathian Mountains are those elements on which depend the Romanian state’s life; and if we want to analyze the way the Romans, Turks, or Austrians, and even the migratory people used Danube as a strategic communication line, being in the same time a way for military, political, and economical penetration, we could remember always how important is this geographical element for Romania and for Romanians.

And we can remember that only through a coherent policy created at national level – but taking account of European interests – a policy emptied by any populist elements in regarding Danube, the Romanian state and nation could play the geopolitical role which it so much desire to have in this part of Europe, with great benefits for Romania, at regional level, but at European, and global stage, too.

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²⁸ Paul Dobrescu și Alina Bârgăoanu, *op. cit.*, p. 64.

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RUSSIA AND ITS PIPELINE WEAPON

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In this paper we intend to present the new power which is given to Russia upon EU due to her great natural resources and due to her control upon pipelines. Now Moscow can exert influence upon countries in Europe not through its revolutionary zeal and its tanks and army, but through its resources. And she knows how to use them and how make the EU dependent on her will: this is a new geopolitics, a 21-th century geopolitics, which is centered upon the control of gas pipelines in Central Asian states and upon EU states' great dependence on Russian pipeline system.

Keywords: energy independence, gas wars, Nabucco pipeline, pipelines, Russia

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Very few people could say that in their life time they could see a collapsing empire without war. Of course, in the second part of 20-th century there was a war, a Cold War, which had as centerpieces Washington and Moscow; but during the last years of '80s, there could be observed a constant decline in Eastern bloc, precipitated by Chernobyl accident in 1986. The Gorbachev's Glasnost and Perestroika policies³⁰ had played a big role in the disintegration of the Eastern bloc, the fall of Berlin Wall, and which ended with USSR collapse in December 1991. The most important heir of USSR was Russia; but during '90s, it had hardly overcome its domestic problems and crises, the biggest one taking place in 1997. So there disappeared a contender from the "game" without any military contest between him and the other one.

But as it is a well known fact that states never forget, the imperial memories of Moscow couldn't have been erased from collective memory of Russians, and especially, from political leaders incumbent in Moscow. During this period Moscow has shed its empire's loosing, but the biggest problem lays in the fact that Moscow hasn't yet found a new role for it in the world.³¹ In terms of foreign policy, Russia's leaders have failed to forget the legacy of the lost Soviet empire.³² Even the Moscow's behavior provides kinships: he who looks at war in Georgia in August 2008 could see resemblances with what happened in Budapest in 1956, or in Prague in 1968, but which had the peculiarity of instigations of ethnic minorities from different republics against the Georgian state's structure.³³

But what was a constant peculiarity of Russian politics after 1997 crises was the recurrence of Moscow's direct interference in Russia's energy policy, especially regarding control over gas pipelines. And the democracy – even that weak democracy – in Russia slipped into recession; this is partly due to disillusioned and disenfranchised voters, which choose to embrace an authoritarian strongman.³⁴ Of course, this is a special peculiarity of Russian society: "the central

³⁰ Mikhail Gorbachev, *Perestroika. New Thinking for Our Contry and the World*, New York, Harper & Row, Publishers, 1987, pp. 69-84.

³¹ Dmitri Trenin, "Russia Reborn. Reimagining Moscow's Foreign Policy", *Foreign Affairs*, vol. 88, No. 6, p. 64.

³² *Ibidem*, p. 64.

³³ Jean Francois Drevet, "Le Caucase et l'Europe", *Futuribles*, Novembre 2008, No. 346, pp. 61-66.

³⁴ Larry Diamond, "The Democratic Rollback. The Resurgence of the Predatory State", *Foreign Affairs*, vol. 87, No. 2, p. 38.

and significant reality of Russian politics has been its predominantly autocratic character.”³⁵ As such, there has been perceived in Russia a deep-seated insecurity and – its antidote – willing acceptance of an all-controlling leader, and respect for power and certainty of goals.³⁶

This is a short presentation of Russian policy, and its continuity. But during different historical periods, Moscow used different instruments to spread its influence and to generate fear. Today, there is no more fear of a nuclear attack from Moscow over Europe or USA, but during the cold days of winter Europeans can feel the strong arm of Moscow; repeatedly it has appealed to the energy weapon to make its strong arm felt in countries from European continent.

This is a noteworthy aspect, because already in 1919 at Peace Conference in Versailles, President Wilson asserted that there could be identified “three crucial elements in international relations – international transport, international communications, and oil”, and the influence which a country would have in international affairs would be directly influenced by the position which that country had in these three key areas.³⁷ As the time passed, there appeared another key-element: the natural gas. It is a source of energy and heating, and what is important, it is much friendlier with the environment in comparison with oil and coal; burning gas instead of oil, and especially coal for electricity, means lower greenhouse gas emissions.

As we can observe, in the case of energy resources, it is clear that between transport and energy there are strong connections. It is important to have resources, but the possibility to control their delivery could become much more important. For this reason, the control over transport routes has a special connotation for each government. Each government wants to have independence in two domains: transportation and energy, and when you speak about *pipelines* you can easily note the magnificent combination which results.

But in comparison with oil, which could be transported from different countries due to high mobility of maritime fleet, in the case of gas resources, this mobility is almost nil, the only exception being LNG (liquefied natural gas), but which could create a strong link between a seller and a buyer, due to high costs of terminals for conversion (in export port) and reconversion (in the port of destination).

Taking these aspects into account, there it could be observed that Russia has a unique position. Due to logistic consideration, in the medium and long term, the oil will be traded globally, while gas will be traded regionally; coal due to its large spread, will be traded locally. The special place of Russia is due to its well endowment of oil and gas resources; Russia has almost 30% of the world’s proven gas reserves, and sits *astride* the transport network by which energy flows from the entire post-Soviet zone to the rest of the world.³⁸ In the same time, Russia has proven reserves of oil of 80 billion barrels, almost 7% in world total.³⁹ And it is possible in the future that Russia will seize the control over great parts of untapped reserves in the Arctic, where are about 13-20% of world’s total resources;⁴⁰ this is because of the aggressive way in which it has claimed control over great part of them, aspect which could bring intense tensions with USA, and other riparian states. Already the Russian state-controlled oil company Gazprom has approximately 113000 billion cubic feet of gas under development in the fields it owns in the Barents Sea;⁴¹ and the

³⁵ Zbigniew K. Brzezinski, “Soviet Politics: From the Future to the Past?”, in Paul Cocks, Robert V. Daniels, and Nancy Whittier Heer (eds.), *The Dynamics of Soviet Politics*, Cambridge, MA., Harvard University Press, 1976, p. 337.

³⁶ Jerrold L. Schecter, *Russian Negotiating Behavior. Continuity and Transition*, Washington DC, USIP Press, 1998, p. 5.

³⁷ Gleason L. Archer, *History of Radio to 1926*, New York, American Historical Society, 1938, p. 164.

³⁸ Robert Legvold, “The Russia File. How to Move Toward a Strategic Partnership”, *Foreign Affairs*, vol. 88, No. 4, p. 79.

³⁹ Michael T. Klare, *Rising Powers, Shrinking Planet. The New Geopolitics of Energy*, New York, Metropolitan Books, 2008, p. 90.

⁴⁰ Robert Legvold, *op. cit.*, p. 79

⁴¹ Scott G. Borgerson “Arctic Meltdown. The Economic and security Implications of Global Warming”, *Foreign Affairs*, vol. 87, No. 2, p. 67.

resources which could be found in the territory claimed by Moscow could contain as much as 586 billion barrels of oil (bbl).⁴² If this is real, then it is opportune to mention that Saudi Arabia has only 260 bbl. proven reserves.

Only from Caspian Russian region Russian Federation produced in 2005 for example 1008,2 mil. tones oil equivalent.⁴³

But why should we regard Russia as a power with great influence in Europe and in the world? The answer is connected to geo-economic field, and not necessary to the military one. Of course, this country has almost half of nuclear arms in the world, and this has given it great influence at world stage, but nowadays things have changed: if during Cold War Moscow menaced the world with its revolutionary zeal and its atomic weapons; today it looks at the world and sees its needs connected to development, and threat to hinder this process through energy flow's obstruction.

Let's have a closer look at Russian politics regarding energy.

The nationalization of oil and gas industry was one of the pillars of this process. In 1996 Vladimir Putin couldn't even dream that four years later it would be the president of Russian Federation; but immediately he took the office, he engaged to create national champions in Russia – these national champions would put promotion of the state's interest over profit maximization.⁴⁴ But even in June 1997 he, in a dissertation submitted to St. Petersburg Institute, and in an article “*Mineral'no-syr'evye resursy v strategii razvitiia Russiiskoi ekonomiki*” published in 1999 in Zapsiki Gornogo Instituta, presented a plan for Russia's recovery and return to economic and political influence. The main theme was the calling on the Russian government to reassert control over the country's natural resources and raw materials.⁴⁵ The effect of such a policy would be a low energy price in Russia, while outside it means suspending deliveries to countries which refuse to support Moscow's foreign policy.⁴⁶ And in the case that a private company operating in Russia in oil or gas sectors doesn't support the Russian line of policy, it would be denied for it the access to Russia's oil and gas *pipeline monopolies*.⁴⁷

In the same time, the “friendly persuasion” from Moscow hindered Yukos and Sibneft in their business and while preventing their acquisition by foreign companies (especially by American ones); furthermore, through the process, Moscow gained control of 41% of Russia's oil output.⁴⁸ Before the end of second term of Putin's presidency, the most important industries in Russia – the strategic ones – went under state's control through *renationalization*.⁴⁹

But what is more important is the fact that these companies are controlled by *siloviki*; these men are economic nationalists and seek to restore Russia's international greatness.⁵⁰ They are prone to promote the consolidation of political and economic power within an extremely centralized state, well-financed security and defense structures: they sustain a strong state – over the importance of social and economic freedoms – which had to have a strong voice in country's economic life.⁵¹ In order to attain their goal – taking account of Russia's economic profile – these peoples pretend themselves to be economic nationalists, arguing that country's natural resources belong to Russian people, and that state must control them for that reason; the argument of bad years before

⁴² *Ibidem*, p. 68.

⁴³ Jill Shinkleman, *Oil, Profits, and Peace. Does Business Have a Role In Peacemaking?*, Washington DC, USIP Press, 2006, p. 15.

⁴⁴ Marshall I. Goldman, *Putin, Power, and the New Russia. Petrostate*, New York, Oxford University Press, 2008, pp.98-99.

⁴⁵ *Ibidem*, p. 97.

⁴⁶ *Ibidem*, p. 99.

⁴⁷ *Ibidem*, p. 99.

⁴⁸ *Ibidem*, pp. 105-123.

⁴⁹ *Ibidem*, pp. 133-135.

⁵⁰ Ian Bremmer and Samuel Charap, “The Siloviki in Putin's Russia: Who They Are and What They Want”, *The Washington Quarterly*, Winter 2006-2007, p. 87.

⁵¹ *Ibidem*, pp. 88-89.

Putin's ascension to power being brought as example. These justify the limited access of foreign companies to Russian resources, and a favorite treatment for Russian companies headed by those which are close to Kremlin.

This administrative structure within Russia creates for this country a great bargaining power in economic and political, and even in security areas, because through Kremlin's control over natural resources, and especially the control *over pipelines*, Moscow can influence decision in those countries which are dependent upon Russian resources and access to them. We point here to the fact that Central Asian states are dependent on Russian pipelines, which are controlled by Kremlin through the giant companies Gazprom and Rosneft, and they can have access to markets only if Kremlin facilitates it. In the same time, Moscow fights to limit the access of those countries to the market; the only failure until now is the BTC pipeline, which was built only due to the strong backing given from Washington.

On the other hand, Moscow wants to have important shares in downstream parts of deliveries systems in EU. It fights hard to gain access and to have control in delivery systems in the most important EU countries, making there strong allies in Germany and Italy. This policy is aimed to maintain and increase the European countries' dependency on Russian energy flow, especial gas. For example, six EU member countries depend totally on Russian gas (Bulgaria, Slovakia, Finland, Estonia, Latvia, and Lithuania), while in other European countries Russian gas' share is big enough to create for Moscow the capacity to have a strong voice in European politics.

Moscow monopoly over gas pipelines has a powerful meaning: pipelines are the cheapest and most practical way for delivering gas, but this situation makes Europe extremely vulnerable, European countries being dependent on imported gas from Russia, a dependence that is set to increase.⁵² And if Russia prevents the fulfilling of projects which would create alternative ways for gas deliveries from Central Asian states, than the Moscow's clout in Europe would increase even bigger. It even took steps to prevent such possibilities: in summer of 2007 President Putin succeeded in promoting future collaboration among Turkmenistan, Kazakhstan, and Russia, aiming to sell gas from those two countries in European countries, which would pass as before through Russian build pipelines.

Another aspect which hints at Russian pipeline politics is that which regards the construction of a pipeline under the Baltic Sea – the so called Nord Stream – which would avoid the territory of some states which could create problems for Moscow. For the moment Germany buys 40% of its consumed gas from Russia,⁵³ while Italy 32%;⁵⁴ and through dealings with these two countries Moscow hopes to prevent the diversification of gas supply in Europe. The means are pipelines and the instrument in Moscow's hand is Gazprom. This could be easily identified from Putin's statement: "The gas pipeline system is the creation of the Soviet Union. We intend to retain state control over the gas transport system and over Gazprom. We will not split Gazprom up. And the European Commission should not have any illusions. In the gas sector, they will have to deal with the state."⁵⁵

Nord Stream would enhance Moscow's influence over those countries through which passes gas from Russia to Western Europe; these are as follows: in the northern part of EU there are two pipeline systems: one which passes through Belarus and Poland to Germany, the other which passes through Ukraine, Hungary, Slovakia, Czech Republic and Germany. If there could be build a pipeline which would connect Russia directly to Germany, those countries mentioned above could be influenced by Moscow, creating a very different situation in comparison with that

⁵² Edward Lucas, *The New Cold War. Putin's Russia and the threat to the West*, New York, Palgrave Macmillan, 2008, p. 164.

⁵³ Marshall I. Goldman, *op. cit.*, p. 166.

⁵⁴ *Ibidem*, p. 166.

⁵⁵ Putin's statement quoted in Michael Fredholm, *Gazprom in Crisis: Putin's Quest for State Planning and Russia's Growing Natural Gas Deficit*, Swindon, Conflict Studies Research Centre, 2006.

encountered in 2006 and 2009, when Russia reduced the supply for Ukraine, while this country consumed the gas which was destined to Western European countries instead. This raised strong opposition from different countries in the region, including Sweden which threatened Russia with military actions if they would have started the project.

Regarding the Southern part of Europe, there Russia intends to prevent the construction of Nabucco project, which would increase energy security through Europe. The Moscow's countermeasure could be given by South Stream project. Even the route for gas pipeline in the Western part of Black Sea is almost similar, the great difference lies in the fact that Nabucco is a European project, backed by EU, which would be constructed and operated by Europeans, which in the same time would bring out from isolationism and dependency on Moscow the Central Asian states, while South Stream would be an extension of the already finished Blue Stream pipeline, which carries gas from Russia to Turkey, and which would be filled, maintained, and operated by Russia, while its building would be realized by Gazprom and ENI from Italy. One spur would go via Greece into Southern Italy, while the other to the Northern Italy, through Romania, Hungary, and Slovenia.⁵⁶

We can mention that after Angela Merkel became German Chancellor, the Nord Stream hasn't got the same back up in Germany, but the Nabucco project, even if it got the President Sarkozy's maintenance, as could be identified from President Sarkozy's statement in Romanian Parliament in February 2008, couldn't be realized until 2010.

As a conclusion, Russia has maintained its influence over gas pipelines and deliveries in most countries in Europe, and this influence is expected to grow as in the European countries there will increase gas consumption in the future. This rising is due to the fact that the resources available in Europe will diminish, while the consumption of gas will increase due to both energy needs' increase, and due to reducing of other natural resources used for energy production. The only way to reduce the control which Moscow would be capable to exert in Europe would be connected to a more *coherent* energy policy crafted in Brussels having at its core EU countries' interests, and a unified position from those countries in relation with Moscow. Both need each other, but in order to create a climate which will generate a better environment in EU countries it is needed a greater impudence from Moscow from energy point of view. Of course, Moscow can diversify its deliveries to East Asian countries which are hungry for energy resources, but a policy which will facilitate the gas deliveries from Central Asian states to EU via Nabucco, will generate great benefits for all those which will be part in it, from both ends of the pipeline.

For Central Asian States it would mean the reduction of Moscow's influence in their domestic and foreign politics, for Azerbaijan, Georgia, and Turkey, through which Nabucco would pass, it would mean a closer relationship to Western countries, reducing Moscow's influence in those countries (especially in Georgia and Turkey, due to reducing their dependency of Russian exported energy), while for EU countries it will be a proof of a coherent policy which could be crafted together by all those interested, reducing in the same time their dependence on Russian energy, and Kremlin's will.

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ECONOMIC ACTIVITY REGULATION AND COMPETITION ASSESSMENT

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In a broad sense, the term „competition” defines the relations between economic operators acting on the same market seeking attainment of certain interests in economic freedom conditions.

The need for regulations in the area of competition stems from the nature of free, open market economy which is founded on the existence of fair competition between economic agents, competition which must be observed, maintained and protected by the law.

Public authorities who issue various regulations should be cautious about how far this role is played in the economy and they way adopted regulations affect competition in the market. Hence, the need for prior assessment relating to the potential effect of a regulation on competition.

It was proven in practice that some regulations may lead to measures that may affect competition directly or indirectly by: limiting the number or range of suppliers; limiting supplier capability to compete and reducing interests of suppliers to compete vigorously.

Keywords: competition, regulation, assessment.

Cod JEL: F120

1.Introduction

In a broad sense, the term „competition” defines the relations between economic operators acting on the same market seeking attainment of certain interests in economic freedom conditions.

In economy, competition may be approached on three levels, i.e.

- direct competition (also known as brand or category competition) where products with the same functions compete directly against each other;
- indirect or substitute competition, where products which are close substitutes for one another compete;
- budget competition, which refers to competition between any good or service for which the consumer wants to spend his available money.

It should be noted that in most countries economic and business competition is often limited and restricted. Competition often is subject to legal restrictions. Tariffs, subsidies or other protectionist measures may also be instituted by government in order to prevent or reduce competition. Depending on the respective economic policy, pure competition is to a lesser or greater extent regulated by competition policy or competition laws.

Competition law, described in the United States as “antitrust law”, has three major functions:

- a) it prohibits agreements or cartel type understandings;
- b) it prohibits the existence or abusive behaviour of a company which holds a dominant position in the market ;
- c) it supervises the mergers and acquisitions of large companies.

In all cases the law aims to protect the welfare of consumers by ensuring competition between businesses and by eliminating any restrictive practice.

2. Evolution of competition policy

„Rigorous application of the competition policy is the best way to guarantee economic freedom. Therefore, free competition represents a public liberty which influences not only the economic

environment but also the organization of civil society. In this sense, competition policy is a policy for the citizens”⁵⁷.

The need for regulations in the area of competition stems from the nature of free, open market economy which is founded on the existence of fair competition between economic agents, competition which must be observed, maintained and protected by the law.

Its very reason for being in the area of competition is determined by the fact that the market cannot operate normally by nature and require some external intervention. Nevertheless, the open market principle does not infer passive attitude towards the way markets operate but on the contrary, it calls for keeping constant vigilance, so as to enable market mechanisms to operate properly. This becomes all the more necessary in the current worldwide globalization context distinguished by deepening integration at markets level.

According to economic theory, increased market competition leads to higher efficiency of resource allocation as a result of the fact that prices of goods and services will tend to the level of marginal costs. In perfect competition conditions marginal prices will equal marginal costs, hence profits will be nil. Therefore, producers will try to intervene so as to increase profits by initiating measures resulting in restrained competition. Under a „laissez faire” government one cannot intervene against such a strategic option⁵⁸.

Limited, in the past, to some developed countries, competition policy spread out progressively in various regions of the world, today it constitutes an essential tool in the paraphernalia of regulatory policies⁵⁹. The origins of competition policy as a regulatory tool stem in the United States of America where the first competition regulatory legislative act was adopted in 1890 (Sherman Act).

In Europe, competition policy has developed with the creation of the European Economic Community and has become an integral part of the economic integration project, being comprehended under this title by the Treaty of Rome in articles 85 and 86.

Subsequently, the importance of protecting competition became obvious to most countries, i.e. developed, developing and transition countries (currently, over 80 countries have competition legislation in place).

Reality of the past two or three decades, after the beginning and intensification of the European integration process materialized in a multitude of negative impact developments, which had to be regulated, determined instatement of an European wide legislation meant to strictly regulate competition in all member states.

Based on research conducted on the objectives of competition policies, two distinct views or models can be highlighted:

- the „structural” model inspired by the theses of Harvard school, which focuses on dilution of the economic power;
- the model inspired by the theses of the Chicago school centred upon economic efficiency.

The structural approach, widely spread in the 1950-1970’s by J. Bain and E. Mason, is based on the concept of pure and perfect competition whose existence is conditional upon atomicity, that is the presence in the market of as large numbers of economic agents as possible⁶⁰.

In the opinion of economists R. Posner (1976) and D. Demsetz, proponents of the Chicago school, concentration does not always have negative consequences for consumers⁶¹. On the

⁵⁷ Monti, Mario. Competition European Commissioner, <http://www.ier.ro/Proiecte/Brosuri/Politica%20concurrenta.pdf>, accessed on 10 November 2008

⁵⁸ Gabriela Drăgan, *UE între federalism și interguvernamentalism Politici comune ale UE*, Edit. ASE, București, 2005.

⁵⁹ M. Plămădeală, *Politica concurențială - origini, obiective și modele, particularități*// Simpozion internațional “Integrarea europeană și competitivitatea economică”

⁶⁰ Bain, J.S., *Structure versus Conduct as indicators of market performance: the Chicago school* // Antitrust law and economic review, vol. 18, no.2, 1986, pp. 17-50.

contrary, they say, concentration is merely a selection process of more efficient companies which leads to increasing profits of the companies but also, implicitly, to increasing innovative capability which in turn results in lower production costs and thence improved consumer welfare⁶².

Irrespective of specific conditions in one or another area, the final purpose of competition policy is the same, i.e. development of competition as such. As insisted the classic model proponents, the purpose of competition legislation cannot be brought down exclusively to securing efficiency. *The actual economic purpose of competition policy is threefold: economic efficiency, consumer welfare, and competition between companies.*

Manifest competition is not always fair, based on fair-play principles and aimed to improve competitors' activity. Oftentimes, economic agents make use of numerous anti-competition acts and actions seeking elimination of competition from the market and making as high as possible profits. This has consequences which affect both the competition environment and the overall economy and draws in pretty heavily on the life of citizens. Therefore regulation has been and still is required in the area of competition, which stemmed up the policy in this area or competition policy. This type of policy mainly aims to create real, free and fair competition within the reference market by the instrumentality of measures related to market structures and to the behaviour of economic agents.

3. Commercial policy and competition policy interaction

The so called „new topics“ negotiated within the World Trade Organization⁶³ (WTO) deal with the way instruments related to competition policies on domestic and international markets interact with international trade.

Decisions made at the Singapore Ministerial Conference in 1996⁶⁴, enabled creation of two taskforces intended to examine more in a general manner, the ways trade is linked with investments and competition policies. In addition, ministers acknowledged the importance of the activity of the *United Nations Conference on Trade and Development* (UNCTAD)⁶⁵ and of other international organizations in the matter of competition. The taskforces were encouraged to cooperate with these organizations so as to ensure development issues have been fully taken into consideration.

In our attempt to go into further details relating to the link between commercial policies governing international trade, and competition policy, it is worth highlighting to what extent these two policies are antagonistic or complementary. Thence, commercial policies primarily aim at international trade liberalization by elimination of tariff and non-tariff barriers. Certainly, in a market economy materialization of such an objective is translated into the reduction of marketing costs and decreased retail prices. This means easier consumer access to the concerned product or service. As regards competition policy, it is likewise subordinated to defending consumer interests. This objective is attained by fighting and eliminating practices in restraint of

⁶¹ Pradeep Mehta, *Multilateral Competition Agreement. Looking ahead to Cancun*. WTO, Symposium on trade and competition policy, 22.02.2003, p. 1

⁶² Demsetz, H., *Industry structure, market rivalry an public policy*.// Journal of law and economics, vol.16,1973, p.1-9

⁶³ World Trade Organization (WTO) is an international organization which supervises a large number of agreements which define “commercial rules” between member states. WTO is the successor of the “*General Agreement on Tariffs and Trade*” and operates towards reducing and abolishing international trade barriers.

⁶⁴ Singapore (1996) – within this Conference, developments in international trade and implementation issues and aspects of various WTO Agreements were examined.

⁶⁵ United Nations Conference on Trade and Development. Established in 1964, UNCTAD promotes development of friendly integration of developing countries in the world economy. UNCTAD evolved progressively as a knowledge based authority of institutions whose activity aims to contribute current policy debates and thinking development especially focused on guaranteeing that domestic and international policy actions support each other in achieving sustainable development.

competition which may occur in the market by: understandings between competitors, abuse of dominant position by a company holding an important position on the market, as well as rigorous control of economic concentrations and of authorization and checking of state aids.

It is evident thus, that both policies mentioned above promote protection of consumer interests directly or indirectly. Moreover, they are complementary by their fostered objectives and actions. Indeed, international trade liberalization efforts would be in vain if tariff or non-tariff obstacles were replaced by competition restraining practices of the type shown above. Should strict rules fail to exist ensuring normal market operation competition wise, the consumer will no longer be in a position to take advantage from trade liberalization.

Therefore, both trade liberalization and ensuring normal competition climate occur conditional on states having actual intervention possibilities when the two processes do not unfold under normal conditions.

4. Competition and world economy globalization

One of the most recent trends in world economy is represented by globalization⁶⁶, an intricate and multidimensional process which influences, directly or indirectly, the economies of all countries. Hence, it also influences the constituents of economies, i.e. domestic demand and supply, prices, competition. In this context, it is worth noting a few peculiarities of competition delineated by changes occurring at the level of national economies under the impact of the globalization process, namely:

- enhanced competitiveness as a result of opening national economies to international trade by gaining new outlet markets;
- diversified competition engagement strategies, determined by goods and capital trade liberalization;
- establishment of the intervention capability of states in a market economy. It is more difficult in such circumstances for the state to control market relations extended at global level. This theory should not be absolutized either, since opening borders and international trade liberalization should not be mistaken for creating pandemonium.

International trade liberalization occurs at the sale time with its regulation.

Then, it is evident that also in the economic processes globalization, including at the level of competition, states are attempting to regulate the various activities in order to prevent competition restraining forms and practices from appearing and occurring.

5. Assessment of regulations impact on competition

Public authorities who issue various regulations should be cautious about how far this role is played in the economy and they way adopted regulations affect competition in the market. Hence, the need for prior assessment relating to the potential effect of a regulation on competition.

This is why it not surprising that worldwide concerns with competition assessment have increased in the context of adopting regulations which might affect competition climate. Among international organizations which made themselves conspicuous in this respect is the Organization for Economic Cooperation and Development (OCDE) by the study it conducted relating to its Set of Competition Assessment Instruments.

The starting point in the implementation of such set of competition assessment instruments is represented by the identification of aspects which may be subjected to regulations. It was proven in practice that some regulations may lead to measures that may affect competition directly or indirectly by:

a) Limiting the number or range of suppliers

⁶⁶ Joan Bari, Globalization of Economy, chapters 9 and 13

Limiting the number of suppliers creates the risk for the market power⁶⁷ to appear and for competition reduction. When the number of suppliers decreases, the possibility of collaboration (or understanding) between them increases and the capability of individual suppliers to increase prices may be greater. From a competition perspective, this can lead to lessened interest to satisfy consumer requirements and to long term reduction of economic efficiency. While there are reasonable political grounds based on which political leaders can sometimes limit the number of range of suppliers, the benefits of a market entry limiting policy need to be assessed in consideration of the fact that easy new supplier market entry is apt to prevent existing suppliers from becoming dominant on the market. Market power leads to higher prices, lower quality and little innovation.

Forms in which such limitation may become the subject of a regulation are diverse, and the most important are:

- *Granting exclusive rights.*

Granting an exclusive right to manufacture a certain good or provide a certain service implies establishing a regulated private monopoly. Potentially, exclusive rights may lead to monopoly prices and to other market power related issues.

- *Establishing a license registration system or approvals for carrying on certain activities.*

Licenses or permits required for carrying on activities inevitably limit market entry. Requirements for licenses or approvals are often a lot more stringent than necessary for consumer protection and may reduce consumer's choice uselessly and create an artificial shortage resulting in higher prices. A guiding principle is that restrictions should not lead, more than needed or satisfactory, to the attainment of regulatory objectives.

- *Limiting certain suppliers from supplying a good or providing a service.*

In certain circumstances, governments seek to encourage suppliers from certain regions, small suppliers, or specific featured suppliers by limiting the capability of certain types of suppliers to participate in a commercial activity, especially with regard to public procurement. Such restrictions are excessive since they limit unreasonably the number of suppliers participating in the tender, reducing competition between suppliers and resulting in higher prices or less desirable contractual terms for the government.

- *Significant increase of entry or exit costs.*

Regulations which lead to increased market entry or market exit costs will deter newcomers and will therefore reduce the number of market players.

- *Restricting the flow of goods, services, capital and labour.*

Regulations often limit the flow of goods, services, capital and/or labour across the area determined by borders falling under national jurisdiction, frequently as a regional policy instrument. However, such restrictions will reduce artificially the geographical competition area for supplying a good or providing a service. This can limit the number of suppliers and may potentially allow them to exercise market power and increase prices.

There is also a material risk that „temporary” protections change into semi-permanent arrangements due to the considerable influence exercised by the suppliers who benefit of such restrictions.

b) *Limiting supplier capability to compete*

The main forms whereby a regulation may affect the capability of suppliers to compete are:

- *Controlling prices used to sell goods or services.*

Oftentimes, governments regulate prices in the traditional monopoly sectors, such as for instance in the case of utilities. These types of controls on prices are probably beneficial to consumers and

⁶⁷ Suppliers' market power represents the capability to increase prices profitably, to reduce quality or innovation relating to levels which would prevail on a competitive market.

are used as a counterbalance to the lack of alternatives for them. However, controls on prices are often applied in situations when there are numerous potential suppliers for the same consumer. When minimum prices are set, low priced product suppliers are prevented from gaining a percentage of the market by ensuring better value for the consumers. Similarly, when maximum prices are set, the interest of suppliers in innovations so as to ensure new and/or higher quality products may be significantly low and suppliers may effectively coordinate prices around the maximum price level.

- Limiting advertising and marketing.

Regulations limiting the capability of suppliers to advertise or market products and services exist often for the purpose of restricting false or deceptive advertising.

However, in many cases, restrictions on advertising and marketing are too general and unreasonably limit competition. Restrictions on advertising and marketing may have considerable disadvantages for the newcomers since they limit their capability to inform potential buyers about their presence on the market and about the nature and quality of goods and services they can offer.

- Setting product quality standards beyond the desirable level for well-informed buyers.

Regulations laying down standards often ensure benefits for consumers and may promote new types of products while making sure they are compatible. But setting a standard may also ensure an excessive benefit for certain suppliers against others.

When certain consumers prefer lower costs to higher safety the need for a standard is less justified. Consumer welfare may be reduced by such standards since consumers are prevented from buying less expensive lower quality products which they would prefer even when fully informed about all associated risks.

- Increasing costs for some suppliers compared to others.

In certain periods, regulations determine unintentionally cost increases for some suppliers as compared to others. One of the asymmetry generating sources relating to costs is represented by regulations which unreasonably require using a certain production technology against another one. Another such source is represented by the „seniority clauses” which exempt existing suppliers from being applied a regulation which this way would affect only newcomers. Such arrangements affect competition by increasing costs for some suppliers to a considerably higher extent than for others.

c) Reducing interests of suppliers to compete vigorously

Regulations may affect supplier behaviour not only by changing the capability of a supplier to compete but also by altering the interests of suppliers to act as vigorous rivals. Two of the main reasons suppliers may compete less vigorously are related to the fact that some regulations may result in facilitating coordination between suppliers while other regulations may result in reducing goodwill, capability or means to encourage buyers so as to enable easy selection among the various suppliers.

Forms taken by the reduction of interest in competing are:

- Regulation and self-regulation

When a business or a professional association fully assumes responsibility for regulating the behaviour of its members without being supported from a legislation standpoint by the government (often as requested by the government) the „regulation” term is used. When the government provides the legislation support for regulations developed at least partially by the relevant business/professional association, the „self-regulation” term is used. Regulation and self-regulation structures may produce substantial benefits by ensuring technical standards compliance and their advancement in line with technology.

- Requirements for the publication of information about suppliers' prices, production, and sales.

Regulations requiring market players to publish information about their own prices or their levels of production may significantly facilitate creation of cartels, since a key requirement for a cartel to operate is that its participants are able to effectively monitor their competitors' market behaviour. Cartels appear where there are fewer market players, where entry barriers are raised, where products of the suppliers are relatively unvarying and where information about prices or about production changes are available either before or after the price or production has changed. There are alternatives to collected data publication. When information is originally collected in order to develop a governmental policy it is unlikely that publication of such information should be justified. The purpose however consists in supporting the consumers or supplying general statistics, as aggregate statistics support cartels to a lesser extent than specific statistics relating to suppliers.

- Exemptions from general competition norms.

In many countries, certain suppliers or certain economic sectors benefit of exemptions from general competition norms. In some cases, these sectors are governed by their own legislation in the area of competition specific to every sector. In other cases, there is no restriction relating to anti-competition behaviour in these sectors. Where there is substantial derogation of the general enforcement of competition legislation there is also the obvious risk of cartel formation, of abusive imposition of prices and of the ensuing anti-competition mergers⁶⁸.

- Reducing client mobility by increasing costs associated with changing suppliers.

Regulations may cause the consumers to be less willing to change a supplier for another due to concerns for "transfer costs" – explicit and implicit costs borne by a supplier when changing a supplier. Transfer costs may result due to various reasons, including unreasonable long contractual periods or restricting goods by the suppliers in a manner that makes it uncomfortable to change suppliers, such as restricting access to a telephone number for a certain services supplier. When consumers are faced with high transfer costs, suppliers may impose higher prices for their goods and services. Consequently, suppliers often seek to create high transfer costs, sometimes by promoting regulations which will ensure such transfer costs.

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⁶⁸ A merger is a combination between two (or several) previously independent suppliers for the purpose of creating a larger supplier.

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ADVANTEGES AND COMPETENCES AQUIERED BY COMPANIES PARTICIPATING IN PROJECTS

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Financing funds are financial instruments working to eliminate economic and social disparities, in order to achieve economic and social cohesion. The participation of the companies to financing funds aimed to support their activity through the financing of the productive sector investments, infrastructure investments or other investments in fields such is: education, employment and human resources development, local development and small and medium sized enterprises, but also to make possible the economic and social conversion of areas facing structural difficulties. This study aims to highlight the advantages and expertise acquired by companies participating in projects compared to those having deferred their enrollment in the project.

Keywords: local development, projects, financing, economic and social conversion

Cod JEL: M21, O12

1. General objectives of projects

The main objective of companies participating in different projects is the training of company's employees to develop skills on innovation, support business competitiveness in the context of adaptation to business requirements. This competitiveness can be achieved only by companies seeking to sustain and develop their work and by participation at various projects (not only in purely technical matters, but also in management, human resources, market policies, etc.).

Projects aim to provide access to techniques, methods, strategies to be followed in order to stimulate creativity. Companies that participate in these projects will gain competitive advantage through which will better exploit the innovative potential of employees and will easily integrate into highly competitive environment given the current context of Romania's EU integration, as well as that of globalization. When elements of innovation and innovation management are not adequately represented in training programs, projects aim to substitute lack of harmonization of the educational system to labor market needs.

Projects are considering also obtaining the individual benefits for employees of companies participating in projects; they will increase their chances of promotion, labor market integration in Europe.

In the context of globalization, the competitiveness is a question of Romanian companies. Projects designed to sustain competitiveness in the Romanian companies aim to define, to design and develop an educational packet for the employees of these

companies responsible for the development and exploitation of innovation. Innovation focuses not only on the idea, the novelty, but also the ability to apply the idea in practice.

2. Motivations of firms participating in projects

Main motivation of participation in projects is related with the possibility to acquire skills and advantages in terms of sustaining a competitive activity. Companies needs related to their staff need to be innovative to cope with competitive business environment, workforce qualification and retraining to meet better the needs of labor market participation are other motivations of firms in projects.

Training through participation in innovative projects will lead to development of managers and employees. Analysis of general needs and specific needs in training employees of small and medium sized enterprises to develop innovative edge, will allow companies to find innovative and creative solutions to business needs.

Therefore, firms will adapt more easily to changing business environment and will be more open to new ideas and change in general.

3. Case Study: small and medium sized enterprises participation in projects

Reasons for the choice of target group - small and medium sized enterprises were:

- in small and medium sized enterprises, especially in Romania, there is less coherent policy to stimulate innovation;
- project results are easier to assess for small and medium sized enterprises than for large companies because small number of employees in a small and medium sized enterprises;
- small enterprises number decreased continuously in recent years (in 1998 there were 295.486 small businesses operating in economically and in 2002 only 285.589), while the number of medium-sized enterprises increased. This trend indicates the maturation of small and medium sized enterprises sector in Romania. Since 1990, Romanian Government, with the EU assistance and other donors and financial institutions, has implemented a series of measures to accelerate growth of the small and medium sized enterprises's sector. These measures led to significant results, in 2002: the contribution of the SME sector to GDP increased to 60%, the share of small and medium sized enterprises in total labor force employed reached 50.5% and 24.4% value of total exports. However, development of SME sector is still a challenge for Romania.

Activities that should be considered in a project involving the participation of small and medium sized enterprises are focused on identifying business needs and employees' needs to respond positively to the challenges of competitive environment. The positive response consists in the possibility of obtaining superior results compared to those of competitors and against prior periods.

To demonstrate the efficiency of small and medium sized enterprises participation in projects and to highlight the skills and advantages acquired, we analyze results of 10 companies (of 50) who benefited from the opportunity to participate in a project (PHARE CBC 2005) held in 2007-2008. Positive results were obtained by correctly identifying the economic needs of various categories under pressure. Opening markets has caused new pressures on businesses, especially in traditional industries and small and medium sized enterprises have been exposed, especially to many changes in business environment due to economic restructuring and preparation for integration. Therefore, they have to make efforts to adapt to structural changes.

This project was designed to foster cooperation in the small and medium enterprises, because only by this population, economic organizations and civil border counties may be integrated into cross-border cooperation. The project aimed to increase the level of training of managers, entrepreneurs and employees among small and medium sized enterprises by developing skills in implementation of projects and funding request. The project proposed also to induce a change in attitude and mindset among small and medium sized enterprises vis-à-vis the European integration process, which is reflected in improvements in the application and interpretation of Community law, the efficient resource management human and material, the awareness of the need and usefulness of a management plan for short and medium business and a development strategy in line with the trends of the European single market. The project has superior economic performance with economic integration, and increased competitive capacity of small and medium sized enterprises with import-export activity from border area.

After finalization of funding under the Phare CBC Program, Centre for Cross-border Business Services - CSAT will provide research and consulting for all companies engaged in foreign trade, and thus affected by the economic integration process.

The sample analyzed was set to include companies operating in the three economic sectors: agriculture, industry and services.

Table 1: Distribution of small and medium sized enterprises (SMEs) participating in the project sectors

Sector of the economy	No. SMEs participating
Agriculture	10
Industry	10
Services:	30
- Commerce	10
- Transport	10
- Tourism	10
Total	50

Figure 1: Distribution of SMEs participating in the project sectors

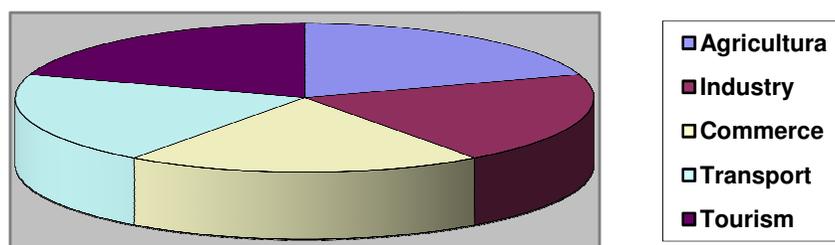
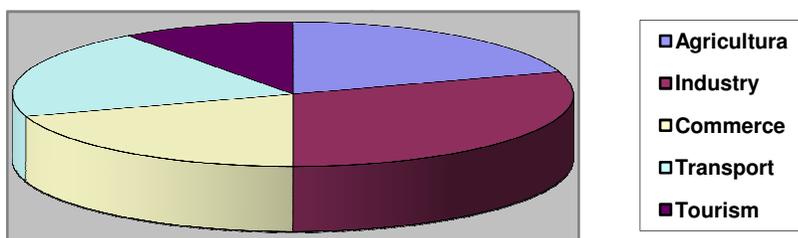


Table 2: Distribution of SMEs by sector analysis

Sector of the economy	No. SMEs examined
Agricultural	2
Industry	3
Services	5
Total	10

Fig 2: Distribution of SMEs by sector analysis



Skills acquired through participation in the project were:

- long term improvement of skills, training and specialization of staff and managers in the firm's problems;
- improve competitive;
- diversification and upgrading of products and services like customer adequate workforce;
- training to use new tools in business;
- ensuring the flexibility of labor in order to value employment opportunities;
- growth performance of small and medium sized enterprises on domestic and foreign market;
- to acquire a European mentality and cultivate partnership opportunity.

Benefits from participation in the project are:

- spread best practices for promoting small and medium sized enterprises in the context of alignment with EU standards;
- promoting innovations in business;
- for managers, will certainly be a way to encourage such investment in human capital of their firms.

Of the 10 small and medium sized enterprises examined, six have applied knowledge gained from participating in the PHARE CBC project compiling projects that have applied for grants to obtain funds national and European programs. These projects dealt with the purchase of equipment for the activities of industry and agriculture, modernization of transport and tourism activities, and creating e-shops. As a result of funding obtained, companies have created new jobs, won higher incomes and obviously, they made a

profit. The current economic crisis has had an impact on their activity, but to a lesser extent.

Competencies and advantages gained by the participants in the project are reflected in the current activity of participating companies is quantified in terms of positive evolution of key economic indicators. To support those assertions, we analyze comparative financial indicators (turnover, profits) and the number of employees. The analysis covers the period 2006-2008, with forecasts for 2009.

Table 3: Evolution of indicators in the period 2006-2007
at the 10 SMES selected from those participating in the project*

Sector of the economy / company	2006			2007		
	turnover	profit/loss	no. employees	turnover	profit/loss	no. employees
Agriculture:						
company 1	7.667.921	136.130	41	12.624.954	195.098	45
company 2	828.240	89.966	17	1.043.604	31.861	18
Industry:						
company 1	8.154.667	14.140	213	7.721.078	37.197	196
company 2	18.574.975	-375.734	339	18.224.969	-1.776.551	240
company 3	1.076.217	12.257	25	1.955.854	232.938	34
Services:						
<i>Commerce:</i>						
company 1	20.677.099	1.709.458	85	20.916.467	65.684	91
company 2	10.799.957	-56.628	187	8.775.452	-2.299.660	182
<i>Transport:</i>						
company 1	63.234.724	1.150.774	434	74.530.771	829.530	424
company 2	2.309.459	87.652	2	3.008.563	198.814	12
<i>Tourism:</i>						
company 1	3.299.007	42.827	7	3.802.126	68.837	8

* Statistical data for the study were provided by the companies, according to the balance sheet

*Table 4: Evolution of indicators in the period 2008-2009 *
at the 10 SMEs selected from those participating in the project*

Sector of the economy / company	2008			2009*		
	turnover	profit/loss	no. employees	turnover	profit/loss	no. employees
Agriculture:						
company 1	16.955.238	273.843	45	16.950.000	275.000	45
company 2	1.298.275	31.587	14	1.295.000	31.600	14
Industry:						
company 1	6.817.843	36.299	170	6.800.000	36.000	170
company 2	37.749.161	218.527	249	37.750.000	220.000	245
company 3	1.788.416	16.553	40	1.790.000	16.500	40
Services:						
<i>Commerce:</i>						
company 1	37.177.976	-1.275.787	102	37.250.000	- 850.000	100
company 2	4.487.001	-1.737.331	67	4.450.000	- 1.250.000	65

<i>Transport:</i> company 1	74.318.985	935.756	341	74.320.000	935.000	340
company 2	3.376.971	6.184	13	3.380.000	6.200	13
<i>Tourism:</i> company 1	3.977.947	99.654	8	3.500.000	95.000	8

* Statistical data for the study were provided by the companies, according to the balance sheet, for 2009 data were projected by the company.

Forecasting level indicators for 2009 took into account the experience of participation in the project, experience has tried to counter, in a proportion as high as possible, the economic crisis. If it was a realistic forecast data will be there after June 30 (according to the balance sheet).

Table 5: The average rate of increase/decrease of the level indicators on the economic sectors considered from their 2006 level

Sector of the economy	2008/2006			2009*/2006		
	turnover	profit/loss	no. employees	turnover	profit/loss	no. employees
Agriculture	114%	35%	1,7%	114,7%	41,8%	1,7%
Industry	66,7%	-	-23,5%	66,7%	-	-21,2%
Services:						
<i>Commerce</i>	32,3%	-	-37,9%	32,4%	-	-29,4%
<i>Transport</i>	18,5%	-34%	-28,9%	18,5%	-24,1%	-19,1%
<i>Tourism</i>	20,5%	132%	14,2%	6%	121,8	14,2%

The firms that in the period previous to the participation to the project suffered a loss, through the skills acquired, they have managed to cover these negative results and, in some cases, they have had a profit.

4. Conclusions

Note the growth of the considered indicators, a different growth rate from one sector to another, fact that sustains an efficient participation in the project and a good management of the knowledge acquired. In some cases, the factor that had a greater impact on business activity was still the economic crisis. Sure, in the future, companies will improve the situation, given the strong interest for participation in other projects.

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EUROPEAN CENTRAL BANK AND ECONOMIC CRISIS MANAGEMENT

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This article aims to describe the response of the European Central Bank to the emergence and development of the current economic crisis. It will present the measures that have been employed since the year 2008 and try to outline the results. The article is structured in three parts: first the regular mechanisms used by the European Central Bank for steering economic development and in particular the monetary policy are listed; next the differences between the European and US economic and financial environments in face of the crisis are outlined; and finally the European Central Bank's strategic measures to battle the crisis are presented, together with the final conclusions.

Keywords: European Central Bank, monetary policy instruments, economic crisis, stability measures

Cod JEL: E58

1. European Central Bank's monetary policy instruments

The European Central Bank (ECB) is the supranational institution mandated by the Treaty to conduct the monetary policy of the European Union. The Article 105 of the Treaty acknowledges that the main objective of the Eurosystem - ECB plus the National Central Banks (NCB) of the member states that have adopted the euro currency – is price stability. As long as the primary objective is not jeopardized, sustainable economic growth and high levels of employment might also be pursued. In fulfilling these objectives, the Eurosystem has developed three main groups of monetary instruments: open market operations, structural operations and minimum reserves.

1.1. Open market operations

These operations play the most important role in steering the interest rates, managing the liquidity situation on the market and signaling the stance of monetary policy. There are five instruments used in this category, and the most important is the reverse transaction. *Reverse transactions* are operations in which the Eurosystem buys or sells eligible assets under repurchase agreements or conducts credit operations against eligible assets pledged as collateral. These are executed through the NCB and involve the use of repurchase agreements – the ownership of the asset is transferred to the creditor, while the parties agree to reverse the transaction through a retransfer of the asset to the debtor at a future point in time; or as collateralized loan – the ownership of the asset is retained by the debtor, but an enforceable security interest is provided over the asset. The interest paid on these types of transactions is simply the difference between the purchase price and the repurchase price in the repurchase agreement; in a collateralized loan, a specified interest rate is applied over the maturity of the loan. Reverse transactions are used for main refinancing operations, for longer-term refinancing operations, for structural and fine-tuning operations.

Outright transactions are open market operations in which the Eurosystem buys or sells eligible assets outright on the market. They imply a full transfer of ownership from the seller to the buyer, without the pledge for the reversal transfer of this ownership. These types of transactions are used only for structural adjustments. *The issuance of debt certificates* is also a structural operation used by Eurosystem for absorbing excess liquidity from the market. They constitute a debt obligation of the ECB towards the holder. The debt certificates do not bear coupon, they are sold

at below nominal value and redeemed at face value, the difference being the interest accrued at the maturity. *Foreign exchange swaps* consists of operations where Eurosystem buys (sells) euro spot against a foreign currency and, at the same time, sells (buys) it back in a forward transaction on a specified repurchase date. As a rule, Eurosystem deals only with internationally recognized currencies. These operations are used for fine-tuning adjustments, to provide/reduce liquidity in the market and steer interest rates. *Collections of fixed term deposits* are deposits placed by different counterparties at the NCB, in the country where these counterparties are located. They are used in fine-tuning operations for absorbing excess liquidity from the market. They are constituted for a fixed term and the counterparties receive a fixed interest for them. The NCB where these deposits are located does not offer any type of collateral in return.

Open market operations are initiated by the ECB in order to fulfill its objectives. The ECB decides also what type of instrument to use from the five above and the conditions for the execution – standard tenders, quick tenders or bilateral procedures. Regarding procedures and regularity, the open market operations can be classified in four categories: main refinancing operations, longer-term refinancing operations, fine-tuning operations and structural operations.

Main refinancing operations have the most important role in fulfilling the objectives of the Eurosystem. They are pursued by the NCB every week, having also a weekly maturity. Their objective is to provide liquidity in the market through reverse transactions and are executed using standard tenders. *Longer-term refinancing operations* are pursued by the NCB every month, having a maturity of three months. Their objective is to provide liquidity on a longer term through reverse transactions and are also executed using standard tenders. *Fine-tuning operations* are executed “on the spot” in order to mitigate unexpected fluctuations of the liquidity on the market and to steer interest rates, having a non-standardized frequency or maturity. They are executed by the NCB on the basis of quick tenders or bilateral procedures, but sometimes they can be initiated directly by the ECB. Mostly they take the form of reverse transactions, but foreign exchange swaps and collection of fixed-term deposits are also used. *Structural operations* are executed by the NCB through standard tenders and involve either reverse transactions (for the provision of liquidity) or issuance of debt certificate (absorption of liquidity). Also they can be executed through bilateral procedures using outright transactions – outright purchases or sales – in a non-regular fashion. Structural operations are used when the ECB wants to modify its structural position towards the financial sector.

1.2. Standing facilities

These operations are executed on a very short time frame (overnight). They are used to influence the overnight market interest rate, to smooth the overnight liquidity and to signal the position of the ECB. The counterparties have access to two types of standing facilities, at their own discretion: the marginal lending facility and the deposit facility. *Marginal lending facility* is employed when the counterparties desire to obtain overnight liquidity and takes the form of overnight reverse transactions. The interest perceived on the eligible assets provides a ceiling for the overnight market interest rate. *Deposit facility* is used when the counterparties desire to set up deposits for their overnight additional liquidity in exchange for an interest rate, which usually provides a floor for the overnight interest rate. Both these two facilities – the marginal lending facility and the deposit facility – are administered in a decentralized manner by the NCB.

1.3. Minimum reserves

This measure is used for absorbing unwanted liquidity from the market. Basically credit institutions in the euro area are required by ECB to maintain a certain amount of reserves at their respective NCB, amount determined in relations to elements in their balance sheet. Deposited reserves are remunerated at the interest rates used by the Eurosystem’s for the main refinancing operations.

A generalized table of the operations used by ECB to conduct its monetary policy can be summarized as follows:

Monetary policy operations	Types of transactions		Maturity	Frequency	Procedure
	Provision of liquidity	Absorption of liquidity			
OPEN MARKET OPERATIONS					
Main refinancing operations	Reverse transactions	-	One week	Weekly	Standard tenders
Longer-term refinancing operations	Reverse transactions	-	Three months	Monthly	Standard tenders
Fine-tuning operations	Reverse transactions Foreign exchange swaps	Reverse transactions Collection of fixed-term deposits Foreign exchange swaps	Non-standardized	Non-regular	Quick tenders Bilateral procedures
Structural operations	Reverse transactions	Issuance of debt certificates	Standardized/non-standardized	Regular and non-regular	Standard tenders
	Outright purchases	Outright sales	-	Non-regular	Bilateral procedures
STANDING FACILITIES					
Marginal lending facility	Reverse transactions	-	Overnight	Access at the discretion of counterparties	
Deposit facility	-	Deposits	Overnight	Access at the discretion of counterparties	

2. Differences between the European and US economic and financial environments

Europe and the USA have significantly opposite economic and financial structures; this is why the crisis has affected them differently. Consequently, ECB and Federal Reserve used divergent measures aimed at stopping the destructive effects that have appeared. Nevertheless, the aims of both Central Banks were to stabilize the economies and to regain the confidence of the market participants, either private or corporate.

Regarding the financial sector, the USA has a market-based financial sector, while the EU has a bank-centered financial sector. At the end of 2007, the stock of outstanding bank loans to the private sector amounted to around 145% of GDP in the euro area. The corresponding proportion of bank loans to GDP in the United States was only 63%. This means that the banking sector is more than twice as important in the euro area as it is in the United States. It also means that to be effective, ECB policy must focus first and foremost on the banking sector.

Moreover, direct debt securities account for 81% of GDP in the euro area. The corresponding proportion in the United States is 168%. This means that market-based financing plays a much smaller role in the euro area and is only half as relevant as in the United States. Therefore, the structures of private credit outstanding in the euro area and the United States are almost mirror images: recourse to banks on EU makes up two-thirds of non-equity external finance. In USA, the equivalent proportion is only around 30%. Against this background, it is natural that the Federal Reserve's "**credit easing**" policies mainly target markets for debt securities, whereas ECB policies of "**enhanced credit support**" focus on banks.

Regarding the economic sector, a key aspect is the important role that SME – small and medium enterprises – play in EU. Because the SME do not have access to credit markets directly, ECB had to establish measures to guarantee them continuous access to bank credit by providing

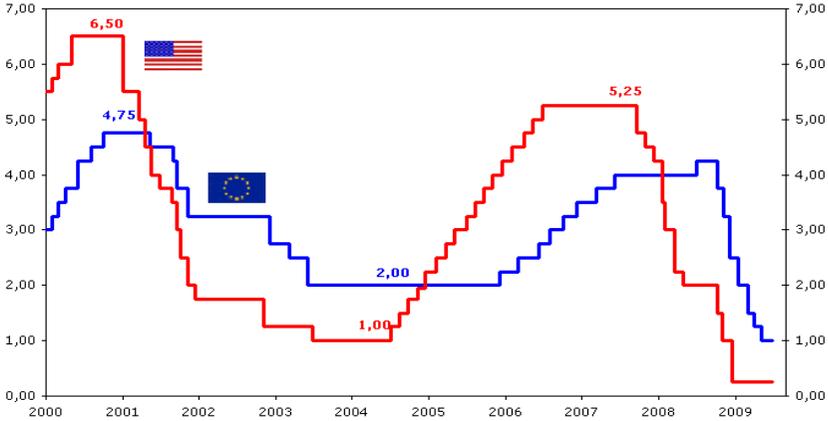
enhanced liquidity to the banks. A second characteristic of the economic sector is the indirect effect that the American housing crisis had on the European markets, while in the US was at the epicenter of the crisis. Toxic assets partly backed by mortgage loans affected primarily the European banks that held them, but did not spill into the real estate sector. Therefore solving the toxic assets problem is vital for restarting the credit offered by these banks.

The last characteristic of the economic sector involves its speed of adjustment. It has been observed that in EU the wages and the prices of the goods and services are slower to adjust than in the US. This trait presents on one hand the disadvantage of a slower adjustment to adverse shocks that appear in the economy. On the other hand, it has a positive aspect of providing a cushion for the private sector expectations. Having a greater inertia, it means that the monetary policies geared towards price stability and fiscal sustainability have somehow better chances of anchoring future expectations, thereby proving on the long run more efficient. On this type of economy, sudden policy moves tend to destabilize the market, because they destroy these expectations.

3. Stability measures employed by European Central Bank

As mentioned before, the first objective of the ECB is to maintain the price stability over the medium term, so average inflation to be below, but close to 2%. This in turn will support the conditions for enduring financial and economic stability. At the beginning of the crisis, the ECB stance was unaltered, keeping interest rates constant at 4%, in order to attain its primary objective. In the same time, the Federal Reserve was slashing aggressively interest rates, in an attempt to flood the markets with liquidity and restart the economic activity.

As the crisis continued, the ECB was faced with the prospect of deflation, signaled by the decrease of HICP – harmonized index of consumer prices – over months. This in turn determined the reduction of interest rates until the current low level. Also the reduction of the key interest rate was used in order to increase the liquidity of the banks so as to stimulate the credit. A historic graph of the evolution of the two key interest rates (US in red and EU in blue) is presented subsequently:



Besides the direct measure of cutting interest rates, ECB used other non-standard measures. The first measure was intended to maintain the availability of credit for households and companies at reasonable rates. In this respect, the ECB changed its “fixed-allotment variable rate” standard tender procedure, in which banks bid for a certain amount of money, to a “fixed-rate full allotment” procedure. This meant that any bank requirement for liquidity was met, and moreover, was met at very low interest rates set up by ECB. Moreover, the maturity of the refinancing operations was increased from one week up to six months. This measure provided addition funds

in a market that almost stopped allocating liquidity, while the demand for liquidity from troubled firms increased exponentially. As a result, ECB acted as a surrogate in the market for allocating liquidity and for setting the price for this liquidity.

The second non-standard measure was to increase the list of the assets that ECB accepted as collateral. Even before the crisis the ECB was accepting as collateral private assets, a regulation that was ultimately used by other Central Banks. But during the crisis that list expanded even greater, so government securities represented only 44% of the nominal value on the list, the rest being private securities. The total number of these securities is now over 45,000, while the total value exceeds 12 trillion euros. This represents approximately 86% of all debt securities issued in euro and to 130% of the GDP from the euro area. This extended list of collateral securities has greatly expanded the liquidity capacity of the banks and allowed them to extend credit lines or to roll over maturing loans.

If the first two measures intended to provide almost unlimited liquidity in the market at a very low interest rate, the last measure was aimed at increasing the tapping capacity of the credit institutions. While before the crisis the counterparties of the ECB numbered around 1700 institutions, following a change in the operational framework, that number increased to over 2200 entities that can refinance themselves with the ECB. The remaining 4300 credit institutions will not encounter great problems if they desire to become eligible too.

All these measures adopted by the ECB in order to combat the economic crisis and to provide the much-needed liquidity across the market have resulted, of course, in an expansion of the Eurosystem balance sheet. This reached 19% of the GDP at the height of the crisis, namely the beginning of 2009. Since then, the liquidity started flowing back to the money market, a sign of improving confidence and more favorable conditions.

4. Conclusion

European Central Bank uses complex mechanisms in order to safeguard its primary monetary policy objective, the price stability over the medium term. These mechanisms ensure that the liquidity level from the market is adequate, both over the short and the long term. Moreover, they are very important in fostering economic development. With the onset of the current crisis, these mechanisms have been put to great stress, as the financial turmoil has gripped the markets and drained them of liquidity.

Because of the flexibility that was inherently constructed into these mechanisms, the regulators were able to modify them so as to better suit the tormented climate. Consequently, the counterparties of the ECB had greater access to vital resources and were thus able to continue operating without great distress. As the liquidity scarcity was defeated, the next step – the most important step – is to restore confidence in the markets. Confidence is probably the most expensive resource right now, and without it, there can be no economic recovery, no matter how sound the financial indicators look.

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ASPECTS ON THE IMPACT OF GERMAN FOREIGN CAPITAL INVESTMENT IN ROMANIA

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The evolution of the foreign direct investments (FDI) in Romania and especially the German ones, which are presented in this paper, show an increase over the past years, but have a declining trend from 2009. Among the main arguments underlying the German FDI in Romania are included the well trained personnel and the low average salary of 200 €. Another strong issue is that Romania has a large domestic market, language diversity and tax benefits. Despite the financial crisis Germans are planning interesting investment opportunities in environmental technology in Romania for 2010 and are forecasting for this year a real investment growth of 1.1% compared to last year. The newly built highway and trunk road network, the modernization of industrial plants and adapting to environment challenges make Romania become even more attractive.

Keywords: Foreign Direct Investment, German, Romania

JEL: F21 - International Investment; Long-Term Capital Movements

1. Introduction

Romania is not only a versatile holiday destination, but also an important business location and has from the rim of the Carpathians to the Black Sea unimaginable beauty and untouched landscapes. Many villages and cities, which often have their history lasting for centuries, have such an original structure that one could not find anywhere else in Europe.

Hungary was the first country in Europe to break the borders and barriers of the Iron Curtain on May 2nd, 1989. The symbolic opening of a border gate between Austria and Hungary in the Pan-European Picnic in August 19th, 1989 was the first „official” opening of the Iron Curtain with the approval of both governments. The opening of the Berlin Wall on November 9th, 1989 marked the end of the Iron Curtain and with it the end of the Cold War. The Czechoslovaks broke their border fortifications in December the same year. In Romania the communist regime was abolished in December 1989, change that created space for the democratization

2. German direct investments in Romania

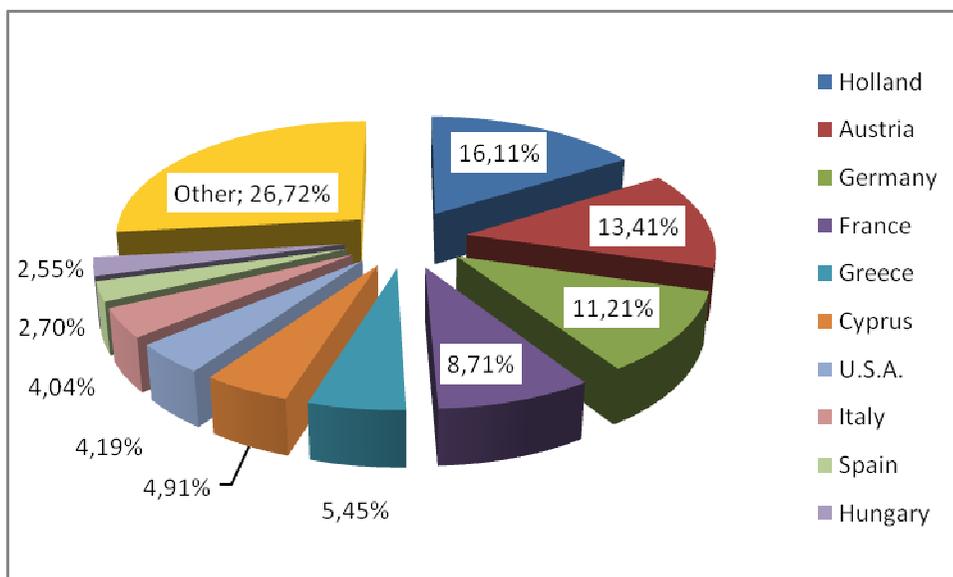
After the political turn in Romania several improvements took place, so that not only the German-Romanian relations improved, but also the foreign investors became aware of the opportunities this country offers. The foreign trade regulations have been gradually liberalized, trying now to follow the guidelines set by the European Union (EU). “Incredible as it may seem today, Romania was the second East European country to permit foreign investment”.⁶⁹

The political relationship between Germany and Romania is a stable one. They find their basis in the Treaty of Friendship signed by both parties in 1992, when Germany begun providing substantial support for Romanian’s accession in the EU.

⁶⁹Dobosiewicz, Z. (1992): *Foreign Investment in Eastern Europe*, Rutledge, London, pg. 48

The German direct investment amounted 2.83 billion Euros until December 30th, 2009⁷⁰, being a share of about 11.21% of the total foreign direct investment in subscribed capital. Regarding the investments in Romania, Germany is third⁷¹ behind the Netherlands (with 4.06 billion Euros – 16.11%) and Austria (with 3.38 billion Euros – 13.41%) and followed by France (8.71%) and Greece (5.45%) (see also Figure 1). However it is also notable, that a number of German companies, which invest in Romania through subsidiaries engaging in other states, are therefore outside the Romanian statistics reported as German investments. At the end of December 2009, the number of companies with German participation registered in Romania was of 17,110 enterprises (10.26%).⁷²

Figure 1 - Classification of companies by foreign direct investment by the investors' countries of origin (December 2009)



Own representation based on - Source: Central Trade Register Office - Statistical Synthesis No.140, online resource: http://www.onrc.ro/statistici/is_decembrie_2009.pdf, last accessed: 17.04.2010

The structure of German investment consists mainly of small business; about 90 percent are running at less than \$ 50,000.⁷³

If we are to consider the ranking by foreign participation in the total subscribed share capital of the top 50 countries during 1991-2008 (current balance on December 31st, 2008), it is easy to observe that Germany is again third (with 2.48 billion Euros – 11.40%), having in front the

⁷⁰All the following informations regarding the amount of foreign investment of companies with foreign participation in the capital were taken from the Central Trade Register Office – *Statistical Synthesis No. 140*. Online source: http://www.onrc.ro/statistici/is_decembrie_2009.pdf, last accessed: 17.04.2010

Information source: The Trade Registry computer system unit is designed by the National Trade Register in accordance with legal provisions in this field. The source of information is the Trade Registers computerized system, maintained by the Trade Register Offices attached to courts.

⁷¹Central Trade Register Office – *Statistical Synthesis No. 140*, pg. 8. Online source: http://www.onrc.ro/statistici/is_decembrie_2009.pdf, last accessed: 17.04.2010

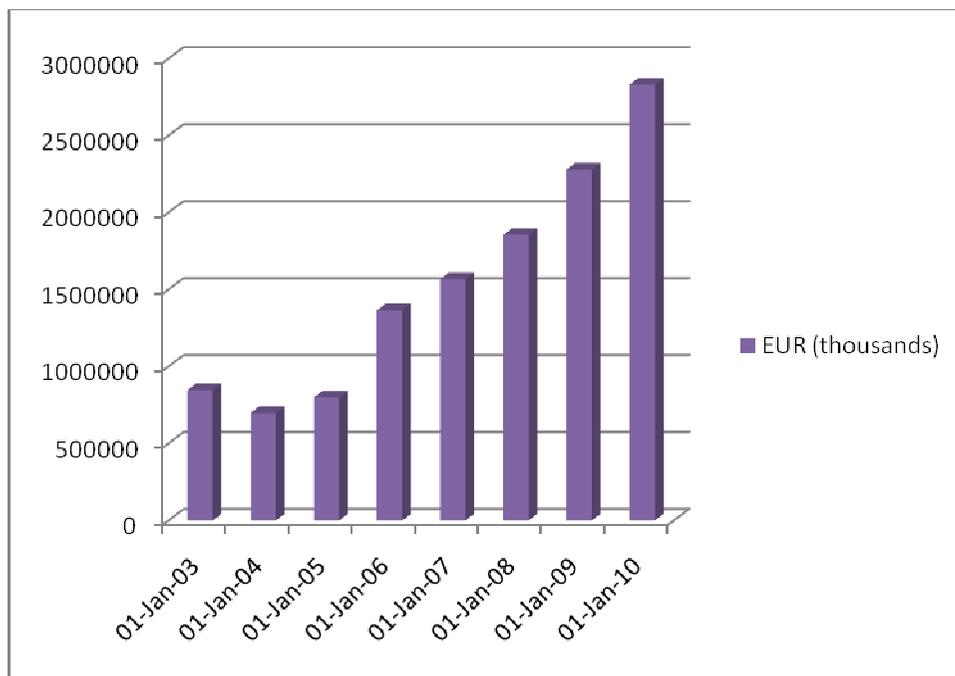
⁷²Central Trade Register Office – *Statistical Synthesis No. 140*, pg. 8. Online source: http://www.onrc.ro/statistici/is_decembrie_2009.pdf, last accessed: 17.04.2010

⁷³Auswärtiges Amt Germany, <http://www.auswaertiges-amt.de/diplo/de/Laenderinformationen/Rumaenien/Bilateral.html>, last accessed: 17.04.2010

Netherlands (with 3.85 billion Euros – 17.70%) and Austria (with 2.53 billion Euros – 11.65%).⁷⁴ But if we would consider the number of companies with German participation in the capital during 1991-2008, we may conclude that Germany is second (16,623 companies), Italy (26,934 companies) being first.⁷⁵

As Figure 2 shows, German investments in Romania during 1st of January 2003 to 1st of January 2010 show a significant increase. From December 31st 2005 to December 31st 2009 German investments doubled their amount.

Figure 2 – Germany as investor in companies with foreign capital participation



Own representation based on – Source: Central Trade Register Office – Statistical Synthesis No. 56, 68, 80, 92, 104, 116, 128, 140, online source: http://www.onrc.ro/romana/statistici.php#inv_2010_1, last accessed: 19.01.2010

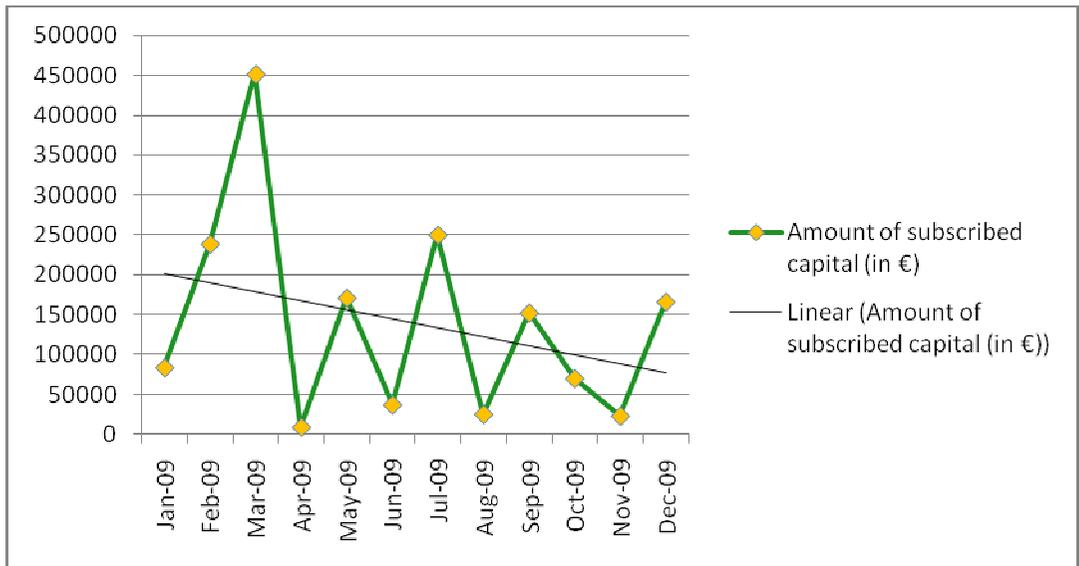
In the first three months of the past year foreign German investments in companies increased by approximately 540%, being followed by a decrease in March and April. If we would consider a linear trendline for the subscribed capital, as shown in Figure 3, we could easily observe that German direct investments in Romania tend to decrease, as this tendency has been influenced not only by the economic crisis, but also by the unstable political and economical environment⁷⁶ of the past year.

⁷⁴Central Trade Register Office – Statistical Synthesis No. 140, pg. 26. Online source: http://www.onrc.ro/statistici/is_decembrie_2009.pdf, last accessed: 17.04.2010

⁷⁵Central Trade Register Office – Statistical Synthesis No. 140, pg. 26. Online source: http://www.onrc.ro/statistici/is_decembrie_2009.pdf, last accessed: 17.04.2010

⁷⁶Most important events being Boc government fall of October 2009 and the presidential election, the depreciation of the national currency (RON), visible since the end of 2008, but stronger in 2009 and the need for external funding, agreements signed with the IMF – International Monetary Fund, have influenced foreign direct investments in Romania. Rising unemployment and economic contraction caused by the global crisis have fuelled the political and social instability in Eastern Europe.

Figure 3 – German investments in companies by foreign direct investment, incorporated during 2009



Own representation based on - Source: Central Trade Register Office - Statistical Synthesis No. 129-140, online source: http://www.onrc.ro/romana/statistici.php#inv_2010_1, last accessed: 19.04.2010

German companies have also been hit hard by the financial crisis, in particular, the export-oriented sectors have suffered from a sharp drop in demand.

3. Why investing in Romania?

„Corruption” was a keyword that was usually brought to attention when talking about Romania⁷⁷, but nowadays many things have changed in a positive way. The country has much to offer, think the German investors, who are certain to find here cheaper and creative workforce. Romania is a country with a huge backlog. 20 years after the political turn billion Euros still flow in the second largest country in Central and Southeastern Europe. Even if foreign investors sometimes wouldn't recognize that Romania's cheap labor market is the decisive investment factor, the proof lies in the average salary of 200 €⁷⁸, wages which are expected to increase in the future. Romania has also a large domestic market, language diversity and tax benefits (unique profit-tax of 16%).

But why do Germans invest in Romania? Is it only because of the cheap labor market? Has Romania to offer more, compared to its neighbor countries in the region? It is, first of all, because

⁷⁷According to the corruption perceptions index 2008 calculated by Transparency International– the global coalition against corruption Germany was ranked the 14th out of 180 countries while Romania the 70th). For more information see also the *Global Corruption Report 2009. Corruption and the Private Sector* by Transparency International, pg. 331-337, 362-367; online source http://www.transparency.org/publications/publications/global_corruption_report/gcr2009, last accessed: 20.04.2010 and *Annual Report Transparency International 2008* by Transparency International 2008; online source: http://www.transparency.org/publications/publications/annual_reports/ti_ar_2008, last accessed: 20.04.2010

⁷⁸Deutsche Welle – aus der Mitte Europas, *Fokus Osteuropa – Immer mehr deutsche Unternehmen investieren in Rumänien*, online source: <http://www.dw-world.de/dw/article/0,,1635805,00.html>, last accessed: 18.04.2010

Romania is since January 1st, 2007 a European Union member state. Second, there is huge untapped economic potential and third, because of the qualified human capital.⁷⁹

Despite Romanian potential of turning into a business location many investors are holding back.⁸⁰ They need confidence that the risk remains as low as possible. The Romanian General Consulate in Bonn has recognized the information gap and reacts. People need confidence to invest their own money, says the General Consul Florin Vodita. He therefore invites German companies that are successful in Romania, to share their experience with those who show interest towards this business location. Vodita says that the basis of such events is the confrontation between German investors operating in Romania and those who wish to operate. So, a seminar has resulted on the basis of personal relations between the General Consulate and the Romanian-German Business Club in Romania. This formula first emerged in 2004 and signals were very positive.⁸¹

Hanicke Thomas, managing director for IHK Duisburg, who attended the second seminar held by the General Consulate in 2004, expressed his opinion, that the feedback of very different entrepreneurs from different industries was positive. He has also realized that many companies are interested in Romania.⁸²

For 2010 the German companies see Romania as a potential investment market, with a constant evolution/chance for the direct investments in various sectors, most desirable being engineering, automotive, chemicals, and constructions, electrical/electronic, IT & telecommunications and medical technology. In addition, there are interesting investment opportunities for German companies with know-how in environmental technology. They also forecast for this year a real investment growth of 1.1% compared to last year.⁸³

The expansion of the highway and trunk road network, the modernization of industrial plants and the adaptation to the environmental challenges make Romania become even more attractive. An improvement is shown in the business climate because of the liberalization, the increased efficiency of the banking sector and because of the lower subsidies and fewer interventions in the economy.

4. Conclusions

Romania was and remains an interesting investment destination for the German capital. Romania may well stand up to international tax competition. The country promotes low costs in combination with sufficient qualified personnel. The hourly wages are much lower than in other Eastern European countries that already joined the EU. Wages are expected to increase in the near future, but an increase of the disposable income brings with it impulses for the domestic demand, which should in turn lead to increasing production and marketing opportunities for investors on the largest market in Southeast Europe.

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⁸⁰This is the opinion of the Consul General Florin Vodita. Deutsche Welle – aus der Mitte Europas, *Fokus Osteuropa – Immer mehr deutsche Unternehmen investieren in Rumänien*, 30.06.2005, online source: <http://www.dw-world.de/dw/article/0,,1635805,00.html>, last accessed: 18.04.2010, SZ-Brandservices, online source: [http://sz-brandservices.com/newsdetail/?tx_ttnews\[pS\]=1235989871&tx_ttnews\[pointer\]=1&tx_ttnews\[tt_news\]=34&tx_ttnews\[backPid\]=9&cHash=d49ab1fc6a](http://sz-brandservices.com/newsdetail/?tx_ttnews[pS]=1235989871&tx_ttnews[pointer]=1&tx_ttnews[tt_news]=34&tx_ttnews[backPid]=9&cHash=d49ab1fc6a), last accessed: 19.04.2010

⁸¹Deutsche Welle – aus der Mitte Europas, *Fokus Osteuropa – Immer mehr deutsche Unternehmen investieren in Rumänien*, online source: <http://www.dw-world.de/dw/article/0,,1635805,00.html>, last accessed: 18.04.2010

⁸² Deutsche Welle – aus der Mitte Europas, *Fokus Osteuropa – Immer mehr deutsche Unternehmen investieren in Rumänien*, online source: <http://www.dw-world.de/dw/article/0,,1635805,00.html>, last accessed: 18.04.2010

⁸³ For more information see Germany Trade & Invest – Top Exportmärkte 2010, pg. 15-16; online source: <http://www.gtai.de/DE/Content/SharedDocs/Anlagen/PDF/01-Bfai/top-exportmaerkte-2010.property=publicationFile.pdf?show=true>, last accessed: 21.04.2010

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THE GENERAL FRAMEWORK OF EUROPEAN CORPORATE SYSTEM

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In corporate governance, through its specific available mechanisms, some measures can be taken to strengthen institutional development (against corruption, administrative shortcomings, favouritism) and to promote market values. These values include accountability, transparency, primacy of law, equity, property and protection of minority shareholders. It should be considered in this context the fact that, as good would be the regulatory framework, if shareholders (owners) are not active and get involved, things can not move towards an optimal way.

Based on these aspects, we intend to emphasize in the present paper which is the effectiveness of the corporate system in Romania compared to other European countries.

Keywords: corporative governance, principles, efficiency

JEL Classification: G30, G34, M14

1. General aspects of corporate governance

Many specialists have tried to define the corporation and we mention the most edifying the one of O. Williamson, who argues: “modern corporation is a product of a series of organizational innovations that have had the purpose and effect the realization of savings in the transaction costs”⁸⁴. Experts speak of different models of corporate governance. For example, the German model investors are institutions (banks) which control the activity of company and its management. In other countries, is significant “the minority shareholder protection”. But, whatever the approach, the essence remains the same: the governance structure is determined by property rights. Thus, laws that imposed, lets say, diffuse ownership have created so-called “corporate Berle-Means”, in which the fragmented ownership change the power in the company in favour of managers⁸⁵. In modern terminology, the argument presented by A. Berle and G. Means is as follows: for shareholders the organizational, monitoring and control costs of management tend to be high compared to benefits, especially when ownership is dispersed and the cost of collective action is high. According to the Berle-Means thesis, corporate managers were considered masters of their own and not those who take materials advantage of their own actions, they would be prepared to allocate resources for uses that do not seek to maximize the capital value of firm. For this reason, the economic results of production in corporations may reflect excessive consumption for the held activity, limited incentives for introducing and adapting new technologies etc.

The central issue of corporate governance system of modern corporations has been made in the famous article of M. Jensen and W. Meckling, *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure*⁸⁶, one of the most cited articles in economics literature on how to structure ownership in various organizational arrangements. The authors sought to demonstrate that an owner-manager, who shares ownership of a company with shareholders that are not managers, not lead company with the intention of maximizing profits. Moreover, they showed that this would happen in a hypothetical world where the costs of monitoring foreign owners regarding business management, are zero. But, hypothetical worlds are not relevant

⁸⁴ Williamson, O., *The modern Corporation as an Efficiency Instrument*, in S. Pejovich (ed.), *Governmental Controls and the Free Market*, Texas University Press, College Station, 1977, pp. 163-194.

⁸⁵ See Berle, A., Means, G., *The Modern Corporation and Private Property*, USA, 1932.

⁸⁶ Jensen, M., Meckling, W., *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure*, *Journal of Financial Economics*, no. 3, 1979, pp. 305-360.

alternatives. Recognition of this fact contributes to increased interest in identifying those situations (institutional and organizational arrangements) that can mitigate the agency opportunism so that human behaviour in business management to become more predictable, especially at an entrepreneurship level. This approach represent the problem of the way of how entrepreneurs, business owners, shareholders are anticipating the behaviour of the decision-makers in the company, i.e. the problem of predictability of the managerial decisions, which nature should be in concordance with the requirements of owners.

2. Corporate system in Romania. Comparison with other European countries

The majority of the companies in Central and Eastern Europe are conducted by the owner but the management is realized only by professionals. In what is concerning the corporate governance, the main compromise is the one between the assuring of the incentives for the majority owners and the protection of small investors⁸⁷. First, measures to protect small businesses are extremely important in combating fraud and reducing financial costs and secondly, to protect small investors by maintaining in function or in taking the leadership of an organization could discourage strategic investors and inhibit restructuring where appropriate. As majority owner distances himself from day to day management ceasing the responsibility to professional managers, corporate governance is changing the nature of the problem. Managers need to be monitored and only the majority owners have enough incentives to carry out this task. Therefore, in the implementation of existing laws in EU countries, efforts are made to preserve incentives for active shareholders. Few states provide a better legal system for minority shareholders. They face substantial problems and the actions they take can easily be blocked by majority shareholders.

Because in Romania, as in other countries, the interests of shareholders and managers can often divergent, corporate governance may become a factor that brings interests through active intervention, according to a detailed code of doing business, of the boards, which provide the interests of shareholders, regardless of the percentage share they hold, exercise permanent control over the executive leadership of the company and are responsible for the transparency of the transactions concluded, to the General Assembly of Shareholders (GAS)⁸⁸.

In Romania, there are many companies that have minority shareholders. To highlight their activities are used a series of indicators:

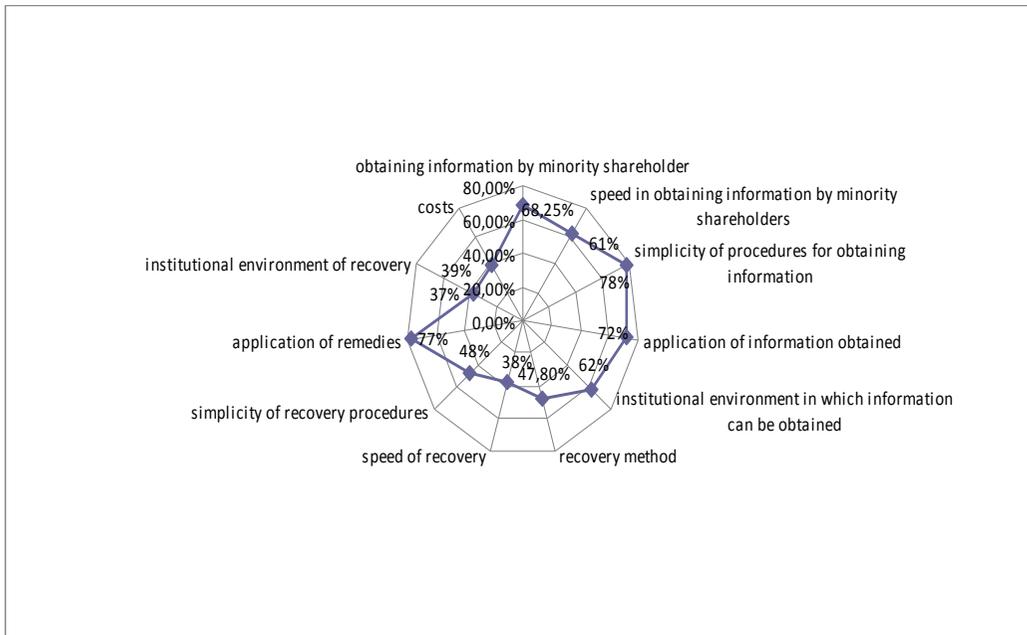
- *ability to obtain information about their company* (speed in obtaining information, simple procedures for obtaining information, applying information obtained, the institutional environment in which information can be obtain - refers to a country's legal framework to implement and enforce corporate governance legislation);
- *recovery method* - refers to the remedies which are available to a minority shareholder whose rights have been broken (speed of recovery, simplicity of recovery procedures, application of remedies, institutional environment of recovery);
- *costs* - estimated costs to be paid by a minority shareholder to have legal action.

In our country, these indicators record the following values:

⁸⁷ Berglöf, E., Pajuste, A., *Emerging Owners, Eclipsing Markets? Corporate Governance in Central and Eastern Europe*, in P.K. Cornelius, B. Kogut (ed.), *Corporate Governance and Capital Flows in a Global Economy*, Oxford University Press, 2003, pp.1-40.

⁸⁸Property rights theory starts from the assumption that corporate efficiency depends fundamentally on the quality management but also exercising a rigorous control by shareholders on managers.

Efficiency of minority shareholders in Romania

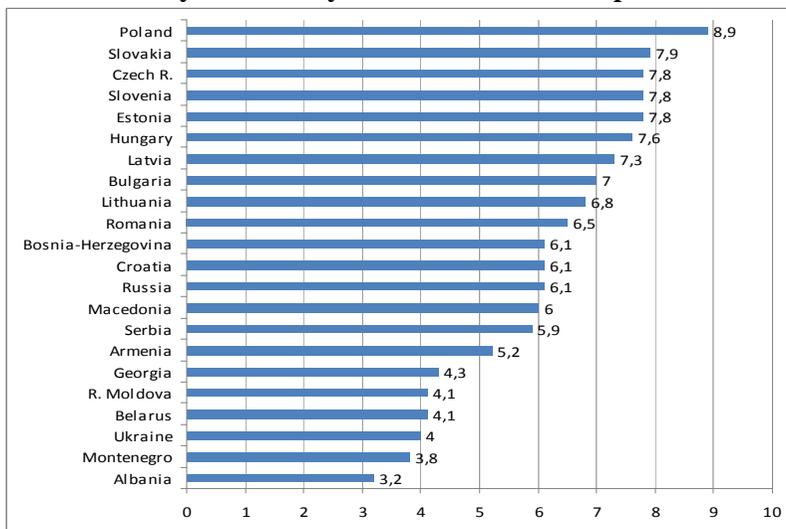


Source: after EBRD, Legal Indicator Survey, 2008

Making the average of the 11 indicators is obtained an average efficiency of the activity of minority shareholders of 57%.

Concerning the efficiency of minority shareholders to obtain information about their company (first indicator), in the year 2008, the situation is represented below:

Efficiency of minority shareholders at European level

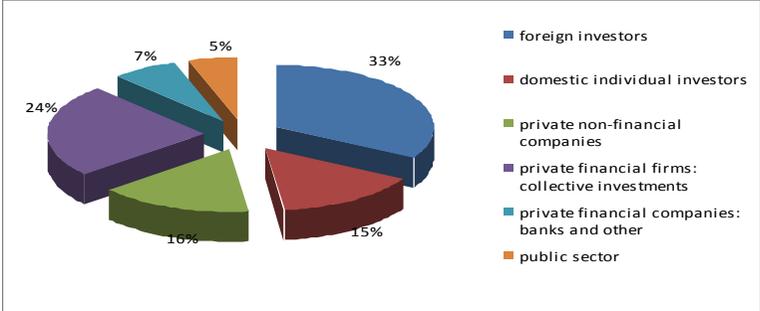


Source: EBRD, Legal Indicator Survey, 2008

Note: The score for each country is calculated on a scale of 1-10, where 10 represents maximum effectiveness.

Leaders in this chapter are Poland, Slovakia, Czech Republic, Slovenia, Estonia. Romania received 6.5 points (having thus an average efficiency) and Albania, Montenegro and Ukraine occupies the bottom of the ranking. But who are the shareholders in the European corporations? The answer to this question is found by analyzing the graph joined:

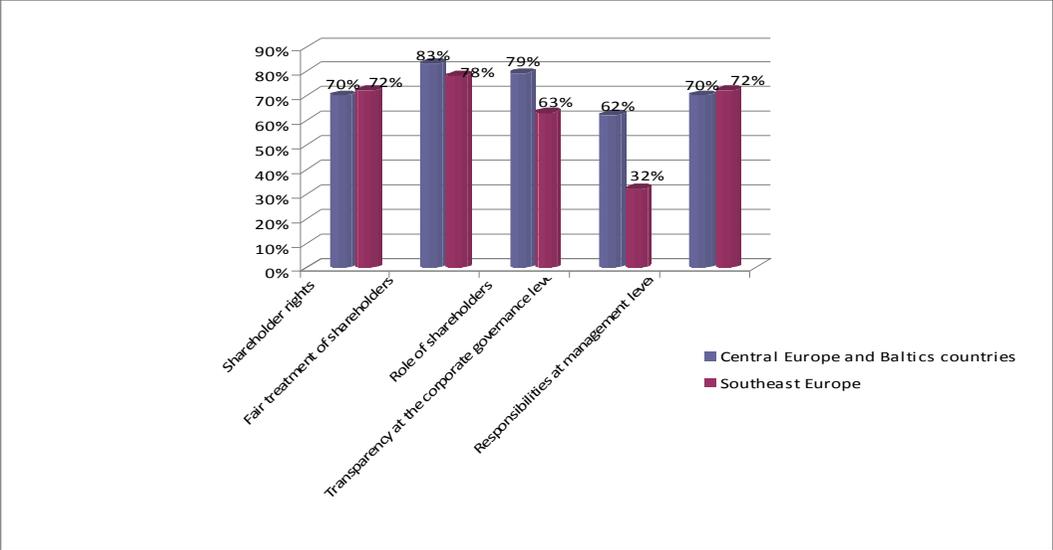
Shareholders in European corporations



Source: FESE, Nestor Advisors, 2007

The foreign investors are major shareholders of the corporations (33%), followed by private financial firms (24%), private non-financial companies (16%), domestic individual investors (15%), etc. Referring to the level of compliance with OECD principles of corporate governance, the situation is as follows:

Compliance with the OECD principles on corporate governance



Source: after <http://www.waset.org/ijhss/v1/v1-1-2.pdf>

We conclude that the principle which was adopted the most, according to OECD criteria, is the one concerning the fair treatment of shareholders. In Central Europe and Baltic countries it is found in a proportion of 83% and in South-Eastern Europe of 78%. The principle which is mainly respected refers to the transparency of corporate governance. Here is the big problem, especially in Southeast European states. Therefore, appropriate measures should be taken on the line.

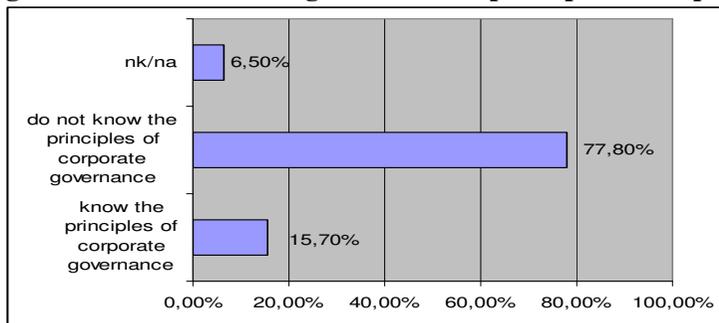
We point, in the following table, the legal basis of the corporate governance in some countries in Southeast Europe:

Countries	Sets of rules that serve as national code for corporate governance
Albania	Company Law (1992)
Bosnia-Herzegovina	Laws on banks and Laws on business companies
Bulgaria	Law for the emission of bonds
Croatia	Company Law
Macedonia	Code of company and the rules of trading company shares
Serbia & Montenegro	Law on enterprises and Law on security and other financial instruments of the market
Romania	There is no specific national code of corporate governance. It is regulated by Company Law, Security Law

Source: after <http://www.waset.org/ijhss/v1/v1-1-2.pdf>

Concerning our country, the Group of Applied Economics conducted in June 2007, a survey on the principles of corporate governance at the level of 153 manufacturing firms. In their choice have been taken into account the turnover, number of employees and regional distribution. Thus, it was found that:

Information degree of Romanian managers about the principles of corporate governance

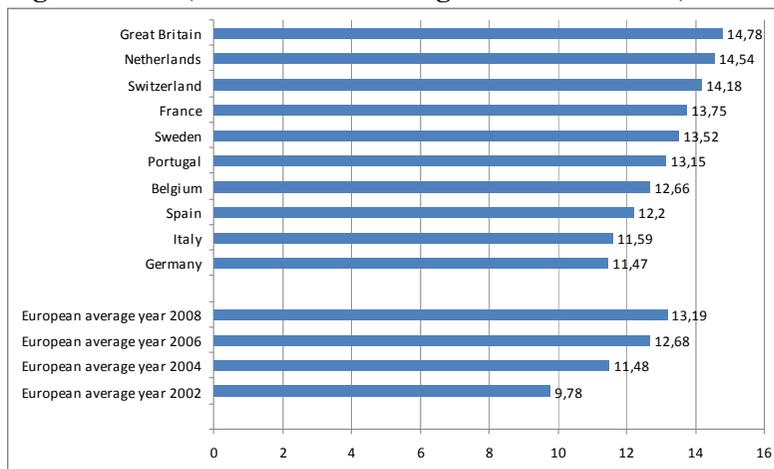


Source: after <http://www.euractiv.ro>

We observe that from the firms surveyed, 77.8% do not know the principles of corporate governance, 15.7% know these principles and 6.5% do not know / do not answer. In addition, it was found that 79.7% do not apply these principles. However, it is possible that more firms to apply these principles without know them. Also, the survey reveals that 34.7% of companies do not have a written code of conduct setting, which to establish formally rights and responsibilities of the GAS members and of the management, the way of communication and reporting between managers and shareholders. In the case of 31.3% of the companies, shareholders do not receive in advance the documents to be discussed at General Assembly of Shareholders and for 26.2% of the company, minority shareholders have no access to accounting records.

To see which the implementation level of corporate governance is, Heidrick & Struggles International has conducted a comprehensive analysis on the 294 large companies in 10 European countries: Belgium (19), Switzerland (20), France (40), Germany (30), Italy (40), United Kingdom (50), Netherlands (23), Portugal (10), Spain (35) and Sweden (27). Were selected only top companies, according to market capitalization, based on national indexes (eg the Financial Times Stock Exchange 100 Index (FTSE 100), 40 Cotation Assistée en Continue (CAC 40), Iberia Index 35 (IBEX 35), Deutscher 30 Aktien Index (DAX 30). The test results highlighted:

Corporate governance (in accordance with governance criteria) – country scores



Source: after Corporate Governance Report, Heidrick&Struggles International, 2009

Note: Each company was evaluated individually (on a scale of up to 16 points) and finally a score for each country was calculated on which it was generated an European average.

We see that there is a relatively small disparity between the countries in which is prevailing the corporate activity: the difference between best and lowest score, achieved in 2008, is 3.3 points versus 9.5 points in 2002. Improvements were made in each country, indicating the fact that a general and continuous process is manifesting in increasing corporate governance standards. It appears that above the European average for 2008 are situated Great Britain, Holland, Switzerland, France and Sweden. We state that Portugal has made most progress in this field in recent years: from 4.9 points in 2002 rose to 13.2 points in 2008.

Conclusions

Corporate governance is useful as a concept that can be the basis for restructuring the Romanian economy, but it will have a real impact only in the condition in which the private companies will decide to become open entities, to address capital market to procure the necessary funds for development. Until then these companies will be leaded only by the decision-making of business owner; state-owned companies with lack of working capital, will be able to apply only in a small measure and more declarative the principles of corporate governance, different interests as their market position being determined in a larger measure by extra-economic decisions. State-owned companies may have poorer conditions of action because of lack of development funds which can not be obtained without the main shareholder support which is the state.

On those presented, it results that is necessary that the public and private sector to cooperate to develop a set of rules, obligatory for all. Business associations, chambers of commerce and industry should try to encourage their members to develop governing norms for the protection of shareholders and of social responsibility for all the parts involved.

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LONG TERM INVESTMENTS, RISK OR OPPORTUNITY FOR ROMANIAN ECONOMY, CASE STUDY: ROȘIA MONTANĂ GOLD CORPORATION

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This article is aimed at describing the influence that foreign direct investments have on a recipient economy, as this study focuses on the changes that foreign direct investments imposed on Romanian economy. In principle, foreign direct investment should enhance one economy's results as they pump capital, the vital fluid of any successful enterprise, completing or replacing own capital, as the economy becomes interesting because of its raw material resources, financial facilities or human resource. Anyway, there are some instances that need turning own capital to profit, as, this would benefit more than permission for foreign capital to be turned into advantage. The actual study looks on investments that are to be conducted by Gabriel Resources in Roșia Montană area and tries to evaluate if the business site acts on long term in favor of our national economy.

Jel: F21 - International Investment; Long-Term Capital Movements

Keywords: long term investments, Roșia Montană, risk or opportunity

It is obvious that the times we face will change the way people think and act, changes are needed, as economies are not responding fast enough to outside stimuli and other control mechanisms are to be designed and brought into function if we want to avoid future economic and social struggles.

Most economic theories conclude that foreign direct investments act in favor of a recipient economy, as they influence all those elements that make an economy increase the pace it develops, and create, or become a part in creating a healthy environment governed by objective laws, having participants that accept a normal profit level, and avoid searching for those escape routes that guarantee an above the average level of earnings. The main problem of the contemporary way in which business is being done is that rationality has left a place for greed and abnormality. If all of us would understand that living this age of liberalism does not mean using all tools for self accomplishment, but being aware of the fact that turning global means that paths and channels are created and they become permanent bonds between economies, links that permit fast spreading of financial crisis and other negative influences on national or regional economies, and that some of our actions influence the way in which people live across oceans, then it is for us to be most careful when deciding to move one "brick" of the wall we could call "economy".

For being successful, foreign direct investments depend on a number of issues such as: the marginal cost of accessing a foreign market being smaller than the marginal income obtained in that field of interest, the existence of those elements that make operations abroad being less expensive than the export of the same product and a proven fact that, production abroad is far more efficient than the export or license selling.

As all developing countries Romania cries for foreign direct investments because they become important ways of sustaining the economy, as own capital is scarce and if it exists it is probably being directed to safe keeping, because of the unstable environment it has been created in, and if capital is not being engaged in an economic cycle, the results are not the best hoped for at the end of the mentioned cycle. Then, lacking basic production technology, knowledge and innovative

products, a developing economy is likely to import more than it exports, so, it should have an unbalanced balance of payments that can only be brought to a neutral level by absorbing and attracting all available capital. There would be more issues in favor of foreign investments, and it is hard to cast a shadow of doubt on any of them, but still, there are some intriguing questions that need to be answered, some things concerning the elements that make a country attractive for those who want to make good use of their capital and others concerning facts about national strategies and involvement of national authorities in choosing the best options on long term for its citizens.

As an European Union member, Romania has developed a legal framework on foreign direct investments that is based on transparency and non-discrimination. Romania's investment policies encourage capital transfer and the entry of well trained personnel in support for the foreign direct investments. Romania has a wide network of treaties that concern investments with neighbour countries and OECD countries. Romania is the single economy of the South Eastern Europe which is a member of OECD's Declaration on International Investment. Regarding investment promotion, Romania is reviewing all operations of the national investment promotion agency (ARIS). Romania could try improving the facilitation services at the pre-and post-entry phase of an investment, as it should consider implementing a strategy to facilitate greater commercial linkages between foreign investors and local firms. ARIS could also consider improving the quality of aftercare services it offers to foreign investors, such as obtaining business registration, licenses and work permits⁸⁹.

When deciding to invest, there are some facts that have to be taken into consideration: first, brings to front the fact that a decision to invest in a foreign country is influenced by those background facts that would either verify or not this simple mathematical equation (expected profits / risks investing in foreign country) > normal profit that can be obtained in own economy. If we would consider all economic risks that can emerge in home economy being equal to 1, normal profits being equal to 3, for instance, and if we conclude that emerging markets have an increased level of risks that concern capital investment in comparison with developed economies, then, it is certain that the only real attraction would be those profits that can be obtained. So, the equation into question would have to be $7/2 > 3/1$, and it is obvious that if business risks double, profits have to be more than double to make that emerging economy interesting for those who want to invest. Then, investments can be done in the single interest of imposing monopoly on some resources so, on a certain time extent, as resources become scarce and their price explodes, having a high demand and few that are capable of filling the demand means that profits will not take long to emerge. Of course there are other needs that could lead to foreign direct investment as the need to launch operations on certain markets, to obtain the desired market share, to relocate harmful and old industries, and so on⁹⁰.

All these instances show the same pattern, those who possess capital gain profits and strategic positions, are privileged, but what about those who seek for investors?

Romania tends to enter the same vicious circle, as foreign direct investments, as good as they seem to be have a real disadvantage: they deprive home economies of the chance to gain more by exploiting themselves those resources in some next economic cycles, engaging as much labor force as they desire, well, as much as they can sustain, and to redirect profits obtained in that field to those areas that need financial sustainment, so, by depriving economies of this opportunity, foreign investors push future generations further away from the chance to escape the same poor economic status, as home economy gave away or sold all those elements that provided strategic or competitive advantages.

⁸⁹ OECD, *Investment Reform Index 2010 Monitoring Policies and Institutions for direct investment in South - East Europe*, pag. 308

⁹⁰ Postelnicu Cătălin, *Economie Internațională*, Universitatea "Babeș-Bolyai" Cluj-Napoca, Editura Presa Universitară Clujeană, 1999, pag. 107-108

If on short term direct investments provide the economic boom needed to climb higher on the scale that measures living standards or income levels, on long term, it is obvious that they give up strategic economic investment gaps that can no longer be filled in by residents or home companies, that by now, have the capital needed to invest in that field.

It is not a question of being in favor of investments or of being a patriot even if it is not suitable, but a question of judging thoroughly and implementing a strategy that would only allow investments in those interest areas that are not strategic and that do not deprive national economy of gains and welfare that can be obtained and achieved later, when it has developed good managing capacities and has reached the needed amount of capital as to be able to start exploiting the advantages it has. It has been proven that the best way to act when dealing with this kind of problem is to think on long term, as on short term things tend to be unstable and reviving an economy takes more than few months or years. Then again, when foreign investors are resource seekers, and the investment they look for consists in precious metals things are even more complicated. The desired action would be investing own capital and if this does not exist, these type of resources have a rather stable evolution on international markets so, they can be thought of on long term.

A long disputed investment, one that shows all positive and negative sides of an investment is that desired by Gabriel Resources Ltd. Canada in the area of Roșia Montană, a renowned mining camp since ancient times. In this respect a new company emerged, Roșia Montană Gold Corporation, having as major stock holder Gabriel Resources Canada (80 %), Minvest S.A. Deva (19,3 %), this being the company that ran operations here until the possibility of an investment became a real fact, and 0,7 % other minor stock holders⁹¹. This new enterprise (RMGC) obtained an agreement to exploit an area of 4282 hectares, the intended goal being to build and operate the largest gold digging site in Europe for extracting a quantity of about 300 metric tones of gold and 1600 metric tones of silver, using the method of surface excavations in four opened quarries estimated being the equivalent of 100 hectares each, excavations that would result in over 220 million metric tones of displaced ore⁹².

The business plan extends for 17 to 20 years, and over, because the site will enter after the mining field will not be viable anymore in a preservation stage, one that is going to last for many years. Romanian economy would benefit, as stated by officials of RMGC, of a total sum of about 4 billion dollars (3 billion euro) as follows: 1.8 billion dollars as dividends, for being a stockholder with a share of 19,3 %, tax and royalties paid towards local, regional and national budgets, and the rest of 2.4 billion dollars⁹³, investments in human resource, infrastructure, spare parts, maintenance, etc. Other benefits consist in translation of service and operations to Romanian entrepreneurs and enterprises that would enhance local and regional economy.

For opening and operating the site the estimated investment would be about 1.7 billion dollars and until now there have been over 400 million invested in expropriating while other objectives as buildings and production facilities would cost about 900 million dollars, and the rest (over 500 million) being intended to cover operation and conservation schedule.

Sometimes, when trying to convince people that the importance of the investment is crucial it is decisive how the project is being brought to public attention, the way in which it is perceived by common people. The mentioned project was aimed at describing the poor and harsh environment in the area and showing all positive aspects about the investment plan. One of the many claims that made people become anxious to see the start of this project was that of those about 500 (some say not more than 300) jobs that are planned for the people in the area, a region living on the brink of poverty, where net gains were estimated for 2006 being around 653 euro/year/capita,

⁹¹ Official RMGC, internet site: <http://www.rmgc.ro/despre-noi/despre-noi>, last accessed: 20.04.2010

⁹² From regional urban planning, Roșia Montană, industrial area, a project by Ipromin S.A., experts in project designing - S.C. „Proiect Alba” S.A., for S.C. „Roșia Montană Gold Corporation” S.A., project nr. 4729/2006

⁹³ <http://www.rmgc.ro/proiectul-rosia-montana/economie/planul-de-afaceri>, last accessed: 21.04.2010

where 1 % of the inhabitants live on less than a dollar a day, and 7 % on less than 2 dollars a day⁹⁴, and where young persons would not have any opportunity but to become miners as their forefathers. Little did people know that creating this project meant that there could no longer be a second company to exploit the gold ore here, so, the not very efficient Minvest Deva facility, having around 775 employees did close up its gates, for the people living here a true tragedy.

The technology used to extract gold is based on treating the grinded ore with a solution of sodium cyanide, a method that can seriously damage the environment and the experience of the ecological disaster that happened in a similar facility near Baia-Mare is at least relevant if not scary. Similar accidents, more than 30, just after 1990 have happened in other countries that host this kind of business, major ones in the USA (1993 and 1998), The French Guyana, Australia and The Philippines, but fortunately in less inhabited areas, so with less harmful effects. Most of them because of dam failure but some because broken pipes and other transport accidents. No one can guarantee that similar ones will not happen in the future, and finding those guilty for the unwanted event and punishing them does not serve for anything, as a lot of harm has been done. In this instance, it is not very hard to imagine what would happen if about 250 million tonnes⁹⁵ of contaminated water, sterile and waste would end up in one of the major Romanian rivers and finally in the Danube or The Danube Delta. Still, there are other chemical compounds used for neutralising cyanide, their effects are not very well known so it would be sensible if the matter would be treated very serious.

Another interesting aspect about the project is that, it is intended to operate in an area full of archeological remains, some dating back to the Roman age, a true problem, another issue that prolonged an already frustrating debate, because Gabriel Resources Ltd. engaged in preserving those historical sites, but it lacked and still lacks some essential documents that should state that indeed, the company has preserved and assured all historical remains as it should have done. Anyway, a lot of fuss for a thing that becomes interesting only in documents, as no historical site in the area has ever raised true interest in dedicated circles before this investment opportunity emerged, and more, there are a lot of better preserved sites that could bring much more benefit than the ones in Roşia Montană and its surroundings (which are not very attainable), but suffered a similar treatment, one that shows critical lack of both funding and interest for our national heritage.

Indeed, something that indisputably could raise the region's potential would be creating a network of infrastructure, both social and economic that would boost interest for the area. Then again, even if a suitable infrastructure would exist, the constant danger of harmful chemicals used to extract gold such as cyanide would drive people away from the area, so, in the end, nobody, or some few citizens would benefit of the new, modern social and economic infrastructure. The process of extracting gold would irreversibly scar the landscape making it unattractive to other economic activities and minimizing its potential to attract tourists. In the end, this investment could result in actual net losses and not net gains, as, on long term, a lot of other investments would be needed as to reverse the situation to its original coordinates. Therefore it is decisive for this business opportunity to be turned upside down and again, because a study on the impact of this investment on future generations has not been conducted yet, and maybe it can not be done because of the multiple changes that influence world trade on a daily basis. Maybe, gold price on international markets will climb to ever higher rates, so, Romania will only benefit in a fraction

⁹⁴ Giovanetti Frederic, Guelph Stantec, *Managementul impactului social, Planul de acțiune pentru strămutare și relocare* (Social impact management - The action plan for moving and relocating), Volumul 1: Raportul principal, Elaborat pentru: S.C. Roşia Montană Gold Corporation S.A., Versiunea 3 - Februarie 2006, versiunea 3 - Februarie 2006, pag. 17, taken from the article "Roşia Montană, destine confiscate" (Roşia Montană, seized destinies) published in "Idei în dialog" Magazine in March 2008 by Anghel Cătălin

⁹⁵ Estimated content of the used water storage dam.

of about 1/5⁹⁶, the most part of the benefits being directed to Gabriel Resources Canada. No one, or some few have thought about analyzing and predicting how the international gold market would fluctuate, and if now, when the index is at a certain level of 1113.34 dollars/ounce⁹⁷ operations potentially run by the state owned company are not viable, maybe at a future level of 1650 dollars/ounce⁹⁸, and having the same amount of inputs means that extraction could prove being of great benefit for the national economy, that could use profits as investments in other sectors, so that the need for foreign capital and international loans would not be that great. The mirage of foreign investors is so great that a lot of people do not realize, forget or consciously admit that when giving up an activity in favor of somebody else, you are no longer able to exploit some of the actual prosperous opportunities on the international economic scene. The business plan proposal for the RMGC operations emerged on a basis of an average gold price of 900 dollars/ounce and an average price of 12,5 dollars/ounce for silver, these figures lead to an estimated net profit of RMGC around 1,9 billion dollars, the Canadian enterprise Gabriel Resources, as a major share holder will cash in dividends of about 1,3 billion dollars, which divided for an estimated operating time of 15 years result in an average of 87 million dollars/year net profits for the Canadian counterpart.⁹⁹

Investments help an economy by translating risks from that economy to those who invest. If investments go to non volatile sectors like precious metals, then, the investment is almost sure to pay dividends, so, it should be interesting for both private investors and for governments.

In this respect, there are a series of strange facts about this investment project, the main one being that instead of encouraging an enterprise based on foreign direct investment, the long desired investment plan is being directed to a waiting list for few minor issues that can be solved at an administrative level without debating so much on the reasons, and because this is not being done, makes some wonder if foreign direct investments is what Romania really wants.

It is also peculiar how a Canadian company saw potential in an enterprise that the Romanian government declared not worthy of any interest, and how, after luring investors with a lot of advantages, investors that bought a lot of the properties that make the interesting area for exploiting the gold ore, now, suddenly things got a lot more complicated and it is not sure yet that the project will finally start as planned or if Gabriel Resources bought a lot of unusable land.

Nevertheless, a strong debate emerged on whether operations should or should not begin, this debate concentrating inside and outside forces, so, an international strife emerged, one that eventually will drag away potential investors, as no one would risk their own capital in a place where things seem to move like a boat in the wind, never knowing where the next day will find you.

It is for all those deciding on this issue to analyze better, deeper and faster and never agree on long term foreign investments in strategic branches of the economy if a thorough study does not show an impossibility for Romanian capital to multiply in that branch. If state owned enterprises had better management, then, using the same strategy as foreign investors do, the trade deficit can be covered not by attracting capital in the shape of foreign direct investment, this being comparable to an outside action but by producing own one, and using it to stimulate other sectors from the inside, sectors that are going to produce competitive goods and services that are going to become desirable on international markets, in terms of efficiency a far better choice. In the

⁹⁶ The actual rate of benefits for Romania, as it is a share holder for 19,3 % of the total shares through Minvest Deva, a state owned company.

⁹⁷ Average gold price of April 2010 (<http://goldinfo.net/londongold.html>, last accessed: 22.04.2010); 1 ounce equals 28.3495 grams

⁹⁸ Estimated price for beginning of 2011 – *Jim Sinclair Bets a Million Dollars Gold Price Will Hit \$1650 before the 2nd Week in January 2011*, an article of Wednesday 2nd of April 2009, on www.goldprice.org, last accessed: 21.04.2010

⁹⁹ But, as mentioned above, the average gold price rose by more than 200 \$/ounce over the initial estimates, meaning that profits would be greater than estimated.

contemporary economy not assuming risks means not taking actions, but when having such an opportunity in a truly low risk segment, it is imperative to act before others do.

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THE EU TAXES AND THE ROMANIAN APPROACH

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Abstract: The accession of Romania to the European Union took place on 1 January 2007, at a very delicate moment for the Member States. Fifty years have passed since the signature of the Treaty of Rome, on 25 March 1957, and the EU has not managed to achieve the political union that the founding fathers had anticipated. On the other hand, the recent Berlin Declaration, signed on 25 March 2007, mentions the new aims of a “United Europe”, insisting on the creation of an area of freedom, democracy and rule of law. The economic dimension of the Union has become secondary and contains a reaffirmation of the European model¹⁰⁰

Keywords EU law, taxation, Romanian Legal Environment

Jel classification K00, K21, K23.

I. Introduction

On 14 July 2004, the European Commission made public the document “Financing the European Union” COM 2004, 505. The report¹⁰¹ argues for the drawing of direct tax resources in order to cover the EU financial needs by proposing: Excise duties on motor fuel used for road transport, Revamped value added tax, Corporate profit taxes.

We consider that the three types of taxes proposed by the European Commission in the Report are in fact specific to different institutional and political structures or to different stages in institutional evolution.

The first tax proposed - the “energy tax” - has as a starting point the political realities of today’s European Union. It corresponds to the institutional model defined by the Founding Treaties.

The proposal for such a resource is rooted in the recent Directive 2003/9/EC that “restructures the Community framework for the taxation of energy products and electricity”, and which, from 2004, subjects most energy products to minimum rates of taxation. The new fiscal resource would only be levied on motor fuel used for road transport; this includes leaded and unleaded petrol, diesel and, to a much lesser extent, LPG and natural gas. The estimates by the Commission show that EU rates below half of the minimum rates in the Energy Taxation Directive would match the intended target, namely to finance half of the EU budget. Moreover, the proceeds from such a tax, for the European Union, and for the Member States (for the most part) would not be sensitive to the often wild fluctuations of the energy prices in the international markets, since the levy is based on quantities sold and not *ad valorem* and demand for such energy products is relatively price-inelastic¹⁰². Still, imposing such a tax would not be a success in the extremely sensitive period for the energy field, before the Commission and the Member States establish concrete

¹⁰⁰ „This European model combines economic success and social responsibility. The common market and the Euro make us strong. We can thus shape the increasing interdependence of the global economy and ever-growing competition on international markets according to our values. Europe's wealth lies in the knowledge and ability of its people; that is the key to growth, employment and social cohesion.” Available at http://www.bundesregierung.de/Content/EN/Pressemitteilungen/BPA/2007/03/2007-03-25-berliner-erklarung-deutsch_en.html.

¹⁰¹ The name “the Report”, to refer to the above document, is used throughout this entire contribution.

¹⁰² See Sylvain Plasschaert, Toward an Own Tax Resource for the European Union? Why? How? And When?, *European Taxation* 2004, p. 473.

measures to assure energy independence, or better to diminish the dependence on external energy resources.

We must also add that according to the Accession Treaty of Romania to the European Union by way of derogation from Art. 7 of Directive 2003/96 /EC, Romania may apply the following transitional periods:

- Until 1 January 2011: to adjust the national level of taxation on unleaded petrol used as propellant to the minimum level of EUR 359 per 1 000 l. The effective tax rate applied to unleaded petrol used as propellant may not be less than EUR 323 per 1 000 l as from 1 January 2008.

- Until 1 January 2013: to adjust the national level of taxation on gas oil used as propellant to the minimum level of EUR 330 per 1 000 l. The effective tax rate applied to gas oil used as propellant may not be less than EUR 274 per 1 000 l as from 1 January 2008 and EUR 302 per 1 000 l as from 1 January 2011. By way of derogation from Art. 9 of Directive 2003/96/EC, Romania may apply the following transitional periods. Until 1 January 2010: to adjust the national level of taxation on natural gas used for non-business heating purposes to the minimum level of taxation laid down in the Treaty¹⁰³.

Applying such a tax before Romania ends its transition periods can be advantageous for the state, but unfair for Communitarian solidarity.

The other proposal – the national VAT-based tax takes another institutional step which transforms the Member States from contributor (in the actual system) to collector (collecting 1% from the national taxes).

Member States today contribute to the EU budget out of their national VAT receipts, but this contribution is levied on a notional harmonized VAT base, which deviates from the actual VAT bases in the Member States. In essence, the notional VAT base is arrived at by dividing, for each Member State, its total VAT receipts by the weighted average rate of VAT that is derived from the national accounts. The incomplete harmonization achieved so far in the VAT area, especially on account of the rather wide dispersion of zero-rated transactions amongst Member States, prompts such adjustments. The Report proposes to substitute the present complex system of contributions to the EU budget, based on a statistically reformulated VAT base, by an EU rate that would be incorporated in the national VAT rate and applied on the same taxable base in each Member State. Cutting a rate of 1% out of the existing national VAT bases of all Member States would allow the financing of about half of the EU budget. The VAT burden in each Member State would not be increased, as the national rate would be lowered *pari passu* by the 1% EU levy.

The advantage of using this type of tax comes from the fact that the Member States can maintain their own policies regarding VAT, and in Romania's case, the impact would be minimal. The basic VAT rate in Romania is 19%. A lower rate of 9% applies to admission to castles, museums, memorial houses, historical monuments, architectural and archaeological monuments, zoos, botanical gardens, fairs, exhibitions, supply of books, newspapers and magazines, school manuals, with the exception of those intended exclusively for publicity; supply of prostheses of any type and accessories to them, with the exception of dental prostheses, supply of orthopaedic products, medicines for human use and veterinarian use, accommodation provided in hotels and similar establishments, including the rental of land prepared for camping.¹⁰⁴

This type of tax, proposed in the Report, could be integrated very easily in the fiscal policy of the current government because of the emphasis on consumption taxes and on increasing buying power by decreasing direct taxes. At the same time, the 1% directed to the EU budget on receipts,

¹⁰³ See the full text of the treaty in English in <http://www.mie.ro/index.php?p=117&lang=en>.

¹⁰⁴ For all the exemptions see *Romanian Tax Code*, Art. 141-142; see also, Bălan, *Drept Financiar*, C.H.Beck, București, 2007, Dan Drosu Saguna, *Drept fiscal*, Ed. C.H. Beck, București, 2006, Minea, Costas, *Dreptul finantelor publice. Drept fiscal vol II*, Ed. Sfera Juridică, Cluj-Napoca, 2006.

tickets, invoices would create a stronger link between citizens and the EU bodies. The positive effect would be represented by the fact that the prices of products would not increase after application of this tax. From the point of view of the legislator, this kind of tax would not be accepted. The Romanian Finance Minister has required since 2005 an increase to 21% of the VAT. He argued that the use of the unique quota for the taxation of salaries inaugurated a new strategy of increasing the collection of VAT funds, stimulating consumption and increasing buying power.

The third tax proposed by the European Commission – the corporate income tax, common to all Member States - represents the third institutional and political level of development, also related to the federal conception on the EU.

The Commission's present thinking and cogitations on this matter can be inferred from the Report and from two associated, brief "non-papers", i.e. without official status, which are devoted to two of the "comprehensive solutions", which were considered by the Commission, "A Common consolidated EU Corporate Tax Base" and a possible Home State Taxation pilot project for small and medium-sized enterprises¹⁰⁵. These texts contain some ambiguous and even contradictory statements; they are not clear-cut on several essential contours of such a tax, and even on its ability to function as an appropriate instrument for EU revenue generation.¹⁰⁶ At Scheveningen, the Commission obtained a mandate from a majority of Member States to undertake preliminary work towards a common definition of the taxable base; this shows that the debate about the future shape of corporate taxation is nowadays more open-ended than a few years ago. But the perspective is likely to shift more to the efficiency-enhancing virtues of an EU-wide approach than to its revenue-raising potential. The most important supporters of this tax are the multinational companies, operating on the EU level. Still, many of them have already found extremely attractive remedies, using the national systems of taxation and the double taxation treaties. The opposition of the "Fiscal Sovereignty" supporters represents one of the most important problems of using the tax. Due to a lack of general Community rules on direct taxation, the power to determine the criteria for the levying of taxes in order to define tax jurisdiction and for avoiding double taxation lies within the Member States. The ECJ must respect the tax sovereignty of the Member States¹⁰⁷. Introducing this type of tax presupposes a change in the institutional structure and should start with the adoption of the proposals the Commission formulated in the context of institutional reform.¹⁰⁸

In conclusion, we consider that introducing an EU tax is a very complicated process due to the consensus that must be obtained in the EU Council. On the other hand, the philosophy of each of the taxes proposed by the Commission is directly linked to an EU institutional vision. We appreciate the effort of the European Commission in identifying new resources to finance EU budget, especially considering that Romania is going to be one of the major contributors to the 2007-2013 budgetary funds. In fact, EU citizens are the real contributors to the budgetary funds, and the way of collecting and using the Communitarian resources should be communicated in a transparent manner to the citizens. By maintaining the present system, the European Union will continue to be dependent on the Member States and will not be able to develop an institutional edifice in conformity with the citizens' aspirations. If we take the ECJ as example, one notes that in addition to Community rules, ECJ case law has been the best guardian of EU fundamental rights.¹⁰⁹

¹⁰⁵ In the Home State Taxation (HST) scheme, the taxable bases of the affiliates in participating Member States would be defined as that of the parent company of the enterprise group.

¹⁰⁶ See also, Minea, Costas, *Fiscalitatea în Europa la începutul mileniului III*, Ed. Rosetti, București, 2006.

¹⁰⁷ Gerard Blokland, Inaugural Lecture by Prof. Dr D.M. Weber: In Search of a (New) Equilibrium between Tax Sovereignty and the Freedom of Movement in the EC, in *European Taxation 2007*, pp. 69-70.

¹⁰⁸ See also Gyula, *Drept instituțional comunitar*, Ed. Sfera Juridică, Cluj-Napoca, pp. 44-48.

¹⁰⁹ See also Patroi, Evaziunea fiscala situata dincolo de frontierele "legalitatii" in „*Curierul Fiscal*” No. 9/2006.

II. The concept of tax in EU law and its compatibility with Romanian tax law

The accession of Romania to the EU took place at a moment in which the concepts referring to taxes are clearly marked by the Founding Treaties and by ECJ jurisprudence. Romanian tax law has suffered successive modifications in the past 18 years. The modifications have been inspired by Romania's accession negotiations to EU, and also by the economic changes during the period. Because of the European Commission's technical support, Romania has started to define concepts like "tax", "duties", "taxes" or "taxation" using the Communitarian meaning in the Founding Treaties and ECJ jurisprudence.¹¹⁰

1. Interpreting Art. 269 EC Treaty

Art. 269 of the EC Treaty comprises an extremely generous provisions in the first paragraph and extremely exigent conditions in the second one. We will look at two different articles of the Treaty: Art. 37(2) and Art. 269(2). In Art. 37 EC Treaty, the law-making process is formulated in the following manner: "The Council shall, on a proposal from the Commission and after consulting the European Parliament, acting by a qualified majority, make regulations, issue directives, or take decisions, without prejudice to any recommendations it may also make." Art. 269(2) provides that: "The Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, shall lay down provisions relating to the system of own resources of the Community, which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements."

In our opinion, Art. 269 EC Treaty does not give the possibility to adopt a regulation because of the formulation of the second paragraph. Unlike the second paragraph of Art. 37 which uses the verb, "make", Art. 269 uses "recommend". At the same time, from the point of view of fiscal strategy, tax can be included in a special protocol annexed to the treaties, signed by the presidents or prime-ministers or in a Council Resolution.

Romania is a national state, from a constitutional point of view, and it does not have the judicial-institutional culture of federalism. That is why legal scholars have interpreted in a restrictive way the provisions of the Founding Treaties in line with French judicial doctrine. According to the Romanian Constitution, Art. 148(2): "As a result of the accession, the provisions of the constituent treaties of the European Union, as well as the other mandatory community regulations shall take precedence over the opposite provisions of the national laws, in compliance with the provisions of the accession act". Art. 139 of the Romanian Constitution provides in paragraph 1 that "Taxes, duties and any other revenue of the State budget and State social security budget shall be established only by law." This text is applicable only to national budget but, according to Art. 56 (1) "Citizens are under the obligation to contribute to public expenditure, by taxes and duties."¹¹¹

From the above texts, it appears that the adoption of an additional special protocol to the EC Treaty or a Council resolution concerning the collection of an EU tax would not contravene the Romanian Constitution. At the same time, this kind of provision would constitute a legal base for the collection of all three types of taxes mentioned in the Commission Report. A resolution of the Council, followed by a constitutional ratification, would not give more legitimacy to the citizen-Community relation. In Romania ratification is a technical-judicial proceeding, which can pass unnoticed by the simple citizen.

To include a provision dedicated to European taxes in Romania's Constitution will offer the chance of more involvement of the citizen.

¹¹⁰ See Cosmin Flavius Costas , *Jurisprudenta fiscala a Curtii de Justitie Europene*, in *Curierul Fiscal* nr. 1/2007; Angela Miff, Ciprian Păun, *Dreptul Afacerilor*, Ed. Imprimeria Ardealul, Cluj-Napoca, 2006, pp. 254-289.

¹¹¹ See also, Deleanu, *Instituții și proceduri constituționale în dreptul român și drept comparat*, Ed. C.H.Beck, București, 2006, pp. 86-165.

2. EU tax based on Art. 308 EC Treaty?

Art. 308 of the EC Treaty provides that “if action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community, and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, take the appropriate measures.” The problem is, as mentioned in the Romanian specialist literature, to grant more independence to the EU institutions in their relation with the Member States. At present, the Member States’ contributions and VAT levies fund the EU budget. The European Union is trying to find solutions to allow it to expand its competencies beyond the ones mentioned in the founding treaties. Art. 308 cannot be used as a legal base to institute EU taxes.¹¹²

3. Interpreting Art. 37(2) EC Treaty as a legal base for EU taxes

The Common Agricultural Policy has been a very important subject on the Member States’ agenda, as well as for the founding institutions since the beginning of the Communities. Art. 37(2) contains a proposal to streamline the activities in the agricultural domain. According to the ECJ, two conditions must be fulfilled in order to apply the provisions from the above article.

1. The provisions must have as a purpose the production and trading of agricultural products, as mentioned in the first Annex of the EC Treaty
2. The legal regulation must contribute to the accomplishment of CAP¹¹³.

At the same time, the majority required by the Art. 37(2) is a qualified majority, while Art. 94 of the EC Treaty requires unanimity for tax collection. Considering the arguments mentioned above, there is no way the second paragraph of Art. 37 can be used as a legal source for the EU tax.

4. “Provisions primarily of a fiscal nature” and the interpretation of Art. 175(2) EC Treaty

Art. 175(2) EC Treaty, introduced by the Treaty of Nice, refers to environmental policies. The first part of the article contains the following provision: “By way of derogation from the decision-making procedure provided for in paragraph 1 and without prejudice to Article 95...” If we check Art. 95 EC Treaty, we notice that it does not have as an aim the applying of fiscal provisions, as mentioned in paragraph 2. “The Council shall, acting in accordance with the procedure referred to in Article 251 and after consulting the Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market. 2. Paragraph 1 shall not apply to fiscal provisions, to those relating to the free movement of persons nor to those relating to the rights and interests of employed persons.” Noting the logic of the Community texts, one can conclude that the provision in Art. 175(2) is a special provision dedicated to the environment, which also comprises a taxation provision. The expression “Provisions primarily of a fiscal nature” indicate that it may have a different content or may contain other measures, but must have the legal nature of a tax provision. Using an energy-based tax resource should be connected with an environmental protection purpose. In this case a tax on the energy consumption can be promoted due to Art. 175(2) EC Treaty.

5. “No taxation without representation!”

The point of view put forward earlier concerning the EU institutional levels of development remains valid. Through its institutional structure, the European Community is an interesting

¹¹² See also, Gyula , *Drept comunita*, pp. 151-155.

¹¹³ See EuGH Rs 68/86 VK/Rat Slg.1988, 855 Rn. 14, Rs. 131/87, Kommision/Rat Slg. 1989, 3743, Rn.10, Rs. C-180/96 VK/Kommision, Slg.1998, I-2265 Rn.133.

compromise between the Member States' interests and the interests of European citizens. A new political and institutional system, proposed by the European Constitution, has been rejected by the direct vote of the European citizens of France and the Netherlands. In this connection, it must be mentioned that the EU democratic deficit is a problem of communication and transparency. If the simple European citizen had more awareness of how he personally has profited from the creation of the EU, he would have a more open position toward the Communitarian project. Not having an access to the academic media, magazines, books, conferences, the EU citizen selects from the mass media the information that intrigues him. Most of the time, the media presents the negative part of things, fulfilling the role of critic that it plays in society. We will not read in the papers how impressed were the Romanian students that have visited Brussels because this is not news that sells!

The members of the European parliament expressed their opinions about EU's own resources in the latest Report of the Committee of the Budget, concerning the future of such resources, published on 11.01.2007¹¹⁴.

The report starts from the current legal basis: „the current Own Resources Decision of 29 September 2000 that entered into force on 1 March 2002, has as its main features: an own resources ceiling of 1.24% of the Union's GNI, an allowance for the Member States for their collection cost of traditional own resources of 25%, a maximum call-in rate of VAT of 0.50%, a value added tax base of the Member States restricted to 50% of their GNP (capping of the VAT base) and a rebate in favour of one Member State with exceptions for some other Member States concerning the financing of this rebate”. The proposal “calls therefore for a two-stage approach aiming, in its first phase, at an improvement of the current system of national contributions, for which the following political principles should be applied: Equality between Member States, Simplicity of presentation for elected representatives and citizens alike, Solidarity and equal dignity amongst Member States, Establishment of a political link between a reform of revenue and a review of expenditure as it is already correctly included in the Interinstitutional Agreement. Provisional and transitional character of the system, (...) and in the second one, it proposes principles “which have emerged in all contacts with national parliaments, as cornerstones for any future own resources system: Full respect for the fiscal sovereignty of the Member States., Fiscal neutrality, No changes to the order of magnitude of the EU budget, Progressive phasing-in of the new system, Establishment of a clear political link between a reform of revenue and a reform of expenditure”.

The conclusion is extremely clear: “the project reiterates that, in all contacts with the national parliaments of the Member States, a general consensus has emerged that the time for a genuine new European tax has not yet come; has chosen to respect this wish of an overwhelming majority of the Member States' parliaments and not to pursue this option for the time being. Stresses, however, the interest in examining the creation of a new system of own resources based on a share of a tax already existing in the Member States, the idea being that a certain percentage of an existing tax would be fed directly into the EU budget as a genuine own resource, thus establishing a direct link between the Union and the European taxpayers; underlines that this kind of solution would only mark a return to the principle laid down by the Treaty of Rome, whereby European expenditure has to be financed by European resources. In the same time it recalls that the candidate taxes most commonly mentioned for this purpose during the exchanges with the national parliaments are the following: VAT, excise duties on motor fuel for road transport; excise duties on tobacco and alcohol; taxes on corporate profits.

In conclusion, the idea of an authentic European tax has more supporters in the “non-democratic” structures like the Commission than in the original European democratic forum - the European Parliament.

¹¹⁴ See the Draft Report on the future of the European Union's own resources (2006/2205(INI)), 11.1.2007.

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VIRTUAL ENTERPRISES DEVELOPMENT AND FACILITATION ON THE EUROPEAN SINGLE MARKET

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The article analyses the possibilities for virtual enterprises development and facilitation on the European Single Market, with a special emphasis on the case of Romania, as new Member State of the European Union, which can use this possibility to quicker and easier involve in the Single Market. Virtual enterprises are organizational structures of the knowledge economy, with great potential for development in the near future. Their characteristics, as well as advantages and limitations are considered, in order to identify the issues and the appropriate measures related to their development and facilitation in the context of the European Single Market and Romania.

Keywords: Virtual enterprises, Virtual enterprises policies, European Single Market, Internationalization.

JEL Classification: F23, L22, O33.

1. Introduction

The virtual enterprise - or virtual organization - is a concept launched in the early '90s of the last century, in order to describe the effects of the electronic business development (e-business), based on new information and communication technologies, which resulted in radical structural changes in the economy, both inside organizations and in the relations between them. A virtual enterprise is a new form of the relations between organizations in light of these developments.

A virtual enterprise can be described as a group of enterprises which come together in an integrated network to share skills, competences and resources in order to better attend market opportunities, with the support of the information and communication technologies. It envisages the creation of an organizational forms which allows for a synergetic combination of the partners' core competences to achieve maximum consumer satisfaction.

2. Virtual enterprises – organizational structures of the knowledge economy

The central element that characterizes the "virtuality" of such organizational forms is the ability of the enterprises to offer a complete product to consumers for which it does not have all the necessary competences, the others being achieved through cooperation. In this way, each enterprise can bring a contribution inside the partnership in order to produce more complex but also more customised goods and services¹¹⁵.

Virtual enterprises can be best described by their main *characteristics* and in this respect may be referred: the focus on core competences, a single point of contact with customers, the

¹¹⁵ Jürgen Noll (2008) *Virtual Enterprise Networks in Europe: Economic Opportunities and Legal Challenges*, GRIN Verlag, Norderstedt, Germany, p. 6.

international dimension, independency, low formalization, the systems provided by information and communication technologies, temporariness¹¹⁶.

Each of the partners in a virtual organization focuses on their *core competences*, their complementarity allowing for the achievement of synergy. Virtual enterprises' competitiveness is therefore primarily due to an advantage of differentiation - because the current market requirements call for a diversified portfolio of high skills, but also for cost reduction for different processes – based on distinct competences, technology, and a rational division of labour between the partners. The focus on core competences enables the cooperation with other enterprises for the non-core competencies. Virtual enterprises are therefore a dynamic combination of core competences, thereby meeting market requirements in terms of efficiency and effectiveness, rapid response and flexibility.

Virtual enterprises' support systems are based on *information and communication technologies*, which allow for overcoming the problems of geographical distance between components and facilitate coordination at low communication costs. Advances in information and communication technologies can also be considered as the main element that enables the creation and development of virtual enterprises. Such support systems allow for the development of intensive communication processes between the enterprises, at a maximum speed.

The products or services created within a virtual enterprise are provided by a *single point of contact with customers*, which can be a trademark or an enterprise focused on sales which acts on behalf of the entire organization. From the customer's point of view, a supplier that provides the whole offer is more attractive than several small businesses which must coordinate, and the customer doesn't need to know its suppliers or partners.

Virtual enterprises do not have a common area where the employees are located, and so the network can expand with no geographical restrictions, in several different countries, the *international dimension* being actually considered implicit for the virtual enterprises. This is a significant advantage in a globalized business environment where the international presence of a business is becoming increasingly important. At the same time, geographical distance still holds an important place, even if it has become insignificant for transmitting information, it remains an important factor for the timely supply of resources and the production of goods and services.

Although they have joint activities, the partners within a virtual enterprise remain legally and economically *independent*. A virtual enterprise aims to combine resources and expertise in order to better exploit business opportunities, with no merger of their internal structures. This creates a fluid organizational system that allows for flexible recombining of resources. However, we can still argue the co-dependency that comes from the cooperation of the enterprises, in the sense that each of them depends on the performance of the others.

In order to achieve flexibility and response speed, the enterprises do not adopt a hierarchical, formal organizational system, and the relations between them are characterized by *low formalization*, oriented towards value creation. Virtual enterprises are characterized by rather informal relations based on mutual trust.

Virtual enterprises are regarded as *temporary networks*, quickly set up in order to exploit a specific market opportunity, which can disperse afterwards, reconfiguring into other forms, according to the new emerging opportunities. Such flexibility enables enterprises to form systems that can respond quickly to the current market requirements and to dissolve after the requirements have been met.

Actually, all the organizations are dependent on time and market requirements - some virtual enterprises exist only for certain projects, while others last throughout years and decades, constantly adapting to market changes. The flexibility of a virtual enterprise is given by its

¹¹⁶ Marita Haas (2007) *The Formation Process of SME-networks. A comparative case Analysis of Social processes in Austria, Belgium and Turkey*, DUV, Wiesbaden, Germany, p. 16.

capacity of rapid transformation in relation to the market conditions, and, under stable conditions, the virtual enterprise can keep same partners for a considerable period of time by maintaining a very close collaboration, while under unstable conditions, the virtual enterprise can constantly change its components.

These characteristics of virtual enterprises have undergone changes over time, both in terms of economic reality and conceptual approach, although they are relatively new organizational forms of the contemporary economic environment. Thus, the focus on core competences remain an essential coordinate of the virtual enterprises, but *there is a tendency towards long term cooperation, with higher levels of formalization, and the international dimension is not necessarily essential*. Also, *information and communication technologies and a single point of contact with customers are more and more applied on a medium level*. The emphasis is on *creating and maintaining stable networks, on the basis of specific policies*¹¹⁷.

3. Virtual enterprises development and facilitation

There are many *advantages* of developing such organizational forms, that derive from the characteristics of the virtual enterprises. The focus on core competences enables competitiveness and costs reduction. Being built upon systems based on information and communication technologies which facilitate fast data transfers and coordination within the company at low costs, with no geographical and temporal boundaries, virtual enterprises enable efficiency gains for all activities. The possibilities of rapid and competitive reconfiguration of resources in order to respond quickly to market opportunities provides flexibility and speed of response to market requirements.

At the same time, virtual enterprises have some *limitations*, among which should be mentioned especially the current, still insufficient level of technological capacity and affordability, which hinders a full integration of the virtual enterprises, that are wholly dependent on the quality and transparency of electronic information exchanged between the partners. This has implications on the distribution of profits, costs reduction, strategies and policies, information privacy and intellectual property protection. Although virtual enterprises do not imply hierarchical relations, the dominance of the enterprises from its core may appear. Another problem is related to regulations, including those regarding electronic contracts, taxation, monopolies. Virtual businesses do not fall under the classifications provided by law, and production can be placed anywhere the law is more favorable.

Facilitating the creation and development of virtual enterprises must consider each stage of their *life cycle*, which can be defined in the following steps:

- *Creation* - the initiation and constitution of a virtual enterprise, by an enterprise or a group of enterprises, which have seized a market opportunity and carry out a strategic plan for the operation of a virtual enterprise in order to exploit it;
- *Operation* - Execution of operations within the defined scope of the strategic plan;
- *Evolution* - The context of virtual organizations is rapidly changing which lead to a continuous evolution of the virtual enterprise, within the current strategic plan;
- *Metamorphosis or dissolution* - based on the experience gained during the functioning as a virtual enterprise, its components may choose either a metamorphosis into a new virtual organization by changing its form, with the establishment of new goals, or for its dissolution¹¹⁸.

Corresponding to these steps, the creation or participation in virtual enterprises, from the point of view of their management, as distributed economic processes, requires, specifically:

- *Creation of a virtual enterprise*:

¹¹⁷ Idem, p. 28.

¹¹⁸ Luis M. Camarinha-Matos, Hamideh Afsarmanesh (2007) *A Comprehensive Modeling Framework for Collaborative Networked Organizations*, in *Journal of Intelligent Manufacturing*, vol. 18, nr. 5, p. 529-542.

- *Forming a virtual enterprise*: development and announcement of the distributed economic processes, search for potential partners, receipt of proposals and selection of partners from the negotiation phase to the legal agreement;
- *Modelling the virtual enterprise*: coordination of the distributed economic processes;
- *Operation and evolution of a virtual enterprise*:
 - *Management of the distributed economic processes*: evaluation, measurement, simulation and monitoring of the distributed economic processes, from technical, human and socio-legal point of view;
 - *Supervision*: reconfiguring a virtual enterprise by inclusion or exclusion of members, changes to the contract regarding the distributed economic processes like rescheduling or cancellation;
 - *Dispute settlement*¹¹⁹.

At each of these stages a number of specific issues arise that may prove problematic for creating or participating in virtual enterprises - from the firms' perspective, or for their facilitation - from a regulatory and institutional perspective.

4. Issues in virtual enterprises development and facilitation on the European Single Market and Romania

Virtual enterprises require a *specific environment for development*, beyond the general trends of globalization and dynamism of the business environment. The U.S. is the reference model in this respect, as environment for the emergence and proliferation of such organizational forms, as far back as in the late '90s of last century being reported over 250,000 virtual enterprises¹²⁰. This can be explained by the fact that the U.S. is already constituted as an integrated market with a fluid social structure, individualism and autonomy in operation. We may argue that the *European Single Market* does not fully meet the features of the U.S. market as an enabling environment for the creation and development of virtual enterprises, especially due to the lower integration and still higher administrative and regulatory uncertainties. However, the progresses towards a full integration, and, especially, the specific efforts to create a favourable environment for the virtual enterprises, enable their creation and functioning, an aspect of great importance especially for the new Member States like Romania, which can use this possibility to quicker and easier involve in the Single Market. The worldwide efforts to boost virtual enterprises are most visible in the European Union, and among the programs with specific measures in this regard can be mentioned: the European Strategic Program on Research in Information Technology - ESPRIT (1983 - 1998), Information Society Technologies - IST (1999 - 2006), Information and Communication Technologies - ICT (2007 - 2013), International Scientific Cooperation - INCO (2002 - 2006 and 2007 - 2013). One of the European Union projects, the European Collaborative Networked Organizations Leadership Initiative - ECOLEAD, conducted between 2004 and 2008, put as a vision that "in ten years, in response to fast changing market conditions, most enterprises and specially the SMEs will be part of some sustainable collaborative networks that will act as breeding environments for the formation of dynamic virtual organizations"¹²¹.

In the case of *Romania* is primarily proving problematic what is in fact a prerequisite for the existence of the virtual enterprises, namely, the *availability of information and communication technologies*. The issue of its implementation in Romania is hindered by both objective and subjective factors, including the lack of the specific information and communication technologies

¹¹⁹ Emil Scarlat (2006) *Proiectarea unei arhitecturi de întreprindere virtuală utilizând sistemele multiagent*, in Emil Scarlat, *Agenți și modelarea bazată pe agenți în economie*, Editura ASE, București, p. 34.

¹²⁰ Jürgen Noll (2008), *op. cit.*, p. 2.

¹²¹ Luis M. Camarinha-Matos, Hamideh Afsarmanesh, Martin Ollus (2008) *Ecolead And CNO Base Concepts*, in Luis M. Camarinha-Matos, Hamideh Afsarmanesh, Martin Ollus (ed.) *Methods and Tools for Collaborative Networked Organizations*, Springer, New York, p. 3-32.

infrastructure at national level, underdeveloped communication networks, still high costs for communications services, weak informatization among the economic organizations, lack of the specific culture in informatics among the employees, resistance to change¹²². We may assert that in Romania the introduction and use of information and communication technologies is still incipient, which does not repeal, however, the possibilities for the Romanian enterprises to adopt organizational structures such as virtual enterprises, provided the appropriation of the necessary infrastructure. Issues fall to a more general level, respectively, achieving the Romanian knowledge society, which, providing the adoption of a correct management, and especially, consistent efforts of the decision makers, can become reality.

In the creation of a virtual enterprise, a key issue is *identifying the appropriate partners and establishing relationships with them*, both for the initiating enterprise and for those wishing to join a virtual enterprise. Conclusion of contracts can be a complex, long lasting process, from the first contact phase to the negotiation phase and the reach of an agreement. This is a problematic issue, and one of the solutions proposed is the use of electronic institutions have all the information needed to identify potential partners, act as a broker, facilitating negotiation, contract validation, monitoring and enforcement, building members' reputation¹²³. Building such institutions is still a desideratum, as there are many problems to be addressed in this regard, like for example, related to the development of an open and flexible support infrastructure, allowing for use on a wide variety of platforms, the ensuring of data safety, confidentiality and veracity, or the establishment of a uniform regulatory framework, based on certain standards of conduct which need to be set out.

The possibilities for virtual enterprises development on the European Single Market remain primarily related to the *firms' networks*, of either high or low formalization. The projects at the European Union level trying to facilitate such networks can also be an opportunity in this respect. The existing relationships between companies, especially long term ones, can offset these difficulties, actually incorporating a degree of flexibility. In this case, contracts are not necessarily required, and business opportunities can be exploited as soon as they appear.

Mutual trust is fundamental for the existence of virtual enterprises, as it acts as a substitute for two critical factors, which are often missing in a virtual enterprise, namely, the hierarchical control associated with traditional organizations, which rarely can be found in a network of independent firms, and the legal framework to regulate the formation, operation and dissolution of the organization, much less developed in the case of virtual enterprises, since long contract negotiations could reduce or even cancel out the positive effects of a fast-reacting virtual enterprise¹²⁴. Mutual trust results from an expectation of fair behavior and a level of understanding of shared business practices, which is facilitated by closer interactions than those usually found in a virtual enterprise, as well as a common history, which also is not a feature of a virtual enterprise. Thus, mutual trust is a factor influencing the trend of formation of stable, long term virtual enterprises. In any case, mutual trust plays an important role for the electronic business in general, which, despite the issues of trust that they may involve, have seen a spectacular development.

Related to the issue of mutual trust it has to be mentioned the possibility of an *opportunistic behavior* in a virtual enterprise, since each member pursues its own interests - maximizing profit - without taking into account the interests of its partners. Given that there is no leader to carry out strict a monitoring and there is no way to certify the validity of determining the price structure,

¹²² Bogdan Ghilic-Micu, Marian Stoica (2006) *Economia digitală și societatea bazată pe cunoaștere*, in Ion Gh. Roșca (ed.) *Societatea cunoașterii*, Editura Economică, București, p. 131.

¹²³ Henrique Lopes Cardoso and Eugénio Oliveira (2005) *Virtual Enterprise Normative Framework Within Electronic Institutions*, in Marie-Pierre Gleizes, Andrea Omicini, Franco Zambonelli (Eds.) *Engineering societies in the agents world V: 5th international workshop*, ESAW 2004, Toulouse, France, Oct. 20-22, Springer-Verlag, Heidelberg, p. 18.

¹²⁴ Jürgen Noll (2008), *op. cit.*, p. 8-9.

there is a risk of exploitation which can occur within a virtual enterprise. This again suggests the idea of establishing stable virtual enterprises.

The regulatory framework for virtual enterprises in the European Union is that regarding the information and communication technology services, including the protection of intellectual property - such as protection of computer programs or databases - distance selling, electronic commerce, electronic money, electronic signature. Of special interest for virtual enterprises is the *Directive on Electronic Commerce* - whose main provisions are transposed into Romanian law by *Law no. 365 of 7 June 2002 on Electronic Commerce*¹²⁵ - which sets out the main rules of conduct for virtual business, like the requirement of transparency concerning information about the organization for the customers. The *Directive on Distance Selling* - which has as Romanian counterpart the *Ordinance no. 130/2000 on the Legal Regime of Distance Contracts*¹²⁶ - influences the activities of virtual enterprises as it introduces a number of regulations, particularly regarding Business-to-Consumer type sales. The *Directive on Electronic Signatures* - with its corresponding *Law no. 455 of 18 July 2001 on Electronic Signature*¹²⁷ - is of particular importance for the virtual enterprises, confirming the validity of distance contracts between the participating firms.

We cannot assert, however, that there is an integrated regulatory framework for virtual enterprises on the European Single Market, as there still are a number of legal concerns regarding, for example, legal representation - in the sense that within a virtual enterprise, its components remain independent as a legal entities, which raises the question on how a virtual enterprise could and should be constructed legally. In practice, the members can found an association for each project, or establish a leading firm acting as a legal entity, and the other participating firms receive the status of sub-contractors.

5. Conclusions

Virtual enterprises are organizational structures of the knowledge economy having as main characteristics the focus on core competences, a single point of contact with customers, the international dimension, independency, low formalization, the systems provided by information and communication technologies, temporariness. There are many advantages that derive from such characteristics, among which flexibility and response speed, which motivate the efforts for facilitating their creation and development.

In the context of the European Single Market, the integration of markets, and, especially, the specific efforts to create a favourable environment for the virtual enterprises, enable their development and facilitation in all the Member States, which can use this possibility to quicker and easier involve in the Single Market. Issues related to virtual enterprises development and facilitation include: availability of information and communication technologies, identifying the appropriate partners and establishing relationships with them, building networks, achieving mutual trust, developing an integrated regulatory framework.

We may argue, in any case, that virtual enterprises are still a nascent form, but with substantial development potential in the near future on the European Single Market, along with the progresses towards integration as well as regulation and institutionalization. They can also be an effective possibility for Romanian enterprises to gain access on the Single Market, on the condition that the related difficulties can be successfully overcome, as a specificity being mentioned that they would rely mainly on such informal relationships developed by firms.

¹²⁵ *Legea nr. 365 din 7 iunie 2002 privind comerțul electronic*, in *Monitorul Oficial* nr. 483, 5 iulie 2002, cu modificările și completările ulterioare.

¹²⁶ *Ordonanța nr. 130/2000 privind regimul juridic al contractelor la distanță*, in *Monitorul Oficial* nr. 431 din 09/02/2000.

¹²⁷ *Legea nr. 455 din 18 iulie 2001 privind semnătura electronică*, in *Monitorul Oficial*, Partea I, nr. 429 din 31 iulie 2001.

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THE CLUSTER APPROACH FOR FACILITATING ROMANIAN FIRMS' ACCESS TO THE EUROPEAN SINGLE MARKET

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The article analyses the possibilities for facilitating Romanian firms' access to the European Single Market through clusters development and internationalization. Having considered the clusters' role and characteristics, in order to determine their potential for growth and internationalization and the implications at a national, regional and firm level, this potential is analyzed in the context of the European Single Market. The cluster approach in the Romanian context, as status-quo and possibilities for development, is analyzed considering the specific policy, institutional and economic framework, providing recommendations for appropriate measures in order to greater benefit from the clusters' potential and the opportunities provided by Romania's integration in the European Single Market structures.

Keywords: Clusters, Cluster policies, European Single Market, Internationalization.

JEL Classification: F23, L22, O33.

1. Introduction

Cluster-type agglomerations have been a socio-economic reality even before the Industrial Revolution, drawing the attention of well-known researchers like Marshall, who noted the tendency for specialised firms to be concentrated in "industrial districts", or Schumpeter, who noted the innovative potential of cluster-type phenomena in his now highly influential exposition on the role of entrepreneurs and the "creative destruction". The fundamental changes in the economy, leading towards a knowledge-based economy and society, have determined the proliferation of clusters – considered as organizational forms specific to the knowledge economy, with enriched potential, functionalities and characteristics.

Clusters and cluster policies have began to arise special interest in the last decade of the 20th century, which has grown substantially in the last years, in order to accomplish the competitiveness demands at a national, regional and firm level in the emerging knowledge economy. Clusters intercorelate the constitutive firms in an integrated system which provides higher possibilities concerning the access to knowledge and information, costs reduction and innovation, thus contributing to the economic development of the region where they are located.

2. Clusters' role and characteristics

The cluster concept has been introduced to the attention of both analysts and policy-makers by Michael Porter¹²⁸ in his highly influential analysis of the competitive advantage of nations, which is presented as resulting from the interactions of four forces which compound the competitiveness "diamond" – factor conditions, demand conditions, firm strategy, structure and rivalry, and related and supporting industries. The last of these points toward the importance of location and

¹²⁸ Michael E. Porter (1990) *The Competitive Advantage of Nations*, Macmillan, London.

offers an explanation for the well-known success of Silicon Valley in electronics, or Hollywood in the film industry.

Porter also developed a widely-used definition: “Clusters are geographic concentrations of interconnected companies, specialised suppliers and service providers, firms in related industries, and associated institutions (for example universities, standards agencies, and trade associations) in particular fields that compete but also co-operate”¹²⁹.

Approaches to cluster vary, focusing especially on elements like *location*, *industry* or *innovation*; a common element is the inter-firms and other organisations linkages, which provide economic value to clusters. There is a shift of focus from a firm-level to an inter-firms approach. In the context of the knowledge economy, it is well recognised that industry specific knowledge is becoming cumulative and embedded in a particular region or area rather than in a specific firm¹³⁰. Clusters largely resulted from the opportunities for economic transactions between firms, explained by Porter in terms of “*economies of agglomeration*”¹³¹; however, concerning the latest generations of clusters, the emphasis has shifted to *learning and knowledge access*.

Location, or geographical proximity, has been greatly emphasized, however, it is not sufficient for a cluster development, as geographical proximity facilitates but does not guarantee effective inter-firms interactions. Actually, progress in information and communication technology has allowed for the creation of *virtual clusters*, at an international level and based on emergent technologies, which create and share information and knowledge across great distances. Clusters may also be viewed as networks of firms with complex interactions, but they differ from networks in that they integrate firms linked in a value chain, as an alternative way of organising the value chain¹³².

Clusters can be very different in terms of density, social cohesion, level of activity, vitality, industry concentration, geographical area and stages of development. It is worth mentioning a general classification which allows for an analysis of a cluster’s *development stage and possibilities*, thus distinguishing between: *potential clusters* – that present good opportunities for development and where some key elements of an effective cluster are already in place, *latent clusters* – with an high number of firms but where the level of interaction among them is still low due to lack of trust, low cooperation and high transaction costs; *working clusters* - well developed industrial districts¹³³.

Clusters’ role as competitiveness and innovation promoting mechanisms is largely recognised. Among the many clusters specific *competitiveness-generating advantages* that mark their proliferation tendency can be counted: inter-firm cooperation at lower costs, higher innovation possibilities for persons or organisations, dissemination and lower costs and risks for research and development activities, higher technical, economical and organisational flexibility, shorter periods of time for manufacturing, lower unit costs due to scale economies at the cluster level, etc¹³⁴.

Clusters’ *innovative potential* is mostly due to access to knowledge and information, new technologies, business concepts, etc, and to flexible organising, as an essential characteristic of

¹²⁹ Michael E. Porter (1998) *On Competition*, Harvard Business Review, Cambridge, p. 199.

¹³⁰ Michael J. Enright (1998) *Regional Clusters and Firm Strategy*, în Alfred Dupont Chandler, Peter Hagström, Örjan Sölvell (eds.) *The Dynamic Firm: The Role of Technology, Strategy, Organization, and Regions*, Oxford University Press, New York, p. 322.

¹³¹ Michael E. Porter (1998), *op. cit.*, p. 213.

¹³² Michael E. Porter (1998) *Clusters and the New Economics of Competition*, în *Harvard Business Review*, vol. 76, no. 6, p. 80.

¹³³ Michael J. Enright (2003) *Regional Clusters: What We Know and What We Should Know*, în Johannes Bröcker, Dirk Dohse, Rüdiger Soltwedel, *Innovation Clusters and Interregional Competition*, Springer, Berlin, p. 99-129.

¹³⁴ Ovidiu Nicolescu, Luminița Nicolescu (2005) *op. cit.*, p. 187.

clusters¹³⁵, which allows for a quick efficient reconfiguration of its activities. OECD specialists have actually suggested a cluster approach as a “reduced national innovation system”, as clusters incorporate the main requirements for promoting innovation¹³⁶.

3. Clusters development and internationalization on the European Single Market

Clusters can facilitate the *internationalization* of firms on the one hand, through the benefits offered to members, and, on the other, through initiatives at a cluster level. Specific barriers to internationalization, regarding managerial, financial, informational and competition-related issues faced by firms can be substantially reduced by a *cluster membership*¹³⁷. Firms’ competitiveness is enhanced through the external characteristics of the cluster, such as cost advantages due to proximity, joint marketing, reduced costs of access to competent personnel and information, etc. Positive externalities of the clusters thus determine the members’ growth and competitiveness, and participation to a cluster will have a positive impact on their internationalization. Clusters may thus become a platform to boost self internationalization of firms.

Cluster based initiatives for internationalization have become more numerous and wider in recent years, although traditionally, the focus was on the internal activities related to improving the business environment at a cluster level, strengthening the links between participants, and modernizing the members’ strategies and transactions. International cooperation between clusters and between clusters and other actors is a strong impetus towards internationalization for the firms within the cluster. Also, we can say that it is a way to prevent one of the main cluster limits - and networks in general - namely, *the lock-in effect*¹³⁸, which occurs when a firm is over-embedded with existing cluster partners and fails to broaden its network horizons with other prospective partners and to identify potential business opportunities beyond the cluster boundary. Smaller firms are more likely to be locked in and subject to inertia in clusters due to their liabilities, whereas firms that are larger and better positioned within the cluster may often exercise stronger power upon smaller firms.

Cluster based internationalization may take different *forms*, among which the most common approach is *establishing contacts* with other networks and clusters. This may include facilitating knowledge and experience exchange, for example by mutual providing of information and mutual exchanges of staff. More advanced forms of international cooperation are *partnerships*, by sharing support services and access to facilities like research and development centers.

The growing importance of establishing international relations between clusters is due to the changes in the global economic environment in which clusters operate. Reducing barriers to trade and investment, and technological changes have determined decreasing transport and communication costs, and thus have created opportunities to *break the supply chain at a geographical level*. The efforts for fostering internationalization have been mainly directed to increasing income from exports, but the focus is currently shifting to creating and sustaining competitive advantages through international cooperation. As a result, clusters tend to specialize on their core competences, which further leads towards a growing integration of clusters into global supply chains.

We may argue that the *European Single Market* actually creates additional pressures for the development of the relations between clusters. National borders continue to distinguish between the European markets and the competitive environments, by political, administrative, legal,

¹³⁵ Ioan Popa (2003) *Rețele de firme și clustere*, în Ovidiu Nicolescu (coord.) *Sistemul organizatoric al firmei*, Editura Economică, București, p. 400-405.

¹³⁶ Riccardo Crescenzi, Andrés Rodríguez-Pose, Michael Storper (2007) *The territorial dynamics of innovation: a Europe-United States comparative analysis*, în *Journal of Economic Geography*, vol. 7, no. 6, p. 673-709.

¹³⁷ David McHardy Reid, Richard DeMartino, Stelios C. Zyglidopoulos (2005) *The Internationalization Journey of a High-Tech Cluster*, în *Thunderbird International Business Review*, vol. 47, no. 5, p. 529-554.

¹³⁸ Marian V. Jones, Pavlos Dimitratos, Margaret Fletcher, Stephen Young (2009) *Internationalization, entrepreneurship and the smaller firm: evidence from around the world*, Edward Elgar Publishing, Cheltenham, UK, p. 109.

cultural barriers. However, the efforts to consolidate the Single Market and, particularly, to eliminate the obstacles to the free movement of goods, services, capital and people, act as strong incentives for international cooperation between clusters. European clusters can not rely solely on the natural forces which determine the agglomeration of firms, attraction of capabilities and assets, as do, for example, the clusters on the U.S. market, with a higher level of integration, but this may be offset to some extent by promoting and strengthening international cooperation¹³⁹.

Fostering clusters development and internationalization is an important axis of the Community Programs, particularly circumscribed to the territorial cooperation objective of the Cohesion Policy, but also as a way of promoting innovation in the Lisbon Strategy. Key measures for cooperation between European clusters in specific areas of coverage include: the *European Cluster Policy Group* - cluster policies, the *European Cluster Alliance*, under PRO INNO Europe - cooperation at the political level, the *European Cluster Observatory*, under Europe INNOVA - European clusters analysis, *European Innovation Platform for Clusters*, under Europe INNOVA - fostering innovation, the *European Excellence Cluster Initiative* under PRO INNO Europe - quality of clusters management¹⁴⁰. Europe INNOVA is a European initiative which aspires to become the laboratory for the development, testing and promotion of new tools and instruments to support innovation, with a view to helping innovative firms to innovate faster and better. PRO INNO Europe is an initiative of Directorate General Enterprise and Industry which aims to become the focal point for innovation policy analysis and policy cooperation in Europe, with a view to learn from the best and contribute to the development of new and better innovation policies in Europe.

4. The cluster approach in the Romanian context

In Romania, the general approach to clusters can be described in the way that the national level has been "too high", whereas the local level has been "too low"¹⁴¹. The institutional framework for regional economic development includes the Regional Development Agencies, created in the late '90s of the last century¹⁴². Clusters began to be mentioned in the national strategic documents in the context of Romania's integration in the European Union, as a priority related to the economic development and integration into the Single Market structures. However, no national cluster specific institutions or policies have emerged so far.

Considering the proportionality between the quantity and quality of knowledge circulating and spilling over between the firms within a cluster and the cluster's size, level of specialization and the extent to which the locality or the region is geared towards and focused upon the industries comprising the cluster - which also appears in the literature as the cluster dominance¹⁴³ - the European Cluster Observatory proposes an indicator that measures the specialised critical mass' to develop positive spill-overs and linkages for each cluster by assigning each cluster a number of stars for each of the three criteria. Thus, *size* is measured by the number of employees, *specialization* - compares the proportion of employment in a cluster category in a region over the

¹³⁹ European Commission, Directorate General Enterprise and Industry (2008) *The Concept of Clusters and Cluster Policies and Their Role for Competitiveness and Innovation: Main Statistical Results and Lessons Learned*, Office for Official Publications of the European Communities, Luxembourg, p. 50.

¹⁴⁰ European Commission, Directorate General Enterprise and Industry (2009) *Towards World-Class Clusters in the European Union*, Support for Innovation Unit, Innovation Policy Directorate.

¹⁴¹ Susana Borrás, Dimitrios Tsagdis (2008) *Cluster policies in Europe: firms, institutions and governance*, Edward Elgar Publishing, Cheltenham, UK, p. 214.

¹⁴² Legea nr. 151 din 15 iulie 1998 privind dezvoltarea regională în România, în *Monitorul Oficial* nr. 265/16 iul. 1998, abrogată de Legea nr. 315 din 28 iunie 2004 privind dezvoltarea regională în România, în *Monitorul Oficial* nr. 577/29 iun. 2004.

¹⁴³ Orjan Solvell, Christian Ketels, Goran Lindqvist (2008) *Industrial specialization and regional clusters in the ten new EU member states*, în *Competitiveness Review: An International Business Journal incorporating Journal of Global Competitiveness*, vol. 18, no. 1/2, p. 104 - 130.

total employment in the same region, to the proportion of total European employment in that cluster category over total European employment, and *focus* - relates employment in the cluster to total employment in the region.

In the case of Romania, according to this methodology, the identified clusters appear as shown in Table 1. and Table 2:

Table 1. The main clusters in Romania by stars, employment and specialisation

Cluster	Region	Employees	Specialization	Stars
Apparel	Nord-Est	53 835	6.64	« « «
Textiles	Nord-Est	45 786	5.62	« « «
Apparel	Centru	42 396	5.65	« « «
Apparel	Sud-Est	41 401	5.65	« « «
Apparel	Nord-Vest	40 798	5.51	« « «
Apparel	Sud-Muntenia	38 710	4.61	« « «
Textiles	Centru	38 378	5.09	« « «
Communications	Vest	36 431	14.10	« « «
Oil and Gas	Sud-Muntenia	36 383	21.97	« « «
Metal	Sud-Est	36 040	2.25	« « «
Automotive	Sud-Muntenia	32 935	2.71	« « «
Building Fixtures	Nord-Vest	30 919	3.21	« « «
Footwear	Nord-Vest	28 200	15.66	« « «
Textiles	Sud-Muntenia	25 884	3.06	« « «
Building Fixtures	Sud-Muntenia	23 113	2.12	« « «

Source: European Cluster Observatory, ISC/CSC cluster codes 1.0, Dataset 2007/06/06.

It can be argued that in Romania, the existing clusters have a relatively low level of specialization, but have a significant number of employees at a regional level. Among the main clusters in Romania, and also, among the oldest ones, can be mentioned especially those of the North-West and West regions, which have been created mostly due to foreign investments from Italian clusters beginning in the early 90's of the last century. The main industries of Romanian clusters are: apparel, textiles, building fixtures, communications, oil and gas, metal, automotive and footwear.

Table 2. The main regions in Romania by total number of stars and share of employment in clusters with stars

Region	Total number of stars	Share of employment in clusters with stars
Centru	27	71.25%
Sud-Muntenia	26	71.43%
Vest	22	62.53%
Nord-Vest	19	63.06%
Sud-Est	17	77.59%
Nord-Est	17	60.47%
Sud-Vest Oltenia	15	50.75%
Bucuresti-Ilfov	15	54.92%

Source: European Cluster Observatory, ISC/CSC cluster codes 1.0, Dataset 2007/06/06.

In what concerns the regions comprising the highest number of stars, according to the European Cluster Observatory, Centre and South-Muntenia regions are primarily noted.

We may argue that clusters are a relatively recent phenomenon in Romania - which emerged in the early 90's of the last century, in the context of the transition to a market economy - clusters are few in number and unevenly distributed across Romania. Thus, their capacity for association, cooperation and coordination at national and international level - which should be inherent to their development, as it can be argued, for example, for Italian clusters - is reduced. Moreover, because the phenomenon is relatively recent, cluster specific policies and institutions at national, regional and local level have not yet sufficiently emerged. Hence *the need to adopt specific measures and instruments for the development and internationalization of Romanian clusters*.

The potential of clusters as engines for the economic development at regional and national level is widely recognized. Clusters are also effective ways to conduct efficient policies, as firm-level interventions are too costly and tend to distort competition, while policies directed at broad industries will tend to have little effect and may miss the critical levers. Clusters can help to identify opportunities and threats in the business environment affecting the whole economy, and they can be the testing "laboratories" for adequate solutions addressing them. Clusters can also help the private and the public sector policy making by facilitating collaboration and joint action along a wide set of players¹⁴⁴.

The need for intervention by policy measures for clusters promotion in order to prevent some negative effects of the market mechanisms meets several arguments, including the non-appropriability of positive externalities, lack of location information, lack of coordination of members, restrictions on firms' mobility, negative externalities¹⁴⁵.

The development and internationalization of clusters requires *coordination at national and regional level*. Clusters literature particularly points to the importance of national policies, but in order to obtain superior knowledge and greater adaptability to the conditions of the region, it is essential that these efforts be coordinated at a regional level, and this is especially important in a country with a relatively weak state such as Romania¹⁴⁶. The cluster approach has yet to be mandated at the level of central government, and the measures should further be adapted and varied according to the characteristics of clusters.

5. Conclusions

Clusters are acknowledged instruments for providing competitiveness, access to learning and knowledge, innovation and growth at a national, regional and firm level. Clusters can facilitate the internationalization of firms on the one hand, through the benefits offered to their members, and, on the other, through initiatives at a cluster level. Clusters development and internationalization is an important axis of the Community Programs, while the characteristics of the European Single Market provide strong incentives for international cooperation between clusters.

Romania's integration in the structures of the European Single Market provides specific opportunities for Romanian clusters development and internationalization. Clusters are a relatively recent phenomenon in Romania, with a reduced capacity for association, cooperation and coordination at national and international level, but there is potential for a cluster approach which can be used for facilitating Romanian firms' access to the European Single Market. Applying the cluster approach in Romania requires the adoption of specific measures and instruments for the development and internationalization of Romanian clusters and coordination at national and regional level.

¹⁴⁴ Christian H. M. Ketels (2003) *The Development of the cluster concept - present experiences and further developments*, Institute for Strategy and Competitiveness, NRW conference on clusters, Duisburg, Germany, 5 Dec., p. 19.

¹⁴⁵ OECD (2009) *Clusters, innovation and entrepreneurship*, OECD Publishing, Paris, p. 34-35.

¹⁴⁶ Dragoş Pîslaru (2004) *Prospects and challenges for cluster development - possibilities for implementing the cluster model in Romania*, Paper presented at The OECD LEED Conference, Timișoara, 24 May, p. 4.

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19. *** European Cluster Observatory, ISC/CSC cluster codes 1.0, Dataset 2007/06/06.
20. *** Legea nr. 151 din 15 iulie 1998 privind dezvoltarea regională în România, în *Monitorul Oficial* nr. 265/16 iul. 1998, abrogată de Legea nr. 315 din 28 iunie 2004 privind dezvoltarea regională în România, în *Monitorul Oficial* nr. 577/29 iun. 2004.
21. *** <http://www.clusterobservatory.eu> - European Cluster Observatory.
22. *** <http://www.europe-innova.org> - Europe INNOVA.
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EUROPEAN MIGRATION POLICY AND FUTURE CHALLENGES

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One of the core areas of the European integration project is the cooperation in matters of “common immigration policy”. Cooperation between EU member states in matters of migration policy has its origin in the realisation of freedom of movement, particularly the Schengen Agreement, also developed in the Maastricht Treaty of 1992, in the Amsterdam Treaty of 1997, and in the Treaty of Lisbon of 2007. The thematic agenda of cooperation has been extended significantly in recent years, and continue to promote integration towards a common European migration policy.

Keywords: migration policy, EU, challenges

JEL code: J68 - Public Policy

Within a population of more than 500 millions of persons¹⁴⁷ and 23 official languages¹⁴⁸, the aging European Union is becoming a “melting pot” of people of different ethnic, linguistic and cultural-social origin.

An emerging question is: Where should be the boundaries between the EU common immigration policy and the national sovereignty and national identity? Common policies are yet isolated, and these matters are generally handled between two governments on areas in which the member states are pursuing common interests. Common interests concern improved state control over migration, cooperation between border police and strengthened the fight against irregular immigration and asylum abuse¹⁴⁹ (Lavenex, 2009). Some of the integration policies aim at maintaining cultural diversity.

Considered initially as an economic theme, the migration’s multiple social aspects are now widely recognized. Labour market issues represent the core aspect of the immigration. A great number of labour market data refer to the labour market situation, but the central concern to individuals and society are the statistics directly relevant to citizens like employment and unemployment. Data show the Employment Rate¹⁵⁰: 65.9 % (2008) (Eurostat - EU 27), the Foreign population (2007): 28,861,974 (5.8%) (Eurostat - EU 25), the Percentage of foreign employees amongst gainfully employed (2007): 6.7%, the Unemployment Rate¹⁵¹: 7.0% (2008) (Eurostat - EU 27). The European labour markets are deeply hit by crisis, but more resilient than expected¹⁵² (*Employment Analysis of the European Commission*, 2010). Recent employment measures undertaken by Member States to combat the employment effects of the crisis: *maintaining employment, creating jobs and promoting mobility; upgrading skills and matching labour market needs; increasing access to employment*¹⁵³ (*Employment in Europe 2009*).

¹⁴⁷ 501.259.840 in 1st January 2010 in Europe (Eurostat - EU 27).

¹⁴⁸ Official languages: French and English (main working languages) plus 21 other official languages.

¹⁴⁹ Lavenex Sandra, *Country profile. European Union, in Focus Migration*, No 17. March 2009, Revised version from 28 April 2009, Publisher: Hamburg Institute of International Economics (HWWI), Hamburg, (ISSN 1864-6220), Country profiles and policy briefs: www.focus-migration.de.

¹⁵⁰ as % of working age population.

¹⁵¹ as % of civilian labour force.

¹⁵² European Commission, *Employment Analysis of the European Commission* – News, 2010.

¹⁵³ European Commission -Directorate-General for Employment, Social Affairs and Equal Opportunities, *Employment in Europe 2009*, Luxembourg, October 2009, Europa server (<http://europa.eu>).

In the discourse over the profile of migration in the EU, Sandra Lavenex¹⁵⁴ points, in *Focus Migration*¹⁵⁵, to important aspects in the European policy in matters of migration: cooperation in matters of immigration and asylum, the institutional basis of *European Migration Policy*, freedom of movement and the *Schengen Agreement*, the *treaties of Maastricht, of Amsterdam, and of Lisbon*.

1. Cooperation in matters of immigration and asylum

The collaboration in matters of immigration and asylum is a relatively new aspect - first introduced at the end of the 1980s -, and becomes today one of the core areas of the European integration project. European cooperation on matters migration policy has been communitised step-by-step. Few common policies were noticeable and concern areas of bilateral interest harmonized by governmental measures. Less progress has been made in the area of labour migration cooperation, in relation to the rights of legally settled foreigners in the EU, and concerning foreign integration.

Considering the legal categories, the labour migration dominates in countries with less regulated labour markets (UK, Ireland, the Czech Republic, Denmark), in most other states family reunification represents the strongest immigration category (France, Sweden), while a middle position (similar percentages in labour migration and family reunification) have Italy and Germany.

The institutional basis of European Migration Policy. Until the end of the 1990s, intergovernmental decision-making procedures predominated. Nowadays, the decision rules are communitised, member states share central powers and responsibilities with the supranational institutions of the EU. The most important EU instruments on asylum and migration policy, however, were adopted under the earlier intergovernmental procedures.

The concentrated influence over common policies is in the hands of representatives of the member states in the *Council of the European Union* (also called the *Council of Ministers*), in this case the *Ministers of Justice and Home Affairs*. The Council of Ministers adopts resolutions based on a qualified majority, which means that individual states cannot exercise a veto and a minority can be overruled.

The *European Commission* now has the exclusive right to adopt legislative initiatives. Under the “co-decision procedure”, the *European Parliament* has the right to participate in decision making, which means that its agreement is necessary in the legislation process.

Freedom of movement. Cooperation between EU member states in matters of immigration policy has its origin in the realization of freedom of movement, particularly the *first Schengen Agreement* in 1985 (France, Germany and the Benelux). The European Commission simultaneously formulated the *first guidelines for a Community policy on migration*.

The *Schengen Agreement* specified to abolish all checks on persons at their internal borders. The states would determine measures to safeguard inner security after the abolition of border checks - concluded with the 1990 *Convention implementing the Schengen Agreement*. Alongside cooperation on the part of the police and judiciary in criminal matters, this included the standardisation of regulations for foreigners entering and remaining for short stays within the “*Schengen area*” (a single *Schengen visa*), border police cooperation, and in asylum matters, the determination of the member states responsible for an asylum application.

The provisions relating to asylum policy were adopted in 1990 in the *Dublin Asylum Convention*, which was ratified by all EU member states and, after difficult internal policy ratification processes, came into force in 1997. Similarly, the *Convention implementing the Schengen Agreement* was subjected to considerable delay and did not come into force until 1995. The

¹⁵⁴ Lavenex Sandra, *op.cit.*

¹⁵⁵ Focus Migration is an information service that offers up-to-date figures, data and analysis on immigration, migration, asylum and integration issues. The service consists of three core products: country profiles, policy briefs and the “Migration und Bevölkerung” newsletter (in German only), <http://www.focus-migration.de/index.php?id=4&L=1>.

“*Schengen acquis*” of 1997 was transferred into European law with the *Treaty of Amsterdam*, the “*Schengen area*” was expanded step by step beyond the original five member states.

Today the *Schengen* regulations apply in all EU member states with the exception of Ireland and the UK, Bulgaria, Romania and Cyprus. Iceland, Norway and Switzerland are associated with the Agreement as non-EU member states. Intergovernmental cooperation within the Schengen framework can be regarded as the driving force and laboratory for EU-wide cooperation in matters of migration policy and, in criminal and police issues. The coupling of cooperation on migration policy with questions of internal security has also given rise to a focus on control aspects of immigration policy.

The second phase of cooperation on migration policy is the *Maastricht Treaty* of 1992. Influenced by the fall of the “Iron Curtain” and strongly growing numbers of asylum-seekers, the 1990s were markedly characterised by member states’ domestic priorities. In the absence of strong European powers and responsibilities, changing EU presidencies were, to a large extent, able to shape the agenda, which resulted in a lack of coherence in, and commitment to, the integration process. The Treaty formalised the previously purely intergovernmental cooperation and set it on a new basis in the so-called “third pillar” of the EU.

The Amsterdam Treaty of 1997 reflects the central priority that asylum and immigration policies now enjoy in the EU. The Treaty transferred these policy areas to the supranational first, or Community, “pillar”. Integrated the *Schengen acquis* into the treaties, and determined – after a transition period of five years (de facto six) and with slight restrictions –supranational decision-making rules were introduced. The accession of eight new member states on 1 April 2004 pointed to the urgent need to come to an agreement on central matters before the admission of so many new members.

The Treaty of Lisbon negotiated in 2007. The 2001 *Treaty of Nice* made no appreciable changes to this basis of power, the Treaty of Lisbon negotiated in 2007 extends decision-making rules based on qualified majority voting and increased the involvement of Parliament by extending its co-decision powers to the one field that had hitherto been excluded: labour migration. Due to Ireland’s failure to ratify it, however, the Treaty of Lisbon cannot currently come into force.

The role of the European Council:

- *The 1999 Tampere European Council* underlined the humanitarian basis of European asylum policy and the binding force of the 1951 *Geneva Refugee Convention*. A programme of action was agreed for 5 years to accompany the implementation of the Amsterdam treaty.
- *In 2004 in Den Haag*, the European Council extended this action plan for the following 5 years to include new focal points, in particular the external dimension of EU asylum and immigration policy (a stronger involvement of transit states and countries of origin outside the EU in the control of migration flows).

Immigration Policy. The *Treaty of Lisbon* contains the aim of a “common immigration policy” (Article 17), to date the EU has no comprehensive common regulations regarding the admission of third-country nationals or labour migration, with the exception of the right to family unification and two regulations concerning the admission of students and researchers cooperation has concentrated on formulating common regulations for crossing the external border, including a common visa policy.

The *common visa policy* is supported by an electronic visa information system (VIS) in which data for all visa applications in the EU are stored, including the applicants’ fingerprints and biometric data.

The “*Blue Card*” initiative proposed by the European Commission for highly skilled persons from third countries provides for simplified, fast-track admission procedures and preferential rights of residence for such third-country nationals. Blue Card holders would immediately receive the right to family reunification as well as the right, after two years’ legal residence in a member country, to look for work in other EU countries without having to return to their home

country. At the same time, the member states would retain the right to make the issuing of a Blue Card dependent upon the labour market situation within their country as well as to apply national law to the filling of available posts. Following European Parliament approval in November 2008, it is expected that the Council of Ministers formally pass a corresponding directive in early 2009.

Free movement of workers. The free movement of workers is regulated in [Article 39 of the EC Treaty](#); [Regulation 1612/68](#) of 15.10.1968 on freedom of movement for workers within the Community (OJ No L 257, 19.10.1968) ; [Directive 2004/38/EC](#) of 29.04.2004 on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States (OJ No L 158, 30.04.2004) ; [Directive 98/49/EC](#) of 29 June 1998 on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community (OJ No L 209, 25.07.1998); [OJ L 236 of 23.09.2003](#) Enlargement 2004: Accession Treaty; [Czech Republic \(Annex V\)](#); [Estonia \(Annex VI\)](#); [Latvia \(Annex VIII\)](#); [Lithuania \(Annex IX\)](#); [Hungary \(Annex X\)](#); [Poland \(Annex XII\)](#); [Slovenia \(Annex XIII\)](#); [Slovakia \(Annex XIV\)](#); [OJ L 157 of 25.4.2005](#) Enlargement 2007: Accession Treaty; [Bulgaria \(Annex VI\)](#); [Romania \(Annex VII\)](#)¹⁵⁶. In 2008, the Commission presented a Communication on *A common immigration policy for Europe: principles, actions and tools* (European Commission, 2008a)¹⁵⁷.

Integration Policy. In 2004, the *Council of Ministers* adopted a series of *Common Basic Principles on Integration (CBPs)*:

- the integration is a two-way process between the immigrants and the receiving society;
- immigrants must have respect for the basic principles of the EU as well as basic knowledge of the guest country's language, history and institutions;
- occupation and training are central to integration;
- immigrants should be involved as far as possible in the development of integration policies;
- to incorporate the integration of migrants in all public policies as a general principle and to introduce clear goals, indicators and evaluation mechanisms in order to facilitate the measuring of progress. These general principles have not been further specified in a legal sense, and no accompanying measures have been adopted for their implementation.

In a 2005 communication the Commission also put forward non-binding proposals on integration policy under the title “A common agenda for integration – framework for the integration of third-country nationals in the European Union”.

Some of these proposals were adopted by the Council of Ministers in its likewise non-legally binding 2007 conclusions on the strengthening of integration policies in the European Union by promoting unity in diversity.

Although the effect of such an approach is limited, reduced as it is to an exchange of information and being entirely on a voluntary basis, the member states also omitted in the Lisbon Reform Treaty giving EU bodies and institutions new powers to act within the field of integration. Instead, Article 79(4) of the Treaty of Lisbon states that the envisaged so-called “common immigration policy” should be developed “excluding any harmonisation” in the field of integration

EU citizenship. The EU citizenship is introduced by the Maastricht Treaty and refers to the rights and obligations of citizens of member states that result from their right to free movement within EU territory. Every person holding the nationality of a member state is automatically also an EU citizen; EU citizenship complements, but does not replace, national citizenship. The EU citizenship do not affects the heterogeneous nature of citizenship regulations within the

¹⁵⁶ European Commission–Employment, Social Affairs and Equal Opportunities, *Legislation. Free movement of workers*, <http://ec.europa.eu/social/main.jsp?catId=474&langId=en>.

¹⁵⁷ European Commission (2008a), Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, *A common immigration policy for Europe: principles, actions and tools*, Luxembourg, COM (2008) 359 final.

individual states. Nearly all member states acknowledge the right to citizenship based on parentage (*jus sanguinis*) as well as the principle of awarding citizenship to persons born within their territories (*jus soli*).

2. Future Challenges

The thematic agenda of cooperation has been extended significantly in recent years, with the strengthening of supranational actors, the Commission, the Parliament, and also the European Court of Justice. First steps are taken today towards a common admission policy for labour migrants, greater standardisation of asylum systems, the creation of instruments for member states to share the burdens of migration policy in a spirit of solidarity, plus a comprehensive foreign policy agenda linking migration policy goals with development policy priorities.

Along the already widely discussions on migration, as the need of aging Europe for labour force, migration inside Europe and the EU labour migration since enlargement, immigration from the third countries, social cultural integration of migrants and the influence of cultural diversity on labour market entry of migrants, national and communitised level in Integration Policy, migrants' experiences with Public Employment Support Services, there are a series of new perspectives debated in the scientific literature. Some of the actual themes with a special role in social discourse have caught the imagination of academics, the media and international and national policy makers across the globe, for example:

- possible effects of climate change on global migration processes;
- the permissibility of dual citizenship;
- increase in female labour migration;
- migration and health. "Migration makes you sick - migration improves your health prospects?";
- Integration Policy at a Regional Level;
- effectiveness of Control Strategies on irregular migration in Europe;
- Civic Integration Courses for immigrants;
- migration and recruitment of professionals, in particular healthcare workers: causes, consequences and policy responses;
- new outflows of high-skilled personnel from Europe to countries which were not a destination before;
- good practice for the integration of immigrants.

The continuing external migration pressure as well as the demographic development within the EU will, continue to promote integration towards a common European asylum and immigration policy. The heterogeneity that has evolved within the EU and the continuing emotional debate on migration on the domestic front, a preference can be seen for less prescriptive, predominantly operative coordination, coinciding with cautious and somewhat reluctant harmonisation.

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MOBILITY OF WORKERS IN THE EUROPEAN UNION

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The paper aims to describe briefly some of the main elements of the migration phenomenon in EU: push/pull factors of the mobility and costs/benefits of migration; free movement of workers in the European Community, with Specific Provisions in the Accession Treaty and the current [Job Mobility Action Plan \(2007-2010\)](#); Europeans work abroad and “Third-country” nationals.

Keywords: mobility, labour force, EU

JEL code: J61 - Geographic Labor Mobility; Immigrant Workers

1. Introduction

There is no official definition of migration in the European Union. The term describes the process of persons moving across borders to live and work and generally implies non-EU citizens moving into or within the EU¹⁵⁸. Other sources describe migration as the movement of a population from a region to another region with the purpose of remaining temporary or definitively in the new geographic zone. The labour force migration is the process of labour force moving from a country to another.

From the perspective of the social mobility analyzed in the international context, the labour force migration – when takes place in an organized and controlled way – is a positive phenomenon which is the answer to the needs of all social actors involved in this complicated equation: countries of origin, destination countries and the immigrants themselves. Migration could be the ideal framework for the individual achievement. „The international community should create a world in which no human being is obliged to migrate. Migration should be a process entirely on a voluntary basis and planned on legal basis, in order to enhance individual capacities and for fulfill personal aspirations.” (James N. Purcell, General Director of the International Organization for Migration, 2007)¹⁵⁹. By contrast, the illegal immigration represents a source of dangers for the national security of each state, causing disturbing effects on demographics, labour market, through straightening the black market and proliferation of criminality.

On a global level, 3,3% of the population is migrant. The number of migrants in the highest in Europe (56 millions), then in Asia (50 millions), North America (41 millions). More then 20% of the labour force of Romania works abroad. The foreign population presence in the EU is growing: in 2003 EU-15 were 17.12 million (3.76%) and in 2007 EU- 25: 28,861,974 (5.8%) (Eurostat)¹⁶⁰.

2. Causes and effects of migration

The migrants are persons having the goal of a work engagement abroad, of family reunification, person willing to study abroad, independent migrants etc. Migration for the purpose of family reunification has a privileged status in the majority of Western legislations. In some countries is even the only form of legal immigration, but same time, just the presence of a family member does not mean automatically the admission in the receiving state. Certain conditions have to be fulfilled by the family member in order to immigrate: the biological or legal relation with the

¹⁵⁸ European Commission, <http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions>.

¹⁵⁹ cf. Șodinca G. A., *Impactul social al migrației ilegale. Masuri de combatere a migrației ilegale la nivel European*, paper presented at the Conference „Educație și schimbare socială”, organized by the Faculty de Social Humanistic Science, University of Oradea, 20-21 February 2009.

¹⁶⁰ European Commission, Eurostat, Europa server: <http://europa.eu>.

already immigrated persons, the status of the family members abroad, financial and housing aspects.

Aging labour force

The aging population, due to the increase in life expectancy and low fertility, determine the need for the labour force in developed countries.

Demographic data demonstrate the lack of generations in replacing the old generations. The most affected region is Europe: the percent of 20% senior citizens in the general population in 1998 will grow to 35% old persons in 2050. It is estimated that until 2050 the country with the highest number senior citizens will be Spain, followed by Italy. This process will determine huge deficits between the need and offer of labour force. The aging labour force also limits the economic growth.

Growth in the EU up to 2025 will be mainly dependent on migration. Without positive net migration, the population would already have declined in some EU States, with the working age population predicted to decline by some 20 million between 2010-2030 (Eurostat projections)¹⁶¹. Economic and political forecasts predict that immigration will continue to grow in the future. Since 1999, more effective EU strategy was introduced towards a common migration policy to promote the economic, social, cultural, and political integration of migrants.

Push&pull factors

At the base of all migrations are causes concerning two types of factors:

- *push factors*: poverty, war, persecution, hunger, lack in freedom etc.
- *pull factors*: peace, health, higher income etc.

These factors can explain that immigrants accept lower-skilled jobs, and lower incomes. The *economic sectors* where migrant workers are concentrated in the lower-skilled jobs within those sectors, even though on average they have a higher skills level are:

- education;
- care and health;
- hotels and catering;
- agriculture;
- construction.

Categories of migration

The main types of migration are:

- migration for development;
- escape migration;
- migration of the elites (*brain-drain*).

The brain-drain phenomenon involves the leaving of specialists, of highly-specialised persons, towards developed countries. The emerging regions for intellectuals are: Africa, China, South-East Asia, India. Countries such as Canada, SUA or Australia make all possible efforts in order to attract highly-specialised persons. The migration of specialists include forms as brain overflow, brain export, brain exchange, brain-drain.

The circular migration involves the persons immigrated for a period of time and who return to the natal country. By encouraging this type of flows, the long illegal stay of immigrants in a country is prevented. The reticular migration represents the migratory moves done as a response to a sudden decision, by taking in account the advantages, risks and the economic, politic and social context. In the literature, a great number of other migration classifications are described, such as: of entrepreneurs, of students, oscillations, of the “stars”, migration of competencies etc.

Effects of migration

The migration phenomenon affects all three actors involved: emerging country/destination country and the immigrant himself.

¹⁶¹ European Commission, Eurostat, Europa server: <http://europa.eu>.

Table 1. *Negative / positive effects for the emerging country / destination country*

<i>For the emerging country</i>		<i>For the destination country</i>	
<i>Disadvantages</i>	<i>Advantages</i>	<i>Disadvantages</i>	<i>Advantages</i>
- loose in human capital - loose in qualified persons - increase in unemployment - distance from the family, family dissolutions etc.	- remittances - incomes that, in the form of either funds or goods, flows back into the country of origin; investments of the persons who return - increase in life conditions for families back home.	- many times, the immigrants don't return to the country of origin - negative perception about immigrants - cheap labour force: foreign workers accept lower incomes	- immigrants occupies the jobs refused by the locals - contribution to state budget by the payment of taxes - many workers are professionals - redress of the lack in work force in many economic domains
<i>For the immigrant himself</i>			
<i>Costs / benefits</i> - financial and psychological costs - higher incomes - better living standards - social and cultural adaptation etc.			

Also, we have to take in account the impact of globalization on labour market, which determine:

- elimination of national borders;
- emerging transnational communities;
- multinational companies move to places where cheap labour force is provided;
- labour force moves freely;
- globalization in technologies, in communications, in transport influence the labour force migration.

Table 2. Positive and negative effects of the globalization phenomenon

<i>Positive effects of globalization</i>	<i>Negative effects of globalization</i>
<i>Economic and social progress</i>	Threats on national sovereignty
<i>Innovation in technologies</i>	Continuous subordination of poor nations and regions by the rich ones
<i>Diversification in offer of goods and services</i>	Accentuation of discrepancies between the rich and poor
<i>Higher life standards</i>	Blending of cultures
<i>Abundance in information</i>	Destruction of local traditions
<i>Increase of cultural freedom</i>	Destruction of the environment

3. Free movement of workers in the European Union

The free movement of persons is one of the fundamental freedoms guaranteed by Community law: it is perhaps the most important right under Community law for individuals, and an essential element of European citizenship.

For workers, this freedom has existed since the foundation of the European Community in 1957. It is laid down in *Article 39* of the *EC Treaty* and it entails:

- the right to look for a job in another Member State;
- the right to work in another Member State;
- the right to reside there for that purpose;
- the right to remain there;

- the right to equal treatment in respect of access to employment, working conditions and all other advantages which could help to facilitate the worker's integration in the host Member State. Regulation governing the free movement of employees also applies to Iceland, Liechtenstein and Norway, members of the European Economic Area.

Tensions between the economic and the social perceptions of free movement of workers

Although free movement is an economic, not a social concept, it creates many problems of a social nature:

- transfer of pensions and social benefits;
- entitlements of migrant workers to unemployment;
- social security and other benefits;
- family issues of education;
- housing etc.

Policy initiatives, legislative provisions and court decisions were concerned with economic and not social consequences – that is, with possible restraints on free movement and not with the social implications of free movement of workers.

Job mobility is affected by the rules governing supplementary pension schemes, which continue to pose obstacles to mobility for workers across Europe, according to two independent studies, presented by the European Commission in January 2008. The studies support the case for a Europe-wide initiative to improve people's access to supplementary pension rights when changing jobs or working in another EU country and form the background to the Commission's proposal for a directive on pension portability.

Social policy in the EU was closely connected with the mobility of labour within the common market (1957 [Treaty of Rome](#), entitled *The European Social Fund*, had as its main function “to improve employment opportunities for workers in the common market”, *Article 123, now Article 146 EC*).

Overall, the principle of free movement of workers as a founding principle of the common market had an initially dominant influence on the perception of the nature of labour regulation in the EU. In contrast, there is the much later; and potentially critical, emergence of a right to free movement of persons, as citizens of the EU (Article 18 EC). Eliminating the need for an economic justification for the right to free movement based on work, this shift to free movement of citizens has wider consequences for the initiatives and actions of EU institutions active in the field of free movement. Promoting mobility is one of the three key priorities in employment defined by the European Council (the three key priorities in employment are: maintaining employment, creating jobs and promoting mobility; upgrading skills and matching labour market needs; increasing access to employment)¹⁶².

Specific provisions in the Accession Treaty: Transitional periods

Following EU enlargement in 2004, some EU15 Member States introduced what has become known as the 2+3+2 regulation. This is essentially a transition formula which allows Member States to impose restrictions on the free movement of labour (except Malta and Cyprus). It requires Member States to indicate their intentions regarding labour mobility in 2006 and 2009 and then by 2011 to lift all restrictions.

With the accession of Bulgaria and Romania in 2007, two countries also covered by the 2+3+2 rule, access to employment can theoretically be blocked until 2014.

[Job Mobility Action Plan \(2007-2010\)](#)

[The European Job Mobility Action Plan \(2007-2010\)](#)¹⁶³ has the following aims:

¹⁶² Commission of the European Communities, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, *A Shared Commitment For Employment*, Brussels, 3.6.2009, COM(2009) 257 final.

¹⁶³ European Commission, *Communication on Mobility. an instrument for more and better jobs: the European Job Mobility Action Plan (2007-2010)*, (COM (2007) 773 Final).

- to improve existing legislation and administrative practices regarding worker mobility;
- to ensure policy support for mobility from authorities at all levels;
- to reinforce EURES¹⁶⁴ as the one-stop instrument to facilitate mobility of workers and their families, and
- to foster awareness of the possibilities and advantages of mobility among the wider public.

The mobility of workers in Europe thus remains an important resource both in terms of employment and European competitiveness and is a central concern for Member States today. It is also central to the priorities of the 2007-2010 [Action Plan](#) and the [new phase of the Lisbon Strategy](#) (2008-2010), which aims to make the European Union the most competitive economy in the world and achieve full employment by 2010. These include numerous provisions aimed at facilitating and structuring worker mobility by providing more guarantees for both employers and employees.

The working conditions - principles in the EU are:

- non-discrimination at work on the basis of nationality;
- equivalent working conditions;
- equal treatment between persons irrespective of racial or ethnic origin ;
- equal treatment in employment and occupation (protect all Union citizens and third-country nationals and both cover ‘employment and working conditions, including dismissals and pay).

Social security provisions grant rights as similar as possible to those enjoyed by Union citizens to third-country nationals legally resident in the Community.

Europeans work abroad

Very few Europeans work abroad, EU effective mobility rate is about half that of the US. The 2007 “Mobility in Europe” study (Eurofound) concludes that:

- long distance mobility is not common:
 - only 18% of Europeans have moved outside their region;
 - only 4% have ever moved to another Member State;
 - only 3% outside the EU;
 - different Member States have different mobility intentions;
- young and educated workers are the most likely to move;
- mobility goes hand in hand with economic success.

The 2008 “Geographic mobility in the European Union: optimising its social and economic benefits” study (European Commission) confirms these data and pushes the percent of workers from the Member States of the EU who live in a different Member State from their country of origin to 1.5%.

Third-country nationals

Used in the Treaties, the term “third country“ means a country that is not a member of the EU (not party to an agreement between two other countries). This term create ambiguity also incorrectly interpreted to mean “third-world country“.

Third-country nationals tend to be disadvantaged in terms of employment, having a labour market participation rate and an employment rate lower than the figures for EU nationals (European Commission, *Employment in Europe*, 2002). Member States vary considerably in the way they conceive the integration of third-country nationals and in the extent to which they have developed and implemented integration policies.

On the one hand, the Community provides some protection to third-country nationals (for ex., entitles long-term residents to a residence permit of at least 10 years or an unlimited residence permit); on the other hand, on combating the illegal employment of third-country nationals

¹⁶⁴ EURES (European Employment Services): the European Job Mobility Portal is a network between the European Commission and the Public Employment Services of the EEA Member States.

provides for reinforcing cooperation between Member States with regard to immigration policy in respect of third countries.

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CONSIDERATIONS CONCERNANT L'ASSURANCE DE LA REPRESENTATIVITE DU CITOYEN EUROPEEN DANS LA SITUATION ECONOMIQUE ACTUELLE

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The participation of the social partners to the European governance, lately possessing a great „potential” in democratic terms, should stimulate definitively. The current experience demonstrates that the possibility to point out the benefits, but also the limits of such implication. Nevertheless it's true; the rules for such potential it should express (especially in the legislative procedure) must be consistent with the base principles of the democracy and the legitimacy for achieving the goal to represent a lot of voices.

Keywords: representativity, European citizen, social partners, sectorial associations of the commercial union.

Cod JEL: K00, K33, K39, F5, F53, J5, J50, J59, N4, N40, N44

1. Remarques introductives

La législation européenne débuta par être un ordre légal autonome par une série de traités internationales où le rôle de la Cour Européenne de Justice fut crucial pour défendre et enrichir le contexte de la société européenne. Apprécier la citoyenneté européenne dépend de considérer certains facteurs qui se trouvent dans la vie sociale qui créent l'identité européenne, de même qu'elle peut être structurée par la mettre en relation avec à la loi d'une part, et la mettre en relation avec les réalités en évolution pour devenir une citoyenneté européenne active, qui connaîtra un développement permanent, influencée par un accroissement graduel dans le statut légal.

La construction européenne connut un rythme accéléré de changement pendant les derniers vingt ans, fait qui engendra la succession de traités qui survinrent à des périodes de 5 ans: l'Acte unique européen, le Traité de Maastricht, le Traité d'Amsterdam, le Traité de Nice, le projet de traité constituant une Constitution pour l'Europe et, à présent, le Traité de Lisbonne, entré en vigueur dès le 1^{er} décembre 2009.

Regardant les objectifs du Traité de Lisbonne¹⁶⁵, il est intéressant la superposition des certains aspects de la citoyenneté qui interagissent avec la loi positive et la théorie politique pour deux motifs. Un des motifs serait sa nature, parce que les deux perspectives impliqueraient deux discours distincts qui devraient se mêler. Le traité de Lisbonne, concernant la participation directe des citoyens européens, apporte comme nouveauté leur droit à l'initiative législative. Ainsi, un million de citoyens provenant de plusieurs pays membres pourront demander à la Commission de présenter une proposition législative dans des domaines qui tiennent de la compétence de l'Union. Pour implémenter cette initiative, on a besoin d'adopter un acte législatif européen qui détaille la méthodologie d'appliquer des prévisions. Si on fait une analyse, on constate le fait que les deux visions partagent l'idée de créer la citoyenneté par intégrer et identifier le soutien légal.

¹⁶⁵ http://europa.eu/lisbon_treaty/glance/index_ro.htm.

2. Problématiques au niveau théorique et débats au niveau pratique

Les débats ininterrompus en relation avec la manque de la légitimité, la responsabilité et la transparence démocratique au niveau de l'Union Européenne, l'intensification d'un meilleur gouvernement par accroître le niveau de participation de la société civile pour son amélioration, ont été fortement soutenus parmi les citoyens, mais aussi entre les institutions de l'Union Européenne.

Le concept de «participation» se trouve au fondement de la Charte Blanche du Gouvernement¹⁶⁶, mais la Commission identifia «la transparence, la participation, la responsabilité, l'efficacité, la cohérence» comme des principes fondamentales d'un bon gouvernement. La participation de la société civile au développement du gouvernement transnational par l'intermède des organisations représentatives des intérêts sur-nationaux, fut qualifiée par la littérature de spécialité comme la solution appropriée «de connecter la société à des structures de gouvernement».¹⁶⁷ C. Sabel – M. Dorf opine que conformément au modèle proposé par la Commission Européenne—qui semble être assez pertinent de la perspective de la démocratie expérimentale¹⁶⁸—la participation à la démocratie est conçue comme le plus approprié chemin de suivre pour que la société civile arrive à influencer le gouvernement de la communauté publique.¹⁶⁹

Une fois le Traité de Lisbonne entré en vigueur, le Parlement Européen, choisi par le vote direct, aura un plus de pouvoir, donc, un plus de responsabilité, comme il jouira de nouveaux instruments pour protéger les droits et les libertés des citoyens, leur permettant de prendre part au procès politique communautaire, mais il assurera la protection des droits des parlements nationales d'élever des objections aux propositions législatives communautaires, s'ils considèrent que le principe de la subsidiarité fut enfreint.

Les groupes d'intérêt ont été en permanence présents au niveau européen en soutenant le procès d'implémentation des politiques européennes,¹⁷⁰ mais comme la Charte Blanche fait mention aussi, la recherche dans le but de trouver des «règles de participation» de la société civile au gouvernement européen se trouve encore au début.¹⁷¹

Comme exception des règles informelles mentionnées, le gouvernement européenne est présenté dans le domaine des politiques sociales de l'UE, où la participation des groupes d'intérêts comme partenaires sociales¹⁷² à la procédure d'adoption des lois fut garantie sur le plan constitutionnel (art. 138 et 139 du TCE). Comme résultat, le spectre des politiques sociales peut représenter maintenant un domaine important pour l'expérience dans l'importante recherche des nouveaux modèles de participation.

La literatura de specialité entreprend une analyse nuancée, analyse à laquelle on fait référence désormais, du mode dans lequel la problématique de la représentation des partenaires sociales au niveau de l'Union est comprise, dans le cadre plus large de l'approfondissement de son caractère démocratique. Cette analyse nous montre que, le but d'atteindre un gouvernement démocratique par l'intermède des modèles de participation peut être mis en danger si, au fondement, la

¹⁶⁶ European Commission, European Governance: A White Paper, COM (2001) 428.

¹⁶⁷ K.A. Armstrong, Civil Society and the White Paper—bridging or jumping the gaps? Jean Monnet Working Paper no.6/01, au-dessus, n. 1, at. 97.

¹⁶⁸ C. Sabel – M. Dorf, A Constitution of Democratic Experimentalism, Columbia Law Review, vol 98, 2, 1998, at. 267.

¹⁶⁹ P.P. Craig conçoit la démocratie comme «un point de départ d'un group d'hommes dédiés à la recherche désintéressée de l'intérêt public dans la société », P.P. Craig, The Nature of the Community: Integration, Democracy and Legitimacy, in P. P. Craig and G. De Burca (eds), The Evolution of EU Law (Oxford, 1999), 40 ff.

¹⁷⁰ B. Kholer-Koch, Organized Interests in European Integration: The Evolution of the New Type of Governance?, in Participation and Policy-Making in the European Union, H. Wallace and A. R. Young (eds), Clarendon, Oxford, 1997 at 42.

¹⁷¹ L'activité d'autres groupes d'intérêts est en effet, même plus loin conformément aux procédures informelles ou institutionnalisées au moins" (comme est le cas de la „comitologie”).

¹⁷² Cette expression fait référence, dans le jargon de la loi communautaire, aux principes organisations des unions de commerce ou des associés d'employés qui opèrent au niveau européen.

représentation des intérêts n'est pas garantie. Lorsqu'il s'agit de connecter la législation, l'encouragement du procès d'auto ajustement par les organisations privées doit être mise en relation avec le besoin fondamental de représentation des intérêts de ceux qui ne sont pas représentés par les organisations impliquées dans la procédure, et qui seront affectés par le résultat du procès législatif.

D'une perspective historique, les unions de commerce et les associations de business—aujourd'hui, explicitement prévues dans la Charte Blanche, comme des organisations qui appartiennent aux groupes d'intérêts de la société civile— ont été organisées au niveau de l'Union Européenne dès le début de la construction communautaire. Et pourtant, si au début celles-ci n'ont été impliquées qu'au niveau du lobbying, leur participation évolua peu à peu, et à présent, elles sont mentionnées au niveau des schémas institutionnels.¹⁷³

Il y eut des voix au cours du temps qui ont accusé l'Union qu'elle souffrait d'un *déficit démocratique*, manifeste par l'inapplication totale au niveau du fonctionnement de l'Union des procès spécifiques d'une démocratie. Ce déficit démocratique, on suppose, se réduit à la suite de l'entrée en vigueur du Traité de Lisbonne, qui accrût le rôle du Parlement Européen, de même que l'introduction du droit d'initiative législative des ressortissants des pays membres.

Le procès mentionné dans lequel les partenaires sociales du procès de consolidation des politiques sociales au niveau de l'UE connut une première étape au moment de l'apparition de l'Acte Unique Européen en 1986, lorsque la relevance «du dialogue social» entre les partenaires fut reconnue dans l'article 18b. Puis, en 1992, la Convention concernant les Politiques Sociales, annexée au Traité de Maastricht inventa le système de consultation et participation des partenaires sociales au procès législatif. Dernièrement, par incorporer le dessus Convention du TCE par le Traité d' Amsterdam en 1997, le procès législatif assure l'implication des partenaires sociales dans le cadre de la législation communautaire.

Le nouvel article 152 du Traité de Lisbonne mentionne que «l'Union reconnaît et promeut le rôle des partenaires sociales à son niveau, en tenant compte de la diversité des systèmes nationales. Cela facilite le dialogue, en leur respectant l'autonomie. La réunion sociale tripartite au plus haut niveau pour un croisement économique et emploi contribuent au dialogue social».

En jetant un coup d'œil plus attentif sur les règles du domaine de la représentation des intérêts, elles soulèvent des doutes sur la participation implémentée conforme à la pratique actuelle, peut accomplir l'objectif de la croissance de la légitimité démocratique dans le procès législatif.

Dans la même littérature de spécialité se montre que, les derniers amendements des Traités et l'évolution des stratégies politiques au niveau européen ont couronné le rôle majeur des partenaires sociales dans la formation des politiques sociales de l'Union Européenne.¹⁷⁴ Pourtant, l'autonomisation des acteurs sociaux du droit d'ébaucher la législation—une des fonctions principales du système politique—constitue la plus importante reconnaissance de la relevance attribuée aux acteurs de la collectivité.¹⁷⁵

Les principales caractéristiques de la procédure législative dans laquelle les partenaires sociaux sont impliqués (procédure que l'on peut définir comme un «dialogue sociale») peuvent être synthétisées: les partenaires sociaux peuvent participer au procès législatif conformément à l'article 138, par. 2 du TCE, la Commission, avant de soumettre une proposition dans le domaine des politiques sociales, doit consulter les partenaires sociaux, qui, à leur tour, peuvent émettre une opinion ou une recommandation. Après une deuxième consultation, la proposition législative suit la procédure prévue dans l'article 251, qui implique le Parlement Européen et qui va être adoptée par le Conseil, soit avec une majorité qualifiée, soit en unanimité (art. 137).

¹⁷³ M. Weiss, *The Future Role of The European Union in Social Policy* in C. Engels/M. Weiss (eds), *Labour Law and Industrial Relations at the Turn of the Century*, Den Haag 1998, S. 489.

¹⁷⁴ C. Barnard, *The Social Partners and the Governance Agenda*, *European Law Journal* 8 (1), 80-101.

¹⁷⁵ B. Bercusson, *European Labour Law*, London, Butterworths, 1996, 538-552.

La procédure législative peut avoir une deuxième alternative (art. 138 par. 4), où les partenaires sociaux deviennent des joueurs importants: à la première consultation, les partenaires sociaux peuvent informer la Commission en relation avec leur désir de faire un accord dans le but d'adopter une proposition législative. Ainsi, les partenaires sociaux rédigent une proposition législative dans 9 mois (terme qui peut être prolongé par la Commission). Si les partenaires sociaux finissent par s'entendre, (art. 139 par. 2), elle peut être implémentée soit par une décision du Conseil, soit au niveau national (conformément aux procédures des partenaires sociaux et pays membres).¹⁷⁶ Mais si, les partenaires sociaux n'arrivent pas à s'entendre en relation avec une proposition législative, on appliquera la procédure « standard », prévue dans l'art. 137. (La Commission proposera la procédure prévue dans l'art. 251). A présent, le Traité de Lisbonne entré en vigueur, on observe quand même, une amélioration au niveau du dialogue entre les partenaires sociaux, comme il résulte de l'actuel article 155 (ex. art. 139 TCE), dans le sens où les Accords signés au niveau de l'Union sont mis en application en conformité avec les procédures et les pratiques propres aux partenaires sociaux et au pays membres ou, dans les domaines subissant les prévisions de l'art. 153 (notre remarque—c'est-à-dire les domaines dans lesquels l'Union soutient et complète l'action des pays membres), sur la demande commune des parties signataires, par une décision du Conseil, à la proposition de la Commission, le Parlement Européen est informé. Le Conseil décide en unanimité dans le cas où l'accord en cause contient une ou plusieurs dispositions se référant à l'un des domaines pour lesquels il est nécessaire l'unanimité en conformité avec l'art. 153 alinéa 2.

Jusqu'à présent, le Conseil implémenta toujours les accords des partenaires sociaux par l'instrument légal de la Directive, suivant la technique des « annexes ». A cause d'une pareille procédure, l'accord—annexée à la Directive dans le texte original ébauché par les parties, produit des effets *erga omnes*, comme effet de la législation communautaire.¹⁷⁷

On reconnaît aux partenaires sociaux l'option dès que la Commission les informe sur l'intention d'agir dans le sens d'accepter la proposition de la Commission. Dans ce cas, les institutions communautaires, c'est-à-dire, le Parlement et la Commission sont exclus d'intervenir dans le procès législatif ou d'élaborer parallèlement des propositions.

A la suite de ce que l'on a présenté, on peut souligner certains aspects critiques :

- En ce qui concerne les sujets de la procédure, l'article 138 ne prévoit aucune définition des « partenaires sociaux » et aucun critère d'accès à la procédure. En ce cas, qui sont les personnes qui font les règles?
- En ce qui concerne l'exclusion du Parlement Européen, conformément à l'article 138 et 139 du TCE, en case d'intervention des partenaires sociaux, le Parlement Européen ne joue aucun rôle, n'a aucun droit, pas même celui de consultation ou d'information. Y a-t-il une conséquence de cette procédure au niveau de la légitimité démocratique?
- En ce qui concerne le contrôle institutionnel, le traité ne contient pas de clauses spéciales relativement à une éventuelle pouvoir de modifier la Commission ou le Conseil en respectant la proposition des partenaires sociaux. Dans cette situation, en quelle mesure, les institutions évoquées gardent ses pouvoirs de contrôle sur la législation proposée? Quelles sont les limites des actions des partenaires sociaux?

Parce qu'il n'y a pas une définition des « partenaires sociaux » dans les sources juridiques de l'UE, en réalité, il y a une pratique établie qui fait référence aux associations « sectorielles » des unions commerciales et organisations d'entreprise (dans le secteur du commerce industriel, etc.) et à d'autres trois organisations « intersectorielles ou trans-sectorielles » (ETUC-European Trade

¹⁷⁶ L'implémentation de l'accord par des procédures des partenaires sociaux au niveau national ne fut jamais mise en pratique, comme il n'y a pas le même système de relations industrielles dans l'Europe en mesure d'assurer une application uniforme dans tous les pays membres de l'accord adopté au niveau européen. S. Sciarra, *Collective Agreements in the Hierarchy of the European Sources*, au-dessus 11.

¹⁷⁷ Directive du Conseil 97/81/CE concernant l'accord de l'UNICE, CEEP et ETUC.

Unions Confederation, UNICE-Union of Industrial and Employers' Confederations of Europe and CEEP, European Center of Enterprises with Public Participation). Ces organisations sont présentes– du point de vue «historique»– dans le cadre de la Communauté Européenne. Toutefois, à partir du phénomène de reconnaissance du «dialogue social» à travers l'Acte Unique Européen (1986), ETUC, UNICE și CEEP sont devenues les principaux interlocuteurs des institutions européennes. ETUC, UNICE et CEEP réalisent la liaison avec d'autres agents collectifs– des représentants des travailleurs et du management au niveau national¹⁷⁸.

Quant à ce sujet, on doit préciser les suivantes choses :

- il y a encore des problèmes de coordination importants et de représentation entre le niveau national des associations et le niveau européen des organisations. Les actants du niveau européen sont impliqués dans l'élaboration de leurs règles internes, en leur manquant tout mandat d'agir comme des opérateurs de transaction à l'appui des associations nationales qu'ils représentent;

- il y a un lien relativement faible entre le niveau européen des organisations et leur action, à savoir les employés pris individuellement. Les associations du niveau européen constituent le point de lien entre les confédérations comprenant d'habitude des fédérations. Finalement, on peut observer que le bénéficiaire de l'accord ou de la mesure législative (l'employé) n'a aucun mandat pour pouvoir négocier avec les organisations européennes. Pour cette raison, la conclusion– que ETUC, UNICE, CEEP peuvent au moins être des organisations représentatives, mais pas pour la majorité des employés au niveau européen– est bien justifiée;

- le déficit de représentativité du travail et des associations d'entreprise au niveau national, à cause des quelques membres des deux parties. Il est évident que quels que soient les accords signés par des partenaires sociaux européens, ceux-ci sont valables seulement pour une partie des employés, à savoir ceux qui sont impliqués dans ce procès.

Concernant ces observations, la littérature de spécialité met en discussion le problème de la *représentativité des partenaires sociaux: la perspective de la Commission Européenne et du Tribunal de Première Instance* ont exprimé des certaines réticences vis-à-vis de la procédure législative en question.

Si l'on poursuit l'Accord sur les Politiques Sociales du 1992 et on se rapporte au droit de consultation pour les partenaires sociaux, on va constater qu'en décembre 1993, la Commission a établi trois critères de sélection pour pouvoir faire partie de la catégorie des «partenaires sociaux»¹⁷⁹. En plus, la Commission a souligné le fait que les critères de sélection sont applicables seulement dans le cas des consultations des partenaires sociaux, car on leur applique le principe de la reconnaissance s'ils se décident d'entamer des négociations en vue de conclure un accord. Ensuite, la Commission a rédigé une liste avec les organisations, attachée à la même communication, liste qui est réactualisée presque chaque année.¹⁸⁰

Cette formulation a conduit à des critiques considérables à cause des critères de sélection, des critères qui n'avaient rien à voir avec une «réelle» représentativité. Comme résultat, le Parlement Européen a conseillé de faire réviser les critères de représentation, en suggérant que les organisations devraient recevoir un mandat réel de la part des membres, afin de pouvoir agir comme des actants représentatifs dans la procédure du dialogue social¹⁸¹. Même jusqu'à présent de telles modifications n'ont pas été entreprises.

¹⁷⁸ Sujet prévu dans l'article 5 de la Convention ILO n° 87, du 9 juillet 1948, où l'on précise que « les organisations de travailleurs et management ont le droit d'établir et devenir membres des fédérations et confédérations; toute organisation, fédération ou confédération a le droit de devenir membre d'une organisation internationale d'employés ou employeurs ».

¹⁷⁹ Communication de la part de la Commission en ce qui concerne la Mise en pratique de l'Accord sur les Politiques Sociales [COM (93)600 final].

¹⁸⁰ Report on the representativeness of European social partner organizations, European Commission, Brussels, September, 1999.

¹⁸¹ La Proposition du Parlement Européen a été signalée dans la Communication de la Commission Européenne, The Future of Social Dialogue at European level [COM (93)448 final].

Les partenaires sociaux participant aux négociations des accords qui ont mené à l'implémentation des Directives du Conseil ont été ETUC, UNICE et CEEP, pendant que d'autres organisations n'ont pas été admises dans la liste de la Commission pour des négociations. À cause de cela, l'entier système a été saisi au Tribunal de la Première Instance.

Le Tribunal a affirmé qu'une organisation privée ne peut invoquer devant les institutions communautaires aucun droit de participation aux négociations pour arriver à un accord, parce que cela est une «affaire exclusive» réservée aux partenaires sociaux. Quand même, le droit de recours devant l'Instance, pour raison d'exclusion, est admissible seulement si l'on démontre qu'il y a une «représentation insuffisante» des partenaires sociaux. Le concept de «représentativité cumulative suffisante» est présenté par le Tribunal, en faisant référence à la représentativité des toutes les parties signataires, prises ensemble, en respectant le contenu de l'accord¹⁸².

3. Conclusions

Le moment où les partenaires sociaux demandent l'implémentation législative d'un accord, la Commission «après avoir résumé le contrôle de la procédure» a le devoir «d'examiner la représentativité des signataires de l'accord en question».

Malgré cela, la résolution du Tribunal de Première Instance n'a pas clarifié les incertitudes pertinentes concernant encore le «dogme» de la représentativité.

Le paradigme d'accepter le fonctionnement de la représentation des intérêts dans les politiques débattues constitue la principale caractéristique du système corporatiste. Tandis que le lobby est perçu comme un mécanisme des articulations d'intérêts dans un système basé sur une compétition ouverte, du point de vue corporatiste, l'insertion de la participation à la décision publique en étant réalisée à travers un petit nombre d'intérêts des associations.

On considère avec justesse que, jusqu'à une certaine extension, l'incorporation des intérêts, représentés par les organisations de travail, sont familières aux traditions des certains Etats membres où les modèles corporatistes ont été pleinement implémentés dans les années 1970. Quand même, la redécouverte—au niveau macro ou triparti—de la concentration au niveau national des dernières années, a déterminé le relancement des théories corporatistes et l'apparition aussi d'une littérature concernant ce phénomène.

Pour le futur de l'Union Européenne, la réalité de l'existence de 27 Etats membres a exigé une solution pour la réforme de l'Union, et le Traité de Lisbonne pourrait être le médicament pour une Union qui tend à s'étouffer à cause de son propre succès, mais, pour l'instant, il est trop vite d'attribuer au nouveau traité des mérites qui pourront être observés au long du temps.

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¹⁸² En ce cas spécifique, la Directive concernant l'abandon parental, étant «un accord-cadre général», a été réalisée pour couvrir des différents employés, et en conséquence, «la représentativité générale» des organisations industrielles a été considérée par la Cour comme suffisante pour accomplir la demande mentionnée.

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THE WESTERN BALKANS - THE WAY TOWARDS THE ADHERENCE TO THE EUROPEAN UNION

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Through this essay we will try to analyze the situation of Western Balkan, comparative aspects of macroeconomic indicator and the possibility for the adherence to the European Union.

Keywords: Western Balkans, candidate states, potential candidates, adherence, crisis

Introduction

The Western Balkans have in their geographical structure seven states: Albania, Croatia, Serbia, Montenegro, Bosnia-Herzegovina and Kosovo - the youngest state of the world at this moment. The Western Balkans' History is sprinkled with repressions and massacres on behalf of different empires: there was also a civil war that affected this geographical region. As a result, the Balkan States can hardly live in peace and harmony, so a quick integration of them into N.A.T.O. and E.U. would change the Balkan States' mentalities in order to transform them into members with complete rights of those two associations. We will present the two sides of the situation: on one hand, we have the countries in the East and Central Europe, which accomplished in 2004 the conditions to adhere to the European Union - we have to specify here Romania and Bulgaria, which became members of the E.U. on January the 1st 2007; on the other hand, we have Croatia and Serbia, which had a higher level of livelihood than the other countries in the structure of the Western Balkans - these states ought to have become members of the E.U. in the same time as the other two states mentioned above, but Croatia and Serbia continued to fight one against the other, fact that also decreased their economy. These two last states have hardly become members of N.A.T.O. on April the 4th 2009, but they continue their attempts and reforms in order to become members of the European Union.

1.Candidate states

The candidate states for the European Union are: Croatia, Turkey and the Ex-Yugoslav Republic of Macedonia.

The opinions of the E.U. countries are divided concerning a new extension of E.U. for instance, Markel Angela, the German chancellor, proposes during the Meeting of the Ministries of Foreign Affairs at Prague (the headquarters of the Presidency of European Union in the year 2009) that EU should *press the stand-by button* referring to the extension of its limits. The source cited is an article published on September the 30th 2009, article in which the German chancellor also mentions that she believes only in the integration of Croatia in the near future and in the stoppage of the extension process. She also affirms that the Treaty at Lisbon should be ratified before E.U. being able to extend more its limits.

Contrary, the Swedish Ministry of Foreign Affairs (Sweden is the country which will assume the E.U. presidency on June 2009), Carl Bildt, warned that *the crush of the Balkan countries' aspirations to the adherence to E.U. will have devastating consequences* because the Balkans are contained in Europe, so this part of Europe should be also contained in E.U.

Croatia

In comparison with the situation of Turkey, Croatia is more favoured to become a member of E.U. because it is sustained by more states members of E.U. Croatia is also thought the only state which can adhere to E.U. in the year 2011. The last opponent to the adherence to E.U. of this country is Slovenia, state that continues a territorial dispute for many years with Croatia. As a result, N.A.T.O. and E.U. decided that both countries should adopt a *constructive* approach in order to solve this problem at least after the integration of Croatia into N.A.T.O. (April the 4th 2009).

The Ex- Yugoslav Republic of Macedonia (FYROM)

Macedonia has made progress lately regarding the reforms in the judicial system, has accomplished its obligations foreseen in A.S.A. and has progressed in its fight against corruption, in improving the reform of the public administration, in stimulating people to occupy a job and to distribute efficiently the manpower. This state continues to strengthen the multiethnic democracy by applying the rules taken to the Agreement at Ohrid, in 2001, when it was accepted the usage of Albanian language in those cities and countries in which the Albanian population predominates. As a consequence, in few Macedonian cities have been opened schools and universities having Albanian as official language and two Albanian parties are in coalition with the Macedonian Party that governs.

2. Potential candidates for the EU:

Albania

The European Commission President, Romano Prodi, declared at Tirana, that the negotiations for the accession of [Albania](#) to the [European Union](#) could begin in March 2002, but due to the political instability of the country the negotiations have been postponed. The internal crisis of the government Socialist Party had negative consequences on the discussions for the [Stabilization and Association Agreement](#). However, the Council has accepted the necessary directives to start the SAA negotiations in the Luxembourg Meeting in October 2002 and negotiations were officially opened in on January 31, 2003.

On April 1st, 2009 the 27 EU Member States have ratified the Stabilization and Association Agreement for Albania, a huge step for the country in her mission for reform and accession to EU, but the official application submitted on 28 April 2009 in Hague was considered to be anticipated.

What were the reasons to consider Albania's application anticipated?

- First of all, Europe was facing the parliamentary elections.
- The global economical crisis was a recent challenge in every country

After Romania and Bulgaria had adhered in 2007 without fulfilling all the conditions needed, the European Union was not ready for another EU enlargement. The Lisbon Agreement was in session representing another reason for the postponement.

In a November report the Commission concluded that Albania needs to make progress in terms of state administration and courts, but also as in terms of organized crime and corruption.

In conclusion, the elections are expected to bring changes in politicians' mentality, in order to turn Albania into a powerful democracy and to enhance the chances to become a member of the EU.

Montenegro

In 2006, through a national referendum, Montenegro proclaimed its independence towards Serbia. In order to be seen as a serious candidate for accession the country must continue to

reform its judiciary sector, the weaknesses in this field representing a strong reason for Germany to come out against its application.

It is noticeable the weariness of the European Parliament members regarding a new wave of enlargement so these Western Balkans states have to work hard in the direction of their acceptance in the EU, their future depending on their return to Europe.

Bosnia-Herzegovina

Bosnia-Herzegovina must reach a necessary political consensus and to continue its reforms, while Kosovo, the newest state in the Western Balkans, which finds itself in the main stages of integration in the EU, has been accepted as a FMN Member State in April 2009, and after 2 months as a member of the World Bank. Kosovo cannot be accepted as a member of the European Bank because its independence is not yet recognized by 4 EU Member States, as Serbia's acceptance is blocked by the Netherlands and who must cooperate with the International Criminal Court for the handing over of the war criminal Ratko Mladić and at the same time must recognize the independence of Kosovo.

3.Comparative aspects of GDP and GDP per capita for the Western Balkans countries.

States		1999	2003	2006	2008	2009
Albania	GDP in US\$	2199 (95)	3146 (99)	7145 (04)	8532 (05)	9273 (06)
	GDP/capita in US\$	670 (95)	930 (99)	1918 (04)	2899 (06)	3354 (07)
Croatia	GDP in US\$	15508 (95)	20222 (99)	31343 (04)	36230 (05)	41542 (06)
	GDP/capita in US\$	3250 (95)	4530 (99)	5440 (04)	9558 (06)	11576 (07)
Macedonia	GDP in US\$	1813 (95)	3348 (99)	4672 (03)	5711 (05)	6214 (06)
	GDP/capita in US\$	860 (95)	1660 (99)	2248 (04)	3059 (06)	3659 (07)
Serbia	GDP in US\$	15910 (95)	13742 (98)	20492 (03)	25747 (05)	31594 (06)
	GDP/capita in US\$	1510 (95)	1289 (98)	2626 (04)	4220 (06)	5596 (07)
B&H	GDP in US\$	5900 (92)	4706 (99)	8446 (04)	9568 (05)	12815 (06)
	GDP/capita in US\$	1500 (92)	1210 (99)	1883 (04)	2533 (06)	3712 (07)
Montenegro	GDP in US\$	–	–	–	2042 (05)	2462 (06)
	GDP/capita in US\$	–	–	–	3310 (05)	3745 (06)
Kosovo	GDP in US\$	–	–	–	–	–
	GDP/capita in US\$	–	–	–	–	–
Slovenia	GDP in US\$	16328 (95)	19862 (99)	27671 (03)	34146 (05)	36715 (06)

	GDP/capita in US\$	8200 (05)	10000 (99)	15214 (03)	18610 (06)	22933 (07)
Romania	GDP in US\$	33488 (95)	33034 (99)	59694 (03)	97660 (05)	118370 (06)
	GDP/capita in US\$	1480 (95)	1470 (99)	2535 (04)	5633 (06)	7697 (07)
Bulgaria	GDP in US\$	11225 (95)	11572 (99)	23142 (04)	26960 (05)	31469 (06)
	GDP/capita in US\$	1330 (95)	1410 (99)	2347 (04)	3995 (06)	5186 (07)

Source: Istituto Geografico De Agostini Novara, *CALENDARIO ATLANTE DE AGOSTINI*, 1999, 2003, 2006, 2008, 2009

Taking into account the macroeconomic indicators, the GDP and the GDP per capita in the table No 1 we see an economic backwardness of the Western Balkans countries due to the wars and conflicts between them compared with 2 states of Eastern and Central Europe. An example could be Slovenia a country with a homogeneous population of 1.9 million inhabitants situated in Central Europe between the Alps of Austria and Italy. The wars held in 1991 against Bosnia Herzegovina brought her and its neighbours besides bombs and death, economic destruction. Due to the war, the GDP was lower compared to the one of Romania, but the GDP per capita was higher and the incomes were bigger compared with Romania and Bulgaria.

Analyzing the period 1999-2006 an increase of both macroeconomic indicators can be noticed. That's one of the main reasons why Slovenia and 9 other countries in the Eastern and Central Europe applied to join the EU.

On January 1st, 2007 both Romania and Bulgaria became Members of the European Union. Romania compared to Bulgaria is better situated economically speaking with a higher GDP indicator, but the difference in the case of the GDP per capita is remarkably smaller. The situation is highly different for Croatia, who, after the amnesty between Croatia and Bosnia and Herzegovina settled in 1995 at the Conference in Dejton, registers an important increase of the GDP per capita indicator compared to Romania. This represented a certain proof that, after the death of President Tudjman, Croatia began to meet the necessary conditions to join the EU, conditions that brought her the accession to NATO on April 4, 2009.

Romania in comparison with Serbia is better situated for both indicators: GDP and GDP per capita. The situation can be explained by the fact that after the war between Croatia and Bosnia Herzegovina, Serbia continued a policy based on violence and pressure against the Albanian population in Kosovo. That was also the reason why Serbia was not accepted in NATO and did not sign an MSA. In addition Serbia is not ready yet to satisfy one of the main conditions: to recognize Kosovo's independence.

Comparing 3 more regressed economically speaking states from the Western Balkans Albania, Macedonia and Bosnia Herzegovina, it can be noticed that regarding their GDP's Albania is superior to Macedonia and inferior to Bosnia Herzegovina and in the case of its GDP per capita Albania is inferior to both countries above mentioned. Macedonia's GDP is higher than the one of Bosnia Herzegovina their GDP's per capita being approximately at the same level.

Albania after the political disaster of 1997 registered small successes in its way to become a European Union member: its economic indicators have increased after 2005, the country became politically stable, reforms have been undertaken since 2006, the elections were free and their result was accepted by the EU, the SAA was signed and ratified on the 1st of April 2009 by the 27 EU Member States and on April 4 the country joined NATO along with Croatia. These successes were regarded as challenges but also as opportunities to accede to EU and determined the country to continue to fulfill the Copenhagen criteria, as its only chance to join the European family. The

“Adriatic 3” Charter (between Albania, Croatia and Macedonia) settled the candidature of these 3 countries for NATO, but Greece with its veto-right solicited that the name of the Macedonia Republic be changed. Nikola Gruevski, prime-minister of Macedonia turned down the request without reaching to a consensus with Greece, resulting to the rejection of Macedonia’s application to join NATO and the country’s inability to participate to the “Bucharest Summit” in 2008. But “NATO’s doors remain open for Macedonia” as stated by George Bush, Former-President of USA.

4. Do you think that Albania is crossing a crisis period?

Do you think that Albania is crossing a crisis period?

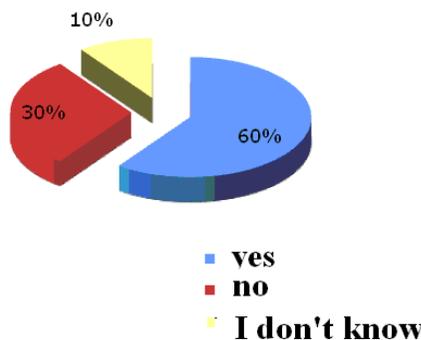


Chart no.1. Do you think that Albania is crossing a crisis period?

As we see from *Chart no.1*. 60% of those questioned believe that Albania is crossing a crisis period; some claimed that it’s been in a crisis for over 10 years, others for over 19 years, some said that the crisis is felt in every sector of life, others stated that the country is in a crisis because the crisis is a global phenomenon now, even in EU, a crisis characterised by the prices increase without increasing the wages, low purchasing and low national currency power. They expressed the hope that a good politic of government and the reforms are the solutions to surpass the crisis period.

30% of respondents said that Albania is not crossing a crisis period because it registers the highest economic growth in the region, and as Albania is mostly agrarian it is not affected by the global crisis.

Only 10% believe that Albania is partly confronting a crisis because it is a country without scholarship and it doesn’t register a great economic development, that the crisis is not felt as much as it is felt in other countries. Other persons claimed that Albania is crossing a crisis period but is fighting against it and that overcrossing the crisis or not depends in Albania on the moment and on the July free elections.

Conclusions

In conclusion, as stated by the Former-President of the European Commission, Jaques Delors “EU Members need time, family spirit, mutual understanding of the others’ traditions and psychology, in order to consolidate the Union”.

The extension towards the Western Balkans countries serves the interest of the EU, otherwise not being possible to maintain the peace, the stability and the security and to prevent the conflicts in the area. The non-acceptance of these countries in the EU would have global consequences, because if one's looking back in history can notice that the Balkans conflicts and wars brought economic crisis, loss of human lifes, damage and higher costs to rebuild those countries.

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**SUB-SECTION: EU SUSTAINABLE ECONOMIC DEVELOPMENT AND
COMPETITIVENESS**

INNOVATION – THE CORNERSTONE OF ECONOMIC SUCCESS AT EUROPEAN LEVEL

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In a world that is in a permanent change, in which the interdependencies between the states are more and more obvious and the rivalry and the inequalities between the nations deepen, one of the main objectives of the actual era wishes to be the growth of the competitiveness and innovation degree at a microeconomic level and at a regional and international level. The innovation process means the conversion of new knowledge into economic and social benefits, as a result of some complex interactions between numerous actors in a system that is formed of an environment (local, regional and national) that has productive firms, research institutes, and networks through which all these come into contact.

Keywords: region, innovation, rivalry, methodology, diagnosis, evaluation.

JEL classification: A,F,G, H,R

1. Globalisation – a game with a positive sum?

The globalisation of the economies accentuated the rivalry between territories, states and regions. The geo-economical shiftings recorded in the last years, the delocalisation and relocalisation of the activities can be found in a redistribution of the economic actors on the rivalry scene and even more, in a deepening of the differences between the rich and the poor states. The world leaders as the USA and Japan have to face a strong rivalry in the innovation field from states that a few decades ago were used as cheap work force. The technology transfer from the rich countries to such countries represented eventually the launching stone to the new world that seem to appear. If in 1990 the production of high technology of China was less than 10% of the production of the USA, in 2000 it comes to about half it.

Some authors believe that the great world platforms of innovation must adapt really quickly and they must discover new breaches in order to fight the new big demographic powers – China, India or Brazil – that have the potential to develop in all the fields. The particular character of the economical growth without precedent of some countries as China or India make that on the medium term to see changes in the international environment and the developed countries as the USA and numerous European countries to be threatened by the Asian tigers. The importance of the “reserve troops” that is the human resource, respectively the hundreds of millions of Chinese and Indians that are capable to adapt to change and to reach a high degree of education is obvious. The rise of the efficacy in the two states and the orientation towards technological innovation generates advantages that can be compared and emphasized by the Ricardian theory in the fight of the entities for supremacy.

Starting from this reasons the European states consider it to be crucial the problem that refers to the definition and the putting into practice of a effective collective strategies, that limits these shiftings and that will support Europe in improving its position on the world market in this field. Economic rivalry represents today the base of a “permanent war of the shiftings” and no leader position can be considered sure and durable. Today’s winners can become tomorrow’s losers. Innovation is considered to be the key to prosperity for the enterprises and the geographical territories.

2. Stimulating creativity and innovation at European level

The new tendencies at world level aim at the involvement in a big measure of the scientific potential in all the productive fields. In this context the Operational Programms 2007-2013 regarding the Structural European Funds have as a priority the innovation's development according to the Lisbon Strategy. These represent a special opportunity that aims to stimulate technological and non-technological innovation in enterprises and the territorial diagnosis analysis have the role to determine the regional potential of innovation, the way and the importance of the public financing, national and communitary, that one has as his disposal. In one of her speeches Danuta Hubner, the European Commissary for the Problems of Regional Policy, said that regional strategies must favour the investements in the field of the research and techonological development, of innovation, of the human capital and of the entrepreneurial spirit and to analyse the extent to which these investments answer to the specific needs of economical development of each region.

The communitary strategic orientations that the European Council adopted in October 2006 regarding the innovation and the research offers to the cohesion policy a double role: on the one hand it has to support the regions in the putting into practice of the action plans and of the regional innovation strategies that aim at the growth of the rivalry of the invoolved entities and of the European Union, as a whole. On the other hand it has to contribute at the growth of the capacity of scientific research and innovation in the region up to a level that will allow the participation to the transnational projects of research.

The international studies have shown that the density and the vitality of the local networks of knowledge contribute in a significant manner to the dynamism and the competitiveness of the enterprises and that they give an essential role to the local policies and especially to the regional ones of economical development. From the research made the author of the present paper noticed that the regional authorities, especially the ones from Romania, need a very sophisticated and permanent diagnosis of the mechanisms that set into motion the "regional innovation machine" with the purpose to focus the efforts on the incontestable priorities that create richness. The durable development through innovation is based on the intensification of the regional activity for the business environement, through the attraction of talents and the development of the access to knowledge and opportunities. More attention should be given to the regional keeping and improving the human capital, to promoting the cooperation between companies, to the facilitation of the harmonization of knowledge with the international market and to supporting the obtaining of the intellectual property rights. For the stimulation of the rivalry of the economical regional system one will have in mind the diminishing of the significant technological difference by facilitating the acquisition of equipment, technology and services. Regarding the educational system we have in mind the development of doctorate and post-doctorate programms made in association with the business environement.

The regions are often the managers of some global subventions made in the regional rivalry and the occupation of the work force programms. In this context, the European Comission emphasises the fact that during the 2007-2013 programms the made diagnosis should focus on the strong and weak points of the teritories from the point of view of innovation so that the consolidation of an effective innovation strategy is reached, a strategy that is pertinent in connection to the European stakes.

The scientific approach that is intended towards the making of an informatic model of evaluating the innovation degree at a regional level wants to give for the regional managers and to the research and education specialists a robust methodology of teritorial diagnosis and of innovative management.

A recent study made at European level show that Europe started to catch up with difference that separates it from its main rivals, USA and Japan, at performance level into the innovation field. The first place goes to Switzerland, followed by Sweden, Finland, Germany, Denmark and The

United Kingdom. All these six countries are situated better than other European states and than the UE, as a whole. We must notice that the new states that became members recorded the biggest success, especially Cyprus, Romania and Bulgaria, although their performances are below the European average. The tendencies are emphasised by the dashboard of European innovation for 2008. In the 8th edition of the report published by the European Innovation Scoreboard, that appeared in January 2009, made by Maastricht Economic and Social Research and Training Centre on Innovation and Technology, was measured the performance of the states that are members of the European Union under the innovation aspect. According to this publication, the differences of performance in innovation divide the UE countries into 4 groups:

- *Group 1.* Switzerland, Sweden, Finland, Germany, Denmark and The United Kingdom – the leaders when it comes to innovation, with performances that are high above the UE average;
- *Group 2.* Austria, Ireland, Luxembourg, Belgium, France that are on the second place, with performances that are above the average of the UE;
- *Group 3.* Cyprus, Iceland, Estonia, Slovenia, Czech Republic, Norway, Spain, Portugal, Greece, Italy, that are considered to be moderate innovators, with performances regarding the innovation under the UE average;
- *Group 4.* Malta, Hungary, Slovakia, Poland, Lithuania, Croatia, Romania, Latvia, Bulgaria, Turkey are the countries that are about to make up the differences, with performances regarding the innovation that are very low in connection to the UE average. Bulgaria and Romania are the countries that have the fastest rhythm of improving their performances.

Created on the data that existed before the start of the economic crisis the study uses 29 indicators for evaluating the level of innovation of a country. Innovation is considered to be the main factor for the stimulation of the the economical growth and the main way in which we can prevent some risks – for example the changes of the climate. Among the indicators we can find the popularity of the scientific and technical studies made by the universities, the number of patents, the rising of the funds given to the research, the availability of the risk capital for the new companies and the share that the exports of high technology have. The situation from the UE has evolved a lot in the past 5 years. Although it is still behind the USA and Japan, the differences tend to diminish from year to year. It is also situated pretty well compared to the emergent economies as China, India and Brazil. Yes it also has weak points. UE is behind the USA especially in the field of investments, and it is behind Japan regarding innovation in research-development and the information technology. In the same measure the companies from the UE spend less on non-technological innovations, as professional training, design and marketing, although they are essential elements for maintaining the competitiveness. The study was published in the same time with a report regarding the UE's performances in research-development and of the efforts to create an European research space. It indicates the fact that the number of the researchers from Europe is increasing and that the UE becomes more and more attractive for foreign researchers and for private American investments in this field. The study also shows that the funds given to the research-development stayed at 1,84% of the PIB, less than the objective of 3% that was established in the UE. The objective of 2009 is to promote creativity and innovation capacity. This aspect is in accordance with the Communication of the Commission "A comprehensive strategy regarding the innovation in the UE" that says that "without education as a central policy, innovation will stand alone. It has to promote talent and creativity from the beginning." The European Year of Creativity and Innovation has as its main target the awareness of the importance of creativity and innovation for the personal, social and economical development; the spreading of the best practices to stimulate education and research. Creativity and innovation contribute to the economical prosperity and to the individual and social welfare.

3. The contribution of the Economic-financial Analysis to the making of models of determination of the innovation degree

Promoting the stipulations of the Lisbon Strategy, Romanian education, as we know it today, is going through a stage of transformation, that is oriented towards the society that is based on knowledge and innovation. 2007 represented the beginning of the efforts of orientating the national policy towards the development of knowledge on durable criteria, in close connection with the European objectives for this matter. The triade education – research – business environment has become the corollary of the professional formation of the European citizen. In this context the Romanian institutions – public, private or business environments – build their development strategies on the performance and competitiveness criteria. More than before innovation is the supreme condition in establishing the comparative advantage on a global level. One can notice that Romania started this approach from an underprivileged position. Although the efforts are obvious, under an institutional aspect and under financial aspect as well, as the last statistic data show, from the point of view of innovation Romania is situated (European Innovation Scoreboard) among the last three states members of the UE. Compared to the developed countries, Romanian economic agents are still putting the research-innovation chapter on the last place when it comes to giving money. If in the developed countries the noncorporate credits have important values in the total of the given resources, in Romania the focus is placed on the productive-material aspect. Because the evaluation of the innovation degree at the economical agents level was not a real issue up to now, being a new field, in the last three years efforts have been made to identify and select the measurement indicators. At a regional and national level the demand is higher, because the diagnosis of the innovation degree is made through the centralization of the data from the territories.

Integrative part in this determination process, on scientific criteria of the contribution brought to the Romanian people at the development of the society based on knowledge, is the scientific activity of the Economico-financial Analysis Department. In the last years, the majority of the department's members are included into the National Plan for Research, Development and Innovation – PN II through two projects, from Programme 4 – Partnerships in priority filed:

- INNOINDEX – informatic model and programme to determine the innovation degree of the IMM – term 2007-2010;
- INNOREG – Informatic programme and model to determine the innovation degree at the development regions – term 2008-2011

The author of the present paper is ASE principal in the second partnership project “Informatic model and programme to determine the innovation degree at the level of the development regions” (The Academy of Economical Studies is one of the eight partners), the coordinator being IRECSO. The role of the Economico-financial Analysis in the evaluation of the innovation degree is decisive because:

- any indicator of measuring the innovation must be interpreted and understood under the aspect of content;
- the evaluation of the results at IMM level or region is made by interpretations on the comparisons in time or space.

In the diagnosis analysis of the innovation degree are identified through a multitude of methods that can be applied, but selection imposes scientific argumentation; in the determination of a refined model of evaluation of the innovation degree, the role of the analyst is as important as the role of the statistician, because, in theory, the model will be established on the base of identification of a score function; it results that from the total of the researched indicators only a small number will be taken into account, according to relevance. The final interpretation of the results of the research will be made with the help of the financial analyst.

The regional, national and international diagnosis analysis means the identification of the strong and weak points of the innovation process, it has to be methodical and to exceed the mere enumeration of the general statistical elements (staff, added value, investments, research expenses,

number of patents) or of the list of universities, research centres, incubators, without being accompanied by commentaries that are argued or scientifically based.

The conclusions that were drawn after the analysis of an area must be completed by the diagnosis of the global stakes that are characteristic of the region, through an examination of the microeconomic dynamism of the innovation systems actors, by the appreciation of their capacity to generate knowledge and to transform them into new products or services, or in “business models” (innovative), by evaluating the access to capital.

The representatives of the scientific world believe that in the modern economy the traditional advantages represented by the natural resources or by the geographical position are not the only solution for diminishing costs. The key factors of prosperity can also be the access to knowledge, talent and creativity. Innovation is a multiform process with multiple causes, as J. Schumpeter described it in his studies regarding the approach of the new combinations of production factors and their role in the economical evolution.

Innovation means, in the opinion of OCDE, the introduction on the market of a new product (thing or service) or that is changed under the aspect of its fundamental characteristics, of technical, logistic, material or immaterial nature, that can respond to the destination it was made for. Starting from this concept one can say that innovation is not a simple and obvious process and that it means the conjoined efforts of some persons, teams, institutions, that often are not in the same location. Innovation is first of all a business of the entrepreneurs, but the big organisations, the regional environment that stimulates creativity, research and innovation has a central part in creating wealth for the a nation. The regions and the vitality of the ecosystems play a determinant role in creating new value. The possibility to come into direct, informal and repeated contact with an important number of “producers of knowledge”, researchers, university professors, financial agencies allow each firm to benefit from a positive “externality”.

The most used referene today is that of the **regional innovation systems**, that are in the opinion of the specialists, a method to describe an ensemble of actors and institutions for which mutual relationships are decisive for the good functioning of the ensemble. Such a system allows the optimization of the transfers of competences and the collaboration among different actors of regional development.

The diagnosis analysis in the field of innovation at a regional level has to have three main components:

- the analysis of the global components based on the indicators of economic activity and of the innovation potential;
- the analysis of the actors and of the networks of the regional system of innovation;
- the description of the functioning of the government process of innovation and of determining the strategic priorities.
- From the studied bibliography, we can draw some conclusions regarding the position of the innovation in a strategic plan:
 - Innovation is a challenge and a reality of the contemporary world.
 - Most of the developed countries invest in innovation in the last years under all its forms.
 - There is not a unique methodology of diagnosis analysis at regional level.
 - The indicators of the evaluation of the degree of innovation are numerous and they are approached slightly different from one country to another.
 - The innovation degree is more important at the level of the activity clusters.
 - The role of the regional and research institutions is significant in developing innovation.
 - The analysis of the innovation degree is insignificant if we do not compare it with other regions.
 - The degree of innovation means an indistructable relationship between state-industry – science.
 - The qualitative analysis has an essential role in researching the studied phenomenon.

- The migration of the Romanian workforce towards Occident affects on medium and long term the performances of the country.
- Innovation determines the rise of the work productivity and the emergence of new professions, but it can diminish the degree of occupation in the fields with the highest degree of innovation.
- A negative natural output affect a people's creativity.
- The constant training and formation of the employees can be found in the rise of the innovation degree.

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THE DIAGNOSIS ANALYSIS OF REGIONAL INNOVATION - APPROACHES AND OPINION

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The communitary strategic orientations that the European institutions promoted since October 2006 have at their base the fact that research and innovation have a direct contribution at the prosperity and the welfare of the individual and of the community. The main objective of the research and technological development policy promoted by the European Union is that in the following years this regional group to become the most competitive economy based on knowledge in the world. The studies have shown that the density of the local networks of knowledge and their degree of involvement in the making of a plus of wealth in the region could have a decisive contribution at the dynamism and the competitiveness of the enterprises, of the business environment, in general.

Keywords: region, innovation, strategy, methodology, diagnosis, analysis.

JEL classification: A, F,G, H, R

The promotion of the innovation policy at a regional level imposes a permanent diagnosis of the mechanisms of carrying out the system of regional innovation in such a manner that the efforts are focused on the incontestable priorities, that are the makers of added value and that we should give up the effort to decypher the meaningless details that lead to no future effects.

In the European programmes of rising the competitiveness at a regional level and of occupying the work force the regions are often the managers of a global subvention for whose use the European Commission recommends the making of diagnoses that emphasises the strong and the weak points of the territories through the perspective of the innovation so that the consolidation of some effective innovative strategies is reached in connection to the European stakes.

Romanian projects regarding the regional innovation through the scientific approach that they have in mind try to give the local managers and to the specialists from research, education, a robust methodology of territorial diagnosis and the instruments necessary for steering and innovative management.

1. The systemic approach, creative concept of innovation

In literature it is shown that *knowledge networks* represent a collective factor of economic performance and one of the most important axes of the modern politics of innovation. The notion of “society based on knowledge” has become in the last years a concept that is common to all the states that are members of the European Union. Each economic agent, manager, researcher or employee comes into contact with numerous entities in the sphere of his own unit or in other units that are situated in the same geographical area or in other regions/ countries. From the experience of the developed countries it was noticed that the efficacy and the productivity of each economic agent depends largely on the number and intensity of these connections that become more efficient when the geographical proximity is higher; because of this one of the main objectives of the European communitary politics is the development of innovation at a regional level. Frequently, the utility and the clarity of the scientific information is lost when their transmission is not made directly, through dialog, but by using informatic techniques of communication, because either the message or its content is altered. For this reason, in the making and following the putting into practice of some innovative projects the meetings “face to

face” are preferred. Innovation is an interactive process. For this purpose, the production of knowledge is necessary, but not sufficient for innovation, it creates potential that has meaning only if it exists as final demand. The production of knowledge must be capitalized through the constant interaction between producers, entrepreneurs, users or intermediaries of knowledge and the public institutions.

The fundamental role of knowledge when we talk about societies, institutions of higher education and research can be described through the image of “triple helix” (science – industry, industry – state, state – science) that is perceived as being the DNA of the economic tissue and of innovation. According to the circumstances, the universities, the industries and the public organisms can play different roles in the innovation process, around the three great actors, science – state – industry, gravitates a large variety of institutional networks. The collective decisions are the result of the complex institutional arrangements between local and national partners, in which the public collectivities play a dominant influence.

A frequent phenomenon that we can find in the modern democracies is the plurality of actors in making the politics of regional innovation. Many times they are situated on rival positions. This is why a correct institutional government of the innovation process means the creation of an equilibrium between the autonomy, cooperation and rivalry of the actors involved. In order to assure the development on the long run of the economical regions, the institutional government has to set the “rules of the game” in the so-called institutional “coopetition” (cooperation-competition); one must make the difference between the subjects that are the object of codecisions and that mean the coordination in activity, and the ones that assure the territorial dynamic through a form of rival politics. The rules of the game indicate the directions on which one can act as to obtain the maximum of effect. French literature and the literature of other European states recommends a demarcation of the action fields of the regional actors as it follows:

- Common fields: diagnosis, vision, the big axis of politics, the management of difficult priorities;
- Coordinated fields: financial and fiscal aid, incubators, the public scientific parks, the transfer organisms of technology that is financed by public fundings;
- Rival fields: the duties of the factories, the counseling in innovation and technique, the financing of the factories, the private incubators, and other actions that have effects through private efforts.

The defining of the regional policies of innovation means the deep knowing of how the regional economy works and the economical evaluation of the existing public strategies.

2. Regional systems of innovation, strategic diagnostic field

The role of the diagnostic analysis at a regional level is to identify the strong and weak points that are specific to the innovation process; it has to be methodical and to go beyond the mere enumeration of the statistical general elements (research staff, added value, investments, research expenses, number of patents) or of the list of universities, research centres, incubators, without being accompanied by argumented and scientific based commentaries.

The conclusions drawn from the analysis of a region must be completed by the diagnosis of the global stakes that are specific to the region, through the examination of the microeconomic dynamism of the actors of the innovation systems, by the appreciation of their capacity to generate knowledge and to turn it into new products and services or in “business models” (innovative) through the evaluation of the acces to capital.

The diagnosis analysis in the field of innovation at regional level is a must and it has to have three main dimensions:

- The analysis of the global components based on the indicators of economic activity and of the innovation potential;

- The analysis of the actors and of the networks of the regional system of innovation;
- The description of the functioning of the innovation government process and of the establishing the strategic priorities.

The deep description of the importance and of the dynamics of the main groups of activities allows the positioning of the specialization of the region as a strong or weak point and the making of the strategic activity clusters on which studies will be made afterwards and action programs will be implemented. The diagnosis analysis will aim at the “macroeconomic” elements of the regional system of innovation, that will be classified in the following categories: general indicators of the economic activity, human resources, financial resources, data about the innovation environment, “innovation” outputs, the dynamics of innovation.

The diagnosis is the systematic analysis of the regional activity, under different aspects, through the identification of the main indicators that can offer information about the degree of innovation of the region and by the making of comparisons between regions or the European environments, of other countries etc. The diagnosis analysis imposes the putting into practice of an ensemble of quantitative and qualitative methods among which a high degree of use will have:

- Statistical methods: indices, concentration coefficient Gini, growth rates, specific weight, medium rhythms etc;
- The score functions;-
- The evaluation ratings;
- Profiles technique;
- Decomposing, grouping and comparing;
- Swot analysis;
- Pareto method;
- Questionaries and surveys.

As general lines the diagnosis means the going through the following stages:

- the identification of the purpose of the innovation analysis at a regional level;
- the determination of the influence factors, of the chance relations between these and of the methods – quantitative and qualitative – that can be applied;
- the analysis of the results and their interpretation according to region;
- proposing an action plan at a regional level;
- establishing the regional innovation strategy.
- presenting an informatic model about the evaluation of the innovation degree at a regional level.

The diagnosis will end by emphasising the strong and weak points in a synthesis and the conclusions will lead to the making of innovation strategies of the region.

Comparison, as a qualitative method of diagnosis analysis, is best to be made by connecting the results of the region with the data of other regions and European countries. No indicator has scientific value if it is not compared in time and/or in space.

The regions used as a comparison base in interpreting can be Romanian (them among themselves) because the purpose of this comparison is not to classify the regions, as European Innovation Scoreboard does, not to suggest to the region managers the reproduction of a model that is considered to be the best, but it only invites to reflection starting from the data presented. The major difficulty in analysing the innovation process on a national and regional level comes mainly from the limits of the statistic apparatus and from the fact that weft of the innovation is not really well localized and thus we do not have enough data for innovation.

European Innovation Scoreboard limited the analysis to a set of 7 indicators that describe the main characteristics of innovation in the European regions: the number of the staff hired in science and technology, the degree of participation to the continuous formation of the persons with ages between 25 and 64 years old, the share of the Research-Public Development (C-D) in the region PIB, the share of Research-Private Development in the region’s PIB, the existing jobs in the

manufacturing fields of low, medium and high technology (% of the total occupation), the existing jobs in the fields of high technology of services (% of the total occupation) and the number of patents at the million of inhabitants.

The present scientific paper wants to be a synthesis of the research made by the author with the occasion of the first stage of the project INNOREG – MODEL AND INFORMATIC PROGRAMME FOR THE DETERMINATION OF THE INNOVATION DEGREE AT THE LEVEL OF DEVELOPMENT REGIONS (INNOREG) – 2008-2011 (see explanations in the paper “Innovation – the cornerstone of the economic succes at an international and regional level”), in which the ASE partner had as a responsibility the study of the diagnostic analysis in the field of innovation at a regional level.

3. The selection of the indicators used in the diagnosis of the region

Although the attention of the authors in the project INNOREG is to identify an important number of indicators that can provide useful information regarding the degree of innovation in Romania – at a regional level – the experience of the European states that have tried the same procedure have shown that the analysis will limit itself only to a part of them, for reasons that have to do with the finality of the diagnosis, that has as a purpose the offering of a framework, common and simple, in an operational purpose, in the terms of public policies. The proposed elements that are a part of the diagnosis are available in general in the main informational sources (Eurostat, general indicators that are identified in every region).

The obtaining of information, that allows the making of the innovation indicators, faces an obstacle: the uncertain character of the innovation process. Tradition privileges the patents (in connection to their number and their quoting) on the one hand and the input of the research on the other hand (expenses for Research-Development, number of researchers, research staff) as being relevant landmarks in the evaluation of the innovation process. In the last years progress was recorded regarding the way of reviewing the inventions that are effectively marketed but their importance is still limited because the obtaining of information is very slow.

The problem that appears is that of determining the measure in which these differnt indicators are combined, can be substituted or are complementary. Many of the indicators that are specific to the innovation process are re-divided often in the fields of “high tech” manufacturing in the sense that each can be used as a “latent variable of the innovative performance”. The situation is in requital, much more complicated in other fields (“low tech” and services).

A study made by Autant-Bernard and N. Massard insists on 5 indicators of output that they apply on the departamental data in the case of France. The main information of output of the innovation are in their opinion: the total number of patents that have a projection in the department, the number of projections belonging to a factory that introduced innovation as a method etc.

The diagnosis of each region imposes the complementary analysis according to necessities, the research project that has to be elaborated only offers a common minimum frame of analysis and presentation, that is called to evolve in the same time with the amelioration of the statistical aparatus.

Innovation is a multiform phenomenon that can be analysed as a transformation process of the resources and that is in the same time the manifestation and the result of a certain dynamics. The French literature regarding this subject describes the different dimensions of innovation through an ensamble of components that can be analysed, each, through a set of indicators, that we enumerated above:

- General indicators of the economic activity performance: refers to the description, with the help of this subensamble of indicators of the demographic and economic global data of the region that appear more as a data base and as results of the innovation process.
- The structure of the economic activity: the structures of the activity are an “entrance” and a result; a strong orientation of the region towards “high tech” emphasises a positive

performance of innovation and in the same time a favourable factor of development of new productive capacities.

- Human resources of innovation: in all the studies on innovation and territories, the degree of preparation of the human resources is one of the most direct elements in the making of the innovation process.
- Financial resources of innovation is also an important factor in all its forms.
- Data regarding the environment – the innovation environment: cultural and technical capacity of dispersing the innovations into the economy is an essential dimension that can be appreciated today through the perspective of some partial and often fragile elements.
- “Output innovation”: the dynamic of the exits appears as a particular component of the regional system of innovation because the evolution of the ensemble can manifest itself under very different forms.

These subensembles create among them a system which means that each represents on the one hand the causality elements for other subensembles and on the other hand they are the results of other components. This synergy is known and from the diagnosis analysis made at a factory level where the same indicator can represent the cause and the effect of other economic phenomena. Mutual interactions are created that generate a favorable dynamics or on the contrary there is the risk that they lose the collective competitiveness. For example, the “innovation” performance and dynamic of the region depends equally on the human and financial resources; but at the level of international rivalry regarding the human talents/aptitudes and the financing, the growth of the resources is connected to the attractiveness of the region, thus to its performances. It is only one of the examples that shows that the economical structures are connected on the long term with other dimensions of the innovation system.

Each dimension is involved in diagnosis through an ensemble of statistics available: *diagnosis is strictly conditioned by the possibilities of the statistical apparatus*. In the majority of cases the relevancy of each of the indicators that reflect the component that we are talking about, respectively innovation, would become a debate topic vast and sterile; one must make a selection and a determination of the measure in which they are combined and they have a common result; the main goal is to apply the innovation’s components in an unitary manner for the region’s ensemble.

In certain situations we will mention statistics that will be available in a near future or that are in the making right now. For example, we are talking about the limited present possibilities of exploiting at a regional level the CIS inquests. The analysis made by this organism allow us to have precise information regarding the importance and the relevance of the innovation policy in factories. Up to now this inquest was not made through a perspective of making its results regional.

For each indicator it would be useful to make simultaneously of a:

- time analysis (for a longer period, taking into account the structural nature of the given phenomena) with the positioning of the region in connection to the medium tendency of the reference regions;
- space analysis, comparisons with similar national regions or to the European regions of reference; if it is possible the comparison will be made with at least one American state and a Canadian region. For Europe a list of regions is proposed; it refers to the regions Flandra, Basque Country, High Austria, Piemont and Midland Region from the United Kingdom.
- positionings of the researched ensemble in connection to the European regions.

The different categories of indicators proposed by the authors have as a main goal the facilitation of analysis through the framing of the results, as strong/ weak points of the region according to a very strict description (swot analysis). For each subensemble a type of synthesis will be made under the form of an appreciation of the potential of the region, that is rated on a quantitative scale,

from 1 to 5, mainly through comparisons with reference European regions; the interpretations will allow the emphasis of the possible and priority actions in connection to the findings made.

4. The analysis of the strategic priorities at the regional level

The methods used for the analysis of the strategic public options are very different. The strategic and budgetary decisions in general are the result of experience and inspiration of the specialist teams involved. A big importance in the making of the regional innovation strategy it has the demonstration of the share that the reasoning manner have regarding the quantitative methods. The speciality literature recommends to the public managers the specification of the personal criteria of selection and starting from this the manner in which they can build the “basic strategy”. After the processing of the information it is suggested to reflect upon the way of governing and of steering of the putting into practice of the innovation strategy in order to find viable amelioration ways. The notion of strategy, well-known in the military field, was taken and even imposed to the factories starting with the ‘70s in order to mark better the action way in an environment with rapid shiftings and that is dominated by uncertainties on all plans. The strategic approach meant the determination of the activities that “were considered to be the most interesting ones” for the enterprises.

The strategic vision imposes itself nowadays even in the public collectivities, states or regions that should identify the major stakes of the entity, the action course, the priority fields or the way in which public resources should be focused and how to identify the directions towards which it is necessary to accomplish the convergence of the local actors’ visions.

The central objective of the regional strategy is the economic development on the long term. Competitivity and the economic growth often appear as secondary compared to the objectives that are considered to be major for the region: the growth of the degree of occupation of the work force and the assurance of the social fairness. Innovation is perceived sometimes as being involved in the deepening of the social inequalities and as favouring a limited number of entrepreneurs and employees. International studies show the fact that at an international level there is a certain hesitation among the population regarding the growth of the economy as an effect of the innovation. Some authors think that innovation determines the growth of the technicalness degree and that it diminishes the role of the human work. A simple example shows that in the last decade only by the informatization of the German bank system the number of employees was reduced by 70%. In a similar manner other fields gave up their work force in favor of technology in order to cut down expenses. Other authors consider that innovation on the one hand diminishes the work demand in certain areas but it is also an important generator of new professions and jobs through the creation of new activity fields. The truth will be learned in time; at a global level poverty is still a devastating scourge.

5. The instruments of the regional politics of innovation and their efficacy

The innovation politics has as its disposal many instruments some of which we enumerate here:

- *Actions at the physical resources level:*
- Stimulating savings and investments as well as the actions that will determine the region’s attractivity for “external” investments.
- Attracting investements in education and research for:
 - infrastructure;
 - endowing the universities and the research organisms;
 - challenges for improving the quality of the research and of the university production.
- *Actions to develop the entrepreneurial dynamism:*
- Actions that tend to facilitate the innovative entrepreneurs and their judicial and fiscal environment that depends mainly on the state;
- Direct and indirect financial support.
- Supporting the creation and the growth of the innovative enterprises, owing to the infrastructure, as scientific parks, incubators or technopoles.
- *Actions regarding the interactions of knowledge between the economic actors:*

- Cells that will support the sign-off in the private universities or research center, to support the seed capital (amorçage) or of the risk capital.
- Supporting the dynamics of the innovation phenomena at the level of the economic “tissue”, especially through actions of counselling regarding the profit of the IMM, actions to stimulate the demand for knowledge, actions of transfer of knowledge after the institutionalization of the higher education.
- Supporting/ developing an ensemble of private intermediaries.
- Supporting the innovation poles policies (or of competitiveness) and of the “clusters”.
- *Actions of “policy intelligence”* what is the equivalent of actions conduct type for the improvement of the efficacy of the ways of putting into practice, at the level of defining the policies and at the level of their following.

There is a real debate regarding the economic efficacy of many of these instruments; the dominant conclusions are that public institutions that have the right to make a decision must ask themselves “what efficacy I expect from the instruments used?”, because it depends on the microeconomic circumstances and data: the selectivity and the identification process of the enterprises that support innovation, managing the competence and the efficient functioning of the knowledge infrastructures, and even the simple material realisation of the equipment in cause.

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REGIONAL ECONOMIC GROWTH THROUGH TOURISM. THE CASE OF REGION WEST

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The regional development should aim to correlate and integrate tourism among the other integrative parts of the regional and local development, taking into account the fact that a region's prosperity as effect of tourism development may be shown clearly in several stages: on the spot (as a result of direct consumption of the tourist product), on short term (through continuous absorption of the work-force and encouraging the welcoming commerce) and in the long run (concentrating capital for investment in the general infrastructure and the one of tourism, in structures of reception for tourism and in the development of urban services). The analysis of intra-regional disparities as part of the economic growth at the level of Region West starts off with the idea that each component county has a different landscape, which favored or inhibited their economic growth; in the same time, each component county has its own specific, which can be promoted through tourism, inducing in time a regional income, and respectively, a socio-economic and cultural growth of less developed areas.

Keywords: tourism, regional development, intra-regional disparities, economic growth

JEL code: R11

1. Tourism – fosterage instrument of regional development

The National Strategy for Regional Development, drawn up based on the Plan for Regional Development and the National Strategic Frame of Reference 2007 – 2013, has identified the development of tourism as a priority for development, given the existing potential for tourism in every one of the eight regions for development in Romania. This potential proves the financial backing offered to rehabilitate the infrastructure of areas aimed for tourism and to turn into account the natural, historic, and cultural patrimony, to include them in tours of tourism and promote them with the purpose of attracting tourists.

The development of tourism is in complete harmony with the Communitarian Strategic Orientation 2007-2013, as the putting into practice of this axis of priority shall contribute to the improvement in the regions' degree of attractiveness and to the creation of new workplaces. The investment in tourism and culture will allow the developing regions to make use of the advantages offered by their potential for tourism and their cultural patrimony and to identify and strengthen their own identity, in order to improve their competitive advantages in sectors with high added value and high cognitive and qualitative content, on both traditional and emerging markets.

As an integrative part of the national economy tourism excels its economic role directly, first through the contribution it has to create regional and national income and the acquiring of foreign currency, then through the positive effect it has upon the social-economic and cultural growth of certain areas in the country and upon the internal monetary flow, and indirectly by the influence it exerts upon other branches of the national economy. Considered an economic activity, tourism includes a various range of services, such as: informative services, the sale of travel, transport,

accommodation, treatment in spas, activities of entertainment and pleasure. Consequently, at the level imposed by its role and functions, tourism appears as a result of the concerted and combined effect of multiple branches. Some of these, for example construction, the industry of electric and thermal energy, engineering, the textile industry, agriculture, the food industry – are considered as supplying branches, and what they supply is involved either in the material base of tourism, or in the production offered by public food supply. Other branches, like transport, goods' circulation, communications, and culture compete independently in order to meet the needs of tourists. The large number of branches which are involved in catering tourism shows that the “product” of tourism can be of high quality only if all the elements involved in its creation, or are an integrative part of its structure, are as well of high quality.

2. The potential for tourism and possibilities of regional development of tourism in the Region West.

The Region West – one of the eight regions of development in Romania – has a remarkable potential for tourism given its extremely rich and various landscape (in the region there can be found every form of relief, from plains to mountains), the climate with oceanic or sub-meridional influences, a hydrographical network of great representation, a various background of forests and hunting, all of these making up very attractive destinations for tourism. The region also hosts especially attractive mountain sceneries, karst relief in the mountains, karst and glacial lakes, natural lakes of everglade, mineral and thermal springs, leaf-bearing forests and coniferous forests, a hunting background with various species, national parks and natural reservations, dendrological parks and many areas for skiing. The region disposes of archeological vestiges, of historical and art monuments, architectural ensembles, plastic art and memorial monuments, displayed on a vast area in both urban and rural living spaces. To these one should also add museums, the art collections and galleries, the popular architecture, the folk costumes and pottery, ethnographical museums, traditional folk events, festivals and artistic events; there should also be mentioned the technical industrial patrimony, including dams, lakes of accumulation, hydro-power stations, the museums of steam locomotives, furnaces of the Middle Age, various plants and industrial centers. The distribution concerning every constituent county would look as follows:

The county of Arad has an increased potential of developing, in the long run, the tourism for business and transit, due to its geographic location and also due to the numerous foreign investors present in the county. Then, a large number of natural, cultural, historic and ethnographic sightseeing spots offer the possibility of practicing other forms of tourism as well, for example – the ecological tourism or the tourism for pleasure, the tourism for culture and history, and the tourism for treatment and spas. Among the sightseeing spots we can mention the Hodos-Bodrog Monastery, the „Adormirea Maicii Domnului” Monastery in Bezdin, the „Sfanta Fecioara Maria” Monastery in Radna, the Fortress of Aradului, the Fortress of Ineu, the Castle in Savarsin, the Soimos Fortress, the Bohus Castle in Siria, the Historic Centre of Arad, the Natural Park Natural Lunca Muresului, the Macea Botanical Garden, the Baile Lipova Health Resort, and the Moneasa Health Resort.

The county of Caras-Severin has an obvious potential for tourism, due to the diversity of its landscape, the great number of lakes of accumulation, the emphasis being on the Baile Herculane Health Resort and Spa or the Danube Strait. There can also be distinguished five areas for tourism – the Semenice area, the Cerna Valley area, the Anina Mountains area, the embankment of Nera-Beusnita and the Iron Gates. Among the sightseeing spots we can mention the Semenice Resort, the Muntele Mic area for tourism, the Domogled National Park – Cerna Valley, Baile Herculane, the embankment of Nera-Beusnita National Park, the Museum of steam locomotives in Resita (a collection of 16 locomotives, including the first locomotive manufactured in 1872), the Pietra Scrisa hermitage, the Rudaria Water-mill Park, the railways Oravita – Iam and Oravita

- Anina (the first railway range in the country, opened in 1854), the carcass of the Roman settlement Tibiscum (106 AD.), the Moldova Noua sightseeing spot.

The county of Hunedoara disposes of both the variety of the landscape and the wealth brought by the elements of cultural character; the county preserves over 400 sightseeing spots – historical and art monuments, and monuments of natural history – starting with the prehistoric era and continuing through the dacic, roman, feudal and modern times. Among the sightseeing spots we can mention first the two capitals of Dacia and the Roman Dacia - Sarmizegetusa Regia and Ulpia Traiana Sarmizegetusa, and then there are the Fortress of Deva and the Fortress' Hill, the Corvinesti Castle in Hunedoara, the Geoagiu Bai Resort, the Dendrological Park Simeria, the Museum of Gold in Brad, the Retezat National Park, the Mountain Resort in Straja, the Complex of monuments in Tebea, and the Dacic Fortresses in the mountains of Orastie.

The county of Timis disposes of a diverse natural potential, springs of mineral and thermal waters which enjoy recognition for their sanatory qualities, the hunting and piscicultural background, as well as the variety of the elements of architecture, folk art and folklore, all of them ensuring a diversified offer for tourism. Timisoara, the county's city of residence, comes fourth place on a national level according to size, and has been recognized since the 18th century as „Little Vienna”, being an important historic, economic, financial, cultural and scientific centre. Among the main sightseeing spots there are the Buzias Health Resort and Spa, Baile Calacea Health Resort, the Swamps in Satchinez, the Dendrological Park Bazos, the Museum of Banat in Timisoara, the „Traian Vuia” Memorial House, the Orthodox Cathedral in Timisoara, the Cave in Romanesti, the Village Museum of Banat, the Roman-Catholic Dome in Timisoara.

This various range of resources for tourism may generate and sustain a variety of tourism practices, among which: the widely used tourism (for circulation), the tourism for health and spa, the tourism for rest and relaxation, the tourism for business, the tourism for mountain-hiking, the tourism for sporting hunting and fishing, the cultural-historic tourism, the tourism for speology, the sporting tourism, the tourism for cruising, the religious tourism, the urban and rural tourism, the intercultural tourism, the gastronomical tourism with local specific. Regarding tourism, new products and new forms of recess tourism can be developed, like rural tourism and the tourism for adventure. There can also be developed the tourism for business, generated by conferences, symposia and exhibitions, diplomatic events, cultural and scientific events, the multinational companies' business expansion in the region.

Even without a detailed exposure one can easily notice the vast existing potential of the Region West, which, unfortunately, is not put in good use concerning the sustainable and ecologic development of the region. Regarding the capacity for accommodation in the year 2006, Region West ensured only 7,46 % of the entire capacity for accommodation in the country. On a regional scale, Region West was placed last but one regarding the number of tourists arrived in the region (9,87 % of the tourists visiting Romania in 2006), the 4th place regarding the number of staying overnight (2.006,2 thousand), and, respectively, the 4th place regarding the index of net usage of the capacity in function (36,3%, despite the strategic geographical location of at least two counties – Timis and Arad – and, as well, despite the external economic exchange which has been traditional for centuries. The potential for tourism in the rural area should also be taken into account, given certain characteristics of Region West, like its diverse landscape, the architectural tradition in the rural area, historical and archeological vestiges, mineral and thermal water resources; for the time being, the social transparency is very low, 9 % of the villages in the Region West having a high and very high potential for tourism. These are distributed in the counties of Hunedoara and Caras-Severin, in harmony with the protected areas and natural monuments in the region. It is especially this area that – fated right from the start to host mono-industrial activities and becoming, in time, vital industrial centers due to the intensive exploitation of raw materials – suffers from an acute economic and social crisis because of the

collapse of the planned economy's system and the economic transition of Romania towards the market economy. For this reason the presence of foreign investors is also very scarce, they showing preference more towards the counties of Timis and Arad, so that, in order to economically revitalize the two less developed counties in the region, it is necessary to win the interest of the foreign investors over, and this would require to begin with the development of the infrastructure for access and utilities, necessary for both the proper unfolding of the economic activities, and for ensuring a comfortable living for the population in these areas.

3. The infrastructure for access

In what concerns the infrastructure for access, a series of shortcomings excel, which diminish the possibility of a vast economic development, respectively to sustain a flow of tourists adequate to the region's potential for tourism; these are mainly high-lightened by the lack of motor highways (the immediate effect being the unjustified intensification of traffic on roads which are not proper for inter-regional and international transport), the lack of ring-roads in the case of most cities and towns in the region (which makes the inside traffic to be very difficult and also increases the duration of travel), the low carrying capacity of existing roads showing effects of accelerated degradation, and the high percentage of out-dated district roads, which leads to a decrease in possibilities and of the traffic capacity, respectively to a lack of access possibility regarding sightseeing spots in the territory.

Having a strategic geographic location at the crossroads of commercial paths which connect Central Europe to the Mediterranean South, Region West represents a bordering region, a "frontier" region, which disposes of four crossing points of the frontier with Hungary – Nadlac, Turnu and Varsand (in the county of Arad), and Cenad – Kiszombor (in the county of Timis) and four crossing points of the frontier with the Republic of Serbia – Jimbolia and Moravita (in the county of Timis) and Naidas and Moldova Noua (in the county of Caras-Severin). Five European roads cross Region West directed North-South and West-East, three of which are considered main European roads (E68, E70, E79), and respectively two secondary European roads (E 671, E 673). Of the ten Pan-European corridors (which have been given recognition as main thoroughfares of transport in Eastern Europe, aimed to connect Western and Eastern Europe, as well as the states of Eastern Europe), three of them cross the Romanian territory, two of which cross Region West: the Corridor IV (Berlin – Nurnberg – Praga – Budapesta – Constanta – Salonic – Istanbul – having two integrative parts, road and railway) and Corridor VII (the Danube, crossing Region West between Bazias and Cozla).

The motor highway designed for the future, in order to connect Budapest to the Black Sea, has been foreseen to cross Region West from West to East; this highway is forecasted to ensure a fast connection between the centers Timisoara – Arad – Deva, having as well a significant contribution to the traffic release on the other roads in the region.

Regarding air passages, The Region West disposes of airports in each integrative county, in the cities of Timisoara, Arad, Caransebes and Deva (there should also be mentioned that in Romania, based on the European Treaty, eleven airports are located on the TEN-T network, two of which being located in Region West). It is also worth mentioning that the Traian Vuia Airport in Timisoara is the second airport in Romania regarding its importance, catering an immediate area of 2,1 million inhabitants (both Region West and the Hungarian and Serbian Banat area). Its technical endowment allows access for some of the biggest airplanes, a quality that grants a significant potential to the airport, as air gateway of the region, in the use of tourism and fast access to economic circuits, including overseas markets. Its location, the rise in foreign capital and a fast growing number of investors in the Region West, as well as the fact that the airport enjoys competitive endowments of aeronautic type has led to a rise in passenger and commodity trafficking, so that the present issues the airport's administration is concerned with, involve the lack of space on the platforms, in air-stations, respectively in the parking lot. The county of Arad

disposes as well of an international airport, also having a strategic location. It allows easy access to economic agents from nearby areas (especially the counties of Arad, Hunedoara, Bihor and Alba, respectively Bekes and Csongrad in Hungary, regarding the transport of commodities). The contribution of air transportation to the economic life of the region could be improved through investment in airport services, in specific endowment regarding landing in difficult conditions, in ensuring the connection by air transportation between district centers, respectively in the potential for development of the two airports which are not sufficiently used – Deva and Caransebes. The airport in Caransebes, in the county of Caras-Severin, initially designed for internal flights, is at present in private property, maintaining however its potential of being used for external passenger trafficking, especially regarding tourism. In what concerns the airport in Deva, in the county of Hunedoara, this one is at present used only for activities like sports aviation.

4. Challenges and opportunities

The frail development of tourism in the Region West is also due to uncompetitive products of tourism and the unskilled personnel in the field; moreover, in 2006, the Region West disposed of only 10,55% of the total number of the personnel hired in the structures of reception and accommodation in the country, most of them working in the Timis county. The tourism in spas would also have a high potential of development in the region, the region hosting 13,3 % of the total number of health resorts and spas in the country, most of which are to be found in the county of Caras-Severin. Turning account of the attraction for tourism can contribute to the economic growth of the urban centers, which are currently in decline, or of the peripheral rural areas, mainly by favoring the setting up and development of local enterprises, thus transforming the areas with low economic competitive character into areas attractive towards investors. The activity of tourism creates demand for a large range of goods and services, acquired later on by tourists and companies of tourism, including goods and services created by other economic sectors (commerce, constructions, transport, the food industry, confections and footwear, the small industry and handicraft). Last but not least, tourism creates opportunities for regional and local economic growth and has a lasting contribution to creating new employment forms by turning into account the cultural and natural patrimony; in addition, a significant part of the newly created jobs involves a regional opportunity to absorb the female work-force.

The Region West enjoys a very diverse potential for tourism to be promoted, a potential which offers the possibility of practicing an entire range of forms of tourism all year long; even so, the tourism in the region is a lot less developed compared to other areas in the country (mentioning factors like a relatively reduced denseness of the population in the region, an insufficiently developed infrastructure for access to sightseeing spots and diverse locations, respectively the massive emigration of the population traditionally fond of tourism). The putting into operation of the 5th axis of priority of the Regional Operational Program (POR) – by improving the infrastructures of the areas aimed for tourism and the ones of the accommodation services – is expected to determine a qualitative growth, towards European standards, of the entire range of conditions for practicing tourism, with a direct influence upon the increase in demand for tourism for Region West, and implicitly for Romania, as a European destination.

5. Conclusions

The reasons which negatively influence tourism at the regional level are first the lack of a consistent strategy at the central level, given the conditions in which the development and promotion of tourism are not part of the local administrations' priorities, or maybe only to an insignificant extent, then the lack of transport infrastructure (roads, railways, adequate and modern waterways and air passages; even the road network is not properly maintained, isolating or making the sightseeing spots very difficult to reach). On the other hand, the lack of quality

service regarding accommodation, of a competitive management, of complementary services for tourism, of some documentation and guides and even the lack of an aggressive challenge on hand various forms of advertising, makes many sightseeing spots and various areas for tourism to remain unknown to the wide public, either home or overseas, with every negative consequences emerging from here.

The role of tourism in the regional economy, and implicitly in the national economy, refers mainly to a superior capitalization of available resources, which involve the economic and cultural rise of certain inhabited areas, the development in a territorial structure, the setting up of fields of activity which might absorb part of the workforce, it may also be an activating element of the global economic system, respectively a means of diversifying economic structures, parameters of education and training, has a calling for ecology, it imposes measures to protect the environment and the basic values of the human life (water, air, flora, fauna) and it also represents a lever to diminish the inter- and intra-regional disparities.

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THE IMPACT OF THE CAP-AND-TRADE SYSTEM ON SUSTAINABLE DEVELOPMENT IN ROMANIA

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The issue of pollution is an important contemporary issue. Within the last 20 years, there have been global studies on how to stop global warming. The European Union is the world leader in concrete measures undertaken in this respect. The introduction of the cap-and-trade system, begun in 2005 with the carbon emission certificate trade mechanism is considered a modest success that needs perfecting. The new EU directives of 2009, that come into effect in 2013, test member countries in the area of conventional and renewable energy strategies which have to be adapted to the national environmental protection strategies.

Keywords: market failure, cap-and-trade, emission certificates, carbon market

JEL: Q54

Introduction

The impact of climate change on a global scale is more and more evident. The European Union, in the first decade of the 21st century, implemented a measures to reduce greenhouse gas emissions through the cap-and-trade method, using financial means, such as „carbon certificates”, creating a functional „carbon market”. These measures were in line with the Kyoto protocol, which sets objectives until the year 2012. In the year 2009 the ambitious legislative package for the 2013-2020 period came into effect. The EU wishes to reduce greenhouse gas emissions by at least 20% as compared to the year 1990, as well as to increase the percentage of green energy usage from 9 to 20% and to decrease primary energy consumption by 20%. The impact of implementing the energy/climate change package on the Romanian economy would affect the energy sector, the legislative process, profession reconversion, scientific and technological research, as well as the policy of attracting foreign investments and european funding.

Conceptual frame

People engage in market exchanges when they anticipate that through these operations their overall wealth increases. When, through these operations, the optimum results aren't reached, the neoliberal theory calls this *market failure*¹⁸³. One of these market failures are externalities.

Externalities are costs or benefits for a certain party which does not take part in the transaction. The classical case of negative externalities is pollution. For resources to be optimally used, the price paid for using them has to cover the *opportunity cost*. Nobel Laureate James M. Buchanan demonstrates the necessity of interpreting cost as *natural derivation from the act of choice*. If a company can use a factor de productie without paying for it, the resulting offer curve does not represent the whole marginal production cost.

$$\text{Social cost} = \text{private cost} + \text{externalities}$$

When the produced quantity is too great compared to the whole cost, then the social cost represented by the externality must be *internalised*. According to the methodology, as seen by the neoclastic theory, the government, which presumably always acts in the best interest of the public,

¹⁸³ Revista Economie Teoretică și Aplicată nr. 7/2006 Radu Șimandan, *Polurea și proprietate: Cât mai rezistă teoria eșecurilor pieței?*, <http://www.ectap.ro/articole/128.pdf>.

must intervene and correct the flaws of the market. The government, in order to fulfill its regulatory task, may use two methods: to impose centralised taxes, according to economist A.C. Pigou, or decentralised and tradeable (pollution) permits.

If property rights over some resources, used as production factors, are in the clear, the owners would be encouraged to enter into negotiations with the one that does the pollution. If there is the possibility of these negotiations, but these do not lead to optimum results, they are considered market failures. Elements of the negotiations, such as: informing, negotiating, stating, monitoring and applying the terms of the contract are activities that include costs, designated as **transaction costs**, highlighted by Nobel laureate economist Ronald Coase¹⁸⁴. An analysis based on transaction costs defines externalities as follows: *the net value of externalities constitute the minimum threshold for associated transaction.*

According to Coase's theorem: in an exchange where external costs are present, the agents will negotiate until the point in which the resulting production is at an optimum amount, if three conditions are respected¹⁸⁵. These conditions, in the case of pollution, are as follows:

- it is clearly defined when something can pollute, and in what amount.
- those who pollute have to pay to do it or they can be paid, by the owner of the affected resource, to abandon the practice of polluting.
- informing, negotiating, stating, monitoring and applying the terms of the contract should be at a low cost.

The problem of climate change is the consequence of **market failures**: those who produce damages to others by greenhouse gas (GHG) emissions do not usually pay anything.¹⁸⁶

Taking action against climate change can be achieved in three ways:

1. By states taking individual or collective action to reduce or limit the greenhouse gas emissions through imposed standards and regulations. This is called „**command and control**”

2. Carbon/energy tax

3. Imposing a limit on emissions while simultaneously trading in emission certificates. This is called „**cap and trade**”

If the first mechanism is of a public nature, the other two work through market means. State control is strong in the first case, medium in the second, and weak in the third.

Legal frame

In June 1992, the **United Nations Conference on Environment and Development** took place in Rio de Janeiro, where the need to integrate economic development and environmental protection into the sustainable development objectives was recognised, as well as the problem of an international environmental law, as a way of promoting sustainability, was raised. During this conference, the following documents were adopted:

- the Rio Declaration
- Agenda 21
- Convention on Biological Diversity
- Framework Convention on Climate Change

Romania ratified this document as Law nr. 24 of May 6, 1994

The Kyoto Protocol, of December 1997, is an international agreement regarding the environment, the agreement was put in action in October 2004 by the ratification of the Russian

¹⁸⁴ Ronald H. Coase, *The problem of Social Cost*, Journal of law and Economics 10/1960.

¹⁸⁵ Revista Economie Teoretică și Aplicată nr. 7/2006 Radu Șimandan „Polurea și proprietate: Cât mai rezistă teoria eșecurilor pieței? „, <http://www.ectap.ro/articole/128.pdf>.

¹⁸⁶ Andrei Mocearov, “Fișă de analiză 1. Economia sistemelor de comercializare ale cotelor de emisie de CO2.” http://m.cdep.ro/afaceri_europene/afeur/2009/az_378.pdf.

Federation. Until 19.01.2009¹⁸⁷ the protocol was ratified by 84 countries that are responsible for 63,7% of the total greenhouse gas (GHG) emissions in the world. Romania ratifies the Kyoto protocol through Law number 3 of February 2nd, 2001 and therefore assumed the reduction of greenhouse gases by 8% compared with 1990.

The agreement stipulates for the 37 industrialized countries found in appendix 1 of the UNFCCC (*United Nations Framework Convention on Climate Change*), a reduction of the polluting emissions by 5,2% in the period 2008-2012, as compared with the emissions of 1990. Romania is part of the “transition economy” countries in appendix 1 of the UNFCCC. Flexibilization mechanisms for reaching the reduction targets assumed by the states mentioned in appendix B are:

AAU (Assigned Amount Unit) – the international commercialization of *emission certificates* - countries that are in appendix 1 of UNFCCC.

CDM (Clean Development Mechanism) - implementing projects in developing countries (that are not in Appendix 1) for generating CER (Certified Emission Reduction) credits. The projects are initiated by the industrialized countries from appendix 1 of UNFCCC.

JII (Joint Implementation) - between the states from appendix 1 of the UNFCCC (developed countries, developing countries). Romania is the beneficiary of the projects through the JI mechanism, implemented by the industrialized countries. For every saved tone of CO₂eq¹⁸⁸ the investor obtains an ERU (Emission Reduction Unit).

The European Union, to coincide with the Kyoto protocol parameters, launched the European Union Emission Trading Scheme for all the 25 member states, on January 1st 2005 following the principle of cap-and-trade, “limitation- transaction”. The allocation of the emission process has become an important stake, in the conditions that these permits can be freely traded on the carbon market. The Commission, through Directive 2003/87/CE has foreseen for the 2005-2008 period that member states are the ones that assess the amount of permits through the allocation with a free title and in a direct way. The scheme takes place on a three implementation periods: the first between 2005-2007, the second between 2008-2010 with a reduction by 8% of GHGs as compare to the 1990 levels, and the third period between 2013-2020. Financial instruments included in this scheme:

EUA – European Union Allowance – a tradeable unit (valued on the stock market) of the Transaction Scheme. 1 EUA represents the right to emit one tone of carbon

CER – Certified Emission Reduction – a unit equal to one tone of carbon dioxide. CERs are issued for the reduction of emissions from C.D.M. – Clean Development Mechanism (green energy) activities.

ERU – Emission Reduction Unit – obtained through a J.I. (Joint Implementation) project. One unit equals one tone of carbon dioxide.

VER – Verified Emission Reduction – are carbon credits which may be used to compensate carbon emissions. 1(one) VER corresponds to one tone of carbon dioxide.

The most important international financial markets on which these certificates are traded are Bluenext, European Climat Exchange, Intercontinental Exchange. Carbon dioxide emission certificates are traded on the Sibiu Exchange, as underlying asset, starting December 2009.

Member states have set, in the case of industrial output, a global limit on greenhouse gas emissions for which certificates (rights to emit one tone of CO₂eq per year) have been issued, equal in number to said limit. This system controls greenhouse gas emissions for approximately 15.000 companies, oil, gas and energy installations, celulos, paper, cement, glass and steel factories within the EU. Companies that emit more than their given quota will have to pay fines:

¹⁸⁷ United Nations Framework Convention on Climate Change - UNFCCC. http://unfccc.int/files/kyoto_protocol/status_of_ratification/application/pdf/kp_ratification.pdf.

¹⁸⁸ Equivalent carbon dioxide (CO₂eq) is the universally used unit of measure to indicate the global warming potential of the six types of greenhouse gases (GHG).

100 euros for every tone over the limit, during the 2008-2012 period, and, as an added measure, they will be forced to continue to submit the missing certificates the next year. Companies buy and sell certificates depending on how they fulfill their pollution goals.

Through the AAU mechanism, for the 2008-2010 period, the European Union has a set maximum yearly value of 2.08 billion tones of CO₂, and Romania of 75.9 million tons. Out of a total of 379.7 million certificates given to Romania for said 5 years, 351.1 million are split between 8 economic sectors, as set out in the HG 60/16.01.2008.

Sector	Certificates for 2008-2012
Energy	208,674,068
Oil refineries	28,818,122
Ferrous metal production and processing	61,654,319
Lime	4,908,313
Cement	41,251,885
Glass	1,618,308
Ceramics	1,753,842
Paper and cellulose	2,449,411

According to the *Fourth Global Evaluation Report of the Intergovernmental Panel for Climate Change*¹⁸⁹, written in 2007, human activities contribute substantially to the growth of greenhouse gas concentrations in the atmosphere, determining the change of its composition and subsequent global warming.

To combat climate change, the European Parliament – in December 2008 – and the Council of the EU – in April 2009 – adopted the „Energy – Climate Change” Package, also called the 20/20/20 Laws.

The objectives set out by the European Union with regards to this law are:

- The reduction of greenhouse gases by 20% until the year 2020, compared to 1990.
- A 20% share for renewable energy in EU final consumption, as well as a 10% target for biofuel in transportation.
- A 20% reduction in energy consumption as estimated for 2020, through increased energy efficiency.

The directives that make up the package are:¹⁹⁰

- Directive 2009/29/CE modifying Directive 2003/87/CE and improving and extending the commercial scope of greenhouse gas emission certificates.
- Directive 2009/28/CE regarding the promotion of the use of renewable energy sources.
- Directive 2009/31/CE regarding the geological capture and storage of carbon dioxide.
- Decision 406/2009/CE regarding member states’ efforts to reduce GHG .
- Directive 2009/30/CE, which forces fuel suppliers to cut greenhouse gas emissions generated in the fuel production chain.
- Directive 2009/33/CE, which concerns the promoting of green and energy efficient road transport vehicles.

Directive 2009/29/CE stipulates:

- The extension of the affected sectors, by including new ones, as well as new greenhouse gases that originate in various industrial processes.
- Geological capture, transport and storage of all greenhouse gas emissions.

¹⁸⁹ <http://www.ipcc.ch/>.

¹⁹⁰ General report on the activity of the European Union 2009 <http://europa.eu/generalreport/>

- The assignment of greenhouse gas emission certificates shall be “100% free” for energy-intensive sectors that face the risk of relocation¹⁹¹ as well as for the energy producing installation that work in a cogeneration system, with the purpose of serving centralised heating systems.
- The assignment by “auction” for the energy sector, as well as for electrical production, shall be a minimum of 30% for 2013 and shall be gradually extended to 100% by no later than 2020. These auctions shall be open, transparent and the operator shall have the possibility of buying certificates from any Member State.
- The assignment by “auction” for installation from other, non-energy, sectors shall gradually rise from 20% in 2010 to 100% in 2020 on the basis of the principals of reference values of the most efficient technology.
- The Reserve of New Installations (RNI) shall be managed on the European level, the assignment shall be with a free title, based on the reference value of the most efficient technology.

In Romania, considering the strict terms for the implementation of the legislative package, the “Action plan for the preparation of Romania for the enabling of the Energy – Climate Change legislative package” was approved, and thus the institutions, their responsibilities and their action plan for the next period were set out. The National Agency for Environmental Protection, through the Climate Change Service, created the “Guide for applying the 2009/29/CE Directive”¹⁹².

The impact of the “Energy – Climate Change” Package on the Romanian economy

In Romania’s particular case, the situation of the primary energy sources is worrisome, especially in the context of analysing the energy security. The European Institute of Romania, in its “Perspectives on Romania’s energy security” study, concludes that the real situation regarding energy security is as follows:

- Dependence on importing energy resources, diversification of supply sources.
- Decisions regarding the national energy sector have an inertia of 4-20 years.
- The need to improve the efficiency of and modernise the energy sector by stimulating investments, as to reduce national losses in the consumption sector that are currently at 30-35%..
- The need to create an institutional frame for the energy sector.
- The structure of the energy balance: few resources, but expensive and diversified.
- Holds the largest share of renewable energy in the primary energy consumption in Central and Eastern Europe.
- Holds a great economical and technical potential in the renewable energy sector, unfortunately it’s untapped.

The known oil reserves will be used up in less than 20 years, natural gas reserves in about 15 years, coal reserves in 40-50 years and uranium reserves can ensure the functionality of two groups at the Cernavodă nuclear power plant until 2017.

A study¹⁹³ made by the European Institute of Romania in December 2009 analyzes the impact of the *Energy – Climate Change* Package on the Romanian economy and society. The conclusions and proposals have the purpose of facilitating the implementation of the package, but also of reducing its negative effects. Some of the most important measures proposed by the said study:

- The establishment of an institutional framework that incorporates a national planning institute, an energy and resources minister, a neutral body to supervise the energy market, a national body

¹⁹¹ carbon leakage –the move towards other markets that have less strict rules than those set out by the EU

¹⁹²The Regional Agency for Environmental Protection Cluj Napoca
<http://www.arpmnv6.ro/Ghiduri%20eco/Ghid%20incadrare%20instalatii%20EU%20ETS%20post%202012%20revizuit%2022.12.2009.pdf>

¹⁹³ European Institute of Romania, București, Impactul implementării pachetului energie-schimbări climatice asupra economiei românești, Proiect SPOS 2009 Studii de strategii și politici, www.ire.ro.

for the management of the *Energy – Climate Change* Package through information centralisation and a regulation agency for the monitoring of intermediate and final targets.

- The development of a common document that incorporates the strategies in both the energy sector and the environment.
- Investments that strengthen transport networks and energy distribution.
- Growth of energy efficiency and the reduction of final energy consumption.
- The establishment of a fiscal regime for emission certificates and their transaction, the determining of the accountant rules of expenses of the scheme's implementation for the producers of heating and electricity by cogeneration.
- The creation of a legal framework necessary for ensuring the investment of funds acquired by the selling of CO2 certificates.
- The implementation of workforce qualification programmes for designing, building and operating the new green technologies.
- The need for a rehabilitation programme of certain thermo-electric powerplants that use indigenous coal, correlated with the desulphuration programme.
- The drafting of an evaluation study of our country's potential in the geological capture and storage of carbon dioxide.
- A programme for the thermal rehabilitation of buildings.
- The drafting of a study concerning the state of centralised heating systems and of a national strategy in the area of home heating.
- The development of the nuclear program, as an alternative to the country's dependence on natural gas imports and the replacement of old energy capacities with fossil fuels.
- A regulation of the introduction of the tariff binomial for heat and natural gas.
- Ensuring that energy prices have a high degree of tolerance by the consumers, through a system of energy assistance, wholly oriented towards all low-income families by eliminating subsidies and seasonal help.
- The continuation of energy sector privatisation together with public-private partnerships.
- The growth of the level of structural fund absorption, funds meant for improving environmental factors

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- 13.<http://www.sibex.ro/> Sibiu Monetary Financial and Goods Exchange
- 14.<http://www.bluenext.eu/> BlueNext European Financial Market

ECONOMIC IMPACT OF GLOBALIZATION ON THE ENVIRONMENTAL POLICY OF THE EUROPEAN UNION

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Environmental policy has become an object for description and analysis. A global environmental mechanism intends to promote collective action at the international scale and to build an integrated environmental policymaking and management framework concerning the tasks of a shared global ecosystem. Governments use a number of different types of environmental policy instruments to implement their environmental policies: legislative, technical and economic-financial instruments. The encounter is to combine the environmental protection with continuing economic growth in an over the long term sustainable way. This paper tries to underline that there is an under appreciation of the adaptability of social structures even within economics of environmental policy, to the extent that it is necessary to fully acknowledge and highlight the inborn trade-off between economy and environment.

Keywords: environmental policy, sustainable development, globalization, acquis communautaire, economics

JEL codes: Q01, Q50

1. Introduction

Global environmental policymaking in the last decade has focused more on principles and declarations than on mechanisms for modifying environmental driving sources. The principal focus has been on drafting treaties. Gaps in issue coverage and, sometimes, even contradictions among treaties and organizations with environmental responsibilities have undermine result-orientated actions.

Environmental policymaking combines the identification of a goal with some means to achieve that goal. In practice, these two components are often linked within the political process.

The complex structure of the European Union (EU) generates uncertainties: EU tends to be rather a political concept, while Communities reserve their juridical personality.

Environmental protection is a priority objective of the European Union. This paper analysis incentives and contradictions of action programs and instruments formulated for implementing ecological policy.

2. Environmental Globalization

Globalization requires thoughtful and modern ways. A global environmental mechanism intends to promote collective action at the international scale and to build an integrated environmental policymaking and management framework concerning the tasks of a shared global ecosystem.

There is an under appreciation of the adaptability of social structures even within economics of environmental policy, to the extent that it is necessary to fully acknowledge and highlight the inborn trade-off between economy and environment.

The environment enters in the competences shared between Community and Member States (MS). The Community competence harmonizes with the different national policies.

Nowadays, environmental policy has become an object for description and analysis. The rate of change, both in circumstances as into the beliefs and attitudes of people respecting their environment in every aspect of modern society, during the last century upon government is

reflected in public policies and that related to the human environment and the biosphere has been numerous and rapid since the 1972 United Nations Conference in Stockholm.

The legal base of the European Union's environmental policy¹⁹⁴ is set out in the Treaty on European Union (EU) and is based on Article 174 of the Treaty establishing the European Community. It aims to ensure the sustainable development of the European model of society. Policy concepts such as preventive measures, precautionary principle, the "polluter pays" principle and combating environmental pollution at source have precious importance and are of maximum applicability.

The main objectives laid down in Article 174 are:

- preserving, protecting and improving the environment quality;
- protection of human health;
- prudent and rational utilization of natural resources;
- promoting measures at international level for handling of regional environmental issues.

The European Union is one of the initiators of the United Nations Environment Program (UNEP) creating a strategic approach to the international management of chemicals, takes part to a number of international agreements and partnerships and is a signatory and active participant in the Kyoto Protocol on Climate Change, which entered into force in February 2005.

Its objectives regarding the environment are: control of activities with an adverse environmental impact, protection of air and water quality, waste management, conservation of resources and protection of biodiversity. However, environmental problems were increasing and reaching global-scale proportions through environmental consequences. They have brought an accumulation of natural wealth, but also an exceed of the capacity of natural systems to process and neutralize the residual products of modern civilization: contamination of air, water and soil, decrease of the restorative capabilities of over-stressed species and ecosystems often to the point of extinction.

Starting in the 1980s, governments saw the emergence of an international environmental agenda over the next two decades as the first attempt at global environmental governance¹⁹⁵. Some of the most important accomplishments in the area of global environmental governance are:

- an agenda of the most important environmental concerns has been defined;
- action plans, treaties and international conferences have been developed;
- relevant scientific research has been made;
- campaigns concerning environmental problems supported by national governments, nongovernmental organizations (NGOs), multinational corporations have been launched;
- international environmental affairs has become a major subject of teaching.

Hama Arba Diallo, executive secretary of the United Nations Convention to Combat Desertification (UNCCD) said: "Perhaps the only concept as heavy laden with multiple agendas as globalization is 'sustainable development'".

The European Association Agreement stipulates that Member States development policies must be guided by the principle of **sustainable development**¹⁹⁶ in order to achieve a form of

¹⁹⁴ "Policy" is hardly a precise term, but it is used here as defined by the **Oxford Reference Dictionary** (1986) as "a course of action adopted by a government or party or person".

¹⁹⁵ The definition of the term "governance" has varied according to the scope of decision-making power. There has been a move to a definition under which "governance, at whatever level of social organization it may take place, refers to conducting the public's business – to the constellation of authoritative rules, institutions, and practices by means of which any collectivity manages its affairs" (John G. Ruggie, *Reconstituting the Global Public Domain: Issues, Actors and Practices*, published in *European Journal of International Relations*, Vol. 10, Issue 4, 2004).

¹⁹⁶ The word "sustainability" is derived from the Latin *sustinere* (*tenere*, to hold; *sus*, up). The main meanings provided by dictionaries for *sustain* are to "maintain", "support" or "endure". However, since the 1980s **sustainability** has been used more in the sense of human sustainability on planet Earth and this has resulted in the most widely quoted definition of sustainability and sustainable development, that of the Brundtland Commission of the United Nations on

“development that meets the needs of the present without compromising the ability of future generations to meet their own needs” by integrating environmental requirements into the definition and implementation of other EU policies and activities.

The director of the Third World Network, Martin Khor, is a critic of the current globalization process. He supports the idea that the reason for the marginalization of the sustainable development paradigm and of the market paradigm has been “the strong support and aggressive advocacy of the powerful countries” for *both* results.

The needs of all countries, an assurance from the strong to help the weak, the worry about the proper development of the environment and an understanding that the state and the international community must intervene on behalf of the public interest to attain greater social equity and bring about more sustainable patterns of production and consumption, characterizes the sustainable development paradigm on Khor’s behalf.

3. Eco-Economy

As it seems, the expression of **eco-economy** belongs to the American scientist Lester R. Brown. He entitled one of his famous works “Eco-Economy: Building an Economy for the Earth” (2001). From the etymologic point of view, the origins of the term eco-economy come from the Greek *oikos*, which means house, household, habitat, citadel.

Eco-economy is synonym with ecological-economy and it incorporates the recognition of a subsystem resulted from the multiple, objective interaction of two realities: the economic reality and the ecologic reality. The origin of both terms comes from Greek: *nomos*, meaning law and *logos*, meaning science, discourse, order.

The critics of economic globalization see in the process of globalization an exacerbating of environmental problems. Economic globalization leads there for to:

- a decrease in the ability of national governments to cope with environmental management problems;
- an increase in corporate power and reach;
- an enlargement of environmentally destructive growth;
- the stimulation of particular sectors that have negative side effects;
- the commodification of resources such as water.

On the other hand, within globalization, environmental quality can be achieved through the strengthening of environmental management by improving capacities in government to manage economic affairs. It can lead to increased incomes, which in turn can lead to governmental revenues for social and environmental programs, and to an increasing international trade in resources. The Nobel economist Joseph Stiglitz has noted the result to be that “globalization today... is not working for much of the environment.” Nor, in his view, is it “working for many of the world’s poor” or “for the stability of the global economy.”

4. Environmental Policy Instruments

Governments use a number of different types of environmental policy instruments to implement their environmental policies: legislative, technical and economic-financial instruments.

The **legislative instruments** create the legal framework of the Community policy for the environmental protection. They consist of over 300 normative acts (directives, regulations and decisions), that have been adopted beginning with the 1970s; the so called *acquis communautaire*.

The term *acquis communautaire* of environment represent both the entire legislation as the whole of the policies and institutions created to certify the continuous application and development of

March 20, 1987: “sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (<http://en.wikipedia.org/wiki/Sustainability>).

this legislation. Regulations with an horizontal character that facilitate the process of making a resolution, developing and involvement of the civil society in the protection of the environment, and the regional legislation that refers to all the regions that make the object of environmental policies, are the categories of regulations included into the *acquis*.

According to the EU legislation, the *acquis* comprises “legal instruments covering a wide range of fields, including water and air pollution, the management of waste and chemicals, biotechnology, radiation protection and nature conservation”. Environmental impact assessment has to be carried out by the MS before certain public and private-sector development projects are approved.

The **technical instruments** ensure the proper keeping of the quality standards concerning the environment and the use of the best reachable technologies. This category consists of the following instruments:

- standards and emission limits;
- the Best Available Technologies (BAT);
- the *eco* denomination (eco-labeling);
- criteria for environment inspection in the MS.

The **economic-financial instruments** are represented by different programs, such as:

- **LIFE+** program: technological projects with environmental benefits, projects contributing to the implementation of the EU's Birds and Habitats Directive and to the EU's goal of halting the loss of biodiversity and projects that spread information about environmental issues, such as climate change and conservation.

- **Structural Funds** (European Regional Development Fund (ERDF) and European Social Fund (ESF)) and **Cohesion Fund**: financial instruments of EU's regional policy which aim to restrict the development disparities among regions and MS. The Funds participate in pursuing the goal of economic, social and territorial cohesion. For the period 2007-2013, the budget allocated represents 35% of the Community budget and is the second largest budget entry.

Economic driving forces and **market-based instruments** (MBI) are very effective to inspire accordance with the environmental policy. They are often defined, such as in the *Oxford Reference Dictionary*, as “instruments or regulations that encourage behavior through market signals rather than through explicit directives”.

These policy instruments, MBIs, such as environmental taxes, tradable permit systems or targeted subsidies, are a cost-effective way to protect and improve the environment and are often described as “harnessing market forces” because they encourage firms (and/or individuals) to undertake control efforts that are gaining acceptance as important policy mechanisms for achieving environmental protection goals.

5. Conclusions

A global environmental mechanism intends to promote collective action at the international scale and to build an integrated environmental policymaking and management framework concerning the tasks of a shared global ecosystem.

Gaps in issue coverage and, sometimes, even contradictions among treaties and organizations with environmental responsibilities have undermine result-orientated actions.

The eco-economy incorporates the recognition of a subsystem resulted from the multiple, objective interaction of two realities: the economic reality and the ecologic reality. Within globalization, environmental quality can be achieved through the strengthening of environmental management by improving capacities in government to manage economic affairs.

The strategies of governments improve the quality of the environment and they support the Member States and regional and local authorities in implementing policies and environmental legislation. Legislative, technical and economic-financial instruments represent different types of environmental policy instruments to implement governments' environmental policies.

On the other hand, the critics of economic globalization see in the process of globalization an exacerbating of environmental problems. The goal that wants to be achieved in liberalized trade and investment flows should be complemented by efforts in the environmental and social areas. The encounter is to combine the environmental protection with continuing economic growth in an over the long term sustainable way.

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THE PERSPECTIVES OF MARITIME TRANSPORT IN EU AND ITS INTEGRATION IN THE SUPPLY CHAIN MANAGEMENT

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In a globalised economy transport is one of the most important factors linking the national economies and maritime transport is the main way to deliver goods in international trade. For any international company, choosing the appropriate transportation as part of the logistic solution is vital for its competitiveness. In the context of the economic crisis, CEE strategic location factors play an important role for regional companies which adapt and change their logistic services by developing new scenarios for the shipping industry in order to obtain a better position on the global market. In addition to a favourable geographical location CEE has several other important arguments, like sufficient harbours for developing container terminals to launch extensive container transport transit. The most important recent trends in logistics are shown, as well as the framework of the EU maritime transport.

Key words: maritime transport, EU transport strategy, supply chain strategy

Cod JEL: L91, L98, L52.

1. Introduction

In Europe there are over 1200 commercial harbours spread over 100 000 km of coast, many of them benefiting from the European funds. Improving the competitiveness of the maritime transport can bring important benefits to the whole economy. Approximately 40% of internal commerce goods and almost all goods destined for the international commerce are transported by sea. This sector represents an important source for jobs and income in Europe. Every year, over 400 million passengers and over 3.5 billion tones of goods pass through the European ports. Using the rapid growth of international commerce in the last decade, the maritime goods transportation sector in Europe has also developed considerably, companies investing important amounts of money in fleet renewing and extension. These companies face a fierce competition due to the firms that apply inferior safety measures. The instability of energy markets and piracy also stop the development of maritime transportation.

The purpose of this study is to increase understanding of the opportunities for improving freight logistics and transport in Europe, identify obstacles to change and recommend measures that would enhance the competitiveness of European industry and services. The article focuses on some key topics: the main driving forces behind changes in the location of economic activities in Europe, how are these decisions influenced by supply chain management considerations and what initiatives would improve the efficiency of European freight logistics and transport. The most important recent trends in logistics are towards: shorter order cycles, more frequent, more reliable deliveries, closer relationships with only few of the suppliers, greater use of IT systems

and outsourcing logistics; the future of E-commerce, and the impact which this will have on logistics is still to be determined¹⁹⁷.

2. Literature review

The paper is presenting a synthesis of the recent research works in transport and supply chain management. The *supply chain management* is considered by **Hung et al (2004)** to be used in the literature with different meanings, such as: purchasing and supply; transportation and logistics; marketing; and level of coordination. According to **Mak and Ramaprasad (2003)** *supply chain management* is “a set of approaches utilized to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that merchandise is produced and distributed at the right quantities, to the right locations, and at the right time, in order to minimize system-wide costs while satisfying service level requirements”. A lot of research has been made regarding supply chain management, but according to **Sanchez-Rodrigues, Potter and Naim (2010)** “little research has been undertaken including transport operations as a strategic member of the supply chain, with hardly any work on the impact of uncertainty on transport operations within supply chains”. In the maritime transport sector, the effort to obtain economies of scale and a certain level of control over the logistic function are influenced by services globalization, the development of the container system transportation, the transport alliances and transport concentration in a small number of ports (the so called hub ports). The role of ports has changed now, transforming them into freight distribution hubs¹⁹⁸.

Sanchez-Rodrigues et al. (2007) cited by **Sanchez-Rodrigues et al (2010)** develop a logistics-focused uncertainty model. The Logistics Uncertainty Pyramid Model includes the following uncertainty sources that can affect transport operations: shipper, customer, carrier, control and external uncertainty. The research conducted by **Sanchez-Rodrigues et al (2010)** suggests the following causes of transport uncertainty: delays, demand and information issues, delivery constraints and lack of coordination. *Delays* appear to be very important for shippers, customers and providers, hence affecting all logistic chain members. *Demand and information issues* were considered the second most important barrier to achieving a high level of logistics performance; *delivery constraints* are considered to be another important barrier in transport operations, as they can cause potentially delays. Finally, *lack of coordination* within the logistics chain and at the company level can cause disruptions in the delivery process.

Few companies are self-sufficient, therefore the dependence on other firms. When their resources and competencies are not sufficient, firms are likely to establish connections with other organizations on the market that are able to offer the needed services. According to **Fugate et al. (2009)** “in a supply chain environment, buyer-seller arrangements involve other entities as well, such as third-party organizations (e.g. transportation providers)”. Mentzer et al. (2001), cited by **Grawe (2009)** considers that “an effective logistics operation can provide a competitive advantage for a firm and increase a firm’s market share”. Logistics can also enhance customer value and logistics managers consider that it adds value to the company.

Monczka et al. (2005) cited by **Meixell and Norbis (2008)** thinks that “mode choice and carrier selection are part of the decision-making process in transportation that includes identifying relevant transportation performance variables, selecting mode of transport and carrier, negotiating rates and service levels, and evaluating carrier performance”. Choosing the appropriate transport solution is very important, as it represents an average of 20% of total production costs.

¹⁹⁷ Freight Logistics and Transport Systems in Europe. Trends in the location of European industry and its interaction with logistics and transport, European Council of Applied Sciences and Engineering Euro-CASE, 2000

¹⁹⁸ Short sea shipping in Europe, Volume 772, De European Conference of Ministers of Transport. Combined Transport Group

Meixell and Norbis (2008) reports that transport industry challenges are nowadays transportation capacity shortage, international growth of economic activities, economies of scale and scope, security concerns and environmental and energy concerns.

Transportation capacity shortage has surfaced in logistics management. Capacity limitations have an impact on all carriers; therefore their capacity to overcome these limitations will help to differentiate from current competition.

Global transportation involves higher cost and longer transit times, making *international growth* an important challenge in supply chain management.

Economies of scope are “readily apparent relative to the use of transportation equipment after it is emptied, while *economies of scale* are a concern relative to shipment size. There is a strong incentive to ship in full truckloads to minimize the cost associated with the considerable capital expenditure for equipment. Economies of scale are also affected by the handling of inventory” considers **Meixell and Norbis (2008)**.

Security in the supply chain is also very important thinks Russell and Saldanha (2003) cited by **Meixell and Norbis (2008)**, the consequences being “an additional \$151 billion annual cost, \$65 billion of which is in logistical changes to supply chains. How can this problem be solved? “By selecting security-conscious carriers, shipping via secure ports, meeting packaging security requirements, and providing background information on key personnel” considers Rinehart et al. (2004) cited by **Meixell and Norbis (2008)**.

Environmental and energy concerns presents a challenge to logistics managers, as environmental impact is increasingly important to consumers, being known that transportation sector is a major contributor to air pollution, acid rain, maritime water quality problems.

3. EU legal framework for the maritime transport

Transport is an essential component of the European economy. The transport industry at large accounts for about 7 % of GDP and for over 5 % of total employment in the EU. The present situation of the supply chain system in CEE area has been from manufacturer-led to retailer-led supply chains (from “push” to “pull” supply chain economics). Transport and logistics have relatively little effect on the global location of primary activities – the manufacture and sale of final products. This is determined by markets, labor conditions, financial incentives, and the social or cultural preferences of senior management. However they influence regional and local location decisions where site accessibility is a significant factor¹⁹⁹.

In the maritime sector, marine pollution and maritime accidents were considerably reduced and the EU has established one of the most advanced regulatory frameworks for safety and for pollution prevention. Safety agencies have been set up also for aviation (EASA), maritime affairs (EMSA) and rail transport (ERA)²⁰⁰.

In 2009, the third maritime safety package has been adopted by the European Parliament. With the adoption of the first two legislative packages on maritime safety (the so-called ERIKA I and II packages), the message delivered by the EU being that substandard shipping would no longer be admitted.²⁰¹ The EU has proposed guidelines for the development of an integrated maritime policy, which constituted one of the Commission’s strategic objectives for the period 2005-2009²⁰².

These guidelines form a central part of the Communication on an Integrated Maritime Policy for the EU (Blue Paper) adopted by the Commission and approved by the European Council in 2007

¹⁹⁹ Freight Logistics and Transport Systems in Europe. Trends in the location of European industry and its interaction with logistics and transport, European Council of Applied Sciences and Engineering Euro-CASE, 2000, p. 8-9

²⁰⁰ A sustainable future for transport. Towards An Integrated, Technology-Led And User-Friendly System, Directorate General for Energy and Transport, European Commission, 2009

²⁰¹ http://ec.europa.eu/transport/maritime/safety/third_maritime_safety_package_en.htm.

²⁰² http://europa.eu/legislation_summaries/maritime_affairs_and_fisheries/maritime_affairs/pe0003_en.htm.

and are part of the United Nations' 1982 Convention on the Law of the Sea and the World Summit on Sustainable Development in Johannesburg in 2002. Member States are encouraged to *establish their own integrated maritime policies* in close collaboration with their national and regional maritime stakeholders, should consider *creating internal coordinating structures* within their government frameworks and all *maritime stakeholders should participate in integrated maritime policy-making*.

“Maximising sustainable use of the oceans and seas while enabling growth of the maritime economy and coastal regions is the prime objective of an integrated maritime policy for the EU” according to the European Commission; therefore the following measures will be taken:

- create a strategy to alleviate the consequences of climate change;
- enhance professional qualifications and studies in the maritime field;
- create a European maritime space without administrative or customs barriers as well as a comprehensive maritime transport strategy for 2008-2018;
- issue guidelines on the application of environmental legislation relevant to ports;
- promote technological innovation in the shipbuilding and energy sector;
- support international efforts to reduce pollution of the atmosphere and greenhouse gas emissions attributed to ships;
- build a knowledge and innovation base for the maritime policy.

The Commission Green Paper: Towards a future Maritime Policy for the Union: a European vision for the oceans and seas is in line with the Lisbon Strategy and aims to obtain sustainable development by reconciling the economic, social and environmental dimensions of the exploitation of the seas and oceans. The EU is the biggest maritime power in terms of maritime transport, coastal tourism, offshore energy production, shipbuilding technologies and related services.

The EU is also the leader in building of cruise ships, renewable energy and ports. The Green Paper examines the factors influencing competitiveness: the state of the marine environment, scientific knowledge in all areas relating to the oceans, innovation and the expertise of the workforce. Maritime policy “forms part of the Lisbon Strategy by proposing to exploit synergies between regional policy and policies on fisheries, research and innovation, businesses, maritime transport, the environment and energy in order to promote sustainable development”²⁰³.

4. CEE's arguments in logistics

In the context of the economic crisis, CEE strategic location factors play an important role for regional companies which adapt and change their logistic services by developing new scenarios for the shipping industry in order to obtain a better position on the global market. Together with further deepening of the single market, integration of the EU with neighbor regions will continue. Globalization, enabled by the liberalization of trade and by developments in transport (such as reefer containers) led to enhancement of the world economy. Transport outside Europe will increase much more than inside Europe and EU external trade and transport are likely to keep growing rapidly in the coming years.

SWOT Analysis

Strengths

- Low labor costs, compared to the ones in Western Europe; the problem is now if this opportunity will remain with the EU accession of CEE countries.
- Workforce is literate and speaks foreign languages.
- Lower operating costs are provided by the difference in labor rates, generating net savings.
- Delocalization of R&D centers in CEE means that companies can develop products adapted to

²⁰³ http://europa.eu/legislation_summaries/maritime_affairs_and_fisheries/maritime_affairs/166029_en.htm.

the targeted markets.

- The Black Sea represents a main maritime transport way in Europe, and Romania has access to it; it also has access to the Danube, a very important important way of, which has a total 2411 km navigable, 78 ports and 1100 ships registered in 30 states.

Weaknesses

- The EU is on its way to create a level playing field in the increasingly integrated transport market, but issues such as differences in taxation and subsidies still need to be addressed.

- The environment remains the main policy area where further improvements are necessary. In the EU, compared with 1990 levels the transport was the sector with the biggest growth rate of greenhouse gas emissions.

- Lack of enough intermodal nodal points.

- Not enough developed port infrastructure.

- The logistic market started to have a negative rate last year, as the quantity of logistic spaces delivered has decreased from 250.000 in 2008 to only 50.000 in 2009 in Romania, for example.

The rate of usage of logistic spaces also decreased from 96% in 2008 to 88% in 2009.

Opportunities

- The demand for freight transport in the EU grew on average by 2.7 % per year. The growth of freight transport is also linked to economic practices (concentration of production in fewer sites, to economies of scale, delocalization, JIT deliveries) that allowed reduction of costs.

Threats

- Environmental challenges

- Transport will suffer from the effects of climate change and will necessitate adaptation measures. Global warming resulting in a rising sea level will amplify the vulnerability of coastal infrastructures, including ports.

- Increasing scarcity of fossil fuels.

- The economic crisis that affects this sector of activity also.

5. Conclusions and future research

The purpose of this study was to show the role of transport policy in Europe, as transportation represents more than only a problem of cost, distribution playing an important role in obtaining a competitive advantage. "The performance of the transport carrier may influence the effectiveness of the entire logistics function of a company", as it is considered by **Meixwell and Norbis (2008)**. The results of this study also reveal the presence of a regulatory framework of the maritime transport in the EU and also show, through a SWOT analysis the main arguments that CEE region has regarding the logistic system.

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HARMONIZATION OF THE APPROACH AND PRACTICES RELATED TO THE STATE AID IN THE INTENTION OF STATES TO INTEGRATE IN THE EUROPEAN UNION

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State aid is seen as a threat to the competition environment. It is justified only when it is granted for covering the deficiencies appeared on the market, or it is used as an instrument for structural changes promotion. Thus, the goal of policy in the state aid field is, on the one hand, to realize equilibrium between the necessity and admissibility of state interventions on the market and, on the other hand, to protect loyal competition. The extension of the European Union in the Central and East-European zone involved a careful attention on the harmonization of state aid policy of the candidates. In order to prevent the “import” in the European Union of the incompatible state aids at the date of adhesion, a complex mechanism for the candidate countries was established. An interesting example which is analyzed in the framework of the topic is the case of the Republic of Moldova, where the state aid exists, but until now there is no legal framework in the field.

Keywords: state aid, competition, integration, harmonization.

JEL: F02, F55, K00, K42, N44, P21, P27

State aid has its origins at the beginning of the European Community. Provisions prohibiting state aid were already included in the Treaty of Coal and Steel Community. Anyway, the Treaty of Rome from 1957 introduced a series of exceptions from the general principle of interdiction and offered to the European Commission the exclusive right to authorize state aids that obey to some rules. After more than 50 years the provisions on state aid remain the same, even if the modernization process hallmarked the competition and state aid fields.

Art. 87 of the Treaty of the European Union prohibits the granting by Member States of financial aids to the economic agents, no matter their form, but also lists a series of circumstances in which such measures of financial aid can be, exceptionally, approved by the European Commission.

The granting of aids can be completely justified when these are granted in the goal of covering the deficiencies appeared on the market, or when these are used as an instrument for structural changes promotion; in this framework, state aids serve a common interest, because they contribute to the development of a competitive industrial structure, having, in consequence a decisive role in the creation of labor places. The intervention of state can take place along with different policies promoted by the state, as regional, research and industrial policies, etc. But these interventions should not harm competition.²⁰⁴

A support measure adopted by the state will be qualified as state aid according to the art. 87 of the Treaty of the European Community and is usually prohibited if it cumulates the following four conditions:

- Implies the use (direct or indirect) of the financial public resources;
- Confers an advantage to the beneficiary/beneficiaries;
- Is selective;
- Distorts competition, with negative effects on the trade among Member States.

It has to be mentioned that only if all those four conditions are fulfilled, then we can speak about state aid in the sense of art. 87 (1) of the European Union Treaty. This means that if all four conditions are not fulfilled, then the rules on state aid do not apply.

²⁰⁴ Falon Marc., Droit matériel général de l’Union Européenne, Edition Academia-Bruylant, 2002 p.353

Following the above-mentioned, the goal of policy in the state aid field is, on the one hand, to realize equilibrium between the necessity and admissibility of state interventions on the market and, on the other hand, to protect loyal competition. That is why a significant part of the European competition legislation is dedicated to the regulations on state aid.

State aid plays a significant role in the development of a viable and functional market economy. That is why, the efficient application and implementation of a policy in the field of state aid represents a very important component of the enlargement process of European Union.

Thus, the extension of the European Union in the Central and East-European zone involved a careful attention on the harmonization of state aid policy of the candidate countries. This has been determined by the fact that before the adhesion the governments of the given states, being in transition process, had a bigger freedom in granting state aids, because there were no principles or strict rules related to the protection of competition environment from distortions that may have been caused by the state aids. Before the transition period, in the Central and East European countries subsidies were largely used. The real production costs were not reflected in the price, which lead to losses or extreme profits registered by some enterprises, “failures” that were immediately covered by budgetary subsidies or taxes. As the cost production was different from an enterprise to another, the same was the level of subsidies, each of them reflecting specific features of enterprises.

In the period of transition to the market economy, Central and East European countries have tried to reduce budgetary subsidies and to pass gradually to the liberalization of prices. Thus, the majority of budgetary subsidies granted to the enterprises have been eliminated from those sectors in which the liberalization of prices began. More by token, the revenue tax has been equilibrated, the taxes on turnover have been rationalized, and the ad-hoc exemptions were abolished.

Initially, those transformations caused a momentary disequilibrium in the economy. State enterprises began to have serious difficulties, manifested by the decrease of internal demand because of import liberalization, the decrease of exports provoked by the collapse of the Council of Mutual Economic Aid, etc. The above-mentioned problems had a chain effect that have led to the inter-enterprises’ debt increase. Moreover, the unemployment rate increased. In this situation, the government of countries undertook some actions so that enterprises survive, granting aids to state companies, an aid which, in many cases only delayed the bankruptcy because it was not oriented to the necessary restructuring of those enterprises. It has to be mentioned that in the planned economy many enterprises had a monopolistic or oligopoly position, and their bankruptcy could provoke the chain collapse of the furnishers who were dependent on those companies.

In most of the cases governments granted support to enterprises only until the privatization started. The given process in these countries knew a series of combined methods: tenders. Public bids, selling the social parts to the employees and managers, etc. The biggest problem resided in the fact that the reserve of private savings was too reduced for the procurement of industrial goods at very low prices.

The above-related facts lead to the conclusion that state aids had a more controversial history in the Central and East European countries. Thus, the principles of the policy in state aid field benefited of a greatest attention in the process of European Union enlargement in the Central and East European zone.

At the beginning of the 1990, the European agreements began to be implemented, fact which gave a new approach to the trade between the European Union and Central and East European countries. According to these Agreements, the countries obliged themselves to harmonize their legislation with the one of the European Union, including rules concerning the competition in sectors that were affecting the trade among the two parties.

A little bit later, in 1993 European Council of Copenhagen defined criteria that had to be fulfilled by the candidate countries to the European Union. Among the requirements there was also the existence of functional market economies, which would have the possibility to face the pressure of competition and market forces of the European Union. Adhesion negotiations that began in 1998 determined the conditions to be fulfilled by every country candidate to the European Union, basing on the principle of adoption, implementation and application of the Communitarian Acquis by the candidate countries, i.e. laws and detailed rules adopted on the basis of European Community Treaty.

In practice, every new candidate must establish a monitoring authority of state aid, which would analyze the allocation of state resources, for establishing whether these are or are not state aid under the article 87 of the Treaty, as well as if those have been or have not been compatible with the common market. Where it is identified that state actions are incompatible with the Communitarian Acquis, the states are obliged either to adapt them to the Community requirements and rules, either to gradually eliminate them.

The progress in the state aid field has been much slower than that in the antitrust policies domain; this has been the situation until 2001 when more coherent regulations on state aid have been adopted. Enterprises, including public ones, had to accustom to function without any financial support from the state, and the public organizations involved in the guaranteeing of aid – with ex ante notification procedures.

In the result of efforts for adopting the adequate legislation and for nominating the authorities to implement it, the negotiations were concluded. The given negotiations, referring to all the countries and less to Bulgaria and Romania, ended at the European Council of Copenhagen in December 2002 and the Adhesion Treaty was signed in Athens in April 2003. From the autumn of 2002, the Scheme of Supervising State Aid offers a more clear vision on the process of enlargement and on the negotiations.

In order to prevent the “import” in the European Union of the incompatible state aids at the date of adhesion, a new mechanism for the candidate countries was established, a mechanism designated to examine the measures of state aid granted before 1 May 2004 and which is still applied after that date. This is well known as “the mechanism of existent aid”. The goal of this mechanism is to offer a guarantee concerning the measures of aid from the state, applicable after the adhesion date also. The mechanism applies for the state aid in all the sectors, less for agriculture and transportation, for which there are some specific provisions.

In the Adhesion Treaty it is stated that the programs of aid and the individual aid that have been adopted in a new member state before the adhesion and are applicable after the adhesion should be considered as existent aid according to the Article 88(1) of the European Community Treaty if one of the following conditions is fulfilled:

-measures of aid that entered in force after 10 December 1994 have been automatically considered existent aids starting with the date of adhesion;

-measures proposed by the candidate states in 2002 have been examined by the Commission under the provisions of the Acquis on state aid; measures considered to be in conformity with the rules on state aid and have been qualified as existent aid and included in the list attached to the Adhesion Treaty. This list has been finalized in November 2002;

-for the non-accepted measures in the list attached to the Treaty and for those enlisted after its finalization and until 30 April 2004, there has been introduced the so-called “interim procedure” for the existent aid, according to which, the candidate states proposed to the Commission a series of measures for analysis. The Commission approved all the measures that were compatible with the laws on state aid. When the Commission doubted about the compatibility, it was initiating an investigation procedure to be enforced on the adhesion date. The notion “applicable after adhesion” represented a crucial factor in making the decision of assessing a certain measure by

the Commission, because that one could not reject measures that were not “applicable after the adhesion”.

The given notion was referring the following types of aid: schemes of aid, considered to be “applicable after the adhesion” if, from the date of adhesion the granting aid could still be made on the basis of those schemes without any additional measures’ implementation; the aid that was not connected to certain projects and which has been granted before the adhesion of one or more enterprises for an undetermined period of time or for an non-precise sum; measures concerning individual aid for which the level of aid originated from the state were not known at the moment of granting the aid.

All the measures applicable after the adhesion, which were considered state aid but which were not fulfilling the above mentioned conditions of existent aid, have been considered as new aid granted after the adhesion. The classification of a measure as existent aid, in opposition to the new aid has a very important consequence: the Commission can immediately initiate the formal investigation procedure regarding the new aid that does not correspond to the interim procedure. If it is proven that the given aid is incompatible with the Treaty provisions, the Commission will decide to retrieve it from the beneficiaries. In contrary to the new aid, an existent measure of aid is “protected” from the actions of the Commission since it is the subject of a cooperation procedure between the Commission and the Member States.

The beginning of transition period was more difficult for the economies of former communist countries, some of them being characterized by the existence of important industrial sectors which were functioning on the basis of huge volumes of subsidies from the government. Among those countries 8 were candidate to the adhesion. The European Union started the negotiations with candidate countries from the principle of equal chances among local private firms, potential foreign investors for those economies and big companies and, as a consequence, tried to eliminate any state intervention in this domain. All the agreements signed before the adhesion provided complete alignment of these new member states to the norms and legislation of the European Union in the sphere of state aid.²⁰⁵

European Commission proposed, during the pre-adhesion negotiations that every state establishes a national authority for the supervision of state aids. The measure has been implemented with quiet great difficulties by the given states. Negotiations in the field of competition policy have been finalized without demands of exception or delay with 4 of 10 candidate countries (Baltic States and Slovenia) in 2001, while in the case of the other 6 countries some open questions remained and some transitional arrangements have been accepted, most of them related to the fiscal crediting schemes, designed to attract foreign investors and to restructure steel industry.

In the last year, European Commission (DG Competition) launched a special program of consultations designed to define a special Plan of actions and a set of clear regulations, oriented to the increase of competitiveness in the field of state aids.²⁰⁶ The document has been finalized before 2007 and has been transformed in legislative set, clearly defined, applicable in all the EU Member States, which provides some ex-ante rules for the state aid:

- state aid can be authorized by the European Commission to be granted at the notification of the given member states, following certain guiding lines and in certain special domains of an interest to the European Union in general;
- regional development for covering the disparities created in a discriminatory way; research-development-innovation; environment protection; restructure or saving some firms in difficulties; capital of risk - are the above-mentioned domains;

²⁰⁵ Ciupagea C., Atanasiu I., Câmpeanu V., //Analiza și evaluarea evoluțiilor în plan economic, social, legislativ și instituțional în cazul noilor state membre ale Uniunii Europene. Studii de Impact. Studiul 9// Institutul European din România - p.83

²⁰⁶ “State Aid Action Plan. Less and better targeted state aid: a roadmap for state aid reform 2005-2009”, Consultation Document, DG Competition, EC, Brussels, 2005

-state aids will be more easily accepted if they will envisage the increase of innovative capacity and the development of small and medium size enterprises or if they will be designed to develop the human capital (training, jobs creation, etc).

In the framework of the subject concerning the harmonization of policy in the state aid field by the states that intend to integrate in the European Union, an interesting case is that of the Republic of Moldova. If the European Union has a performing normative framework in the field of state aids, the Republic of Moldova did not even define legally the state aids and has no mechanism of evidence of the latest until now.

But, the Republic of Moldova undertook international obligations to abstain from the granting of state aid that distorts or risks to distort competition, as well as to create a national mechanism for centralizing the information concerning the state aid.

Partnership and Cooperation Agreement between the European Union and Moldova²⁰⁷ (hereinafter referred to as the Agreement), as well as the Action Plan European Union - Republic of Moldova, establish that Moldova should undertake the Community Acquis in the field of state aid.

Art. 48 of the Agreement establish the obligation of the parties of the Agreement to action as to remedy or eliminate, through the application of its laws referring to competition or through any other methods, the restrictions related to the competition of enterprises or those resulting from the intervention of the state, to the extent to which those can affect the trade between the Community and the Republic of Moldova.

In the frame of the obligations established by the Action Plan European Union - Republic of Moldova, the National Agency for the Protection of Competition drafted the Law on state aid. Currently the unique legal tool in the field of state aid in Moldova is the Law Nr. 1103-XIV from 30.06.2000 regarding the protection of competition and, until de adoption of the Law on state aid, the competition authority of Moldova follows to take as legal basis the above mentioned law, especially art. 9, which prohibits the unjustified granting of fiscal or any other type of facilities to the economic agents so as to create them a privileged situation against other economic agents on the same market of goods.

Nowadays, in conditions of a lack of normative framework of state aids, it is impossible to monitor the state aids granted in the Republic of Moldova. Thus, all the state aids in Moldova can be divided in two categories:

-state aids granted on the basis of a normative act (laws and government decisions);

-state aids granted on the basis of an administrative act.

If the normative and legal acts are public, being published in the Official Monitor, then the administrative acts adopted by local public authorities and other institutions that manage public resources very often are not public and can only be discovered after a control over the management of public financial resources. Often the state aids granted on the basis of administrative acts are considered to be illegal and this is confirmed by the Reports of the Court of Accounts of the Republic of Moldova.

Analyzing the state aids granted in Moldova we see that there is a lack of unique support program for the autochthon enterprises. In many cases state aids are granted with a lack of transparency and with infringements to the law. The lack of normative framework in the field of state aid allows the majority of state interventions in the economy through financial support offered to enterprises to be qualified as infringements to the law. It is also obvious that in conditions when the legal framework of state aid lacks, many of the beneficiaries of state aid have been selected without an economic justification, in function of circumstances.

²⁰⁷ Partnership and cooperation agreement between the European Community and its member states, on one side, and the Republic of Moldova on the other, adopted on 28.11.1994 in Bruxelles, ratified through the Parliament Decision nr. 627-XIII from 03.11.1995

Still the state aids in Moldova exist and this fact cannot be ignored, but the current system of granting them is characterized by inefficiency, non-transparency and bureaucracy. Thus, there is an urgent need for the elaboration of normative framework of state aids in Moldova and for the establishment of a mechanism for centralizing and monitoring the information on the granted aids.

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EU INTELLIGENT STEPS TO MAINTAIN IN THE RACE OF THE 3RD MILLENNIUM

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The well known fight for staying in the hegemonic race of US-EU-Japan axis was perhaps too brutally interrupted by a seemingly simple economic and financial crisis that occurred in 2009 on the EFS world stage. Only that, from then and until now a seemingly endless series of debates and analysis to restore the steps of the community on the world scene like a magnet attracted the attention of the media and not least the politicians. Could it be an unanimous conclusion? Well, it seems that the problem of the intelligent reconstruction seems to cause many raids such as financial and economic espionage, which complains about the lack of sustainable ethical conduct generally valid. Of course that will be required in this particular neo-landscape specific to the 3rd millennium an intelligent neo-mix anchored to public and private forces, in order to reach the capacity to influence the power required by the trend of the XXI century.

Key-words: globalization, reconstruction, sustainability

JEL Classification: M – Business Administration and Business Economics; Marketing; Accounting

M1- Business Administration, M19 - Other

Starting from the premise that, in principle, an economic and financial crisis can be perceived by a corollary of faces, tools and actions and considering the neo-script EFS (economic-financial-social) present, we are able to appreciate that any country, region or area belonging to the spectrum M3 (micro-macro-mondo economic) present has to discern mechanisms able to bring a range of financial and economic growth and pass the unwanted episode from 2009. The past must load with effective strategies and tactics found in this XXI century, which must cope with reduced state budget, in the conditions of more and more unintelligent micro-macro economics allocations.

Such steps should be eliminated in perspective and aligned with actions able to match the landscape found in the EU area, in order to obtain a specific action model, capable of incorporating sustainable development compatible with current EFS environment. However, the proposals in June 2001 that defined sustainable development as a mechanism for meeting the needs of present generations without compromising those of future remained only a goal. Yet, such interesting approaches remain noted in several agendas of the European Commission meetings.

It would be beneficial to understand that such approaches do not allow a future extension without horizon, remains suspended pending as long as global crisis' waves (Martin, H.P., Schumann, H., 1999) flood the world from end to end, visible narrowing the states' action instruments seen individually. And although the term "sustainable development" dates back more than 30 years, one applicable generally valid mechanism was not even drafted and implemented.

In this context, a community state neo-vision and not only should comply proactively to be able to outline such a policy mechanism. It can also bring into question a true Community therapy able to answer a corollary of the essential issues of which the most stringent considering:

- identify risks that haunt EFS systems at M3, so it can be constituted on time effective blocking barrier, resulting in these efforts costs and minimal resources;
- possible development of a realistic benchmarking, able to provide understanding and arguments which regulates generic markets, upstream and downstream on value creation chain;
- adapting to the sinuous pressures brought by risks that are not carefully analyzed what claims community audits, able to ensure a balanced financial maintenance from the perspective of well known cost-benefit equation;
- understanding the Community growth strategies with a correct decision-making approach able to be permanently activated to Community feedback, which will ensure a proportionate approach to available resources to be involved in the strategies followed.

If we assimilate in a proactive way all these elements operational-conceptual then we can merge into a systemic mix that could be represented as:

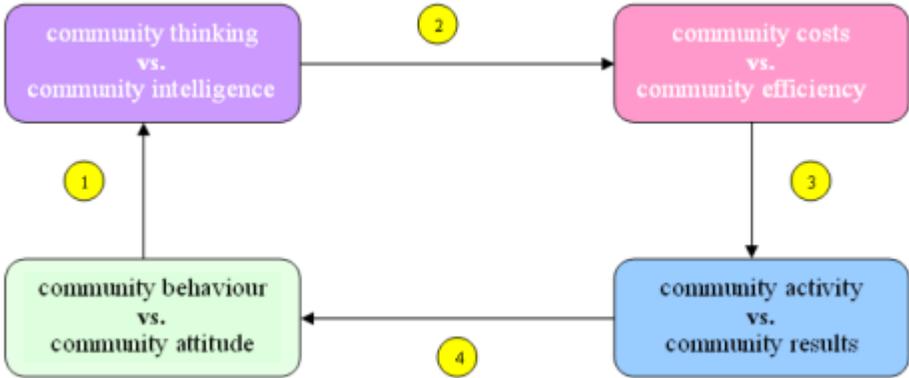


Fig.1. Reconfiguring the euro area mentality in a pragmatically neo-direction
 Source: made by authors

Starting from the 1-4 system, the involved changes consistently and logically requires evaluation of their effects in terms of a set of neo-retrieve factors at C3 (quantity, quality, competitive) so as to be able to bring a balanced assimilation, sustainable on micro-macro economic level. If this mechanism will in fact be implemented at Community level, we consider that the results currently posed ESI (economic sentiment indicator) may remain anchored to continue growing.



Fig. 2. ESI (Economic Sentiment Indicator)
Source: Business and Consumer Surveys, March 2010

If in March 2010 ESI has enjoyed a positive impetus to reach the level of 99.6 (+ 2.0 points) in the EU and the 97.7 (+ 1.8 points) in the euro area, the negative breaks from 2009 should represent a strong enough signal on economic activity under pulse rate crisis (Dufour, J.L., 2002) of XXI century. 2009 was also the only one responsible for changing the apparent sustainable upward trend (taking into account the period 1991-2009) specific to the euro area, by reference only to two relevant indicators: BCI (Business Climate Indicator) and industrial production, look rendered graphics in Fig. 3.

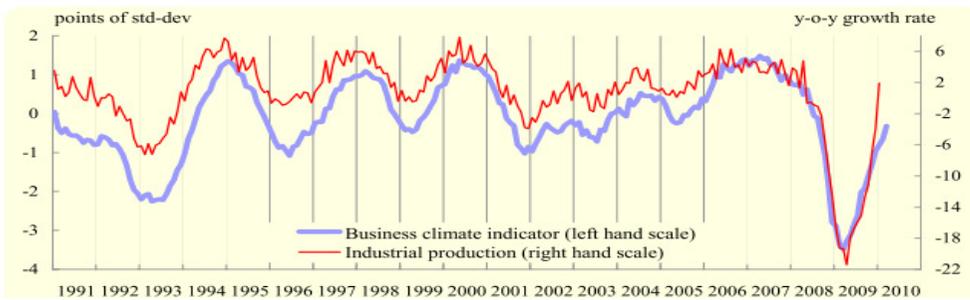


Fig.3. Business climate indicator and industrial production for the euro area
Source: European Commission services, March 2010

This can be better explained by optimistic projections of 2010, which are also strengthened by the observation of confidence indicator in industry, with complex analysis strictly on euro area, according to Fig. 4.

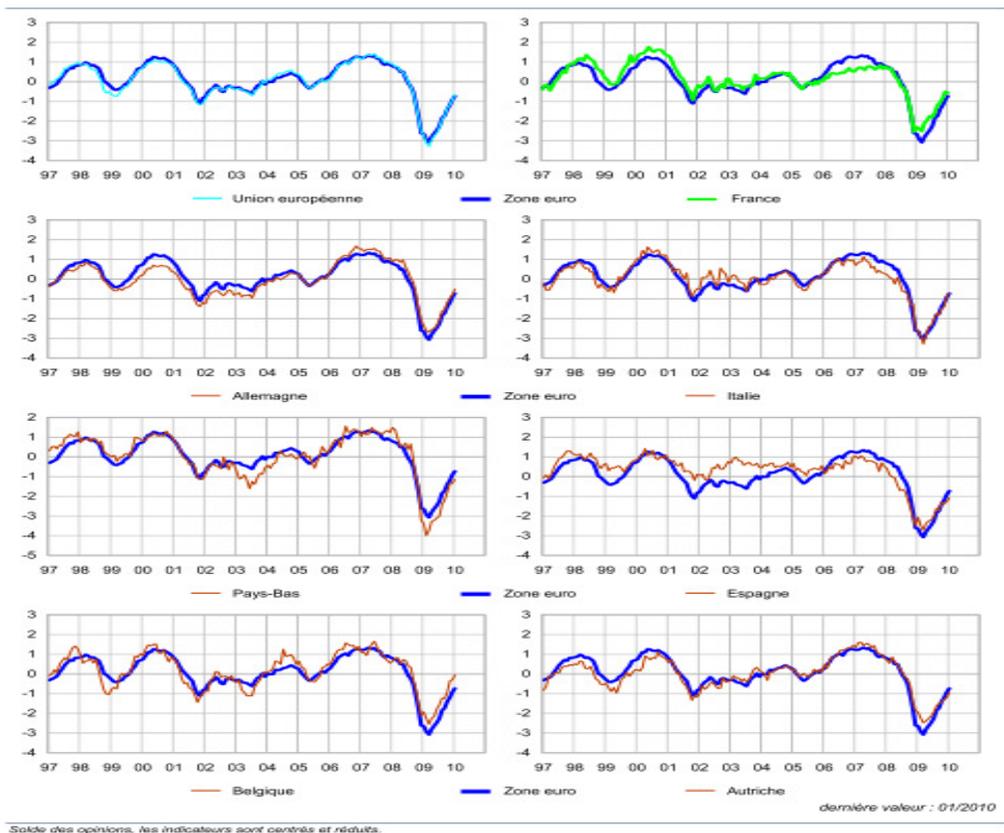


Fig. 4. Evolution of confidence indicator in industry - specific to euro area
 Source: European Commission, February 2010

And for this report extracted from the euro area covered by our present work, to be as comprehensive, relevant and transparent as possible, we consider that it must not be created niches at Community level capable of undermining the Treaty of Lisbon in 2007, which is able to guarantee various opportunities for development (Berowicz, L., 2001) of Community external relations, security, within a legal framework, and in full accordance with the rights of de facto powers of the EU.

Also a sensitive issue from the perspective of EU smart steps was found in military, the relations that line up on a M3 stage. It is therefore particularly important to reach a common ground and in long-term maintenance of European security by finding sustainable levers capable not to harm the EFS rights and interests at European level but also international. Even if the establishment of such a climate is a point of action continues in the Community, it must grasp a number of other disturbing factors which are involved in this context, able to converge dynamic to heaviness political forces EU relations' as a result of the unprecedented intensification of non-military neo-dimensions to the security community states (illegal immigration, electronic sabotage, organized crime, arms trafficking and/or drugs, etc.).

A generic superposition of such neo-patterns can reach the idea of EU decision-making mechanisms reconfiguration need in order to derive competitive actions-package, involved synergistically in the changes context undergo of the 3rd millennium EFS play. Și totuși, apreciem că situația devine cu atât mai interesantă cu cât jocul Rusiei pe scena mondială devine tot mai imprevizibil în raporturile sale cu zona comunitară care pare să rămână sub incidența unui raport de influență imaterial dar suficient de pragmatic. And yet, consider that the situation is

even more interesting with Russia's game on the world stage becomes more unpredictable in its relations with the Community area which seems to remain under the influence of an intangible report but pragmatic enough. O problemă conexă este datorată și raporturilor Rusiei cu lumea islamică, ceea ce aduce noi fricțiuni prin demersurile întreprinse de NATO (1), care rămân perpetuu în poziție de alertă. A related issue is due to Russia's relations with the Islamic world, which brings new frictions with the steps taken by NATO (Archick, K., Gallis, P., 2005), which remain perpetually in alert position.

Moreover, the context in which Russia does not seem to give up power pole inserted at the regional level, EU intelligent approach would be limited to prevailing concerns over leaving on strengthen own institutional reforms and / or grinding construction euro area, but the launch of projects able to lead Member States in a race of extra-EU cooperation likely to lead to a visible intensification of international trade so as to actively contribute to the fight for redrawing the zones of influence of geopolitical (Hlihor, Ct., 2001) and geostrategic.

It is understood that currently there is not drawn a transparent map that contains EU desirable limits and actually didn't notice until now the existence of any document to restrict de facto this right. De fapt, extinderea comunitară aflată sub incidența unui dezderat optimist nu se va intersecta cu bariere reale de opoziție statală decât în contextul în care membri ideja existenți vor solicita în mod expres stoparea acestui fenomen. In fact, EU enlargement covered by an optimistic goal will not intersect with the real barriers of state objection only in the context in which members will ask specifically to stop this phenomenon. This clearly claims taken account of common community ideals and values, as long as they are concerned, according to the laws, rights and shared responsibilities. EU forces relations in the horizon of 2015 are, clearly, under cyclical effects of benchmarking trio's USA-EU-Japan, not forgetting any moves made by China and Russia. In this case, we find it appropriate to present in Fig. 56 și situația schimburilor proprii axei input-output precum și pe cea a soldului tranzacțiilor curente în perioada 2003-2009 the situation of input-output axis trade and also the current transactions balance during 2003-2009.

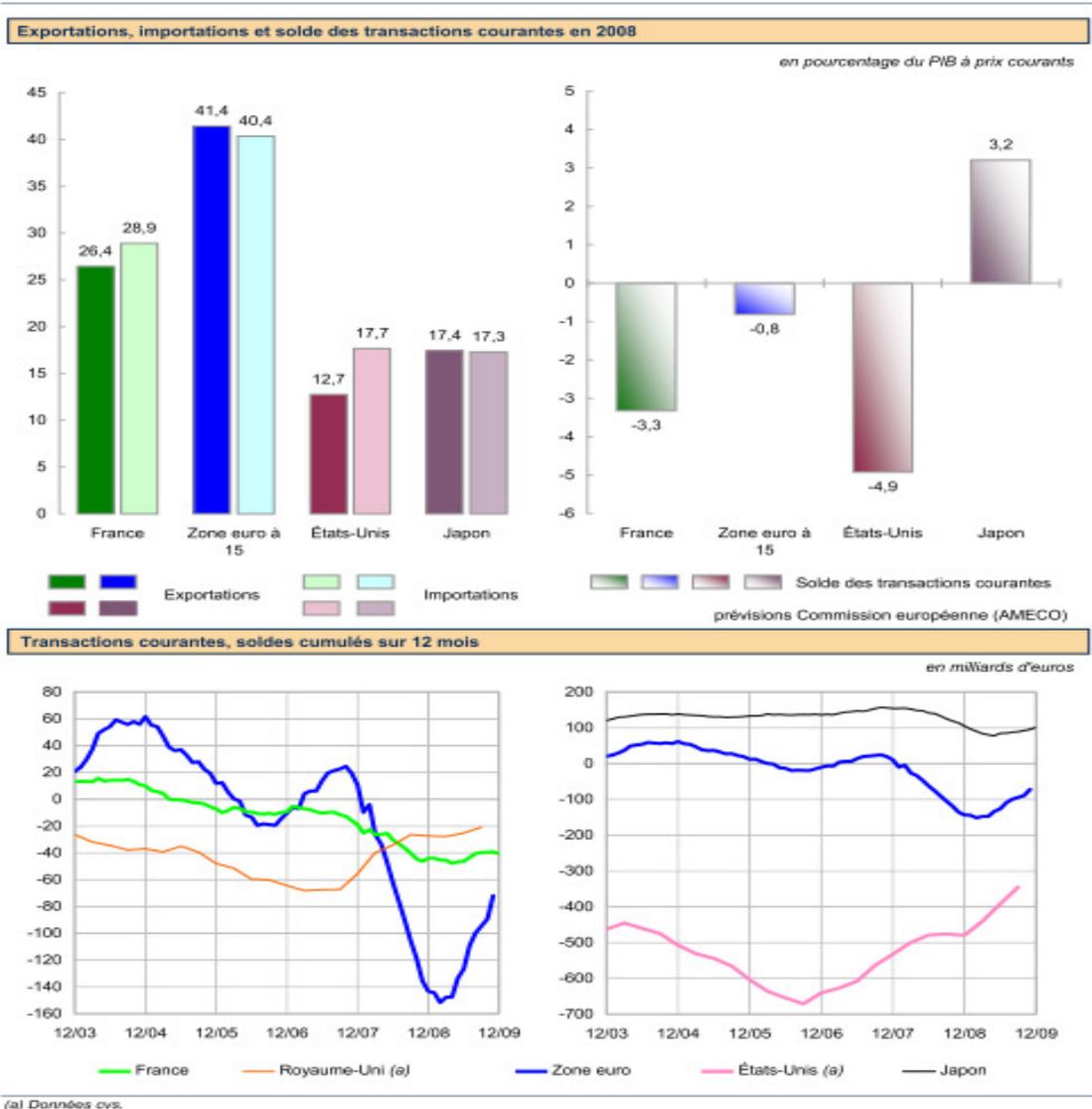


Fig. 5. Foreign trade and balance of current transactions

Source: national reports, European Commission, EUROSTAT and the ECB, February 2010

2009 economic and financial effects that translate globally, according to the principle of domino, will also remain in 2010 another coagulant factor of pressures that lurk Community stability. In this landscape the EU power can not be maintained or increased only in the context of a neo-touch intelligent assimilation, which to render neo-assets on the record of a stable democratic consistency.

This will talk more and more about the duo NATO-EU (NATO, 2001) to be maintained in the perspective of bet that the euro area can not afford to lose in the context in which he brings more than a guarantee of a strategic approach, actually representing a pact with long-term future.

Conclusions

Dynamics of an EFS uncertain horizon, which occurs after the post-2009 curtain was raised, does not provide more sustainable prospects than we expected. It is assumed that the future brings even some of past and/or present solutions, but not in such volcanic and tumultuous environment as the one specific to XXI century.

Practically, nothing could be maintained, preserved and reproduced in the current EFS neo-environment, everything was doomed bottlenecks systemic-rational (Stiglitz J. E., 2005) that practically paralyzed preparation and years of training of most active Member in the M3 stage. Therefore, awareness of new paradigms and limits of contemporary shows that the mainspring of the neo-perspectives should not be stopped but forced to pump again mobilizing energies of creative know-how at LRI level careless of power of influence which they proper said discharge (Dumitraș, C., Roșu A., 2010).

In other words, valences of the EU smart steps to maintain supremacy in the race world, must be harmonized directly in a useful, feasible and rational way, with the approaches to operational-systemic planning, directly aligned with emerging sustainable tactics. However, a comprehensive Community vision can not be extracted from a context of globalization that includes a Summum of feature and positive-negative factors, an environmental mortar mix specific to effervescent EFS precedent free and EFS and military wars (Arădăvoaicei Gh., Stancu V., 1999), which become increasingly intangible, more versatile and more inhuman. And in such circumstances a community specific area rattrapage can no longer be anchored by a forecast into the future, much less as the mechanisms of globalization in mobile contemporary born new crisis germs that "takes the form of institutional perplexity, supplementing the one of elites' power (Bădescu, I, 2009).

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COMPETITIVENESS AND INNOVATION OF THE ROMANIAN COMPANIES

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In front of the Romanian economy which has been integrated only for a few years, lies the challenge of competitiveness which in many cases is associated with innovation. To turn from a close center oriented economy to market economy required an enormous effort from the population and from the companies as well, but the real challenge is still to come. The requirements of competitiveness and innovation of the United European Market are compulsory, from the point of view of the Romanian entrepreneurs is vital for their survival and development. The studies made so far are not very promising. There are many things to be done, many problems are still not solved in the European Union. The European Union is behind its traditional competitors USA and Japan. This is why one of the major concerns of the EU is competitiveness and innovation.

Key words: competitiveness, innovation, development, factors.

JEL classification: O11, P25, F15, O31

The appearance of the Common European market and the economic situation of the USA and Japan required from the EU the reconciliation and putting forward of the strategies for growth and development before their national economic politics. Two documents are representative from this point of view The Agreement for Stability and Growth and The Lisbon Plan. The initial plan which wanted to turn the EU into a model of achieved competitiveness proved to be exaggerated and at the 2005 European Council held in Brussels called the results „mixed” and the unofficial results are even more drastic, the Lisbon Strategy is characterized by „*the lack of development*” (Hodson, 2005), „*failure*” (Pisani-Ferry and Sapir, 2006; Wanlin,2006), „*disappointing result*” (Kok, 2004) and even more „*a ridiculously ambitious main target*” (Wanlin (2006).

According to the data of Wanlin (2006) in 2005 the average GDP of the EU of the 15 was smaller with 27% of the GDP of the US, though in comparison with 2000 till when the productivity of the EU grew with 1.4% yearly between 1995 and 2005, then the growth in the US was 2.4% yearly. The study prepared by Bannerman (2002) showed that in the period 1990-2000 the EU reached a 3% growth only in one year in contrast the growth fell under 3% in the US only in one year. The level of the achievements of the main competitors mainly that of Japan’s and US’s secure a perfect basis for comparison regarding the level of competitiveness that must be achieved by the EU. The main objective of the Lisbon Plan says that “*an economy based on knowledge, that would be the most competitive and dynamic in the world, that is able to develop continuously, with more workplaces and bigger social cohesion*” has to be achieved till 2010. This is characterized by four things: “*growth*”, “*innovation*”, “*employment*” and “*cohesion*” plus we have to add the fifth one which was decided at the 2001 meeting of the European Council held in Goteborg taken from the idea of “*sustainable development*” regarding “*environmental protection*”.

By the middle of 2005 the accent fell on a precise target whose main objectives were directed to “*growth*” and “*employment*” but the targets multiplied on the level of communities and nationalities.

The Lisbon Strategy despite its goodwill and disputable applications appears as a reaction, a behavior which is needed because of the growing economic battles. The Lisbon Strategy does not offer a recipe for the achievement of higher competitiveness for all industries. Till now the competitiveness of the national economies was analyzed either in big lines – where more national economies were discussed World Economic Forum – Yearly Competitiveness Reports; IMD

World Competitiveness Yearbook), or in the analysis of the EU's economies, including the new member countries and the nominated countries economies (EU Commission, EU Sectorial Competitiveness Indicators, Lisbon Review, CER, The Lisbon Scorecard I,...,VI), or in the national analysis regarding the achieved Lisbon objectives mostly in the case of the national programs (in the case of Romania the GEA – *The Reports of the Group of Applied Economics and the Lisbon Strategy 2006 – National Reference Program*). The different studies cannot be compared in all respects because in most of the cases the data under discussion differ. The results of the broad reports are in favor of “*global*” indicators, while the so called “Scorecard” reports use “*structural*” indicators which use values taken from the economy and social medium, that can be aligned into a specific category from E to A where E is the least powerful value and A is the most powerful one.

The reports took into account the factors of competitiveness also but from different perspectives – the WEF is not a “*benchmark*” but it measures the respective factors with a specific method and ranks the countries according to it, while the reports based on the Lisbon Plan compare the facts to a previously planned objective. We have to mention that the objectives are determined based on the situation of the member countries which differ a lot from the situation of the new ones which sometimes make the comparison difficult or even impossible.

From the above mentioned we can conclude that beside of the fact that they used the same objectives the approaches differ, the indicators of the competitiveness are different and in such cases the different reports rank differently the same country.

Till 2005 the WEF used two indicators to determine the competitiveness of the different countries – GCI (*Growth Competitiveness Index*) and M/BCI (*Micro/Business Competitiveness Index*). Besides these the WEF in its 2006/2007 report developed a new method for determining competitiveness, which includes all the indicators of competitiveness taking into account the facts of the present and productivity in which they are used. It includes the effectiveness of the work and the flexibility of the workforce market. The factors of competitiveness can be divided into 9 groups: 1. Institutions; 2. Infrastructure; 3. Macro-economics; 4. Health and education; 5. Higher education and trainings; 6. The effectiveness of the market; 7. The level of technology; 8. The level and complexity of companies; 9. Innovation. Though these factors are common their importance varies from country to country and from periods to periods.

The WEF Report based on the phases of the factors of competitiveness speaks about ***three phases in which a country can be:***

- I. *Phase* – The competitiveness is *factor driven*. It is characterized by: the low level of education of the workforce, the existence of natural resources – which are at the basis of small prices, but the products are simple. At the same time supposes the existence of some basic requirements: institutions, infrastructure etc.
- II. *Phase* – The competitiveness is *efficiency driven*. This period is characterized by high efficiency and the good quality of the products. The competitiveness is the result of the high level of education of the workforce using the existent technologies.
- III. *Phase* – The competitiveness is *innovation driven*. This phase is based on the products which are the result of innovation and on the complex production processes.

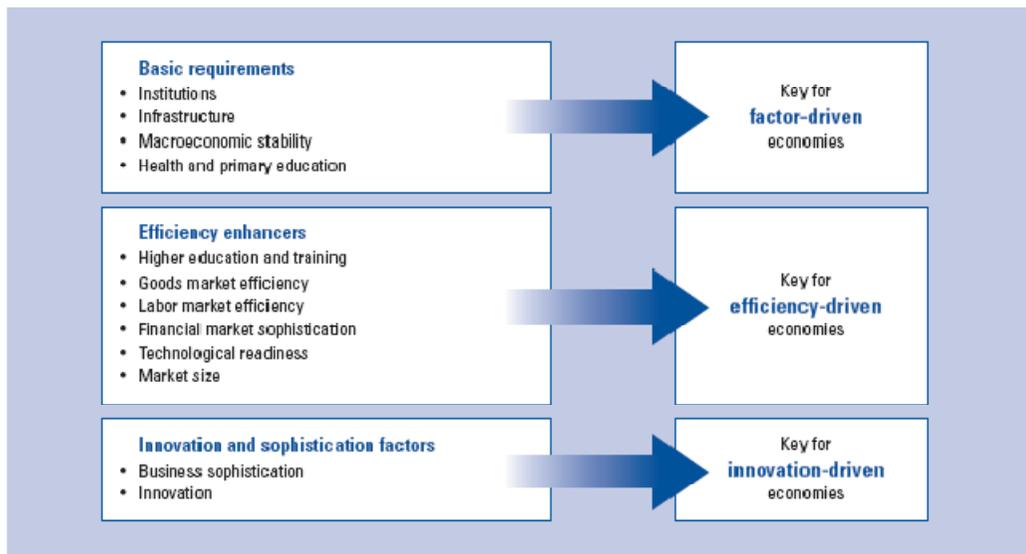
The GCI captures this open-endedness by providing a weighted average of many different components, each of which reflects one aspect of the complex reality that we call competitiveness. We group all these components in 12 different pillars that we call the *12 pillars of competitiveness*²⁰⁸. These pillars are:

²⁰⁸ It is notable that the 12-pillar index recalls the origins of the World Economic Forum's work on competitiveness, taking into account the complexity of competitiveness and the large number of factors driving productivity. Klaus Schwab's pioneering competitiveness index from the Report on the Competitiveness of European Industry (Schwab 1979), and annual competitiveness reports released over the many years that followed, was a weighted average of 10 factors that can be summarized as follows: (1) dynamism of the economy, (2) industrial efficiency and cost of

- First pillar: *Institutions*
- Second pillar: *Infrastructure*
- Third pillar: *Macroeconomy*
- Fourth pillar: *Health and primary education*
- Fifth pillar: *Higher education and training*
- Sixth pillar: *Goods market efficiency*
- Seventh pillar: *Labor market efficiency*
- Eighth pillar: *Financial market sophistication*
- Ninth pillar: *Technological readiness*
- Tenth pillar: *Market size*
- Eleventh pillar: *Business sophistication*
- Twelfth pillar: *Innovation*

The concept of stages of development into the Index are integrated by attributing higher relative weights to those pillars that are relatively more important for a country given its particular stage of development. That is, although all 12 pillars matter to a certain extent for all countries, the importance of each one depends on a country's stage of development. To take this into account, the pillars are organized into three subindexes, each critical to a particular stage of development. The *basic requirements subindex* groups those pillars most critical for countries in the factor-driven stage. The *efficiency enhancers subindex* includes those pillars critical for countries in the efficiency-driven stage. And the *innovation and sophistication factors subindex* includes all pillars critical to countries in the innovation-driven stage. The three subindexes are shown in Figure 1.

Figure 1: The 12 pillars of competitiveness



Reference: World Economic Forum, "The Global Competitiveness Index: Measuring the Productive Potential of Nations" XAVIER SALA-I-MARTIN, JENNIFER BLANKE, MARGARETA DRZENIEK HANOUIZ, THIERRY GEIGER, IRENE MIA, FIONA PAUA, weforum.org/pdf/.../Reports/gcr_2007/chapter1.pdf

production, (3) the dynamics of the market, (4) financial dynamism, (5) human resources, (6) the role of the state, (7) infrastructural dimension, (8) outward orientation, (9) future orientation, and (10) sociopolitical consensus and stability.

The interrelation of the 12 pillars are: Innovation (12th pillar) is not possible in a world without institutions (1st pillar) that guarantee intellectual property rights, cannot be performed in countries with a poorly educated and poorly trained labor force (5th pillar), and will never take place in economies with inefficient markets (6th, 7th, and 8th pillars) or without extensive and efficient infrastructure (2nd pillar).

The different member countries of the EU take into account the above mentioned ones in the development of their own strategy. The 2005/2006 WEF report puts Romania on the 68th place among the 125 countries which was a place lower from the earlier year's rank though the level of the indicator grew to 4.02 from 3.67. This means that the situation worsened on a relative level (compared to other states). The Report said that for the first time Romania leaves the I phase (cheap workforce, natural resources) and because certain basic requirements have been fulfilled (institutions, macro-economic stability, infrastructure, the basic level of education and health system) it gets into the II phase which is efficiency driven.

Tabel 1: Global Competitiveness Index 2007-2008 (position)

Rank (Out of 131 countries/economies)	
Global Competitiveness Index 2007-2008	74
<i>Subindex A: Basic requirements</i>	88
1st pillar: Institutions	94
2nd pillar: Infrastructure	100
3rd pillar: Macroeconomic stability	84
4th pillar: Health and primary education	52
<i>Subindex B: Efficiency enhancers</i>	62
5th pillar: Higher education and training	54
6th pillar: Goods market efficiency	74
7th pillar: Labor market efficiency	85
8th pillar: Financial market sophistication	78
9th pillar: Technological readiness	59
10th pillar: Market size	43
<i>Subindex C: Innovation and sophistication factors</i>	73
11th pillar: Business sophistication	73
12th pillar: Innovation	76

Reference: [weforum.org/en/initiatives/gcp/Global Competitiveness Report/index.htm](http://weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm)

Table 2: The normalized values of the factors influencing competitiveness

Sub-indicators	Romania		First place	
	Indicator value	Rank	Indicator value	Country
I. Basic requirements	4,13	83	6,05	Denmark
1.1. Institutions	3,40	87	6,05	Finland
1.2. Infrastructure	3,05	77	6,51	Germany
1.3. Macro-economy	3,94	97	6,19	Algeria
1.4. Health and education	6,38	69	6,98	Japan
II. Factors strengthening efficiency	3,99	55	5,66	USA
2.1. Higher education	4,34	50	6,23	Finland
2.2. The efficiency of the market	4,03	76	5,69	Hong-Kong

2.3. The level of technology	3,59	49	6,01	Sweden
III. Innovation	3,25	73	6,02	Japan
3.1. The level and complexity of companies	3,89	73	6,26	Germany
3.2. Innovations	3,14	68	5,90	Japan

Reference: *The Romanian European Institute, 1st study, 2006*

We can see from the table that Romania's weak points are linked to the factors defining competitiveness but the growth of it depends on the investment decisions of the companies which are influenced by the business environment.

In the study of the WB published in 2006 which dealt with the business environment using ten indicators put Romania on the 46th place, in comparison with the 72nd place of the earlier year out of 170 countries.

Competitiveness can be defined in several ways, but the most accepted one defines it as the ability to sell a product. In practice it is characteristic from the point of view of companies, industries or on a macro-economic level. When we speak about the competitiveness of companies of industries then in most of the cases we analyze the supply and in this case it appears in the form of price or quality. The price based competitiveness which is the result of the difference between the efficiency of the production factors and the price of it that in most of the cases is the result of economies of scale. The quality based competitiveness can be the result of the market markup the products in question differ profoundly from other products. The reports on the industries use the quantitative factors (price, the size of exports, productivity, investments) and qualitative ones (management, brand, innovation).

The GEA spoke about the followings in its report on Romanian competitiveness:

1. *Workforce* – with the following sub-indicators:
 - unit labor cost – ULC;
 - the percentage of educational costs in the GDP;
 - the percentage of graduates in sciences and technology;
 - long life learning – LLL.
2. *Market* – sub-indicators: the level of investment per capita
3. *Research – Development – Innovation* indicators:
 - the level of cost for RDI in GDP;
 - the rate of innovation.
4. *Business environment* – with the following sub-indicators
 - state aids;
 - risk capital;
 - business survival.
5. *Infrastructure* – with two structural rates:
 - the level of logistics in GDP (growth indicator);
 - IT costs.

The work method implies four stages:

- 1.The appearance of composite indicators which compares the Romanian competitiveness to the EU's average;
- 2.The analysis of the influential factors compared to the EU;
- 3.The analysis of the relative position of the Romanian competitiveness (compared to the 15 EU countries and to the 25);
- 4.The analysis of the relative position from the point of view of the influential factors.

We have to mention the following results:

Table 3: The nominal value of the indicators of competitiveness

	Romania	EU 15	EU 25
Competitiveness	0,0017	0,042	0,038
Work efficiency	0,006	0,047	0,042
Employment rate	0,029	0,037	0,035

Conclusions

As a conclusion we have to mention that Romania in its fight with the economic and social problems did not promote the objectives set by the Lisbon Strategy. In the EU the main objective is to develop competitiveness with steps increasing innovation – they create new workplaces and stress those economic activities that protect environment – while in Romania the main stress was on the restructuring of the economic structure and to improve the entrepreneurial environment. The politics of the future will stress the development of the infrastructure – as the main factor of economic growth – to improve the partnership between the public and private to improve RDI, to improve the ability to develop the structural basis, to improve education and trainings and to facilitate financial reductions for RDI.

In the present there are more documents on the tasks which are varied. We can speak about the National Development Plan, The National Strategy Framework, Industrial Political Strategies, The National Export Strategy, The National Strategy of RDI 2007-2013.

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ROMANIA'S ABSORPTION POTENTIAL OF E.U. FUNDS FOR RURAL DEVELOPMENT – A REGIONAL ANALYSIS

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The post-accession programs supported mainly by the European Union create a better chance for the modernization of the agricultural sector and the rural area in Romania. However the funding process depends highly on the absorption capacity of the potential beneficiaries. The paper focuses on the regional distribution of financial allocations for rural development, especially for agricultural holdings, by correlating them to the determinant factors of the absorption capacity. The distribution of selected applications at regional NUTS3 level reveals that poorer regions with high employment in agriculture have no advantage in the access to development funds.

Keywords: rural development, regional development, financial support, absorption capacity of the agricultural sector

JEL classification: O13, R12, R38

1. Introduction

The process of Romania's integration to the European Union determined major changes in the economy and society (Zahiu, 2006). The pre-accession programs (SAPARD) and later the post-accession programs based on non-refundable European support and funds from national public sources in agriculture and rural areas contributed to these changes (Toma, 2008). The development of rural areas is the main objective of the National Rural Development Programme of Romania 2007-2013 (NRDP, 2009), but this is also aimed by market policy measures in agriculture and other measures provided by post-accession operational programmes for development (Toma, 2009).

In 2010, after three years since the accession to EU, the programmes supported by European funds have made progress in institutional building, selection of applications for the funds and the payments process. The preparation period for some of the NRDP measures was extended because of institutional disfunctionalities and some of them will be implemented starting with 2010. The absorption of funds provided for investment in agriculture is still lagging behind, even if the process was accelerated in 2009. The rural area is changing not only as a result of post-accession programmes, but also of changes in the population behaviour in the new context.

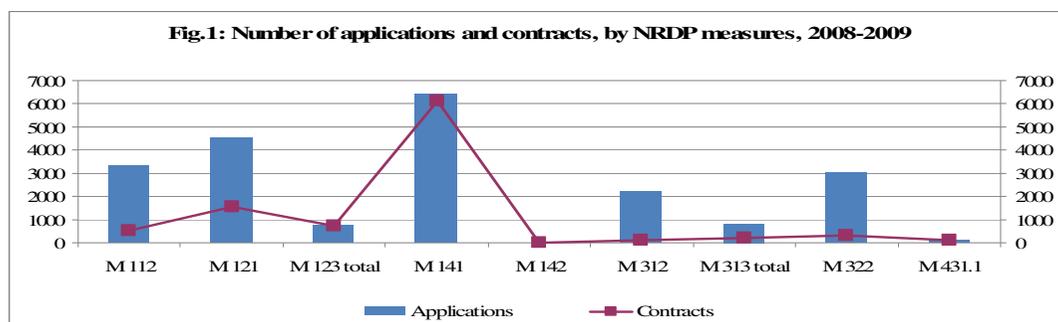
2. Comparative analysis of projects' funding for rural development in the period 2007-2009

The only measure started for implementation in 2007 was *211 Support for mountain areas*, while the next measures started in March 2008 (NRDP Progress Report, 2009). At the beginning of 2010 most of the projects are in the stage of the funding process, so it is too early for evaluations of their impact. However the behaviour of potential beneficiaries of funds is reflected by the distribution of applications by measures and by the share of eligible projects in total applications. A high number of beneficiaries involves a larger part of rural population connected to the development process.

The following analysis takes into consideration the measures financed from NRDP, except the direct payments per hectare (measures 211, 212 and 214) and the direct complementary payment (measure 611). Regarding the total number of applications until 09.04.2010 (fig.1), in a good

position are the measures *121 Modernization of agricultural holdings* and *141 Supporting semi-subsistence agricultural holdings*. The measure 121 was attractive, since the 4529 applications in 2008-2009 sessions asked for a public support that is 1.4 times higher than the funds allocated by NRPD for the whole period 2007-2013. However only 34% of the applications were selected for funding, representing 53% of the total public allocation. The number of applications for the measure 141 is much higher, but the 6148 applications selected and contracted cover only 9.7% of the public allocation for 2007-2013. These projects have a lower average value and also lower potential for modernization of agriculture.

One of the most attractive NDRP measure was *322 Village renewal and development*, but the overwhelming number of applications was only partly selected, by reaching at present only about 52% of the total public financial allocation for 2007-2013.



112 – Setting up of young farmers; 121 - Modernization of agricultural holdings; 123 – Adding value to agricultural and forestry products; 141 - Supporting semi-subsistence agricultural holdings; 142 – Setting up of producer groups; 312 – Support for micro-enterprises creation and development; 313 – Encouragement of tourism activities; 322 – Village renewal and development, improving basic services for the rural economy and population and upgrading of rural heritage.

Source: Romanian Ministry for Agriculture and Rural Development, DG for Rural Development

The economic crisis had strong negative effects in Romania in 2009 and 2010 and is a factor that reduces the capacity of co-financing European programmes from national public and private sources, in accordance with the decreasing income of the state budget and of the potential beneficiary economic agents. Also there is reduction of the economic agents' absorption capacity of the financial allocation for market oriented activities, because of the decrease of the internal and external demand for goods. The crisis induces distortions to the absorption capacity and also to expected results of financial support due to its deep impact and high uncertainty about the recovery process.

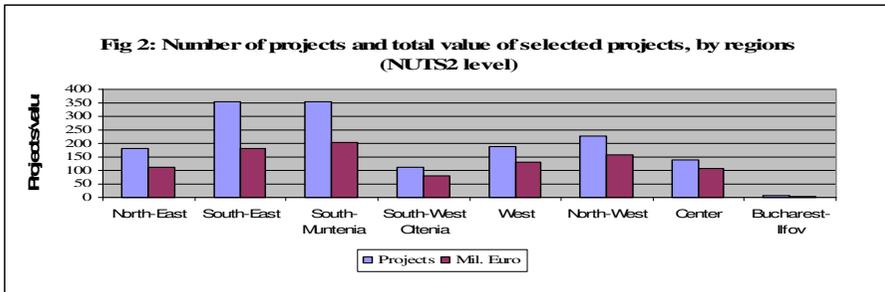
The measures for the improvement of competitiveness in agricultural holdings and semi-subsistence farms should contribute to the sustainable development of the Romanian agriculture. But the results of these measures will be seen only in medium and long term. The expected effects on agricultural producers are the increase of investments for modernization and transformation of holdings in entirely market oriented production units. The number of holdings able to comply with the quality standards for agricultural products should increase, as well as the number of units able to export agricultural products. The increase of investment leads to higher productivity and agricultural income, by having positive effects on the rural development.

3. Financial support for the modernization of agricultural holdings

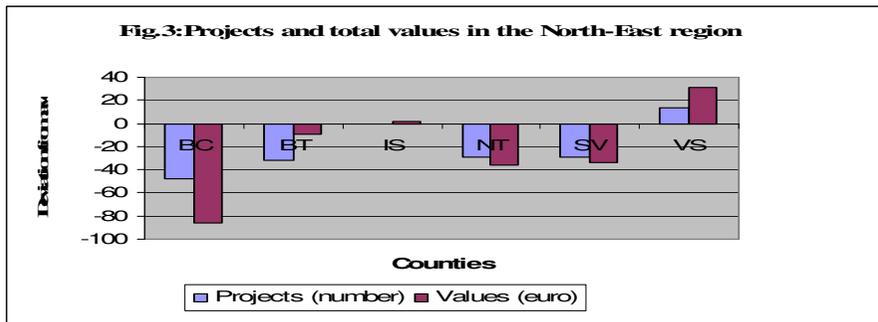
The agricultural resources and the absorption capacity of the financial support for agriculture are unequally distributed in the territory (Alexandri, 2008). For the moment the best picture for this capacity is given by the regional distribution of the selected applications. Actually investment in agriculture is the key of rural development, since agriculture is still the main activity in rural areas. Potential beneficiaries that understand the advantages and the mechanism of the public

support in a limited post-accession period and have the ability to apply successfully for funds represent the main source for future rural development. The crisis may delay the process, but there is still time until the end of the programming period.

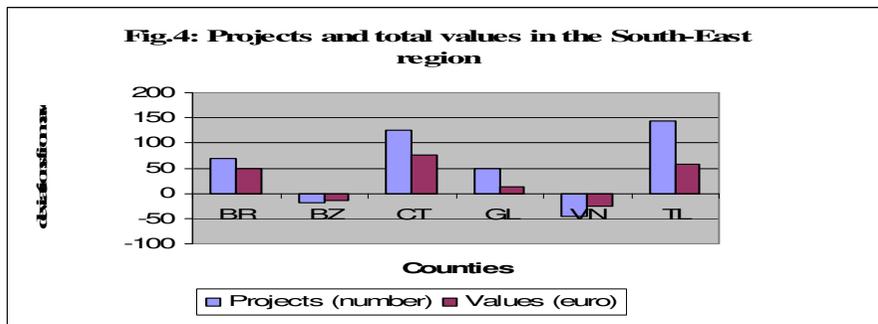
The following analysis is based on own calculations by using data from the Selection Reports of the Ministry of Agriculture regarding applications for the NRDP measures. The highest number of selected applications are in the regions South-East and South-Muntenia (fig.2), but their average total eligible value per project is lower than in other regions.



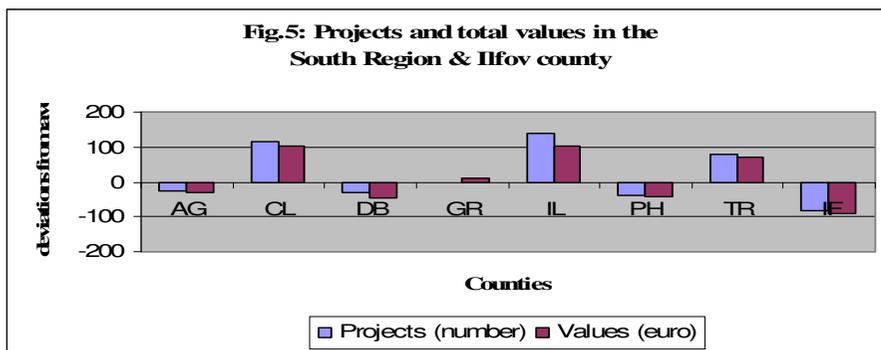
The deviation from the national average (in%) of the number of selected projects and their total eligible value by counties (fig.3-9) show the important local differences in improving the activity in agriculture.



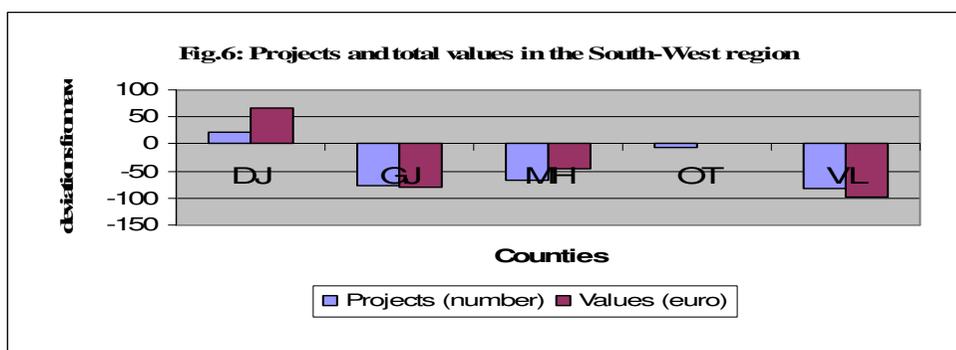
BC- Bacău, BT-Botoșani, IS-Iași, NT-Neamț, SV-Suceava, VS-Vaslui



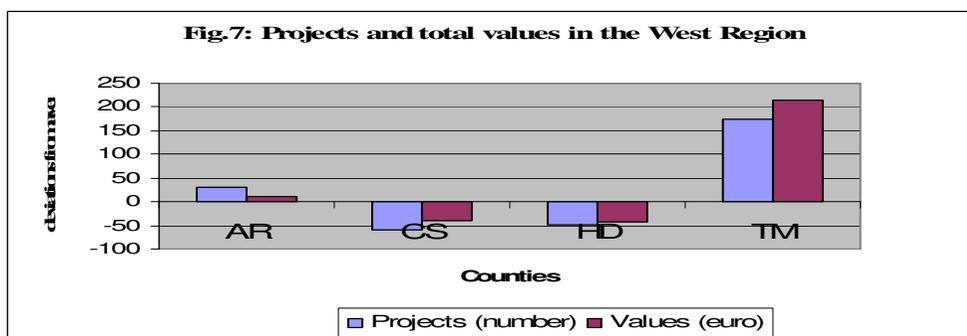
BR-Brăila, BZ-Buzău, CT- Constanța, GL-Galați, VN-Vrancea, TL-Tulcea



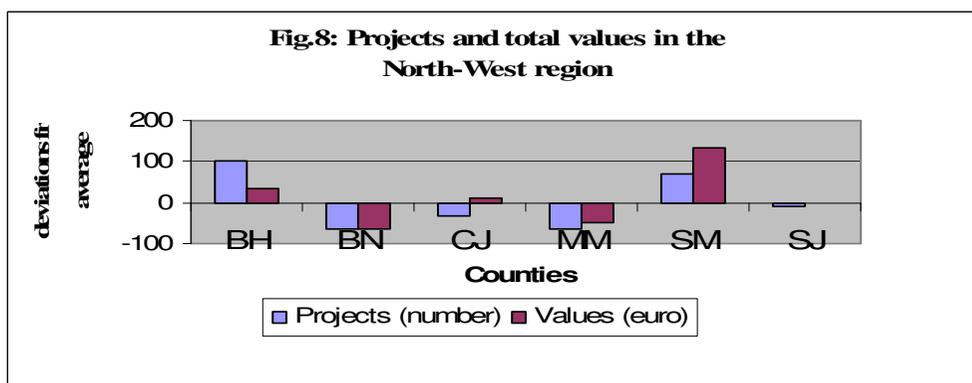
AG-Argeș, CL- Călărași, DB-Dâmbovița, GR-Giurgiu, IL-Ialomița, PH-Prahova, TL-Teleorman, IF-Ilfov

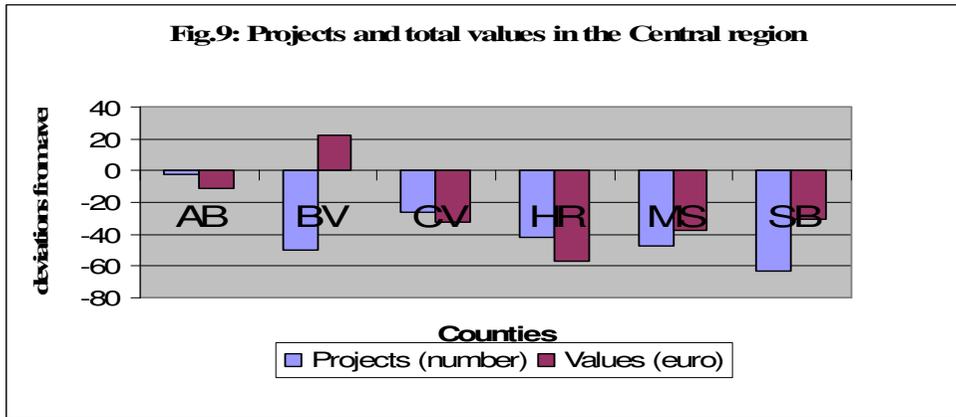


DJ-Dolj, GJ-Gorj, MH-Mehedinți, OT-Olt, VL-Vâlcea



AR-Arad, CS-Caraș-Severin, HD-Hunedoara, TM-Timiș





AB-Alba, BV-Brașov, CV-Covasna, HR-Harghita, MS-Mureș, SB-Sibiu

4. Determinants of the absorption capacity

The lack of homogeneity within the development regions in connection with the implementation of the 121 measure is due to the differential in endowment with natural agricultural resources, but also to other economic and social factors. The authors consider that the most important factors that determine the absorption capacity of the financial support at county level (NUTS3) are: gross value added (GDP), agricultural production, agricultural area, employment in agriculture, gross enrolment rate and share of rural population. While calculating the correlations, the factor “share of rural population” was eliminated from the calculations because of possible autocorrelations of error effects with employed population in agriculture.

The procedure used was the comparison of the number of projects and total eligible values of the projects with the absorption capacity given by the determinant factors in each county of every region.

Finally we tested the correlations between allocated funds and specified indicators. For that we calculated the deviations from the average level of each indicator for every county:

$$Dif(x_i) = \frac{x_i - \bar{x}}{\bar{x}} \cdot 100$$

Where:

Dif(x_i) – deviation from average level of x

x_i – value of x variable for each NUTS 3 level

\bar{x} - average level of x

By testing separately each indicator’s influence over deviation of distributed funds (F_i) and the selected projects (P) we found that only the agricultural area (S_AGR_i) is significantly correlated from the econometric point of view with both variables. The influence of the other indicators is not significant in the econometric correlation, but the gross enrolment rate has a special position.

However, in the combination of influence factors the best results of the econometric tests obtained are in the case of the econometric equations that use the independent variables agricultural area (S_AGR_i) and employment in agriculture (Poc_AGR_i). The regression equations which add other factors besides the previously mentioned factors are not significant from the econometrical point of view. According to these conditions, we used the following equations of regression:

$$DF_i = a \cdot DS_AGR_i + b \cdot DPoc_AGR_i + \varepsilon_i$$

$$DP = c \cdot DS_AGR_i + d \cdot DPoc_AGR_i + \varepsilon_i$$

$i = 1, 2, \dots, 42$ NUTS 3

where:

DF_i - deviation from average of Funds

DP - deviation from average of Project number

DS_AGR_i - deviation from average of Agricultural Area

$DPoc_AGR_i$ - deviation from average of Employment in Agriculture

ε_i - estimation error

The comparative results for the two variables are in table 1.

The agricultural area has the highest influence on the number of selected projects, as well as on the value of the projects (with a slight difference in favour of project numbers – the coefficient of correlation 1.72 compared to 1.668 for project value).

Table 1: Coefficients of correlation

Variable	Funds	Number of projects
DS_AGR_i	1.668837	1.720024
[t-stat]	6.263487	5.871887
$DPoc_AGR_i$	-0.445832	-0.522539
[t-stat]	-1.894956	-2.020167
C	4.37E-15	7.20E-15
[t-stat]	6.06E-16	9.08E-16
R squared	0.518237	0.481821

The authors consider that the correlation with the average size of the agricultural holding from each county would bring better results of the econometric tests, but there is a lack of necessary data for the moment. The findings of the procedure are normal because the efficient agricultural holdings need larger agricultural area. It is interesting that the employment in agriculture has a negative influence on the correlation to the allocated funds and the selected project number. Even if the value of the coefficients of correlation is low and at the limit of econometric significance, the results are normal if we consider the surplus of employment in agriculture.

5. Conclusions

The most successful measures for rural development in terms of application selection and their funding in the period 2008-2009 were those regarding the modernization of agriculture and the village renewal and development. The selected projects for investment in agricultural holdings (measure 121) are unequally distributed at regional level. The less developed regions North-East and South-West have also less accessed the development funds. According to the econometric analysis, the most important determinant of the absorption capacity at regional (NUTS3) level is the agricultural area, while the employment in agriculture has rather a negative influence.

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THE IMPACT OF STRUCTURAL FUNDS IMPLEMENTATION IN BIHOR COUNTY. CASE STUDY ON THE REGIONAL OPERATIONAL PROGRAMME 2007-2013

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As The County's Development Plan 2007-2013 shows, Bihor county, which through its geographic position and existing local resources, plays a strategic role, of the West gate of Romania, distinguishes through a low unemployment rate, of 2,7% in 2007, on the third place in Romania after Bucharest and Timiș county and on the first place in the North-West region that he is part of, through a high living standard, with a GDP of 55% of the European average, ranks among the most developed counties in Romania (range 8 in the country according to the GDP value per capita, range 2, after Cluj county in the North-West region).The present paper analyses the absorbtion rate of structural funds allocated through the Regional Operational Programme of Bihor county and sets itself to formulate some conclusions regarding the way in which Bihor county has valued until present the development opportunities offered by the Regional Operational Programme, respective regarding future action directions, established by the Bihor County Development Plan, 2007-2013.

Key words: regional development, regional politicly of EU, structural funds, absorbtion rate of structural funds, Regional Operational Programme, Bihor County Development Plan.

JEL Classification: O22, R10, R11, O10

Introduction

Bihor County, through its geographic position and its local existing resources, fulfils a strategic role, of Western gate of Romania. The county distinguishes through a *low unemployment rate*, of 2,7% in year 2007, on the third place in Romania after Bucharest municipality and Timiș county and on the first place in the North – West Region that it is part of. Through a *high living standard*, with a GDP of 55% of the European average, value registered in the year 2006, Bihor county is part of the most developed counties in Romania, being situated on 8 place on country according to the GDP value per capita, and in the North – West region, Cluj county is the only one that goes beyond Bihor, both through the development of the economy and through its relative proportion. Having a high attractive level, for investors and tourists, Bihor county disposes of a growing entrepreneurial capacity and a developing human capital, process sustained by a young and extremely dynamic academic system (Development Plan of Bihor County 2007-2013, 2007). The message of regional or cohesion politicly of the European Union for the period 2007 - 2013 is “a bigger economic growth and more workplaces for all the regions and towns from the European Union”. In order to fulfill this, EU has allocated for the cohesion policy the total amount of 347.4 billion Euros for 2007 - 2013, that means that over one third of the European Union's budget is allocated to the financial instruments of the cohesion policy of the European Union: European regional development fund, Cohesion fund and Social European fund. 82 % of the total amount of the funds will be directed to the convergence regions – which shelters 35 % of the European Union's population. In the other regions, approximately 55 billion Euros are allocated for the objective „Regional competitiveness and the work force employment”. Other 8.7 billion are available for cross-border, transnational and interregional cooperation, in the frame of the objective „European territorial cooperation” (European Commission, 2010). The present paper proposes to analyze the *impact of using structural funds*

on Bihor county, answering questions such as „Where are we situated in present compared to the vision for Bihor county proposed through the Development Plan of Bihor County 2007-2013?“, „Are we heading in the right direction?“. There are also sighted aspects as the identification of the priority axis with the highest absorption rate. The identification of obstacles that blocks funds absorption in adverse fields as well as formulating solutions for the stimulation of structural funds absorption is another objective of the paper.

Literature review

The absorption rate is defined as the ability of a country or organization to use efficiently financial assistance received. In the case of the Regional Operational Programme, the absorption rate is given by the capacity of eligible organizations to elaborate and implement viable projects. In other words, even though the needs of a country or organization are big, their ability of using efficiently the financial assistance can be reduced from various reasons (for example the lack of skilled labor forces, the lack of planning, the lack of co-financing, etc.). An inappropriate use of structural funds will lead to a very small absorption rate (Regional Operational Programme, 2010). According to the European Commission Report from May 2007, regarding the cohesion policy, the premises of success in implementing European funds depend in big measure of the solid institutional capacity of public administration from member states. There are two directions of the European funds drain. On one side, the contribution of the fund suppliers (the supply side) at successful funds administration is determined by the quality of public administration, and on the other side, regarding the demand side, public benefits depend of the way of funds implementing. The role of the public administration is therefore a bivalent one, having the quality of contributing both from the position of coordinator of European funds administration, as well of the beneficiary, administrative capacity being filled by the ability of administration according to the legal discretion that regulate the funds that they will dispose of in project implementation. Consequently, consolidating the administrative ability of structural funds absorption as well as preparing fund's portfolio, viable public investment projects are extremely important to guarantee the success of implementation.

Empirics

For the present paper we analyzed the priority axis that met the highest call for financing, using The stage Report of communication of implementation of the North – West Regional Development Agency, as well as the Information regarding the stage of projects presented for financing through the *Regional Operational Programme 2007-2013* in North – West region at 14.12.2009, containing detailed information about Bihor county. We realized a comparison between Bihor county and the entire North-West region, and we extracted conclusion on the base of the results that we obtained.

According to “The information regarding the stage of the projects applied for financing through the *Regional Operational Programme 2007-2013* in North – West region at 14.12.2009”, in Bihor county, the situation of the projects that applied for financing is the following:

Table 1

Priority axis	Field of action	Total number of projects applied – out of which: contracted – rejected -ended	Total value of projects (million euro)	Irredeemable financing asked (million euro)
1 – Supporting	1.1 – “Integrated plans of urban development” –	Integrated plans of urban development	15.43	10.53

the durable development of cities – urban pols of growing	urban centers subfield	applied: 3 Total individual projects pertaining to the integrated plans of urban development : 8		
2 – Development of regional and local transport infrastructure	2.1 – “Rehabilitation and modernization of county road chain, urban streets – including building / rehabilitation of city-roads”	Total projects submitted: 5 out of which: Rejected: 2 Contracted: 2 , Precontracted: 0	54.15	43.26 <i>Irredeemable financing asked through the contracted projects 15,33</i>
3 –The improvement of social infrastructure	3.1 – „Rehabilitation / modernization/ equipment of health services of infrastructure ”	Total number of projects submitted 7 out of which: Rejected: 3 Contracted: 1 Precontracted: 0	4.81	3.94 <i>Irredeemable financing asked through the contracted projects – 0.85</i>
	3.2 – “Rehabilitation / modernization/ development and equipment of social services infrastructure”	Total number of projects submitted - 15 out of which: Rejected: 1 Backed up: 2 Contracted:1 Precontracted: 0	10.18	8.36 <i>Irredeemable financing asked through the contracted projects – 0.68</i>
	3.4 – „ Rehabilitation / modernization/ development and equipment of educational infrastructure and of the life-long learning infrastructure”	Total number of projects submitted: 10, out of which Rejected: 2 Contracted: 0 Precontracted: 4	14.46	11.28
4 –Support of local and regional business environment development	4.1 “Durable development of support structures of businesses of regional and local importance”	Total number of projects submitted: 6 out of which Rejected: 2 Contracted: 0 Precontracted: 0	51.48	23.55
	4.2 “ Rehabilitation of industrial sites, polluted and unused and preparing for new activities ”	Total number of projects submitted: 0	0	0
	4.3 “Microenterprises development support”	Total number of projects contracted 15	Total value - contracted project 1.75	<i>Irredeemable financing asked through the contracted projects 1.02</i>
5 – Durable development	5.1 – “Rehabilitation and durable valuing of	Total number of projects submitted: 2	10.05	7.73 <i>Irredeemable</i>

and tourism promotion	cultural heritage, as well as creating and modernization of connected infrastructures”	out of which Rejected: 1 Contracted: 1 Precontracted: 0		<i>financing asked through the contracted projects – 6.81</i>
	5.2 – “Creation, development, modernization of tourism infrastructure for valuing natural resources and growing the quality of touristic services”	Total number of projects submitted: 5 out of which Rejected:: 2 Contracted: 0 Precontracted: 2	30.93	13.36

Source: North-West Regional Development Agency data, 2010.

Analyzing Table 1, we notice that the absorption of structural funds differs from a priority axis to another and from an intervention area to another. According to the report studied, in Bihor County, the biggest number of projects submitted has been registered on Priority axis 4, called “The support of the development of local and regional business environment”, intervention area 4.3 “The support of microenterprises development”, with a total number of 15 submitted and contracted projects, being in the implementation stage. Even though the value of these projects is small, in average approximately 200.000 €, we notice that the private business environment is receptive and interested in structural funds absorption. On the other hand, the most problematic regarding the total number of projects submitted are the intervention fields 4.2 “Rehabilitation of industrial sites, polluted and unused and preparing them for new activities” and 5.3 “The growth of touristic potential”, where up to the moment of the report no contract had been submitted, so the absorption rate is 0. Another phenomenon observed is the fact that almost all priority axis, respective intervention fields, have a high percentage of projects rejected as it follows: Priority axis 2 “Development of regional and local transport infrastructure” - 40% projects rejected; Priority axis 3 “The improvement of social infrastructures” registers an average of 26% rejected projects on the 3 intervention fields reported; Priority axis 4 “Support of local and regional business environment development” - 30% projects rejected on the 3 intervention areas; Priority axis 5 “Durable development and tourism promotion” – an average of 45% projects rejected. This phenomenon is attributed by the present governance to the lack of interest of the previous governance, and the fact that there is not a unitary approach at the level of the Management Authorities and Intermediary Organisms. The main problem is bureaucracy; **it passes a long time between the moment when the applicant’s guide is published and effective contracting of the projects, this leading to the large number of projects rejected, etc.**

Considering the financial allocation on development regions for Romania, in the Regional Operational Programme 2007 – 2013, we observe that to the North-West region has been allocated 12.09% of the total value of funds allocated to Romania. So, in The Regional Operational Programme up to present, Bihor County has accessed 22.93% of the total value of funds allocated for period 2007-2013 to the North-West region, and respectively 2.77% of the total funds allocated for Romania in the period 2007-2013. It is a high percentage, but predictable, considering the fact that the county we are speaking about is the second one as dimension in the North-West region, after Cluj County, with a total numbered of 15 projects won only on the intervention field 4.3 “The support of microenterprises development”, according to Table 1. As it can be noticed in Table 2, a high value of won projects is registered by the investment in county roads, infrastructure, healthy services, projects that come from the public sector. But, even though the value of the projects is big, fact that contributes to a high absorption rate, the number of projects is reduced, the need of active implication of public sector in funds absorption being still felt in intervention fields such as 5.3 “The growth of touristic potential”, 4.2 “Rehabilitation of industrial sites, polluted and unused and preparing them for new activities”.

Table 2

Priority axis/Intervention field	NV (mil. €)	BH (mil. €)	% (BH/NV)
1. Supporting the durable development of cities	168.19	10.53	6.26%
1.1. Integrated plans of urban development	168.19	10.53	6.26%
2. Development of regional and local transport infrastructure	105.99	43.26	40.82%
2.1 County roads/ urban streets	105.99	43.26	40.82%
3. The improvement of social infrastructure	79.5	23.58	29.66%
3.1. Healthy infrastructure	20.99	3.94	18.77%
3.2. Social services infrastructure	12.03	8.36	69.49%
3.3. Equipments for emergency situations	12.03	0	0.00%
3.4. Education infrastructure	34.45	11.28	32.74%
4. Supporting the regional and local business environment	96.19	24.57	25.54%
4.1. Business support structures	33.17	23.55	71.00%
4.2. Industrial sites: rehabilitation and preparing for new activities	28.46	0	0.00%
4.3. Supporting microenterprise development	34.56	1.02	2.95%
5. The development and promoting tourism	86.54	21.09	24,37%
5.1. Valuing cultural heritage	28.46	7.73	27.16%
5.2. Tourism infrastructure	39.9	13.36	33.48%
5.3. Touristic potential promotion	18.18	0	0.00%
TOTAL (without the sums foreseen for technical assistance, these being administrated by AM POR)	536.41	123.03	22.94%

Source: North-West Regional Development Agency data, 2010;

In Table 2, it is realized a comparative analyses between the values of the structural funds allocated to the North-West region, through the Regional Operational Programme, and the total value of accessed funds up to the present moment in Bihor county, for every Priority axis and intervention field, by correlating data from the Report regarding the stage of projects submitted for financing through ROP 2007-2013 for Bihor county with the data regarding The financing allocation on development regions through ROP 2007-2013. As we have noticed earlier, the areas with the smallest level of absorption through ROP 2007-2013 are 5.3 “The growth of touristic potential”, 4.2 “Rehabilitation of industrial sits, polluted and unused and preparing them for new activities”. We already know the fact that main reason that determines this phenomenon is the lack of active and dynamic public implication of the public sector in absorption structural funds, in this field the state is the eligible beneficiary. Also, we notice the interest of the microenterprises and the availability of the private sector to access structural funds, even though the co-financing is a big impediment in funds absorption. The co-financing is the main reason for which many microenterprises give up projects that they have won. So, we come back to the public sector and government who must accelerate the process of adopting the law regarding the

public-private partnership in order to ease the access of private sector to investment in infrastructure.

Results

We consider that we are heading in the right direction, but not as fast as we should, so we must try harder. We have managed to access a high percentage of structural funds intended for Romania, North-West region, through investing in infrastructure, roads, sewerage systems, modernization and technologization of the microenterprises but, what is alarming is the fact that the needs are still very big and far from being satisfied. Even though the implication of county's local authorities in the structural funds absorption has risen lately, there are still fields where the absorption rate is zero. Surprisingly, Priority axis 5.3 "The growth of touristic potential", and Priority axis 4.2 "Rehabilitation of industrial sites, polluted and unused and preparing them for new activities", not so surprisingly, have the absorption rate 0. The second county as dimension in the North-West region, Bihor is situated on the second place regarding the structural funds absorption through the Regional Operational Programme 2007-2013, after Cluj County, which is according to general expectancies, but far from full valuing the county's potential, especially in the field of tourism, where we have an enormous potential revealed by the resorts of national interest (such as Băile Felix, Băile 1 Mai, Băile Tinca popular for the balneary tourism; mountain resort Stana de Vale; etc.), the existence of the treed carst and of a high number of caves of national and international value. We consider that the local authorities should show a bigger opening towards funds accession, by creating partnerships with universities in order to skill public employees in funds accession and implementation. Far from formulating exhaustive conclusions, we express our hope that, Bihor county will manage to determine and to be aware of the fact that it should grow the grade of public responsibility towards the exploitation of all development opportunities so that, according to the vision proposed through The development plan of Bihor county for 2007-2013, up to the year 2027, to offer to its citizens a unpolluted environment, a high living standard and a competitive, dynamic and an economy integrated in the European single market.

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“ATTRACTIVENESS” VERSUS “CONSTRAINT” IN SELF-EMPLOYMENT OPTION IN A CERTAIN FIELD FOR MANAGER WOMEN OF THEIR OWN BUSINESS IN THE WEST OF ROMANIA

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Abstract

Starting from the way in which women, generally speaking, understand entrepreneurship – as a choice or as a necessity, the present paper aims to discover in what percentage women in the West of Romania, have been influenced in the decision to become entrepreneurs or in self-employment option by the “attractiveness” or by “constraint” and, then, in what proportion, considering the general entrepreneurs inclination, to start business in the fields that they have worked before, validates in their case the hypotheses that women choose the sector in which they have knowledge and experience. The first part of the paper analyses the literature in the field emphasizing on the occupational situation and professional training as factors of the feminine entrepreneurship, respective activity fields preferred by women for self-employment. The second part of the paper presents the preliminary research results regarding the correlations between occupational status, professional studies and activity fields in the case of feminine entrepreneurship in the West of Romania, results of AntrES project. The paper analyses the answers given into the questionnaires applied and reapplied to one of the aim groups of the project – manager women – in the period 17-31 July 2009, respective 20-28 November 2009 – at the beginning and at the end of the Entrepreneurial school at the level of AntrES territorial centers (county residence towns: Arad, Baia Mare, Oradea, Reșița, Satu Mare, Timișoara).

Key words: Entrepreneurship, women entrepreneurship, self-employment, entrepreneurial mobile, occupational status, professional training

JEL Code: E24, R11, J24

Literature review

Even though still poor in relation to the significant growth of the women proportion and their contribution in entrepreneurs line and yet far from creating adequate theories, starting from the opening operated by the first notable article dedicated to the subject - „*Entrepreneurship – a new feminine border*” (1976), the literature consecrated to the feminine entrepreneurship hangs upon some conclusions: entrepreneurs women have similar motivations with those of entrepreneur men: the wish of accomplishment, work satisfaction and independence (Schwartz, 1976); women are less qualified, less capable, less trained in the field of business, have a smaller inclination to entrepreneurship and manage to settle a business in a slower rhythm than men (Hisrich și Brush, 1983, 1984, 1985, 1986, 1987; Brush et al., 2004; Casson, Yeung, Basu, Wadson, 2006); women meet opportunities and barriers different from those encountered by men in the field, fact that affects their participation and performance in the entrepreneurial field (Parker, 2009); entrepreneur women are represented in few sectors of the economy, there exist fields „dominated” by men, for example, the building sector, the activity sectors preferred usually by entrepreneur women are: services; tourism; commerce etc., the biggest concentration being in the industry of services, especially in the field of sales and “other services” – financial services, insurance and real estate, vocational services, business services (Bates, 1995), the explanation is connected, on one side, by the lack of knowledge and technical abilities, that discourage starting a business in production or high technology field; on the other side, there is a more difficult access to financial resources, that determine choosing that activities who engages a lower capital

level (Bruni, Gherardi, Poggio, 2008); considering the general tendency of entrepreneurs to start businesses in the fields where they have worked before, women choose the sector where they have the highest knowledge and experience (Parker, 2009). We notice therefore from the literature in the field the „stereotype of business woman” – built around „less” than men – less capable, less qualified, less trained, less brave, slower, less equipped with capital or less able to access capital etc. Besides stereotypes, infirmed or confirmed by the literature in the field, the most accepted premises at the moment is that „the gender gap in entrepreneurship” is relatively, generally speaking, depended by cultural factors and customs regarding female participation in economic activity (The Global Entrepreneurship Monitor – GEM, 2007, 2008, 2009), but certainly exist with respect to new venture creation and business ownership (Report on Women and Entrepreneurship – GEM, 2007; Parker, 2009). Starting from the way in which women, generally, perceive entrepreneurship – as choice (an opportunity for personal development, a way of filling family’s incomes, a wish to cover a social need, a solution to enter into an activity in which the selection criterions are less strict, a strategy to have a bigger freedom to administrate the activities of the business and of the family, etc.); or as a necessity (the unique way of growing family’s incomes, of gaining financial independence, of growing the socio-professional statute, of independence and autonomy in the work developed, of fulfillment and personal satisfaction, etc.) (Bruni, Gherardi, Poggio, 2005), we propose to investigate to what extend the manager women in the West of Romania, who form target groups of the AntrES project, have been influenced in their decision to become entrepreneurs by the “amenity” or by “constraint” and, more on, in what proportion, considering the general tendency of entrepreneurs to start-up a business in the fields that they have worked before, validates, in their case, the hypotheses that women choose the sector where they have most knowledge and experience.

Aspects regarding the research methodology

The project entitled: *Entrepreneurship and the Equality of Chances. An Inter-regional Model of Women School of Entrepreneurship*, financed by the European Social Fund with an amount of over 3.5 million Euros, is the first strategic project in the field of human resources development in Romania that promotes female entrepreneurship. The covering area of the project is the Western part of Romania, and includes Maramureş, Satu-Mare, Bihor, Arad, Timiş, Caraş Severin Counties, being implemented by partner universities from each of these counties. The general objective is to promote the equality of chances in the field of entrepreneurship, by stimulating the implication of women, especially those coming from rural areas, to initiate and develop their own business in the context of sustainable development of their communities. The project is addressed to a overall target group of 1800 women wishing to develop their own business (288 SME female managers from urban area)– target group I, or to set up their own business (1440 women from urban and rural area) – target group II, or to become trainers in the entrepreneurship field (72 women, students in Economics, which will be trained and who will benefit from job as trainers for rural area, in the project)- target group III. The duration of the project is of 2 years, starting in January 2009. As initial result of the project, a *Women School of Entrepreneurship*, consisting of 6 territorial, 24 local and 72 rural centers, along the Western part of Romania, was set up, and training process *The School of Entrepreneurship - Module I – Business start-up*, respectively, *Module II – Business development* was finished at the territorial level. Parallel with the training process in the territorial centers, the inter-regional team developed specific methods designed to monitor the project’s target groups, including a set of focused questionnaires in order to the development of a specific research activity, having female entrepreneurship in the Western part of Romania as main subject. So, in the period 07.17.2009-07.31.2009 (the beginning of the Entrepreneurial School at the level of Territorial Centers – at the first course) have been applied at the level of the territorial centers (the county residence towns: municipalities Arad, Baia Mare, Oradea, Reşiţa, Satu Mare, Timişoara) the research-

monitoring questionnaires aimed to the manager women (target group I): 153 questionnaires, distributed on territorial centers, as it follows: Arad – 27, Bihor – 30, Caraş-Severin – 24, Maramureş - 24, Satu Mare – 24, Timiş - 24. At the end of the Entrepreneurial school, level TC (at the last course, respective in the period 20-28 November 2009) it was reapplied the same questionnaire, more exactly a total number of 149 questionnaires, distributed on territorial centers as it follows: Arad – 24, Bihor – 28, Caraş-Severin – 24, Maramureş - 25, Satu Mare – 24, Timiş - 24. The questionnaires applied to the target group I – manager women – have been formed of a total number of 52 questions, grouped as it follows: 39 questions in section A – Questions about women entrepreneur/manager and their businesses; 13 questions in section B – Aspects regarding the psychological profile of the entrepreneur/manager women. The present paper proposes to analyse the answers for the following characteristics: the occupational situation at the moment of initiation or acquiring the business; the reasons which stood at the base of the wish and of the decision to initiate its own business; the reasons which determined the choice of the field of activity; the field in which they developed their studies – professional studies. Regarding the characteristics enumerated, there have been formulated a series of hypotheses who were tested, as it follows: 1. *The higher educational level is associated to a bigger business, older, viable, smaller obstacles perceived at the beginning of the business and now*; 2. *The field that they have studied in is correlated with the field of activity of the firm, with the viability of the business, the fields considered more appropriate for the feminine entrepreneurship*; 3. *Participating at courses/trainings is benefic – according to the field/title of the course, could be registered a more easy access to financing, a perception less acute of certain obstacles.*

Results

The majority of the respondents(66%) are aged between 30 and 49 years, the average age of the respondents is 37,6 years; most of the respondents are married (66%) and live in households with 2-4 members, having one or two children(51,6%). The average household income for last month of the manager women questioned is 5276 lei, while the personal average income of those is of 2449 lei. Regarding the current businesses of the respondents, over 88% have been initiated by them, alone or with other persons. Only 12% have acquired the business in other ways: legacy – 5.4%, joining an existing firm -4.1%, buying it – 1.4%, franchise – 0.7%. The majority of the manager women in our sample (over 80%) has university or post university studies. As general fields of study, slightly over half of the respondents have done studies in the economic area (field associated in great proportion to the entrepreneurship and the management of a business) - 51,70%, followed by the technique field - 17,01%, socio-human - 12,20%, juridical - 5,44%, medical - 3,40%, environment - 6,12%, exact sciences - 0,68%, economic engineering - 2,7% etc. Many of the manager women (40%) have followed specialization courses or specialization courses in different fields. Out of those, predominate those related to the management and business administration: project management, financing forms, accountancy, human resources, audit, communication, insurance, tourism, management, business development, sales, quality, taxation, real estate agent, real estate marketing, entrepreneurship etc. The most important motivations, as well as the context in which the respondents have decided to initiate a business are very eloquent: most of the entrepreneur women started their business alone, over one third of them either did not have a workplace or were going to lose it, or they were unhappy with their workplace they had regarding the wage aspect, work conditions, climate, etc. The analyze of the problems from the occupational situation from the moment of the business initiation enumerated by the respondents at the question – Which of the following situations illustrate better the occupational situation from the moment you decided to start your own business? – leads to the conclusion that the choice of the perspective of self-employment has been conditioned by constrain (total 70% - I had a workplace, but the salary was unsatisfying, takes the first place – 35.3%, followed by – I did not have a workplace – 16.7%, but there are also answers like: I had a

workplace, but I was going to lose it – 8.7%, I had a workplace, but the conditions were difficult – 5.3% , I had a workplace, but the relationships at the workplace were unsatisfying – 4%). There are answers that mirror the attractiveness in the perception of entrepreneurship (I was happy with my workplace -15.7%, the possibility of an additional earning – 0.8%, I was called in the administration board – 0.8%, I answered an offer – 0.8%), but attractiveness is situated here after constrain. In change, at the question – Which of the following situations illustrate better the moment in which you initiated your business? – surprisingly, on the first place it is situated the attractiveness – emphasized by answers as: I had a business special, favorable conjuncture – 29.45%, followed by – I had a special business opportunity – 28.77% (total 58,22%); and not the constrain – emphasized by answers as: it has changed the general economic context -17.81%, I needed money because the number of my family’s members has raised -7.53%, I needed money because I remained the financial support of the family -6.1%, qualification -0.8%, workplace conflicts -0.8% (total 33.04%). At the question which is the reason for what you are ready to initiate a business – the wish of self-fulfillment remains the main option of the manager women (re-testing situates it on the first place, with 48%), followed by the need to earn more -27%, the wish to have a higher social statute - 20% and the opportunities on the market -5%. In enumerating the problems from the occupational situation from the initiating moment, the problem of unsatisfying salary is predominant, followed by the lack of a workplace (more than 53% of the respondents declared that at the moment of business settlement they had a workplace, but they were not happy with their salary). It is to be remarked that the unhappiness towards the occupational status from the respective moment has conjugated with the apparition of an idea or with a favorable conjuncture. The two conditions – unhappiness towards the occupational statute, but the favorable moment for the expression of the business idea – describe the context in which the present entrepreneurs assumed the risks of a business start-up coming from the prevailing wish to prove themselves and those around them that they can succeed. The accent falls, in our opinion, for this target group – on opportunity/attractiveness prevailing towards need/constrain. Regarding the previous fields of activity of the of the questioned manager women - 78% of them had previous workplaces before the entrepreneur experience. In average, manager women who worked in other places than their own business, had two previous workplaces, the highest number of workplaces being 6; fields of activity preferred with prevalence by them – fields in which it can be initialized a success business are, according to first choice: on the first place – services, services in general, (43), according to the literature on this topic, on the second place – commerce (31), followed by tourism (28) (totally over 80%); significantly less first choices head towards consultancy – 7, production -6, alimentary sector - 5, agriculture – 3 , medical-healthy – 3, construction – 2, sales- 2, transport -2, real estate – 2 , etc. Retesting reflects the validation of the hypotheses that the preferred field by women is the services one – on the first place – doing services, services generally, with a significant growth of the interest for consultancy services (financial, managerial, economic), but on the second place it is situated the tourism, followed by commerce, slightly reorienting towards fields as consultancy, lawyer services, reflect a trend at the moment, but also the birth of some new fields – education, kindergartens, events organizing, patisserie, beauty salon, old people care etc. reflects the movement of the weight center of initiative towards fields that perform starting from specialized expertise (women specific?!) and not from capitals.

Conclusions

After the correlation analysis taken, the situation of the hypotheses tested, respective 1. *The higher educational level is associated to a bigger business, older, viable, smaller obstacles perceived at the beginning of the business and now;* 2. *The field that they have studied in is correlated with the field of activity of the firm, with the viability of the business, the fields considered more appropriate for the feminine entrepreneurship;* 3. *Participating at*

courses/trainings is benefic – according to the field/title of the course, could be registered a more easy access to financing, a perception less acute of certain obstacles, it stays like this:

1. *The higher educational level is associated to a bigger business, older, viable, smaller obstacles perceived at the beginning of the business and now – **does not validate**.* From a static point of view it is not proved the significant relation between the field of studying and the success of the present business, the size of the present business, future plans for developing the business, the way of perception of the obstacles and the perception of the adequate field for starting up business by women.
2. *The field that they have studied in is correlated with the field of activity of the firm, with the viability of the business, the fields considered more appropriate for the feminine entrepreneurship.* For example, women with economic studies should: prefer businesses in economic area, had several businesses in time and not been bankrupt, started their business rather alone, have a business plan at least started, perceive the economic constrains as being less acute etc. – **validates**. The analyses have revealed a significant relation between the field of studying of women and the field in which the business activity develops ($\chi^2=99.6$; $p<.001$). So, the persons with education in the economic area develop their activity in tourism and services (rez. aj. =2.3), those who studied in technical area have firms with activity in industry, constructions (rez. aj.=2.8) and commerce (rez. aj.=2.0), and those who were trained in the field of environment protection, develop their activity in agriculture (rez. aj.=3.9), but also in education and research (rez. aj.=3.2).
3. *Participating at courses/trainings is benefic – according to the field/title of the course, could be registered a more easy access to financing, a perception less acute of certain obstacles –**validates**.* Participating at specialization courses has a positive effect over the accession of repayable funds, credits. The analyses highlight a significant relationship so that women who have a further specialization through these courses have accessed in higher number repayable funds comparatively with those who do not have an additional education (rez.aj.=2.6). The relation is not significant in the case of accession irredeemable funds.

The manager women in West of Romania analyzed initiated their own business in proportion of over 88%. The option of abandoning a workplace, respective the perspective of self-employment has been conditioned by a constrain in proportion of over 70% (underpaid salary, not having a workplace, the possibility of losing the workplace, though work conditions or unsatisfying conditions at the workplace), but – surprisingly, in proportion of almost 60% - the way in which they describe the situation in the moment of the business start-up – lead to the idea that attractiveness of the applying a business idea perspective, in a favorable conjuncture, or after meeting a business opportunity and not the constrain (the general economic context, the need of financial resources, family constrains, workplace conflicts) have predominated the decision to become entrepreneurs and self-employ. The fields of activity preferred with predilection by manager women in the West of Romania (in proportion of over 80%) are services in general, with a significant growth of the interest for consultancy services (financial, managerial, economic) followed by commerce and tourism, respective tourism and commerce, exactly as the literature dedicated to the feminine entrepreneurship describes. The empirical data can lead to the conclusion that women in the western part of Romania prefer self-employment fields so-called “feminine”: education, kindergartens, event organizers, patisserie, beauty salon, inside lay out, old people care, etc., the weight center of business initiative is in that areas in which the professional studies, competence and expertise specialized and specific “feminine” are prevailing and not the knowledge and technical abilities determine a low level of capital, confirming again, the hypotheses of the specialization side. The hypotheses that women have the tendency to start-up business in the areas where they have worked before and that they choose the sector in which

they have most knowledge and experience validates as well, over 80% have graduated from university or have done a post-university degree, slightly over half have studies in the economic field, the analyses show that the persons with studies in the economic field develop their activity in tourism and services, those who studied technical have firms with activities in industry, constructions and commerce, and those who studied the environment protection develop their activity in agriculture sphere, but also education and research. A happy result, and, equally encouraging in our efforts is that women in the western part of Romania consider that participating at specialization courses has a positive effect over accessing repayable funds, credits, and over their business generally speaking. The conclusions formulated represent preliminary research result, the research being developed during the project AntrES which regards women who wish to initiate their own business and it follows to be continued at the level of the local centers, respective rural centers in the West of Romania.

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IMPACT OF THE NATIONAL ECONOMIC FACTORS ON THE COMPETITIVENESS OF THE ROMANIAN INDUSTRIAL PRODUCTS

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In the current circumstances a clear objective of the economic policies all over the world is the improvement of the efficiency of production and trade and in consequence of the competitiveness of the products both internally and internationally. These aspects are essential in the case of Romania because they provide the efficient participation of our country in international commercial flows.

This study shows that the products and sectors of the Romanian industry were characterized, at least in the period of 1990, through a relatively low competitiveness, aspect which was pointed out by the evolution of the gross added value.

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Keywords: competitiveness, national factors, industrial products

JEL Classification: F40, L60

The problem of international specialization represents a highly important problem, especially under the current circumstances of the world economy. This may lead to economic advantages materialized in the reduction of the disparities between the levels of development of different states, but, at the same time to the gradual accession to the productivity and prosperity standards specific for the industrial countries. The accomplishment of this objective involves a continuous, regulative feedback in the field of competitiveness, which should be maintained at a high level under the context of the different positive and negative influences of some national and international factors.

Going on the idea of the Porter model, there are four basic factors included in the category of the *national* economic factors:

a) *local resources*, where we have to take into account: ♦ human resources (quality, classification and staff costs and management, standard labour time and work ethics); physical resources (abundance, quality, accessibility and cost of land water, mineral reserves, forest reserves, fish reserves, climate conditions, geographical position, etc); ♦ scientific and technological resources; ♦ financial resources, in general; ♦ national infrastructure, the quality and the cost of using the infrastructure(transport, telecommunications, bank transfers, social assistance, etc.). The competitive advantage appears when the companies will be able to make a necessary combination of factors at a low cost or if the factors used have a higher qualitative level.

b) *dimension and structure of the internal demand*, this aspect is leading to important scale economies or to the stimulation of the learning curve, with major influences on the competitiveness internationally. In order for the companies to gain competitive advantage, the internal demand should create enough pressure to influence the accelerated innovation. The high exigency of the national customers may contribute to the increase of the competitive advantage, because it forces companies to use high standards in the field of quality, facilities, services, etc. A consequence of the dimension of the internal demand is that the small nations may be

competitive on segments which represent a high average on a local level, but a low average on a regional or global level.

c) *related industries and subassemblies*- are highly important in gaining the competitive advantage. The successful development of an industry of subassemblies and components involves the existence of some efficient sub-suppliers and related sub-branches which should stimulate other sectors of activity, creating therefore possibilities for other industries to increase their competitiveness.

d) *industrial structure and competition*, as a last element of the national economic factors refer to the competitive oligopolistic structure. These structures are extremely strong and stable in time, leading to a series of national rivalries from which the international successful companies usually gain. The oligopoly structures facilitate and conquer new markets because the national rivalries create pressure for innovation which increases the competitive advantage, leading to clear advantages through competitive prices, high quality, response speed, seriousness, long term relationships. In this context, we will obtain a competitive environment which is hard to re-create through the competition with the external rivals.

Along with these national economic factors, another factor with an influence which cannot be neglected is the *evolution of the phenomena and processes of the world economy*, which are hard to predict or even unpredictable, have a major impact on the evolution of the economic and industrial structures. Because, the long-lasting evolutions of the global market influence the specialization and integration options in the international labour division, the main tendency which should contribute to the orientation of the structures of industry, sub-branches, and groups of products from a national economy refers to the permanent growth of the quality and competitiveness of the products which are submitted to global exchanges. This fact is reflected in the efforts of the industrialized countries towards the improvement of the performances and competitiveness of their products in order to improve the exchange rate.

Starting from the main relevant aspects related to global practice and taking into account the dimension of the national economic environment and the development degree, the structure of the industry from Romania, in the current and next period could suffer a compression and crystallizing around some well defined points and identified according to the interdependencies and determinations among the sectors, branches and sub-branches of the Romanian economy. We anticipate the change of the weight centre of the structural modifications on the level of the branches, sub-branches, and range of products, products and even on some of their components, as an effect of specialization of the principle of complementary production.

Due to the changes in the economic structure both on a macroeconomic level and on a world-economic level from the last decades, the behaviour of the economic operators have taken new shapes. These structural changes which have essentially changes the world economic landscape relied on three main events:

- American deregulation, launched in the 80s which made all the etatist barriers falls;
- The downfall of the economic management communist systems;
- The burst of internet which has led to a revolution in telecommunications, with effects on the organised financial markets, modifying the behaviour of the banks and of all its users.

At the same time, the globalization of the markets has determined a globalization of marketing. Global marketing refers to the encouragement of the research initiatives of finding new markets segments or niche all over the world, the capitalization of the buying and selling opportunities of the products and services internationally. The market globalization has triggered a phenomenon of individualization of the consumer's needs. For example, in the context of the single internal European market the consumer is looking more and more for the "European" product, internationally and not nationally. Under the influence of the economic changes, the consumer which was used to the local products gradually becomes more open for foreign products. The producers, in their turn, are transformed in multinational companies.

In the context of these tendencies, a new type of European marketing is defined, the European countries adapting their production and trade strategies in order to take advantage of the new opportunities as much as possible. The strategy relies on the delimitation of the new markets, which are re-grouped on more countries or regions, especially those situated on the border with the former national markets. Gradually, the commercial policy of the enterprise will pass from the segmentation of the national markets to a transnational segmentation in order to reach consumers with identical behaviour in many countries. The pair product-market passes from the national dimension to the European and even international dimension. Will appear gradually, for some products, the transnational niche, i.e. segments where the consumer is the same for more countries.

At the same time, production will not be standardized any more, but flexible. The enterprise will no longer be considered isolated; it will have very flexible relations with the suppliers and the distributors. The computer-based design, the flexible workshops will allow producers to meet the changing needs of the customers. The introduction of the products on the market will not be reserved only for the specialized salesmen, but their responsibilities will be split among the other categories of staff of the enterprise which become in this way part-time marketers. The development of production will be made on regions of the world, and a series of standardized component will allow the production of an entire family of products.

We can argue that in this context, of the new type of marketing, the features of the competitiveness concept become more and more complex. An increasing attention is given to the phenomenon of external promotion of goods and services manufacture in a country, of implementing their own investments in foreign territories, in order to impose the national cultural values in the international arena, using a certain "aggression" on the world markets in the fight for winning the more consistent market segments. On the other hand, we can experience nowadays an openness of the markets towards the world competitiveness, through the liberalization of the interface systems between the national and the world economy, in the case of the financial-banking system, at the same time with the free movement of goods and services.

As a result of the world exchange and cooperation, and of the specialization in fields which have comparative advantages, the countries can accelerate the rhythm of growth and they can expand their range of products. They will be interested to increase their degree of competitiveness in those fields where they have comparative advantages. This thing can be accomplished only if those countries have globally restructured the internal socio-economic system in order to make it more competitive. Even if competitiveness is demonstrated and it is sustained on the world market, it is not real unless it has been obtained a certain economic and social efficiency on the internal market.

In order to identify the industrial sectors with development perspective and to create the sector strategies and the commercial policies which can create the circumstances for the efficient capitalization of those perspectives, we can use a series of indicators in order to assess the competitive advantages on the level of the industry, sectors and groups of products.

Such an indicator is *RCA* – *revealed comparative advantage*, which outlines the weight of a sector in the total export of goods and services, compared with its weight in the import of goods and services. This indicator is determined for each industrial sector according to the export of internal production and the import which compete the internal production and not with the import of intermediate goods for internal production. It can be calculated according to the following formula:

$$RCA_i = \ln[(E_i/I_i)/(E/I)]$$

where: RCA_i = revealed comparative advantage of sector i ;

E_i, I_i = export, respectively import of sector i ;

E, I = exports, respectively total of imports.

If the size of this indicator is positive, then we can talk of a comparative advantage for the sector *i*, and if it is negative then we have a negative comparative advantage. At the same time, the higher its value, the higher is the comparative advantage for the analysed sector.

In what competitiveness is concerned, the RCA indicator is more significant than the average of the export of the sector in the total production, because it reflects the intensity of the orientation of the sector both towards export and towards import.

The evolution of this indicator in the period 2006-2008 points out the fact that Romania has a relatively reduced degree of competitiveness of the industrial products, aspect, pointed out by the values registered by the revealed comparative advantage indicator.

Romanian foreign trade with industrial products and the indicators of the Revealed Comparative Advantage (RCA) according to the Classification of products by activity (CPA) in the period 2006-2008

Code CPA	Name of activity	Export FOB (euro million)			Import CIF (euro million)			RCA		
		2006	2007	2008	2006	2007	2008	2006	2007	2008
	TOTAL , of which only industrial products:	25850	29549	33725	40746	51322	57240	-	-	-
15	Food products and beverages	318	407	564	1724	2283	3042	-1,24	-1,17	-1,16
16	Tobacco products	9	135	262	199	61	76	-2,64	1,35	1,77
17	Textile products	1017	1052	1009	2761	2853	2585	-0,54	-0,45	-0,41
18	Wearing apparel; furs	3179	2880	2533	510	652	780	2,28	2,04	1,71
19	Leather and leather products	1523	1502	1388	1102	1203	1174	0,78	0,77	0,70
20	Wood and products of wood (except furniture)	956	1003	961	363	557	591	1,42	1,14	1,02
21	Pulp, paper and paper products	105	144	129	635	734	798	-1,34	-1,08	-1,29
22	Printed matter and recorded media	29	40	51	138	165	204	-1,10	-0,87	-0,86
23	Coke, refined petroleum products and nuclear fuel	2420	2078	2777	638	769	1297	1,79	1,55	1,29
24	Chemicals, chemical products and man-made fibres	1426	1666	2034	3956	4784	5645	-0,57	-0,50	-0,49
25	Rubber and plastic products	706	976	1199	1979	2353	2539	-0,58	-0,33	-0,22
26	Other non metallic mineral products	246	278	252	789	1057	1256	-0,71	-0,78	-1,08
27	Basic metals	3321	3984	4017	2400	3645	4305	0,78	0,64	0,46
28	Fabricated metal products (except machinery and equipment)	653	890	994	1800	2334	2555	-0,56	-0,41	-0,42
29	Machinery and equipment	1981	2535	2922	4459	5995	6315	-0,36	-0,31	-0,24
30	Office machinery and computers	247	283	563	964	1175	1123	-0,91	-0,87	-0,16
31	Electrical machinery and apparatus	2400	3017	3308	2252	2739	2940	0,52	0,65	0,65
32	Radio, television and communication equipment and apparatus	409	427	1011	1734	2316	2870	-0,99	-1,14	-0,51
33	Medical, precision and optical instruments, watches and clocks	168	222	303	668	859	978	-0,93	-0,80	-0,64
34	Means of road transport	1763	2650	2929	4527	6883	6759	-0,49	-0,40	-0,31
35	Other means of transport	984	1214	1451	383	516	538	1,40	1,41	1,52
36	Furniture; other manufactured goods n.e.c.	1160	1327	1324	709	921	1099	0,95	0,92	0,72
40	Electrical energy, gas, steam and hot water	169	144	275	36	64	45	2,00	1,36	2,34

Source: own calculation according to the Romanian Statistical Yearbook 2009, pp. 901-902

From the analysis of the Romanian foreign trade one can notice that in 2006 only 9 industries were registering positive values of the revealed comparative advantage indicator, pointing out a certain comparative advantage in those sectors, and in the years 2007 and 2008 their number

increased to 10, after including tobacco in this category. This growth is insignificant, taking into account the fact that most of the sectors of activity are characterized through negative values of this indicator so there is a lack of comparative advantage.

We can notice from the industries which have a positive revealed comparative advantage, in its descending order, that the same industries can be found in 2008 (with small differences in classification as opposed to the previous years); these industries are: electric and internal energy, gas and water; tobacco industry; textiles industry, transport industry; coke, refined petroleum products and nuclear fuel industry; wood and products of wood (except furniture), furniture industry; leather and leather products industry; electrical machinery and apparatus industry; metallurgy industry.

At the same time these 10 manufacturing industrial sectors have contributed and contribute with more than 50% to the export of our country (in 2006-62,32%, in 2007-58,49%, in 2008-54,25%). Although these weights are slightly reduced (which means a small growth of the weight for export for other industrial products), it is still situated relatively high values, which makes the specialization degree of the Romanian economy and its participation in international exchanges quite reduced. The export potential from the Romanian economy in the analysed period is concentrated along three fields: wood manufacturing (wood and products of wood, furniture), light industry (textiles and textile products, wearing apparel, leather and shoes) and metal manufacturing (metallurgy, metal constructions and metal products); generally branches consume a lot of resources and energy.

In consequence, in order to improve the competitiveness of the sectors of the Romanian industry we have to act towards increasing the compared advantages through the structural adjustment and foreign direct investments. In order to accomplish all these, a series of actions are necessary:

- investments in transport and commercial infrastructure;
- the improvement of the level of the service network to sustain export;
- free access to information and circulation of innovation;
- promoting an active marketing for the dynamic branches, creating some partnerships production-research-education;
- improving the identification methodologies of the opportunities, strengths, weaknesses in the internal and external trade, creating pilot research centres not only on an aggregate level but also on an industrial and product level.

In this context, our country has to focus strategically on competitive advantages, on the development of some capacities and competences for the export sectors, in order to create highly developed economic environment in the context of globalization and free trade.

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EUROPEAN INTEGRATION AND THE NEW SOCIAL CLEAVAGES

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This debate reveals that it is just as difficult to determine the borders of Europe as it is to establish the identity of its citizens on the basis of cultural criteria

Keywords: Integration, europe, social, cultural

Cod JEL: F10, F36

I. Introduction

What does this restructuring of political conflict mean for European integration and European identity? Three important implications come to the fore. First, in both logics of political conflict, Europe is perceived as being part of the problem and not part of the solution. Using the economic logic, “losers” of globalisation consider the EU not as a counter-weight to “neoliberal” globalisation, but as its intensification and acceleration. From their point of view, it is difficult, if not impossible, to distinguish between the benefits of an internal European market and the negative consequences of global economic integration. Meanwhile, using the cultural logic, the transfer of sovereignty to the EU is primarily perceived as an immediate threat to national identities, national institutions and national democratic practices – and an enlargement process without limits and clear ends is seen as a threat to the cultural homogeneity, particularly of “old” Europe.

At best, European integration seems to produce a delicate trade-off for its citizens: they have to accept a loss of sovereignty and national identity in exchange for new, and vaguely defined, economic and political powers.

Unsurprisingly, the EU has therefore become an easy target for all kinds of populist parties and movements. Second, the restructuring of political conflict has considerably politicised the process of European integration. Yet, the manifestations and consequences of this must frustrate those who debate the possibilities and opportunities of increased politicisation at EU level. Notwithstanding the remarkable successes of some anti-European parties at the last election to the European Parliament, we must acknowledge that the politicisation of Europe mostly takes place at the national level. Since the 1990s, Europe has become a salient and hotly contested issue in national election campaigns and, as a result, an issue of “mass politics” in most member states.²⁰⁹ Moreover, the politicisation of Europe did not take place along the traditional “left-right” axis; rather, it is the product of anti-European parties and political movements. Thus, ironically, the mobilisation of European citizens on European issues has been achieved most successfully by the critics of the EU and by the defenders of national identity and sovereignty.

The third implication – which comes as a direct consequence of the second – is that appealing to a culturally defined European identity would be like pouring oil on a fire. It has to be said that broader political campaigns and debates on identity, outside of academia, would largely benefit

²⁰⁹ Hooghe, L. and G. Marks (2009). *A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus*. In: *British Journal of Political Science* 39(1), 1-23.

the radical populist parties on the right and on the left, who have already successfully mobilised along the lines of identity, immigration and integration. It is true that the concept of “European identity” is in itself highly ambiguous, not least because most of its multiple varieties try to combine “unity” and “diversity” in some way²¹⁰. However, one commonality that runs through all of the definitions is that by emphasising a European “we”, the concept is based on constructions of some kind of “sameness”. If we cast our minds back to the Copenhagen Declaration in 1973, it can be observed that it was precisely this idea of “sameness” that was highlighted. The declaration acknowledges the “diversity of cultures” within Europe and the importance of common interests, but puts particular emphasis on “the framework of common European civilisation”, “the attachment to common values and principles” and “the increasing convergence of attitudes to life” which are supposed to give “the European identity its originality and its own dynamism”. While such an idea of European identity has become outdated in scientific discourses²¹¹, it still informs the majority of public debates, where the emphasis is on Europe as a distinctive cultural entity united by shared values, culture and identity²¹².

II. The dangers of European identity

Such an understanding of European identity will inevitably run into two difficulties. The first one is identifying the norms and values that constitute the common “cultural heritage” of Europe. Usually, “references are made to Europe’s heritage of classical Greco-Roman civilisation, christianity, and the ideas of enlightenment, science, reason, progress and democracy as the core elements of this proclaimed European legacy”²¹³. This approach is obviously “euro-centric” and completely neglects the importance of non-European cultures, global processes and dependencies for the emergence and transformation of “European” values. Therefore defining “sameness” without reference to “others” is not only incomplete but inadequate²¹⁴. Moreover, as controversy over the reference to the Christian tradition in the European Convention in 2003-4 revealed, there is no agreement on the relative importance of the various different components of a “European civilisation”. Consequently, any debate on “common values” will inevitably spark off conflicts within European societies and between member states.

There is then a second difficulty which is both highly significant politically and closely related to the current restructuring of political conflict in Europe. “The construction of a cultural boundary necessarily entails a process of inclusion and exclusion. It requires the designation of the differences between insiders and outsiders, members and nonmembers”²¹⁵.

Indeed, the concept of cultural identity formation and the cultural logic of political conflict have much in common. They both employ symbolically defined codes of exclusion, and, as debates on immigration and EU membership for Turkey have demonstrated in recent years, these codes have already been defined largely by the political right.

The intense debate on EU “boundaries”, provoked by the decision to start membership negotiations with Turkey, is certainly most instructive in this respect²¹⁶. Here, the question of

²¹⁰ Delanty, G. and C. Rumford (2005). *Rethinking Europe. Social theory and the implications of Europeanization*. London: Routledge.

²¹¹ See Cerutti, F. and S. Lucarelli (eds.) (2008). *The Search for a European Identity. Values, Policies and Legitimacy of the European Union*. London: Routledge; Czáký, M. and J. Feichtinger (eds.) (2007). *Europa – geeint durch Werte? Die euro-päische Wertedebatte auf dem Prüfstand der Geschichte*. Bielefeld: transcript; and Herrmann, R.K., T. Risse and M.B. Brewer (eds.) (2004). *Transnational Identities: Becoming European in the EU*. Lanham, MD: Rowman and Littlefield.

²¹² Strath, B. (2002). *A European Identity. To the Historical Limits of a Concept*, in: *European Journal of Social Theory* 5(4), pp. 388.

²¹³ *Ibid*

²¹⁴ Strath, B. (ed.) (2000). *Europe and the Other and Europe as the Other*. Brussels: PIE-Peter Lang.

²¹⁵ Bartolini, S. (2005). *Restructuring Europe*. Oxford: Oxford University Press, pp 212.

²¹⁶ Leggewie, C. (ed.) (2004). *Die Türkei und Europa*. Frankfurt a.M.: Suhrkamp.

Turkey's EU membership was transformed into a question about the "cultural identity" of Europe. References to a "common geography", a "common history" and "common values" were made in order to permanently exclude Turkey from the EU. Turkey served as a symbolic code for the "Islamic east" which was sharply set apart from the "Christian west". This symbolic code was subsequently used to establish a distinct culturally defined boundary between Europe and non-Europe. An empirical analysis of this debate in west European countries reveals "that the frames used are not only defending national identity, but also a nascent European identity that is exclusive (against Turkey) and inclusive (within Europe) at the same time"²¹⁷. As alluded to above, it is the populist right who have successfully exploited this argument with the help of identity-based arguments emphasising the threat of mass immigration and islamisation. The political dangers here are signified; not least due to the fact that Christian-Democratic and conservative parties, despite their more general pro-European commitment (with the notable exception of the British Conservative Party), are in firm opposition to further EU enlargement, in particular the accession of Turkey.

This debate reveals that it is just as difficult to determine the borders of Europe as it is to establish the identity of its citizens on the basis of cultural criteria. Many territorial borders in Europe were drawn and altered in the past with outright arbitrariness – Poland's history demonstrates this exemplarily; not to mention the fact that the historic and cultural ties of European countries extended well beyond Europe due to their imperialist and colonial pasts²¹⁸. Moreover, we should not forget that in the age of globalisation borders have fundamentally changed in their significance and character. Borders, even territorial ones, are increasingly becoming unclear, permeable and in need of political definition and decision. That is not to say that Europe's borders cannot or should not be laid down, but that they cannot be found in a "common" history, culture or geography. Europe's borders must be defined politically. In other words, instead of cultural criteria, we need political criteria.

III. European integration as an open political project

Past debate and experience in Europe clearly show that it is conceptually inadequate and politically dangerous to construct a European identity on the basis of common cultural values. This does not do justice to the heterogeneity that the EU has already attained, nor to the internal pluralism of its societies. In particular the latter holds true in the case of the status of Islam within Europe. Moreover, the EU cannot be defined by a pre-established set of geographic borders. Any attempt to do so has faltered and will falter due to the dynamic character of the European integration process.

This does not mean that the EU can survive without its own identity and affective ties to its citizens, or that it is principally impossible to limit or finalise the European integration process. Rather that we should approach these questions in an entirely different manner. The present recipes to resolve the political crises of the European project are based on a serious misunderstanding. Essentially, concepts from the history of nationbuilding in Europe are being transferred to the EU without qualifications. Instead, the EU and the European integration process must be understood and promoted as an open political project²¹⁹. Doing so, primarily, means that European identity must be fixed to political criteria and not to historic or cultural attributes. Europe cannot be united in the long run by a cultural identity, no matter how it is defined. The European project must be accomplished through a common political identity. This political identity, in turn, cannot be imposed "top down" but needs to emerge from the European citizens' everyday experience with the norms, institutions, procedures and conflicts of the

²¹⁷ Höglinger, Dominic (2009). *European integration debate, unpublished manuscript, University of Zürich.*

²¹⁸ See Benjamin, T. (2009). *The Atlantic World. Europeans, Africans, Indians, and Their Shared History, 1400-1900. Cam-bridge: Cambridge University Press.*

²¹⁹ Beck, U. and E. Grande (2007). *Cosmopolitan Europe. Cambridge: Polity Press.*

European political process. Nor can it be based on abstract principles. The European Union must develop its identity through daily practice as a community of political actions and communications.

This is where one of the EU's major deficits becomes most evident: Brussels seems incapable of offering European citizens sufficient opportunity to participate in the political process, something which would reinforce identification with the European project. The EU has struggled to create a positive and convincing tie between its politics and the living conditions and life chances of its citizens – and due to this lack of political identity, compensation by cultural means is insufficient. The circle can only be squared by the by strengthening the political identity itself.

Therefore, it is essential that EU citizens are given greater opportunity to participate in European politics. Furthermore the EU needs to expand its competences in political areas where citizens expect a strong EU presence – most importantly in foreign and security policy.

IV. Conclusions

Defining the European identity politically and not culturally does not imply that Europe can succeed entirely without a common normative foundation. Even the European project needs a normative foundation and this foundation requires a historic dimension. However, neither the Christian culture nor the universal values of the Enlightenment can be used to form the normative basis of Europe's political identity. In reality it is the "dialectic of Enlightenment"²²⁰ – on the positive side, the commonly shared expectations of a social and political order based on reason and, on the negative side, the common experiences from the horrors of totalitarianism in the 20th century, the Holocaust, the Stalinist terror, the Armenian genocide in Turkey and the self-imposed dangers to humanity and civilisation posed by new technologies. Together – and only together – do these attributes constitute a common horizon of experiences along which the European project has been promulgated in the past and through which its political identity must also be established normatively in the future.

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INFLATION AND COMPETITIVENESS - A VAR MODELLING APPROACH

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VAR modeling in inflation forecasting has been widely used, and rather successful, even if there have been several critiques of its exactness or accuracy. This paper is structured into two sections. The first one accomplishes a general presentation of VAR modeling in forecasting inflation, and the second is focused on the results of this econometric approach for inflation in Romania. Even if we considered methodologies containing inflation measured using CPI, CORE1 and CORE2, testing will only be performed for the CPI Inflation.

Keywords: inflation, VAR models, forecast

Forecasts of real macroeconomic statistics have been successfully produced by vector autoregressive (VAR) models. Even though, this type of models are still used by a large number of monetary institutions, including national banks in the process of forecasting short-term inflation and in isolating essential determinants for the inflationary process. Romania, and the Romanian National Bank represent examples in this respect. The NBR is interested in both forecasting and determination on monetary and non-monetary elements responsible for the inflation in Romania. This represents an important issue due to the fact that, in Romania, for instance inflation seems to have become a process with long duration and high significance in connection to the EMU accession process.

VAR modeling has its theoretical genesis in the time series analysis of Wold, Taio, Box and Jenkins. They basically modeled the moving average and autoregressive components of a time series, which can then be used to predict future movements in the variables. The most widely used model was the Box and Jenkins autoregressive integrated moving average (ARIMA) models. Much of the appeal of VAR stems from Sims (1980) critique of structural models. He basically questioned the theoretical validity of the restrictions imposed on the structural models of the time. Sims favored an theoretical approach to modeling based on vector autoregressions, in which the data generation process determines the model.

Given the objective of price stability, the ability to predict the process of price adjustments is essential. From a policy perspective, an understanding of the interactions and transmission process between the main macroeconomic variables and prices serves to guide the process of policy formulation and implementation. In understanding and predicting inflation it is necessary to understand the importance of shocks and the underlying process. Critical elements of these are the persistent components such as expectations, indexation and the structural factors such as the openness of the economy, as well as the production function. This paper explores these interrelations and attempts to provide an alternative means of forecasting inflation by employing a Vector Autoregressive (VAR) model. In so doing it attempts to elucidate some aspects of the transmission process. The initial relative success of this approach led to the development of large scale models, the most noted of which were the MIT, Penn State and the Federal Reserve models. During the late seventies, however, these models were criticized by Lucas as being highly inappropriate for policy analysis as they violated the 'policy invariance' property. More recently, Sims (1980) in a seminal critique argued that the restrictions applied to structural models in the estimation procedure were 'incredible' and could not be properly tested.

A VAR model uses historical data to predict future values. An unrestricted VAR (UVAR) model can be written

$$x = \mu + \beta(L)X + \varepsilon \quad (1)$$

where x is a $k \times 1$ vector of variables, μ is a $k \times 1$ vector of constant terms, $\beta(L)$ is a polynomial of degree m in the lag operator (L), and ε is a $k \times 1$ vector of error terms. In practice, a k -variable model is often simply k separate equations for which the coefficients can be estimated by ordinary least squares. The price equation in the VAR considered below is

$$p_t = \mu_p + \sum_{v=1}^k \sum_{j=1}^m \beta_{j,v} x_{v,t-j} + \varepsilon_t \quad (2)$$

where p is the inflation rate, t indexes time, v indexes the particular variable, j indexes the lag number, and μ_p and the $\beta_{j,v}$ are coefficients. Note that even for a relatively small VAR model such as the one used in this paper, with the number of variables $k=5$ and the lag length $m=6$, the price equation contains 31 coefficients to be estimated. It is often believed desirable to limit the number of estimated coefficients.

In order to limit the number of estimated parameters, this paper's strategy is to reduce many lag lengths in an adjusted VAP (AVAP) model. For each equation, set two lag lengths -- one for the dependent variable and another for all independent variables -- in order to optimize some statistical criterion. The particular criterion used in this paper is the Schwarz Criterion (SC), which typically gives a parsimonious specification.' It is defined as

$$SC = T \ln \delta^2 + N \ln T \quad (3)$$

where T is the number of observations, N is the number of estimated coefficients, and δ^2 is the estimated residual variance. By minimizing the Schwarz Criterion one is trading off the lower residual variance from adding an additional coefficient against a penalty term that rises with the number of estimated coefficients. The strategy for selecting lag lengths is to specify a maximum lag length, assume that all independent variables in each equation have the same lag length, and compute the Schwarz value for all possible lag length combinations. Of special interest is the price equation for the AVAP model, which is

$$p_t = \mu_p + \sum_{v=1}^k \sum_{j=1}^m \beta_{j,v} x_{v,t-j} + \varepsilon_t + \sum_{v=p}^m \sum_{j=1}^m \beta_{j,v} x_{v,t-j} \quad (5)$$

where the number of lags m , of the dependent variable is three and the number of lags q of each independent variable is one.

Because many variables do affect inflation, and are in turn affected by inflation, it is possible to identify a small selection of economic variables, movements in which appear to have been highly correlated with inflation in the past and as such may then be useful in forecasting future inflation. The VAR approach provides a convenient means of accomplishing this, as it relies on the causal and feedback relation amongst variables.

The two essential hypothesis of this research are: 1. inflation is a persistent phenomena in Romania, more than in every other CEEC candidate to the adoption of the Euro; 2. the accession to the Euro-Area has no opt-out clause for the most recent EU member states, and thus, neither for Romania. The two hypothesis are of crucial importance to both Romania and the Euro-Area

as a dynamic monetary entity – inflation can cause serious economic and monetary damages to all involved parties while the Euro adoption is a simple matter of time.

Thus, this study is of major interest to both the EU (and the Euro-Area) and the Romanian authorities. This could offer a better perspective concerning Romania’s real compliance to the real and nominal convergence criteria, and at the same time, it could offer viable and scientific solutions to Romanian authorities in their search of an optimal monetary policy set of actions when facing the entrance in the ERM III.

Inflation has become a serious and severe matter especially when considered in the context of the monetary integration process. CEEC’s performance during transition time, but also as functioning market economies, have been measured using inflation as central indicator. In most recent evolutions, Romania has proved to be unsuccessful in implementing a solid disinflation process (gradual disinflation - a targeted depreciation rate of the exchange rate as a nominal anchor). For 2008, the National Bank of Romania, has admitted, before the end of the year, that the inflation target has been missed reaching 6,57%.

Table no. 1: Inflationary variations in Romania

Annual variation (%)			dec. 07/ sep. 08(pp)
	sep. 08	dec. 08	
CPI	6,03	6,57	Æ 0,54
Volatile Prices	10,57	12,56	Æ 1,99
Administrated Prices	7,28	4,97	2,31
CORE2	4,60	5,83	Æ 1,23

(Source: National Bank of Romania)

Therefore, Romania is an interesting case for studying a more general question: Why do countries choose different targets for disinflation? Like most similar literature, previous studies on disinflation in Romania estimate a vector autoregressive model to illuminate the links among inflation and other macroeconomic variables.

From a methodological point of view, the measurement of inflation is difficult. The aim of this research project is to point-out the influence of some different elements from the classic ones. An upward bias in the consumer price index driven by four effects such as quality effect, substitution effect, new goods effect, outlet effect.

The quality effect stems from changes in the quality of a good that may lead to price increases that are misconceived as price inflation. The substitution effect relates to changes in consumption patterns: In response to relative price increases, consumers may switch to similar but cheaper products. The new consumption pattern is not always reflected in updated weights for the consumer price index.

The new goods effect arises when new goods are included in the CPI consumption basket only with a delay. Finally, the outlet effect stems from the difficulties faced by official price collectors in reflecting consumers’ moves towards shopping at cheap outlets such as hypermarkets.

The econometric analysis also wishes to study the possibility to predict inflation and its determinants. In this respect, a distribution of price modifications shall be accomplished on main groups of products and VAR bi-variant models shall be built in order to determine the economic variables determining inflation and finally being able to predict it. Most studies start from the assumption that price changes for the main components of the consumption basket are normally distributed. The asymmetry coefficient or the high variability of prices’ movement may lead to an inclination towards inflation due to the asimetric behavior towards prices’ change. Distribution is also significant in predicting inflation evolution. In order to determine prices’ distribution and inflation determinants in Romania, we shall use price sub-groups from the CPI for the last 5

years, adjusted and standardized. The Jarque-Bera test will help in establishing the existence of a normal distribution or not. In order to determine the inflation determinants, we shall test the Granger causality and we shall built bi-variant VAR models using inflation series (measured using the CPI, CORE1221, CORE2222 and CORE3223).

The analysis from the monetary point of view includes an evaluation of the Balassa Samuelson effect and of elements such as the exchange rate, the interest rate, the balance of payment etc. Research can be sustained in this area by contacts, information exchange and documentation within the National Bank of Romania who has already supported actions in this respect. I have been part of a research program and conference organized by the National Bank of Romania with the best 8 young economist investigating the issues around Romania's present and perspective convergence to the Euro-Area and the Euro adoption process.

The importance of asymmetrical shocks which could lead to an upward bias in inflation rates must not be neglected. Three types of possible shocks deserve particular consideration: terms of trade shocks, agricultural shocks, and adjustments of administered prices. They might prove to be responsible for part of the inflationary process, but at the same time, they might also carry on a chain of asymmetrical shocks further on to the Euro- Area once Romania becomes a member and the issues surrounding inflation have not yet been solved.

The present econometric analysis studies the possibility to predict inflation using VAR models. In this respect, we studied price modification on categories of goods and services and bivariate VAR models in order to identify the variables that determine inflation and based on which inflation can be forecast, according to procedures used by Christoffersen and Wescott (1999).

Most analyses referring to inflation leave from the hypothesis that the modification of the prices of the most important components of the consumer's basket are normally distributed.

This is important from at least two points of view. First, as Ball and Mankiw (1995) and Pujol and Griffiths (1996) argued, the asymmetry coefficient or the high variability of the prices' movement may lead to an inclination towards inflation due to unequal behavior towards price change. Second, it facilitates forecast. In order to compute the distribution in price changes from 55 month (June 2002 – December 2006) – 1925 observations. Each price change has been standardized by deducting the monthly average inflation for each month and dividing the difference with the corresponding standard deviation.

The Jaque-Bera test confirms (at 1% relevance level) the inexistence of a normal distribution. The obtained distributions have a positive asymmetry coefficient and a high curtosis excess.

In order to establish determinants of inflation, we tested for Granger causality and VAR models using the inflation series measured using the CPI, CORE1, CORE2, CORE3. Based on the results, VAR multivariate models were used in for CPI inflation measure.

The used series are: - price indices, administered prices' indices, indices of industrial production, the average gross wage, the average net wage (2004=100), the unemployment rate, the PPI, monetary aggregates M2, M1, the net internal actives of the banking system, the real interest rate, the real assets value, the nominal exchange rate (lei/EUR), the result of the public budget as percent of the budget income. All the series have been used in log (excepting interest rate the real assets' value, the exchange rate and the budget result). The causality bivariate Granger test results (probabilities associated to the F-static test) between the CPI measured inflation and the macroeconomic variables are presented in the table below.

²²¹ CORE1 = CPI – administered prices

²²² CORE2 = CORE1 – prices for season products

²²³ CORE3 = trimmed mean 23 percent

Table no. 2: Results of the Granger test

Lags	1	2	3	4	5	6	7	8
Indicators								
Administrated price	0.007	0.015	0.029	0.067	0.090	0.072	0.064	0.001
Industrial out-put	0.431	0.403	0.524	0.775	0.709	0.711	0.821	0.884
Gross wage	0.213	0.445	0.560	0.544	0.477	0.697	0.802	0.804
Net wage	0.236	0.153	0.116	0.146	0.131	0.258	0.367	0.411
ULC	0.217	0.501	0.644	0.506	0.636	0.808	0.867	0.507
Interest rate	0.535	0.524	0.017	0.023	0.008	0.022	0.020	0.037
PPI	0.014	0.017	0.037	0.035	0.000	0.000	0.000	0.001
M2	0.263	0.543	0.524	0.084	0.009	0.004	0.008	0.006
M1	0.203	0.552	0.677	0.471	0.022	0.035	0.022	0.005
Net internal assets	0.662	0.814	0.3	0.293	0.218	0.123	0.147	0.154
Real interest rate	0.548	0.636	0.397	0.622	0.670	0.437	0.575	0.478
State titles	0.442	0.730	0.841	0.709	0.666	0.671	0.848	0.930
BUBOR real	0.348	0.697	0.821	0.370	0.463	0.484	0.474	0.620
Nominal exchange rate	0.348	0.389	0.111	0.140	0.185	0.058	0.018	0.039
Budget result	0.015	0.017	0.043	0.081	0.149	0.192	0.159	0.077

(Source: own calculations)

According to probabilities associated to a 5% relevance level, the evolutions of inflation is preceded by the evolution of : administrated prices, unemployment rate, industrial production price index, M1, M2, the exchange rate, and the budget result. In building the VAR models, in determining the lag, the probability resulted from the Granger test were taken into account.

According to the results obtained in the impulse-response functions, inflation is influenced by: the index of administrated prices, unemployment rate, M1, M2, internal net actives of the banking system, exchange rate.

In order to asses the inflation prognosis, we use a VAR multivariate model with 4 variable lags: inflation (CPI), M2, real interest rate, the exchange rate and the budget result.

According to the diagnosis through sum of errors and the sum of the square errors, the Jarque-Bera test rejects the hypothesis of a normal distribution. The dynamic relations between inflation and unemployment and administrated prices are correct – an increase in unemployment determines an increase in inflation, and an increase in administrated prices determines a decrease in inflation.

Also, due to the correlation between M1, M2 and the net internal actives of the banking system, the VAR model only retained the M2 variable.

VAR model appear in consequence as a solid instrument in modeling and forecasting inflation. The Romanian case is a special one in respect of this matter – the inflationary phenomenon – and has to be studied accordingly. The present analysis is only a small step indeterming inflation factors and fors-eeing their influence. Econometric results obtained in simulations on the designed models are significant and in strict accordance to the economic reality and theory. Actual development and inflation evolution stages in Romania require a deeper analysis of

monetary and non-monetary determinants of inflation and share they account for. In this respect, further research is to be continued. The initial hypothesis remains and even becomes a conclusion – inflation is and seems to remain (at least on a short run) a persistent phenomenon with causes that can be traced beyond the monetary instruments.

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AN OVERVIEW OF THE GENERAL EVOLUTION OF THE ROMANIAN FOREIGN TRADE AFTER 1989, WHILE TRYING TO JOIN THE EU (I)

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Those 17 years (since 1990 until the accession date to the EU) of institutional and economic-social reforms which, with all the good and bad things, brought Romania to the European Union starting with 1 January 2007, and should make us now be able to emphasise a few elements connected to the Romanian foreign trade. Thus, we consider that the present paper is of a significant importance for the specialists in the foreign trade problems, as well as for the Romanian and all other EU economic operators because we will try to realise a “radiography” of all the general aspects and tendencies of the Romanian External Trade during the years 1990-2006, and their effects upon the Romania’s current and future membership to the European Union, as part of the Common Trade Policy, by presenting some relevant indicators, such as: the volume of foreign trade, volume of exports and imports, GDP growth etc.

Key words: Romanian foreign trade evolution, imports, exports, balance sheet, EU accession process, GDP growth

JEL codes: F14, F15.

We couldn’t start our analyze on the Romanian foreign trade during 1990-2006, without considering the context of the international trade in the same period, which has suffered dramatically changes in the last few years and it might continue changing, such as: the liberalization and globalization inducing a higher mobility and a rapid delocalization of the factors of production, a higher fragmentation and specialization of the activities on the value chains of products and services. The area of service trade has also been expanded. The value retain at the national level is becoming more and more difficult to achieve due to the proliferation of global value chains in the attempt to minimize the costs and maximize the profits. The international competitively is, therefore, more dynamic and the competitive advantages are more volatile and less sustainable, the only perennial advantages being the absolute ones, due to the natural resources (see, for example, the OPEC countries). Even though, competitiveness was and remains fundamental for the so much claimed sustainable economical development, being highly necessary an assembly approach, so much the more the successful economies continuously create and recreate competitive advantages. Moreover, the macro-, mezzo-, and microeconomic strategic reasons, just like the different public or private interested institutional entities cannot be separated one from another, which through their activity generate an impact on the foreign trade, thus a coherent and unitary approach regarding the development of the trade being absolutely necessary.

It is also important to understand the fact that the competitive advantages do not come from protectionism, quota or preferential access to the market. On the contrary, they lead to stagnation, low levels of entrepreneurial abilities and low motivations of the private sector towards efficiency, quality, innovation and product development.

In this international economic context, Romania of the 90’s, as an economy in transition, was clearly marked by the dramatic way in which the change of the role of the state in economy has been made favouring the increase of the role of the private sector. This change was though in

accordance with the market oriented approach of the WTO and European Community, realities marking the Romanian foreign trade after 1989. Therefore, once defined the direction of the Romanian economy, in the following years the state enterprises and its agencies, left as a result of the late privatization, had to – due to economic and legal reasons – adapt their way to develop business, including in what the goods and services purchase was concerned. But the evolution in this period of the Romanian foreign trade was influenced by the fact that there were numerous hesitations regarding the privatization of the state sector, as well as regarding foreign investments. Where the privatization of the state monopolies succeeded, though, the role of the state was simply transformed into a regulating one and as a result, positive evolutions have been registered. Regarding the private sector, the non-interventionist approach of the state towards the competition was justified by considerations regarding the market for a part of this sector, while on the other side, a pro-active policy would have been necessary to ensure the benefits of the economic liberalization.

As it concerns the methodological approach in this paper, for the analysis on the evolution of the Romanian external trade after 1989, we used a series of general statistic indicators, such as: *the volume of foreign trade, the volume of export, the volume of import (in prices CIF and FOB), balance of trade (exports FOB - imports CIF), balance of trade (exports FOB - imports FOB), and export per capita*. With these indicators' help, we can notice the evolution in time of the foreign trade in a particular country and they are very useful to make general comparisons with other countries. The terms of these comparisons could be easily considered superficial and irrelevant enough in the conditions of contemporary world economy complexity because the data presented by them are not sufficiently processed and, taken as such, can determine serious errors of economic interpretation (for example, comparison of the Romanian foreign trade's volume with that of the USA and the presentation of this comparison without interpretation and without taking into account the other factors specific to each country). In spite of all these, the analysis allows though the observation of an ascending or descending evolution in the case of exports or imports and can raise the interest for the identification of causes on which these phenomena are based. From this point of view, our analysis will be based on the unitary system of general indicators- *the volume of foreign trade, volume of export, export per capita* etc., as well as on a series of computed indicators (such as: *the degree of openness, the degree of concentration*), which we consider complex and eloquent enough in our attempt to determine and quantify the strong and weak points of the Romanian foreign trade in the context of European integration.

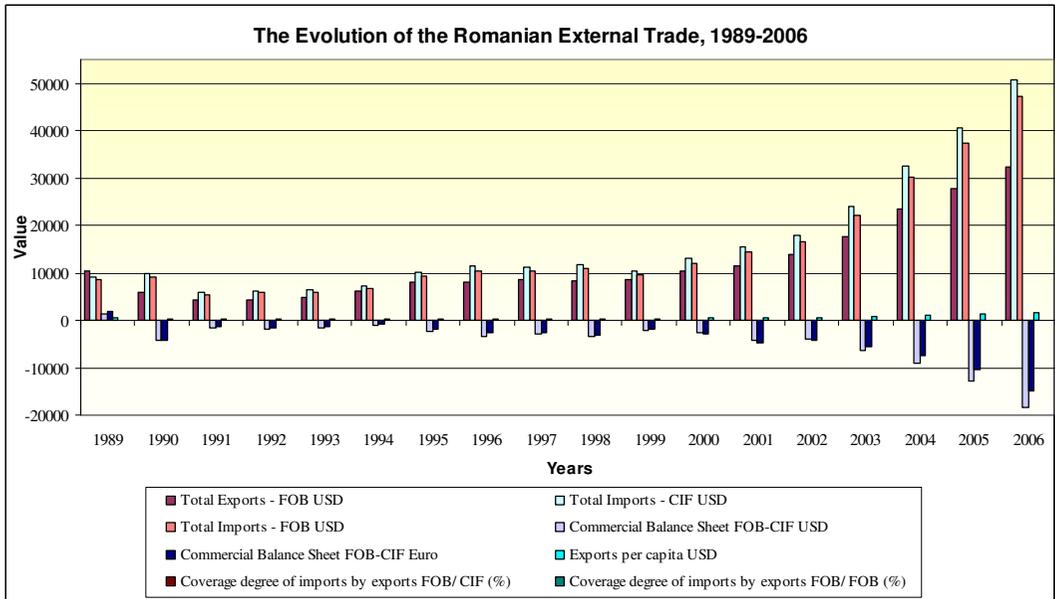
We would also like to state that, we started our analyze considering that, under normal circumstances, a deficit of the commercial balance does not necessarily involve a low level of efficiency in economy, because the way in which this deficit is financed matters, generally agreeing that there are countries which are net exporters and countries which are net importers, the difference being covered by foreign loans. As the foreign loans though did not have a correct destination and were not used efficiently, the pooling of direct foreign investments was affected, being important that at the government level to be correct investment policies so that they should cover both the initial loans as well as the commercial deficit. Form this point of view, Romania was permanently confronted with an insufficiency of financial resources coming from abroad²²⁴, while the national potential was also more below the productive investments' needs of the Romanian economy.

The computed statistic data clearly suggests that since 1990, Romania was a net importer, while Romania's exports were quite low at the beginning of the transition period, registering in 1990 only approximately 5727 millions of Euros. Analyzing these data, we notice that for a 7 year period we have witnessed a growth in the exports' value of almost 5.6 times and in that of

²²⁴ We mention that fact that the financing of the commercial deficit of the commercial balance is made by current private transfers, but this manner of financing is considered illusory, due to the fact that these transfers depend on exogenous factors and their use in the current consumerism can, actually lead to import stimulation.

imports of 5.09 times. The ascending trend is obvious; no matter it is the case of exports, imports or balance of trade, of its deficit respectively. We can notice also an ascending trend of the export per capita, due to actually the growth of the total exports during the entire analyzed period. *Graph 1* presents the evolution of exports and imports, of the balance of trade respectively, and it confirms the tendencies noticed based on the statistic figures, that are a deepening of the commercial deficit of Romania.

Graph 1



Source: Statistic data provided in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008.

Table 1 provides the indicators of evolutions which, through the way they are computed and interpreted, are suited best for the general analysis of the foreign trade activity and reflect the fact that Romania was among the countries in transition with an inferior evolution of exports compared to the evolution recorded by imports. The computation made based on the data in US dollars of the *Annex 1*, reflects a more accentuated evolution of exports than if we consider an increase of 17.19% compared to the previous year, but if we express the data in Euro, the increase is more modest, around 16,15% (a clearer exemplification comes from the comparison of data for 2004). Obviously, the explanation resides in the more rapid depreciation of the European currency compared to the US dollar as against the national currency, during the same year. The same situation happens in the case of imports, a reason for which our analysis, concentrated also on the values stated in USD (US dollars), is not affected from the point of view of comparisons between exports and imports.

From the analysis of the two entries, we can notice that there were periods when the evolution of exports surpasses the evolution of imports (1991, 1993, 1994, 1997, 1999, 2002), but in the majority of the cases the situation was reverse (in all the other years). The imports had a higher growth than the exports, and the fact that there was a higher starting basis explains actually the existence of the commercial deficit of the country and therefore, of an under-capacity to export of the Romanian economy compared to imports. The superiority of the growth rate of imports compared to the growth rate of exports demonstrates that the liberalization policies of foreign

trade have favoured the imports of merchandise and the quantity of goods exported remained reduced.

The evolution of the foreign trade activity in its whole is important because it actually presents both evolutions, of imports and of exports. We present this evolution, too in what follows (based on data in *Annex 1*) for clarification and on the trend of foreign trade in general, as a result of the two evolutions, of exports and of imports.

The trend emphasized in the following graph (*Graph 2*), for the sums stated in US dollars, a trend which does not appear anywhere on the graph for the values stated in Euro, shows us that there has been a relative stabilization of the volume of transactions for 1996-1997-1998, around the value of 20 billion US dollars. Practically, this stabilization results from the relatively constant level of imports and exports in this period and of the relatively low oscillations from one year to another.

Table 1. The Evolution of the Romania's exports and imports during 1990-2006

Year	Evolution of exports (US dollars) expressed in %	Evolution of imports (US dollars) expressed in %	Evolution of exports (Euro) expressed in %	Evolution of imports (Euro) expressed in %
1990	-44,931820	+9,046161	-59,589331	-19,969241
1991	-26,147186	-41,619019	-35,149293	-48,740771
1992	+2,297773	+7,542955	-9,558428	-4,814522
1993	+12,124685	+4,201949	+24,650194	+16,148425
1994	+25,735895	+9,000307	+23,381896	+6,978404
1995	+28,596976	+44,577296	+18,312040	+32,615949
1996	+2,199747	+11,257054	+5,579188	+14,844635
1997	+4,292429	-1,355488	+15,744615	+9,464344
1998	-1,530068	+4,946809	-0,923818	+5,253678
1999	+2,228379	-10,821085	+7,797297	-5,618939
2000	+22,151526	+23,662025	+41,318792	+42,953561
2001	+9,819620	+19,126771	+12,853721	+22,493129
2002	+21,809398	+14,795525	+15,351360	+8,675142
2003	+27,350736	+34,335966	+6,398637	+12,228045
2004	+33,146481	+36,088062	+21,269374	+23,961134
2005	+17,697512	+24,095747	+17,533668	+23,924128
2006	+17,193207	+25,389378	+16,158167	+25,108003
Average	+9,060899412	+12,60414194	-9,735594384	+9,735594353

Source: Personal computations based on statistic data provided in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008

The subsequent growth trend is obvious, due to which we can state that Romania's involvement from the point of view of the total volume of foreign trade in the external economic exchanges is more and more intense. This, at a first sight, would seem an extremely favourable to Romania, in the conditions in which in the world, currently, it is promoted the idea of free trade and the advantages that it can bring. Actually, in the foreign trade's volume imports have a considerable weight which negatively affects the situation of the balance of trade and implicitly that of the current account deficit.

In order to identify the causes contributing to the global deficit of the balance of trade and to the increasing imports we have considered necessary to present data afferent to GDP, respectively

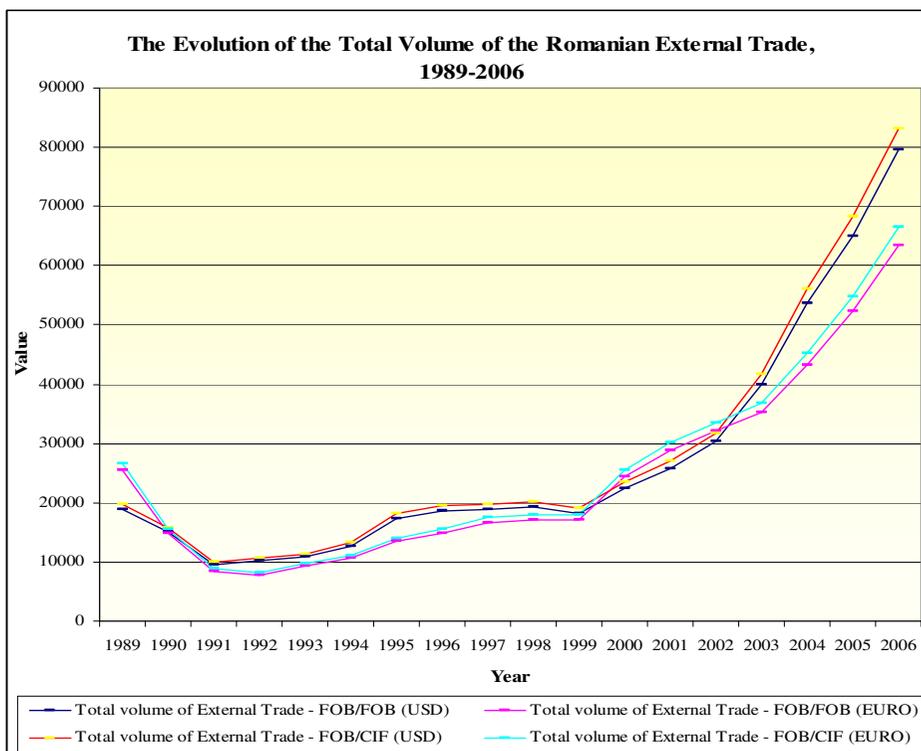
the growth (or GDP diminution) in the period analyzed, and therefore, we can notice that the GDP evolution is negative at the beginning of the period of transition, some economists naming this phenomenon as *negative economic growth*. Starting with 1993 though, the bringing to a normal state begins; therefore we have negative economic growth during 1997-1999, too. (See Table 2)

Table 2. The rate of GDP growth, 1989-2006, basis in chain

Year	Real evolution of GDP (%)	Year	Real evolution of GDP (%)
1989	-5,8	1998	-4.8
1990	-5,6	1999	-1.2
1991	-12.9	2000	2.1
1992	-8.8	2001	5.7
1993	1.5	2002	5.0
1994	3.9	2003	4.9
1995	7.1	2004	8.3
1996	3.9	2005	4,1
1997	-6.1	2006	7,0

Sources: Personal computations based on statistic data provided in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008.

Graph 2



Source: Statistic data provided in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008.

In *Graph 2* we can notice that the highest rate of external trade volume growth was recorded in 2004, the analysts attributing this growth to the internal consumption, which is partially true as a result of the fact that our data relative to foreign trade reflected a high level of deficit in the balance of trade, meaning that, mainly, the consumption of import goods contributed to the country's economic growth. Let us remember that in that year the consumption credits were launched on the market for the population and thus it was recorded an explosion of import with electric appliances and electronics.

In **conclusion**, based on the above analyse and on the data regarding Romania's foreign trade, to be found in the specialty literature²²⁵ there have been identified three stages of the evolution and tendencies in the Romanian foreign trade, that is:

- 1990-1993 – the stage of the accentuated decline of the Romanian foreign trade due to the changes in the system in the conditions of some massive imbalances on the domestic markets, especially on the important exporters' markets; in this period there was a series of external restrictions derived from the localization of Romania in a geographical area unstable from the economic and political point of view;

- 1994-1998 – the stage of the economic macro-stabilization efforts, characterized by attempts to force the exports, in the context of Romania's integration in the WTO structures and of Romania's candidature to the EU, the Romanian currency depreciated compared to its purchasing power, our country's accession to the CEFTA free trade area;

- 1999-2006 – the stage of real privatizations in the industrial sector and of restructuring the inefficient sectors, of the efforts with a higher degree of simultaneity in creating a liberal economic environment and of real facilities given to foreign investors.

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²²⁵ Further references are to be found in the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008.

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AN OVERVIEW OF THE GENERAL EVOLUTION OF THE ROMANIAN FOREIGN TRADE AFTER 1989, WHILE TRYING TO JOIN THE EU (II)

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Considering the context of the international trade in the period 1989-2006, which has suffered dramatically changes, we have continued to analyse the realities marking the Romanian foreign trade after 1989. As a matter of fact, the EU as we have noticed in previous articles, started even in 1990 to have important weights in Romania's imports and exports, these weights surpassing 50% of the total of imports and exports starting with 1995, since when we can say that Romanian has been performing preponderantly economic exchanges with the European Union countries. Thus, in the present paper we continue our "radiography" concerning the general aspects and tendencies of the Romanian External Trade during the years 1990-2006, and their effects upon the Romania's membership to the European Union, by presenting some relevant indicators, such as: the geographical orientation and the Romania's exports and imports to/from EU etc.

Key words: Romanian foreign trade evolution, imports, exports, EU accession process, geographical orientation, weight of Romania's exports and imports to/from EU, in the total Romanian exports and imports

JEL codes: F14, F15.

Considering the context of the international trade in the period 1989-2006, which has suffered dramatically changes, we have continued to analyse the realities marking the Romanian foreign trade after 1989. Where the privatization of the state monopolies succeeded, though, the role of the state was simply transformed into a regulating one and as a result, positive evolutions have been registered. As it concerns the methodological approached in this paper, for the analysis on the evolution of the Romanian external trade after 1989, we used a series of general statistic indicators, which are very useful to make general comparisons with other countries.

With respect to the geographical orientation on partners, the statistical data analysed in this paper reflects a growth of the weight of European countries and especially of those in the EU, both at import as well as at export. For exemplification we present these weights only for the EU (see *Graph 1*), because only for this region the trend to grow is obvious. With the other areas, the growth is slow or there has not been recorded any growth, the weights being relatively low and insignificant.

Therefore, the trend to intensify the commercial exchanges with the European Union is clear. As a matter of fact, the EU as we have noticed previously, started even in 1990 to have important weights in Romania's imports and exports, these weights surpassing 50% of the total of imports and exports starting with 1995, since when we can say that Romanian has been performing preponderantly economic exchanges with the European Union countries. We must mention here that this year - 1995²²⁶ – represents actually the year when Romania officially applied for the accession to the European Union, which determined to a certain extent this important weight held by EU in our foreign trade, because of the fact that by achieving the consensus of the political

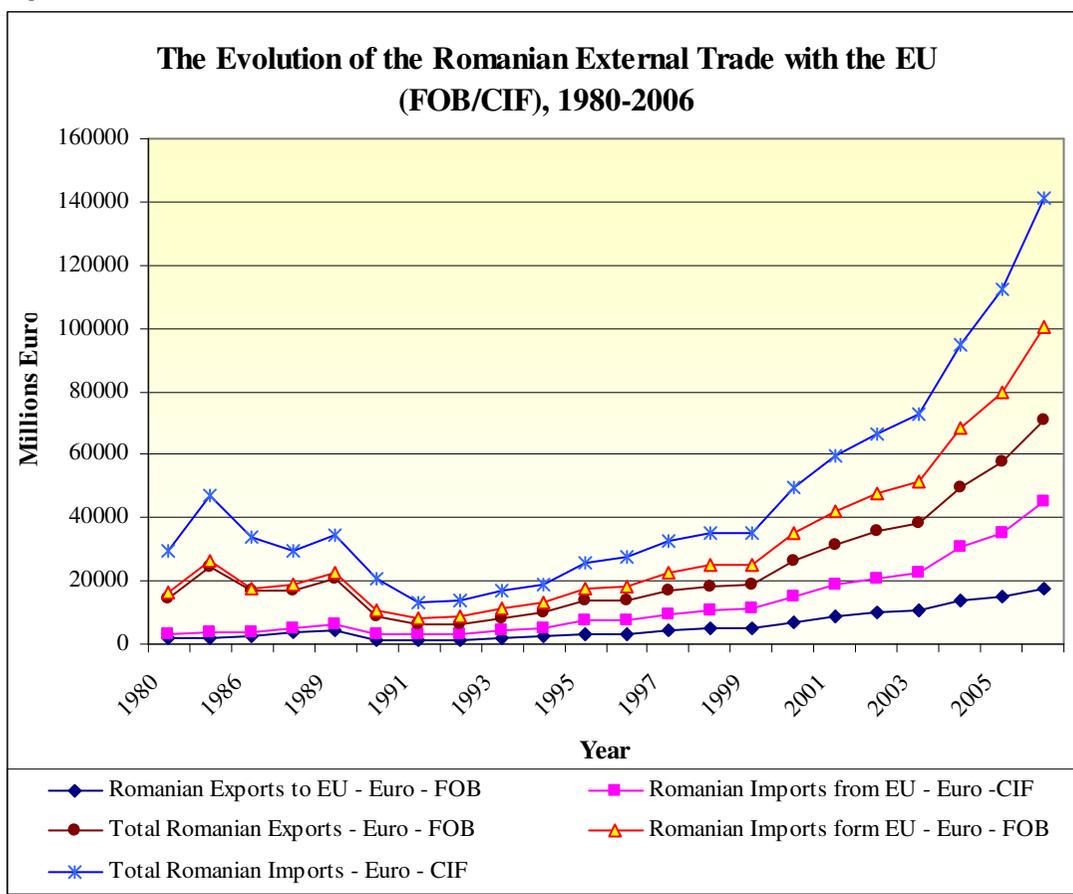
²²⁶ more exactly, on June 22, 1995.

class regarding our candidature to EU, this consensus was reverberated on the legislation, too and on the policy applied subsequently in the commercial filed.

According to the EU Association Agreement, Romania gradually and asymmetrically reduced the customs duties for the industrial products import from EU, completely cancelling them on 1 January 2002 (while EU eliminated these duties on 1 January 1997), as well as the quantitative restrictions for the trade with merchandise due to be processed (for example, *Lohn* for the export with textiles and clothes which led to the increase of that group's weight in the total exports of Romania towards EU, from 33.4% in 1994, to 36% in 1997), as it can be seen in *Table 1*.

Therefore, starting with 2002, a free trade area was constituted between EU and our country regarding the industrial products. The trade with agricultural products has been partially liberalised, due to this sector's sensibility in EU, by signing reciprocal conventions for a series of agricultural products: tax exemptions and reductions, tariff contingents and reciprocal elimination of the export subventions for some products, following that the complete liberalization should take place when Romania accedes to EU²²⁷.

Graph 3



Source: the statistical data offered in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008.

²²⁷ As a matter of fact, Romania is considered as being a country with competitive advantages in trade with agricultural products, if eliminating the external distortions.

Table 1. The weight of Romania's exports and imports to/from EU, in the total Romanian exports and imports, 1989-2006

Year	Exports to EU – Weight % in total of exports	Imports from EU – Weight % in total of imports
1989	32,9	11,7
1990	33,9	8,3
1991	36,9	6,3
1992	35,2	13,8
1993	41,3	13,9
1994	48,2	21,8
1995	54,2	28,9
1997	56,5	41,3
1998	56,5	45,3
1999	64,5	48,2
2000	65,5	50,4
2001	63,8	52,3
2002	67,8	52,5
2003	67,2	57,7
2004	67,7	60,7
2005	72,9	56,5
2006	67,6	57,4

Source: Personal computations based on statistic data²²⁸

Regarding the other areas (see *Graphs 2 and 3*), the weights are considerably low. The reasons for this orientation of the foreign trade preponderantly towards the EU and significantly to a smaller extent towards the other areas are:

- for example, with Africa and Middle East, the weight became lower during 1999-2002 due to the tensions and long crises in the Middle East; moreover, the traditional relationships with this area did not manage to be maintained in the first years of transition, being reconsidered on other bases after 2002, when Romania became a USA partner in the military operations in the area, thus registering a considerable sudden change of the commercial exchanges with the countries in this region (for exemplification, the Romanian exports raised from 335 million Euro in 2001, to 1749 Euro in 2006; the CIF imports in the same years raised from 137 million Euro, to 750 million Euro) and an annual surplus of the balance of trade on this destination. Therefore, this market should still be considered by Romania because it seems that our products are in demand in the region, being competitive for the purchasing power of that particular population. Obviously, an analysis of the structure of our exchanges on this direction is necessary to be able to realise if the situation is conjectural or not;

- with the EFTA countries, the level of commercial exchanges, yet reduced as value, recorded also a negative balance of the Romanian balance of trade in the period we are analysing;

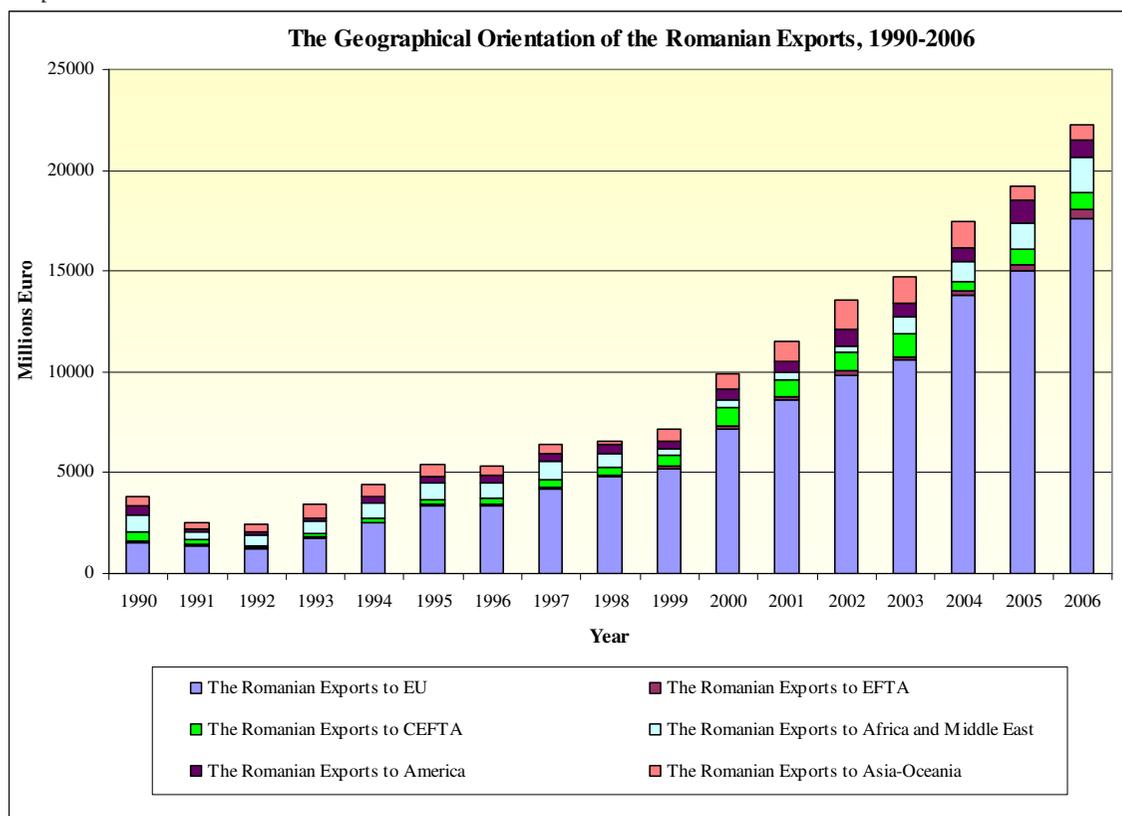
- with the Asia-Pacific region, even though the trade has recorded a preponderantly ascending trend since 1990 onwards, Romania's exports towards this region lowered due to some limitations of imports by this area; in spite of all these, we can notice an increase of the Romania's imports, starting with 2001, when China adhered to the WTO; from the point of view of the negative balance of our balance of trade – which, as a matter of fact, records the similar trend of the EU on this relation – we consider this region as not being beneficial for the

²²⁸ see Annex 2

Romanian products because it is the most competitive market for Romania – and not only – currently (for example, Romania’s exports became lower from 1447 million Euro in 2002, to 733 mill. Euro in 2006, while the CIF imports in the same years increased from 2009 million Euro to 3363 million Euro).

- with the region of America, even though the trade has recorded a preponderantly ascending trend since 1990 onwards, Romania’s exports towards this region recorded cyclical fluctuations starting with 2000; in spite of all these, we can notice an increase of the Romania’s imports, starting with 2000, year when Romania started its accession negotiations to the European Union; but from the point of view of the negative sold of the Romanian balance of trade – which is opposite compared to that of the EU on this relation – we consider North America – especially if we take into consideration the commercial exchanges with the USA – as not being beneficial for Romania’s exports. In exchange, South America can be considered as a market with an important potential for the Romanian products, especially in the present, as EU members and beneficiaries of the free trade agreements of this area with the Latin American countries. We cannot though but notice the fact that the positive trend of Romania’s commercial exchanges with the region of America started in 1993 – after a significant previous diminution – when the USA re-awarded Romania the most-favoured-nation-clause.

Graph 4



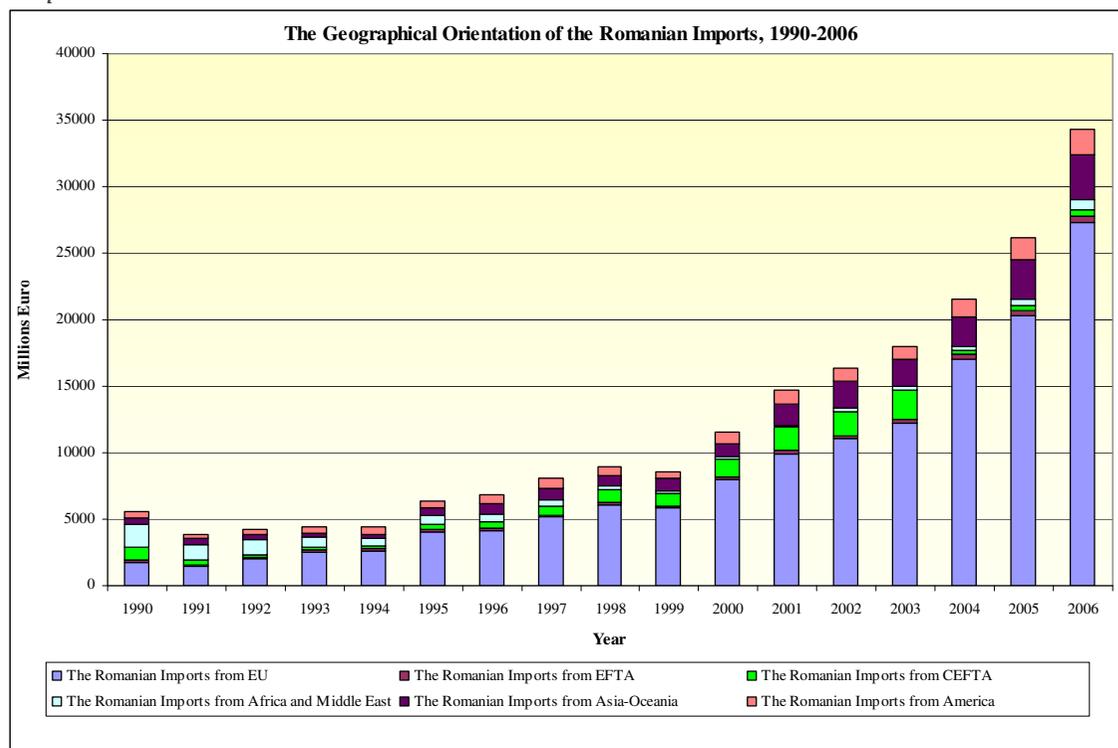
Source: Personal computations based on statistic data provided in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008.

Thus, as a **conclusion**, we appreciate that Romania has readapted its external commerce after the year 1989, according to the existing conjunction on the international markets, but, although it has

reoriented from the geographical point of view, actually, the external commercial changes of the country are far from registering the desired efficiency (if we refer only to the commercial balance account), the export levels are still situated almost in all the cases under those of the imports. This fact is, first of all, due to the fact that the geographical reorientation has not been accompanied by great changes in the structure of the exported goods and nor by an increase in their competitiveness. In addition, Romania has guided itself mostly on the markets with which it already had closed agreements of free trading, even if – as we have proved in the regions of Africa and Middle East – there was and still is a huge potential for our exports on other destinations, more efficient, at least on a short and medium term, until we manage to produce intensive technological products.

This geographical orientation of our external affairs – which actually had a meaningful contribution to the commercial deficit of our country – was mainly owed to the used promoting measures by the Romanian commercial politics in the analyzed period, that were mainly focused on the markets of EU states and those with which we had bilateral agreements starting from the year 1990, not having at all any foundation for the aim of efficiency of our external affairs. Even more, the country's commercial deficit has accentuated in the first months from joining the European Union, fact that clearly shows the necessity to reorient the Romanian exports towards markets with a higher potential.

Graph 5



Source: Personal computations based on statistic data provided in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008.

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At the same time, one must also underline the important role played by the *Romanian commercial politics reform* in the whole process of the economical reform in our country, which can be explained through the fact that, on a short term, it has been a good substitute for other politics, because it stimulated the competition (reducing the dominant positions in economy and disciplining the application of subsidies), it has eliminated the distortions created by system of administrated prices and created pressures for the modernisation of the fiscal system.

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INDIVIDUAL AND CONTEXTUAL DETERMINANTS OF ENTREPRENEURSHIP: AN INTERNATIONAL COMPARATIVE ANALYSIS

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Abstract

Models of entrepreneurial behavior focus usually on individual level factors yet a great deal of beginning and running a business depends on the economic, social and institutional environment. Our analysis uses data from the 2008 European Social Survey to assess the weight of country-level characteristics in explaining individual entrepreneurship measured as self-employment of business ownership. The article starts with a literature review which puts the bases of our hypotheses. The results describe cross country comparisons of entrepreneurship rates, individual and country-level regressions of entrepreneurship. As expected, there are large differences between countries with respect to rates of entrepreneurship. A great part of this variance can be accounted for by the division between the former socialist countries and the rest and by levels of urbanization.

Keywords entrepreneurial behavior, contextual factors, comparative analysis

JEL: A14

Introduction

Models of entrepreneurial behavior focus usually on individual level factors yet a great deal of beginning and running a business depends on the economic, social and institutional environment. Unemployment basically acts as a push factor for self-employment (Audretsch & Thurik, 2006). Based on literature review we expect a positive influence of income differentials on the number of self-employed (Evans & Leighton, 1990). Most studies investigating the role of motivational determinants of the choice for self employment pertain to the *individual level*. Urban areas will give rise to economies of scale through which small-sized entrepreneurship in retailing comes under pressure (Noorderhaven, Thurik, Wennekers, & Van Stel, 2004; Wildeman et al., 1999). We expect life-dissatisfaction to be positively related with job-dissatisfaction and thus with self-employment. The role of post-materialism in explaining differences in self-employment between countries is dealt with in Uhlaner *et al.* (2002).

Data

We have used the data base of the 2008 European Social Survey which includes answers from 54988 subjects selected using a stratified probabilistic procedures from the adult populations of 28 countries. The data were weighted in order to adjust the data base to the size of each country's population. The weighted data base contains 58456 cases.

Variables

The dependent concept in the study is entrepreneurship. Entrepreneurship was defined as business ownership or self-employment. As such, we have defined as entrepreneurs those individuals who, in the European Social Survey indicated their occupational status as being self-employed or working in family business. According to this definition, 9,9% of the sample qualify as entrepreneurs.

Individual-level variables

Variable name	Description	Measurement	Univariate statistics
age	Age of respondent	Numeric	Avg=47,1 Stdev=18,6
edu_square	Squared of Years of full-time education completed	Numeric	Avg=158,3 Stdev=101,7
male	Gender	Dichotomy (1=male)	44,5%
rural	Residence	Dichotomy (1=rural)	31,6%
father_empl	Father self-employed at 14	Dichotomy (1=self employed when the subject was 14)	16,3%
mother_self	Mother self-employed at 14	Dichotomy (1=self employed when the subject was 14)	6,0%
father_sec_ed	1=father with secondary education	Dichotomy (1=father with secondary education)	41,9%
mother_sec_ed	1=mother with secondary education	Dichotomy (1=mother with secondary education)	43,4%

Contextual variables

Inspired by the literature we have modeled individual entrepreneurship using several features of the countries in the data base:

Variable name	Description and source	Measurement	Univariate statistics
Frmcommunist	Country former communist or not	Dichotomy (1=former communist)	12 (42%)
Unempl2006	Percent unemployed in 2006 according to labor force surveys ILO	Numeric	Range: 3,4-13,5
Unempl2007	Percent unemployed in 2007 according to labor force surveys ILO	Numeric	Range: 2,5-11
GDPcapita	Gross Domestic Product per capita in 2008, from the CIA Factbook (for Cyprus we have used 2009 estimates)	Numeric	Range: 7271-58141
Urban	Percent of population living in cities, data from the CIA Factbook	Numeric	Range: 48-97
SWL2006	Satisfaction with life index, data from http://en.wikipedia.org/wiki/Satisfaction_with_Life_Index#International_Rankings_2006	Numeric	Range: 120-273

Materialist	Percent materialist in the population, according to WVS of 1998-1999, except for Cyprus where estimates from 2006 were used.	Numeric	Range: 6,3- 52,1
Post_materialist	Percent materialist in the population, according to WVS of 1998-1999, except for Cyprus where estimates from 2006 were used.	Numeric	Range: 1,7- 22,7

	selfem ployed	Frmcom munist	ampune mpl2006	unemp l2007	GDPc apita	ur ba n	SWL 2006	Mater ialist	Post_mat erialist
Belgium	11.36	0	8.3	7.5	34.49 3	97	243.3 3	22.2	20.3
Bulgaria	7.53	1	9	6.9	12.39 4	71	143.3 3	48.7	3.2
Coatia	7.48	1	11.1	9.6	19.08 5	57	196.6 7	15.4	19.2
Cyprus	17.61	0	4.5	3.9	21.2	70	230	37.5	10.5
Czech Republic	9.61	1	7.1	5.3	24.71 2	73	213.3 3	25.3	9.8
Denmark	9.94	0	4.1	4	36.60 4	87	273.4	8.5	16.1
Estonia	7.41	1	5.9	4.7	20.65 7	69	170	41.2	2.6
Finland	14.53	0	7.7	6.8	35.42 6	63	256.6 7	26	10.7
France	9.17	0	8.8	8	34.04 5	77	220	27.9	17.9
Germany	12.1	0	10.3	8.6	35.61 3	74	240	30.1	15.1
Greece	28.04	0	8.8	8.1	29.36 1	61	210	18.9	16.7
Hungary	6.22	1	7.5	7.4	19.32 9	68	190	50.5	2.4
Israel	12.17	0	8.4	7.3	27.54 8	92	223.3 3	13.8	12.6
Latvia	5.56	1	6.8	6	17.10 1	68	156.6 7	34.9	4.8
Netherland s	12.37	0	4.2	3.5	40.85	82	250	11.8	22
Norway	10.07	0	3.4	2.5	58.14 1	77	246.6 7	13.6	11.2
Poland	16.06	1	13.8	9.6	17.62 5	61	196.6 7	36.9	7.6
Portugal	12.63	0	7.7	8	22.08 1	59	203.3 3	35.6	10
Romania	4.33	1	7.3	6.4	14.06 4	54	173.3 3	45.2	7.1
Russian Federation	4.74	1	7.2	6.1	16.13 9	73	143.3 3	52.1	1.7

Slovakia	7.46	1	13.3	11	22.08 1	56	180	45.9	4
Slovenia	9.56	1	5.9	4.6	27.61	48	220	16.8	16
Spain	15.88	0	8.5	8.3	31.95 5	77	233.3 3	27.1	15
Sweden	10.6	0	5.4	6.1	37.38 3	85	256.6 7	6.3	22.4
Switzerland	12.92	0	4	3.6	42.53 4	73	273.3 3	14.4	18.3
Turkey	8.9	0	9.9	10.3	13.92	69	176.6 7	19.3	20.9
Ukraine	6.5	1	6.8	6.4	7.271	68	120	45.6	3.5
United Kingdom	12.46	0	5.4	5.3	35.44 5	90	236.6 7	15.3	22

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THE BALANCE OF PAYMENTS' SUSTAINABILITY AND THE EUROZONE ACCESSION CONVERGENCE CRITERIA

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The main purpose of the balance of payments (BoP) is identified as representing the long term need of equilibrium and stability of the international payments and revenues. The purpose of this paper is to determine the factors that influence the balance of payments of a certain country, by using a rigorous classification that reveals the complexity of these factors. Our conclusions are very relevant, especially for countries like Romania, because, in order to achieve the external equilibrium, it seems that every county must adopt a mix of internal economic policies, and although theoretically this can be realised, sometimes in practice it can prove to be impossible on account of inability or refusing to combine the appropriate economic policies.

Keywords : balance of payments, sustainability, Euro area, convergence criteria, foreign direct investments, portfolio investments, external operations

JEL codes: F32, O11, F15, F33

The balance of payments purpose, functions and sustainability

The main purpose of the balance of payments is identified as being the long term need of equilibrium and stability of the international payments and revenues. This objective is determined by certain costs of certain imbalances between payments and revenues. The nature of the costs depends on the exchange rate type of regime.

As in accountancy the balance of payments is always balanced, the imbalances registred refer to the main accounts' balance, the current account and the financial and capital account, except the National Bank reserves.

*In other words, **the balance of payments general imbalance** represents the sum of all comprising accounts' imbalances, according to its architecture. Thus, the goods and services balance result, the income balance result and the current transfer result form the current accounts' imbalance. And the capital and financial account imbalance is given by the results of the financial account and capital account. So, every account's balance is obtained by adding all its comprising subaccounts' balances, and every subaccounts' balance is obtained by adding all its comprising items.*

The external imbalance nominal value is given by balance of payments surplus or deficit and is reflected in the financial flows volume and sign. Thus, the balance of payments deficit represents the continuous negative and high value balance of all reserve assets.

According to the theory, the external imbalance appears only if the exchange rate is administered in a certain degree, because when the exchange rate is floating, every imbalance trend should be counteracted by a spontaneous shift of the exchange rate towards the equilibrium.

*Therefore, the external balance represents the situation when the sum of the current account and the financial and capital account balance is zero. When this theoretical concept is transformed into an efficient policy, we can find many inconveniences, specially regarding the *period* considered when the balance of payments is analysed, *the period* when the balance of payments*

equilibrium forecasts to be obtained, *the balance of payments structure* and the *relation* between the internal and external balance.

The current accounts' balance is one of the most important and most controversial ways of measuring the macroeconomic performances in a transition economy, and reflects the connection between the national economy and the rest of the world.

Regarded from a macroeconomic perspective, the current account balance reflects the impact of foreign resources inflow on the economic development and also draws the attention on a dangerous and unsustainable imbalance, determined by the cumulation of external debt as a result of the disparities between the available income and the economy's absorption capacity, and the difference between the national savings and gross investments²²⁹ (key factors of economic growth), that transforms the saving - investment balance into the measuring instrument of the resource necessity generated by the economic evolution in a certain period of time.

A deficit resulted from the high level of investments can be sustainable only if the investments are directly related to capital formation and economic growth. *A deficit resulted from a low level of national savings* is more doubtful.

We consider that the current accounts' deficit sustainability is a complex concept that depends on several factors, like: the goods and services exports' growth rate compared with the one of the imports, the structure of exports, imports, government expenditure and national credits, and also the improving prospects of collecting budget revenues. And the governmental deficits sustainability has important consequences on the economy's external deficit sustainability. In transition countries the large governmental deficits are not covered by private savings, this situation being reflected in large current account deficits. Thus, budgetary deficits are largely covered by external loans, that can become a burden for the economy, if they are not used for financing fruitful investments. .

The foreign direct investments inflows perspectives influence the external deficit sustainability (a large percentage of FDI inflows could be helpful for covering the current accounts' deficit, but it must be considered that in the transition economies that have already finalised the privatization process, a drop of FDI inflows will probably be registered, FDI ensuring only the short term current account deficit sustainability) and also their economic destination. There are several long term FDI inflows perspectives, with positive effects on our country's competitiveness and supply expansion, including an export oriented production, on the account of Romania's production potential. Another important aspect refers to the phase of FDI: growth stage or the repatriation of profits stage. The historical experience shows that overall, FDI help the balance of payments, only in the first stage. In the second stage, their impact on the balance of payments becomes negative.

The current accounts' deficit also depends on the level, destination and structure of the external debt and on maintaining the possibility of covering the current accounts' deficit through external financing, ie the existence of a positive differential of the real interest rate and an external creditworthiness, and also of the international reserves evolution and balance, and of the tradable goods sector's developing degree.

The economy's capacity of sustaining the current accounts' deficits also depends on the financial system development level, first of all because an undeveloped banking system discourages the national savings. Secondly, an undeveloped financial system could not efficiently assign capital inflows and savings towards investments. The third reason refers to a banking system crisis that would support an exchange rate crisis.

The real exchange rate and the exports and imports elasticity influence the exported and imported volume of goods, and therefore the external deficit's sustainability. The national currency

²²⁹ That splits the private and public sector gap.

devaluation represents a major risk for the current accounts' sustainability, because it makes the external financing more expensive.

Other determinants also have impact on the current accounts' sustainability level are the economy's degree of openness, the structural reforms and the level of labour productivity..

An extremely important aspect that must be considered when studying the current accounts' deficit sustainability refers to determining an „anchor”, like some comparing criteria. This kind of anchor for establishing the current accounts' sustainability could be avoiding insolvency of a certain country, this representing one of the economic policy strategic goals.

The convergence criterias and the balance of payments

The euro area balance of payments represents a statistical overview of the economic operations between the resident and non-resident countries of the euro area, registered in a certain period of time, usually one year

The European Commission Treaty establishes that joining the third stage of EMU depends on meeting the real and nominal convergence criterias and could be realised at the moment chosen by each country. Also the Treaty sets the *exclusion clause*, according to which Great Britain and Denmark can remain outside the EMU if they decide so, despite meeting the convergence criterias.

The convergence criterias (Maastricht criterias)²³⁰ are variables that express the homogeneity degree between the economies regarding the main features. Between the EU member states must exist a certain degree of homogeneity so that the economic growth in the EMU could be sustainable, and so that the possible common shocks shouldn't determine asymmetric effects between the member states.

The nominal convergence represents the medium term progress to reaching Maastricht's nominal convergence. The sustainability of meeting the nominal convergence criterias represents a sine qua non condition for joining the euro area

The nominal convergence criteria can be classified into *monetary criterias* (the first three) and *fiscal criterias* (the next two) and they are:

- **price stability**: the average inflation rate of the countries wishing to adopt the euro must not overcome by more than 1.5% the average inflation rate of the first three most performant economies regarding the price stability;

- **interest rate**. The countries wishing to join the euro area must have a long term nominal interest rate that should not overcome by more than 2% the long term average interest rate of the first three member states with the lowest inflation. \

- at least two years before joining the euro area, the candidate countries must join the ERM II, proving their **national currency stability** through maintaining it between + / - 15% compared to a central parity established compared to the euro²³¹.

ERM II represents a sort of training room, that allows the transition period needed for adopting the euro. Joining the ERM II is optional regarding the period of time chosen, but is mandatory for adopting the euro. MRS II represents a mechanism through which the EU assures that the member states are heading towards stability, from an economic point of view.

- **The budgetary deficit** must represent not more than 3% of real GDP;

²³⁰ The Maastricht criterias are included in the 121 Article of the Treaty and in the 21 Protocol attached to the Treaty.

²³¹ When establishing the central parity there must be considered the balance exchange rate and the exchange rate's evolution in the period before determining the central parity, for being credible and for diminishing the risks. The central parity must reflect the economic reality.

- **The external debt** can not overcome more than 60% of GDP. There are some exceptions to this conditions, for countries with a decreasing external debt, that insures a close percentage to the established value.

Meeting all the criterias with the appropriate values does not involve the real convergence.

All the candidate states must also meet the **legal convergence** criterias. This means adjusting the national legislation and the regulations issued by the member states' Central Banks to be fully compatible to the ESCB Statute, in order to planning and implementing the European monetary policy. Largely, this convergence referes to problems regarding the national Central Banks independence and their integration in the ESCB.

In addition to the nominal convergence criterias, when assessing if a member state is ready or not to adopt the euro, the European Commission and the European Central Bank also consider the market integration, the balance of payments' situation, labour costs and other price indicators (real convergence).

The real convergence implies the economic development that insures reaching the EU's and euro area's real income level, the gradual proximity, as coherent and as faster as posible, regarding the income per capita and the price level, of those closest regarded from the economical development point of view. In other words, the real convergence involves equalizing the living standards, what the EU calls „economic and social cohesion”. The variables that express the real convergence are: the unemployment rate, the structure of the balance of payments²³², national income per capita and public expenditure. For obtaining this it takes more time than for meeting the nominal convergence criterias, as their accomplishment affects positively the real variables.

After the research conducted for realizing this paper and in order to argument the theory, in the following part, we will try to analyse the main convergence indicators and also to draw up the most appropriate conclusions regarding our countries situation. .

As regarding our country's recent **price stability**, the inflation rate was above the reference value. In March 2010, the reference value was 1.0%²³³. În Romania, the inflation rate registered was 5.0%, 4.0% above the reference value.

After a period of deflation, HICP was below 4% in the second part of 2007 and 2008, on the account of raising food and fuel prices. In July 2008, the annual inflation rate reached the high value of 9.1% and remained that way despite the strong economic downturn, registering 5% in the second half of 2009. The gap between the euro area inflation rate reflects a rise in the price of tabaco, fuel and the persistent inflation in services sector. In the firs quarter of 2010, the annual inflation rate still remained high, registering 4.6%.

The Romanian economy was strongly affected by the global economic downturn, as our country's economic growth decreased from 7% in 2006-2008 to -7.1% in 2009, on the account of the decrease of the local demand, and on the back of approved credits and investment inflows. The available information and indicators for the first semester of 2010 sugest a superficial recovery of the Romanian economy. The forecasted GDP growth is 0.8% for the year 2010 and 3.5% for 2011, reflecting so an increase of the local demand components, except the public expenditure.

The labour market reacted late at the difficulties of the economic situation. The unemployment rate increased to 6.8% in 2009, from 5.8% in 2008. In 2009 the labour productivity decreased to registering negative values, on the back of lower results.

²³² Article 121 from the EU Treaty (1992) affirms that besides the qualitativ criterias, „the state and evolution of current account balance” of all the candidate countries must be examined before they join the euro area\

²³³ Calculated as the average of Portugal, Belgium and Estonia's last months' average inflation rate, plus 1.5%

Since 2005 Romania operates in an inflation targeting framework, combined with a floating exchange rate regime. BNR highlighted the fact that all exchange rate and monetary operation instruments will remain available, including the interventions for stabilizing the national currency.

The leu's exchange rate floated a lot in the 2000's. Between 2004 and 2007 the leu appreciated, on the account of capital inflows, attracted by the slight economic recovery and the EU accession perspectives. After a five years appreciation, in the second half of 2007, the national currency suddenly depreciated, as a consequence of the first signs of global financial markets downturn. The leu's depreciation trend in 2007, was only interrupted in the second part of 2008.

Another important moment of the leu's depreciation was in 2008, on the account of worsening of the global financial markets situation and the rising fears of foreign investors towards the macroeconomic imbalances. After Romania asked for international financial assistance, the financial market pressures lowered and the national currency stabilized for a while during 2009. Financial market pressures reappeared at the end of 2009, on the back of the local policy uncertainties. At the beginning of 2010, the financial markets conditions improved and the leu's exchange rate registred a slight improvement.

In Romania, the long term interest rate was all the time above the reference value, since January 2007, when our country joined the EU. In March 2010, the reference value, as calculated by the average long term interest rate of Portugal and Belgium, plus 2%, was around 6%, and Romania's long term interest rate was 9.4%, 3.4% higher.

As regarding the external deficit, the Council adopted a decision, saying that Romania registred an **excessive deficit**, based on the previous year's deficit of 4% of GDP. In the same time, the Council recommended our country to correct the excessive deficit until 2011. In February 2009, the Council suggested new recommendations, that should be met until 2012. An increase on financial efforts was recommended and also strengthening the fiscal policy and adopting and implementing pesions reform.

The governmental deficit rose in the period 2005-2009, reaching 8.3% of GDP in the last year. The worsening of our country's deficit between 2005 – 2008, when the real GDP growth registred 6.4%, was on the back of the expanding fiscal policy orientation, reflected by the structural deficit deterioration, that reached 7.7% of GDP, in 2008. The fiscal deficit deterioration is a sign of the economic downturn's effects on governmental financing

The approved budget for 2010, adopted in January 2010 expresses a 6.3% of GDP deficit. According to the political conditions reflected by the programme for supporting the balance of payments, tha planned adjustments are tied to expenses: the measures imply a 2.2% of GDP reduction, but also an increase in incomes of 0.5% of GDP. Anyway, the 2010 Commissions spring forecasts show a deficit of 8% of GDP.

Romania's external deficit reached 12.8% of GDP in 2007, followed by a slight reduction in 2008 to 11.1%. The strong increase of the external deficit between 2005 and 2007 reflected a deterioration of the trade balance, because the imports were encouraged by a strong internal demand. In 2008, Romania's external deficit started to adjust, as a result of the internal demand decrease and the consumers' preference for local products and also continued in 2009. As to regarding the services, the trading balance was neutral in the last period. The negative income balance decreased, on the back of decreasing the investment profit repatriation by foreign companies in 2007. In change, the repatriated income by the Romanian workers that work abroad represented a supporting factor of the external deficit, even though their contribution decreased in 2009, on the account of the global financial crisis.

As regarding the saving – investment balance, the rise of the external deficit between 2005 – 2007, was largely due to accelerating the local investment activities, while the savings rate followed a slight increase. The difference between savings and investments strongly decreased on

the account of the economic downturn and the balance of payments adjustment in the financial and non-financial sectors.

In the last years, Romania's deficit was largely covered by FDI net inflows (on the back of the privatization process). In 2007, the FDI percentage in financing the external deficit decreased to 45

The financial accounts surplus decreased to 5.3% of GDP in 2009, from 12.6% in 2008. The decrease can be explained by the decrease registered by other investments as well, although the international financial assistance acted like an offset. The FDI net inflows decreased considerably under 4% of GDP in 2009, reflecting the reinvested profits.

The international reserves rose by 1% of GDP in 2009, partially due to the IMF loan.

Romania's **external debt** rose rapidly in the last years, reaching 68% of GDP in 2009. Before the economic crisis, the balance of payments positions' worsening was largely due to the loans from the banking sector. In 2010, the strong need for credit will probably contribute to our country's external deficit.

Conclusions

The main conclusion that can be drawn after this research is that the balance of payments represents an unreplaceable instrument to describe a country in its relations with the international environment, for assessing the strengths and weaknesses in its international relations. Also, the balance of payments explains a lot of things about every country's economic structure, about its past and future.

As regarding Romania, the European Commission considers that our country does not meet any of the euro area accession criteria, like the price stability, the governments budgetary position, the exchange rate stability and the long term interest rate convergence, but it also faces law-making obstacles.

As regarding the convergence criteria, our country's annual inflation rate is above the reference value since we joined the EU..

Romania does not meet the budgetary position criteria, being submitted to an excessive deficit procedure and having to reduce the negative balance of public expenses to under 3% of GDP until 2012.

For joining the euro area, a country's national currency must be included in ERM II. The leu's exchange rate is still free, and the downturns on the global financial markets, starting with the the second half of 2007 determined an appreciation, also supported by our country's macroeconomic imbalances.

Long term interest rates were still very high in 2009, on the account of the market volatility, before decreasing at the beginning of 2010, as a result of the internal market indicators improvement.

The external deficit reached 12% of GDP between 2007 and 2008, on the back of the accelerated growth of internal demand, and after it decreased, being supported by the trade deficit reduction..

As a result of the legal compatibility and meeting the convergence criteria, the European Commission considers that Romania does not require the conditions for adopting the European currency.

Anexa 1

ROMANIA'S BALANCE OF PAYMENTS						
	2004	2005	2006	2007	2008	2009
Current Account	-8.4	-8.6	-10.5	-13.4	-11.6	-4.5
Goods balance	-8.7	-9.8	-12.1	-14.3	-13.6	-5.9
Services balance	-0.3	-0.4	0.0	0.3	0.5	-0.3
Income balance	-4.2	-2.9	-3.3	-3.3	-2.7	-1.8
Current transfers balance	4.9	4.5	5.0	3.9	4.3	3.5
Capital Account	0.8	0.7	0.0	0.7	0.4	0.5
External deficit ²³⁴	-7.5	-7.9	-10.5	-12.8	-11.1	-4.0
Financial Account	6.1	7.5	9.6	13.5	12.6	5.2
FDI	8.4	6.6	8.9	5.7	6.7	3.8
Portfolio investments	-0.7	1.0	-0.2	0.4	-0.4	0.4
Other capital investments	6.3	6.6	6.3	11.0	6.3	2.0
International financial assistance						7.7
Official reserves	-7.9	-6.7	-5.4	-3.6	0.1	-1.1
Financial account without official reserves	14.0	14.2	15.0	17.0	12.6	6.2
Errors and omissions	1.4	0.4	0.9	-0.7	-1.5	-1.2
Gross capital formation	23.7	23.3	26.5	31.0	31.3	25.1
Gross savings	17.9	14.4	15.9	17.3	18.6	20.8
External debt	35.2	38.7	42.1	47.0	51.8	67.9
International investment position	-26.9	-29.0	-37.7	-43.5	-49.4	-61.1

Source: information published by Eurostat and BNR, in the Convergence Report 2010

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STATE AID AND PARTICIPATION TO INTERNATIONAL TRADE FLOWS. ROMANIA'S CASE

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This article focuses on the Romanian state aid and participation to the international trade flows. The purpose of this research was to determine whether the state aid offered takes into account the evolution and the requirements of the new market conditions generated by the economic and financial crisis. Our main conclusion was that regarding Romania's participation to the international trade flows, as the state aid measures focused mainly on sectors with high social impact, trade came second on the government's concern.

Key words: state aid, trade flows, subsidies

JEL classification: F14, F43

Introduction²³⁵

Before analyzing the connection between state aid and trade flows we will first mention some articles which previously tackled this topic.

First of all, Garcia and Neven (2005) analyzed how state aid affects and distorts competition and trade within and across jurisdictions. They conclude that the magnitude of the distortion depends on the type of state intervention and that the impact of selective state aid on market prices and competitors depends mostly on the particular characteristics of the market. We therefore chose for this research a 3 year timeline (between 2007 and 2010) when the effects of the world economic and financial crisis were felt by all member states. We therefore considered a market environment with extreme conditions when state aid is required in order to keep up with the external competition.

Regarding the European Union (EU), Bruce Lyons (2009) suggested that the most familiar problem to the European debates on state aid is that subsidies create international distortion to competition. His explanation was that inefficient firms receive subsidies and then take market share from more efficient foreign suppliers. In this case not only competition is affected, but also the trade between the member states, and this fact we intend to focus on in this article.

However, Philip Lowe, the former Director General DG Competition (2009), pointed out that for the European Union, relaxing or suspending the state aid rules for the duration of the financial and economic crisis should never be an option. The effect would be that some companies which enjoyed state subsidies would also get a competitive advantage over their competitors. The most important thing is to acknowledge that public intervention has to be decided at national level, however, at the same time, it needs to be implemented within a coordinated framework and on the basis of common principles to the whole EU.

When starting to analyze state aid expenditure during the financial and economic crisis, a higher

²³⁵ This article is a result of the project POSDRU/6/1.5/S/11 „Doctoral Program and PhD Students in the education research and innovation triangle”. This project is co funded by European Social Fund through The Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies

aid volume was expected but we should also take into consideration the EU political mandate for “less and better targeted state aid” especially for this period when there is a need for a more effects-based approach. In this context we can use the general balancing test developed by Friederiszick, Röller and Verouden (2006). In essence, this test asks whether (i) the state aid addresses a market failure or other objective of common interest; (ii) the state aid is well targeted and whether (iii) the distortions of competition are sufficiently limited so that the overall balance is positive.

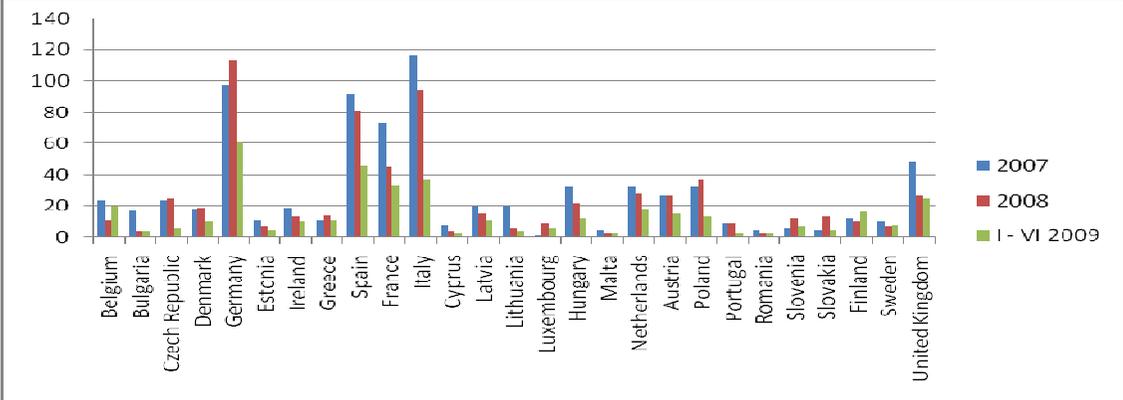
Based on our previous research, our article will focus on the connection between state aid offered by the government and Romania’s participation to the international trade flows. Ichim, Pavel and Nitulescu (2010) found that the higher the trade dynamics, the more intervention is required. Free trade is not entirely the solution for the countries when they deal with extreme conditions such as financial and economic crisis or high competitive environment.

State aid measures in Romania in the context of economic and financial crisis

As the European Commission reported, crisis measure implemented and reported by member states in 2008 amounted approximately to 212.2 billion EUR, which means around 1.7% of EU 27 GDP. The big increase of State aid to industry and services at EU27 level can be attributed to the thirteen member states which granted aid to financial institution in response to the crisis. Many of the EU 12 countries did not support their banking sector and their aids levels remained unaffected by crisis measures.

Looking at figure 1, we can see also that there are significant disparities between countries regarding the number of State aid measures notified during the analyzed period (2007- first semester of 2009). On the first place is Germany with 114 State aid measures during 2008, followed by Italy (95), Spain (81), France (45), Poland (37), Netherlands (28) and the UK (27). Compared to 2007, in 2008, the number of State aid measures decreased with some exception in case of Germany, Greece, Poland, Slovenia and Slovakia. For the latter countries a wider range of measures were needed to stabilize the economic environment. In 2008, the number of State aid measures was significantly lower in Luxembourg (9), Cyprus (4), Romania (3) and Malta (3). Compared to 2007, in 2008, the number decreased, with one exception, Luxembourg, which registered just one case in 2007. By the end of the first semester of 2009, the situation remained almost unchanged for Romania and Malta, both with 3 new notified measures.

Figure 1: Number of State aid measures by country notified by year - covering all economic sectors



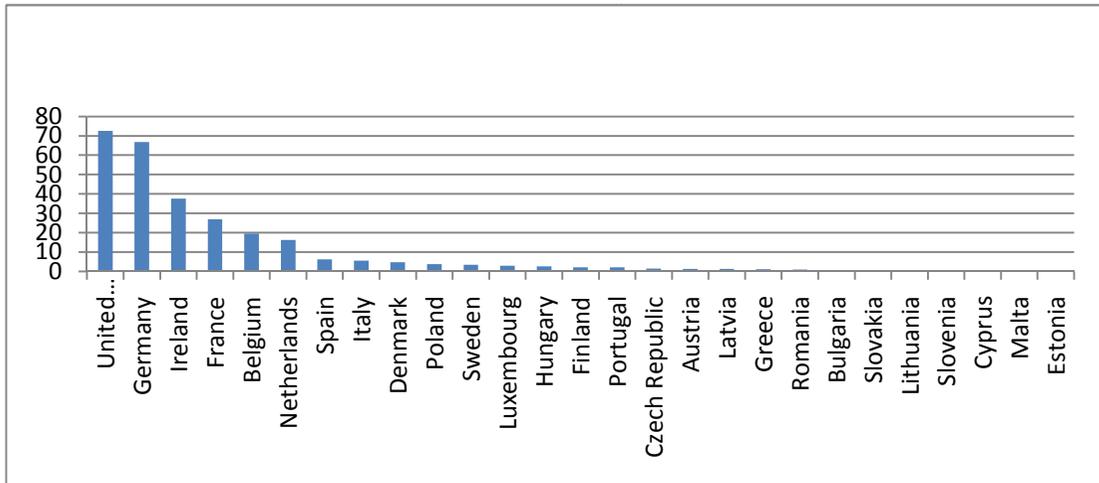
Source: Eurostat data processed by the authors

In 2008, total State aid granted by Member States was approximately 279.6 billion EUR. In absolute terms, United Kingdom showed the highest aid level (72.5 billion EUR) followed by Germany (66.8 billion EUR), Ireland (37.5 billion EUR), France (26.8 billion EUR) and Belgium

(19.4 billion EUR). As the figure 2 shows, Romania was on the twentieth place with a total state aid of 0.9 billion EUR.

In relative terms, State aid amounted to 2.2% of EU27 GDP in 2008. This average masks significant disparities between Member States: the share of total aid to GDP amounts to less than 1% (of GDP) in ten countries and exceeds the average in eight countries. In the latter group, the sharp increase on State aid was due to the crisis measures. For Romania, the level was 0.64% of EU27 GDP.

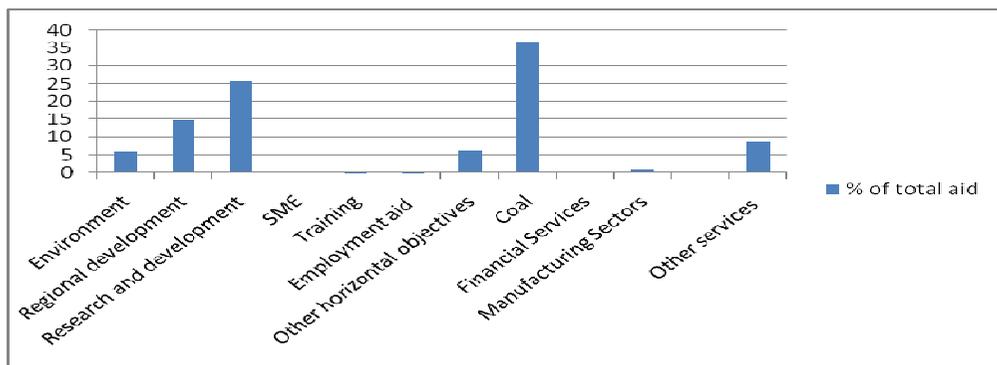
Figure 2: Total State Aid less railways, 2008 – billion EUR



Source: Eurostat data processed by the authors

Significant differences were found between member states regarding the sectors towards which aid was directed. In Romania, most of the State aid measures (53%) were concentrated for the horizontal objectives of common interest. In this category aids considered as being better suited to address market failures and thus less distortive than sector and ad hoc aid can be included. Research and Development and Innovation, safeguarding the environment, support to SMEs, employment creation, the promotion of training and aid for regional economic development are the most prominent horizontal objectives pursued with state aid. From the horizontal objectives, while the highest support was for research and development (27.7 %) followed by regional development (14.7%), small and medium enterprises received no support. Low levels of support received also the employment and training fields (both of them 0.1%)

Figure 3: State aid for primary objectives and sector aid as % of total aid (crisis measures excluded); 2008



Comparing to other member states, the share was significantly lower in Romania, in seventeen member states, 90% or more of all the aid awarded in 2008 was earmarked for horizontal objectives. In Ireland, Hungary, Slovakia and Spain, the share of horizontal aid was between 70% and 85%. As we can notice in figure 3, for Romania, a significant proportion of aid continues to be awarded to the manufacturing sector as well as to the mining industry (36.5%).

As regarding the crisis measures, while most of the EU countries chose different types of interventions (guarantee schemes, recapitalization schemes, and schemes combining several measures or ad hoc interventions) in support of financial institution, in Romania there was no support for this kind of institution by the middle of 2009.

Romania's participation to trade flows 2007-2010

Figure 1 and 2 in the appendix are relevant in order to establish Romania's rank concerning its participation to international trade flows among member states. Both figures show the evolution of intra and extra EU total product imports and exports of member states. As it can easily be noticed, most members maintain their rank among the 27 EU countries. Romania does not make any exception. Based on our calculation, Romania is the 18th among the EU members during all three years, 2006-2008. As mentioned above, in 2008, Romania was ranked twentieth with a total state aid offered in amount of 0.9 billion EUR and the 18th EU trader.

In January 2007 compared to January 2006 the exports reached a 2.9% growth while the imports rose by 16.7% (all calculated by reference to RON amounts). Due to Romania's new status as member of the EU, both the exports and the imports reached higher growth rates. In January 2008, compared to January 2007, the exports grew by 25.8% while the imports by 19.7%. January 2008 was the second month when the dynamics of the exports exceeded the one of the imports. 33% of the exports and 37.7% of the imports were auto vehicles and transport equipment while manufactured goods represented 42.1% of the exports and 29.9% of the imports. The global economic and financial crisis has also had an impact over the Romanian economy and therefore, in January 2009 compared to January 2008, the exports dropped by 12.9% and the imports by 28.2%. Once again auto vehicles and transport equipment along with some manufactured goods are the main products to be exported and imported (auto vehicles and transport represented 38% of the exports and 33.3% of the imports while other manufactured goods accounted for 41.7% of the exports and 32.9% of the imports).

In January 2010, however, though the crisis is far from being over, both the exports and the imports show a different trend. Compared to January 2009, the exports grew by 18.4% and the imports only by 3.5%. However, compared to December 2009, both the exports and the imports decreased (by 3.5% for the exports and by 17.1% for the imports).

From this presentation one aspect is worth noticing. Both the manufacturing sector and the car industry are the main generators of imports and exports. At the same time these sectors are also state aid beneficiaries. For instance, in December 2008, the Romanian car industry took a severe hit and therefore the government decided to grant state aids to Renault Dacia (€ 15.4 million) and auto parts suppliers: Delphi Diesel Systems Romania (€ 24.7 million), KS Atag Romania (€ 27.9 million), Calsonic Kansei Romania (€ 17.9 million) and Honsel (€ 37.4 million).

However, state aid was seldom focused on trade during this period. As the crisis was felt deeper and deeper the attention was drawn from trade to other sectors and this affects Romania's participation to the international trade flows.

Conclusions

The economic and financial crisis raised new challenges for EU regarding especially State aid control. This is the case for most of EU countries. The big increase of State aid especially to

industry and services at EU27 level can be attributed to the thirteen member states which granted aid to financial institution in response to the crisis.

Many of the EU 12 countries did not support their banking sector and therefore their aid levels remained unaffected by crisis measures. In Romania this is not the case as no financial institution was offered support by the end of 2009. However, a significant proportion of aid continued to be awarded to the manufacturing sector as well as to the mining industry without any relation to the external competitiveness of those sectors.

Regarding Romania's participation to international trade flows, as the state aid measures focused mainly on sectors with high social impact, trade came second on the government concern. If our previous research showed that the bigger the participation to trade flows the larger the support, Romania is an exception during the period taken into consideration. Regarding the "less but better targeted" state aid, it seems that Romania only managed to accomplish the first part of the rule.

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Appendix

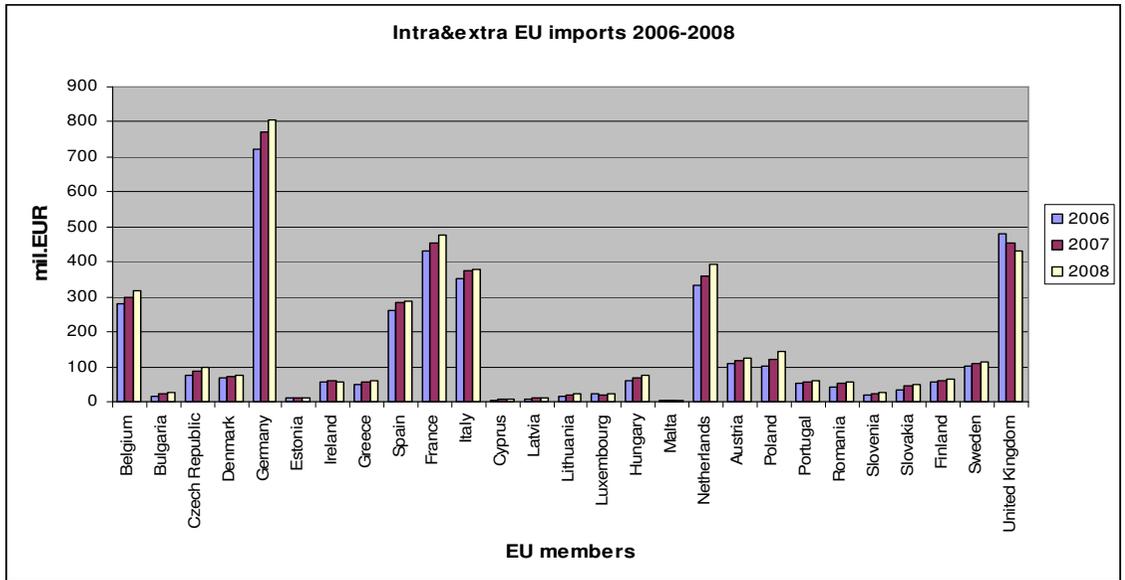


Figure 4 Intra and extra EU product imports 2006-2008
Source: EUROSTAT data processed by the authors

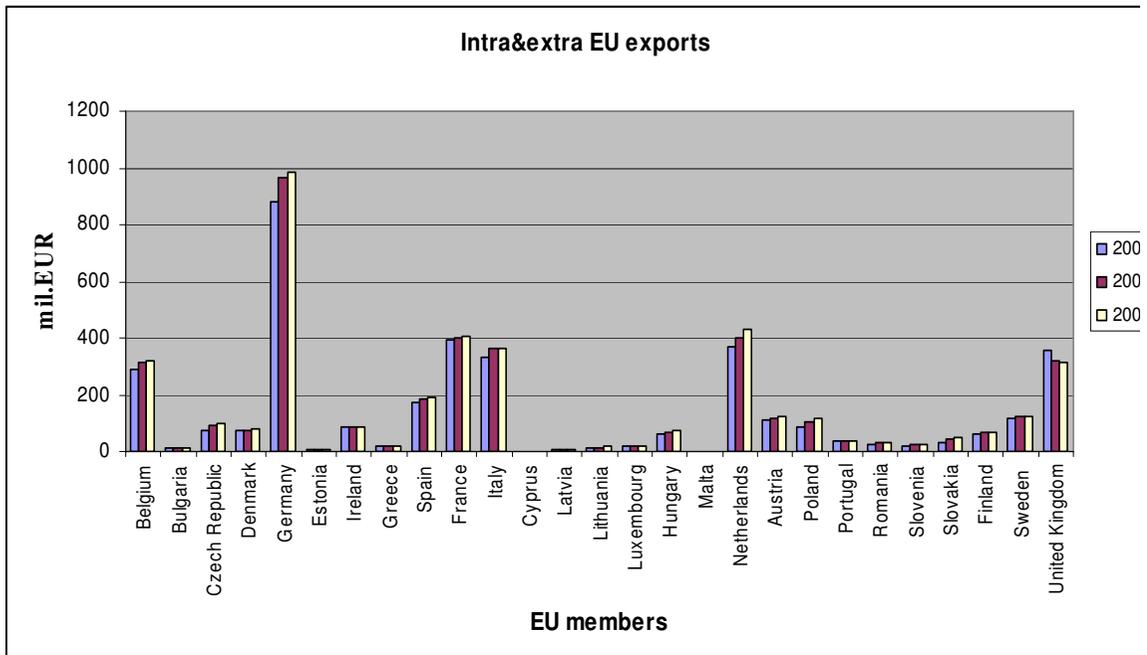


Figure 5 Intra and extra EU product imports 2006-2008
Source: EUROSTAT data processed by the authors

Intra+ extra EU imports								
	2006	Rank		2007	Rank		2008	Rank
Malta	3.44	27	Malta	3.47	27	Malta	3.12	27
Cyprus	5.52	26	Cyprus	6.29	26	Cyprus	7.23	26
Latvia	9.19	25	Latvia	11.18	25	Estonia	10.89	25
Estonia	10.71	24	Estonia	11.44	24	Latvia	10.97	24
Bulgaria	15.42	23	Lithuania	17.81	23	Lithuania	21.15	23
Lithuania	15.43	22	Luxembourg	20.09	22	Luxembourg	21.48	22
Slovenia	19.23	21	Bulgaria	21.86	21	Bulgaria	25.10	21
Luxembourg	21.16	20	Slovenia	23.03	20	Slovenia	25.18	20
Slovakia	35.82	19	Slovakia	44.23	19	Slovakia	49.90	19
Romania	40.74	18	Romania	51.31	18	Romania	56.25	18
Greece	50.66	17	Greece	55.64	17	Ireland	57.09	17
Portugal	53.11	16	Portugal	57.06	16	Greece	60.32	16
Finland	55.25	15	Finland	59.62	15	Portugal	61.18	15
Ireland	58.24	14	Ireland	61.16	14	Finland	62.40	14
Hungary	62.33	13	Hungary	69.73	13	Hungary	74.07	13
Denmark	68.10	12	Denmark	71.53	12	Denmark	74.78	12
Czech Republic	74.22	11	Czech Republic	86.22	11	Czech Republic	96.57	11
Poland	101.14	10	Sweden	111.33	10	Sweden	113.64	10
Sweden	101.58	9	Austria	118.96	9	Austria	125.30	9
Austria	109.28	8	Poland	120.91	8	Poland	141.97	8
Spain	261.79	7	Spain	284.05	7	Spain	286.11	7
Belgium	280.06	6	Belgium	300.29	6	Belgium	317.05	6
Netherlands	331.98	5	Netherlands	359.45	5	Italy	377.29	5
Italy	352.47	4	Italy	373.34	4	Netherlands	394.98	4
France	431.60	3	France	452.00	3	United Kingdom	430.36	3
United Kingdom	478.99	2	United Kingdom	454.50	2	France	478.30	2
Germany	722.11	1	Germany	769.78	1	Germany	805.73	1

Figure 6 Intra and extra EU imports - source: Eurostat data processed by the authors

Intra+ extra EU exports								
	2006	Rank		2007	Rank		2008	Rank
Cyprus	1.07	27	Cyprus	1.02	27	Cyprus	1.11	27
Malta	2.23	26	Malta	2.25	26	Malta	1.9	26
Latvia	4.9	25	Latvia	6.06	25	Latvia	6.9	25
Estonia	7.72	24	Estonia	8.03	24	Estonia	8.47	24
Lithuania	11.27	23	Lithuania	12.51	23	Bulgaria	15.21	23
Bulgaria	11.75	22	Bulgaria	13.51	22	Lithuania	16.07	22
Greece	16.53	21	Luxembourg	16.36	21	Greece	17.19	21
Luxembourg	18.24	20	Greece	17.2	20	Luxembourg	17.2	20
Slovenia	18.5	19	Slovenia	21.96	19	Slovenia	23.2	19
Romania	25.85	18	Romania	29.55	18	Romania	33.59	18
Slovakia	33.34	17	Portugal	37.59	17	Portugal	37.95	17
Portugal	34.51	16	Slovakia	42.7	16	Slovakia	48.25	16
Hungary	59.93	15	Finland	65.69	15	Finland	65.58	15

Finland	61.48	14	Hungary	69.61	14	Hungary	73.77	14
Denmark	73.72	13	Denmark	75.16	13	Denmark	79.25	13
Czech Republic	75.61	12	Ireland	88.69	12	Ireland	85.47	12
Ireland	86.59	11	Czech Republic	89.38	11	Czech Republic	99.81	11
Poland	88.23	10	Poland	102.26	10	Poland	115.9	10
Austria	108.92	9	Austria	119.39	9	Austria	123.26	9
Sweden	117.71	8	Sweden	123.21	8	Sweden	124.65	8
Spain	170.21	7	Spain	184.82	7	Spain	191.39	7
Belgium	292.09	6	Belgium	314.45	6	United Kingdom	312.53	6
Italy	332.01	5	United Kingdom	320.38	5	Belgium	320.8	5
United Kingdom	357.32	4	Italy	364.74	4	Italy	365.81	4
Netherlands	369.25	3	Netherlands	401.86	3	France	408.78	3
France	394.93	2	France	402.69	2	Netherlands	433.72	2
Germany	882.53	1	Germany	964.04	1	Germany	983.25	1

Figure 7 Intra and extra EU exports- source: Eurostat data processed by the authors

EUROPEAN SOCIAL MODEL.COMPETITIVE ADVANTAGE OR ECONOMIC HANDICAP.

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“Corporate social responsibility” (CSR) represents equally a very actual debate, but also an appraisal criteria of the dynamic of eco-social integration quality process at European level. Especially that the protection need is demanded by the current economic crisis.

This concept is meant to combine the position, attitude and behaviour of the trade-unions with the interests of employer’s organisations in search of possible influential mechanisms of the competitive advantage at European level. Due to the current economic crisis, the implications on the labour force market are causing an explainable anxiety.

The attention of the decision takers is oriented towards joining the objectives “social well being with economic well being” in view of an expected economic come back. This approach proves a significant change at the level of economic and social policies within the European Union.

Key concepts:

- *European social model*
- *Social responsibility*
- *Socially responsible enterprise (responsible entrepreneurship)*
- *Triple profitability line*
- *Workforce flexicurity*

The implementing measures of the Lisbon Strategy have pointed out the huge efforts of the European and newly joined countries, materialized in achievements but also in failures and arrears in what is concerning the proposed objectives. On top of these, the effects of the eco-social crisis have added major implications on the employment level at the European market of labour force.

The idea of equal opportunities for all citizens of Europe, without discrimination, represents a principle and it is a well-known European value. Equal opportunities for all represents a desire and one of the substance components of everywhere democracy, next to liberty and respect of the fundamental human rights.

The aim of the present work is to prove that, in the current crisis context, there is essential for Europe’s future to correlate the economic adjustment efforts with new coordinates of European social models.

In this regard, we will draft some dimensions of the eco-social approach of the effects and implications of the crisis at European level, comparing several models of economic²³⁶ and European social models²³⁷.

1.- „Social Europe” in time of crisis

With no exaggeration, it can be stated that we are now living a temporary crisis of the European labour force market. Indeed, more and more insistently it is spoken of the „European overponderability” in what is concerning the enlargement wave. In this direction, the

²³⁶ William J. Baumol, Robert E. Litan, Carl J. Schramm - *Capitalismul bun, capitalismul rău și economia dezvoltării și a prosperității*, Ed. Polirom 2009

²³⁷ Anthony Giddens - *Europa în epoca globală*, Ed. Ziuva 2007

Euroscepticals are formulating their opinion on the basis of the negative effects and lack of efficiency of enlargement on EU space on work conditions and life of the rest of the population. The problem of the labour market it is not summing up just to quantitatively analyse the demand and the offer of workforce.

The approach of the qualitative size of the labour market requires an interpretative analysis of the qualification level, of the creative potential and other skills that has to possess the worker. The confrontation of workers differently trained in East and West emphasis opposite, if not contradictories qualities and lacks, mentalities and behavioural attitudes.

The social aspect has been ignored for a long period of time, the European market focusing almost entirely on the economic issue to obtain a competitive place in the world. The inclusion now of the social issue on the EU concerns due to an enlargement towards states from Eastern Europe that primed the socio-economic conflict, has determined a reorientation of the logics behind economic – social connection.

Now days, it is stated unreservedly that the binomial becomes social – economic. The performances and economic competitiveness can be achieved only through the social responsibility (SR) of the employer. *The ethical investments* are in this case, the motivation of the companies to realise and obtain the “*triple profitability line*”, which express the join of the obtaining criteria of economic rentability with social and environmental ones²³⁸.

The concept of “*European social model*” pleads for an in-depth investigation of the opportunities provided by the new good-practice of a global Europe. Confronted with the domino effects of the economic crisis, the EU citizens are asking themselves pressing questions regarding the economic – social future of the Europe that is suffering nowadays on the conflicts of community versus national interests. An anxiety attitude it can be noticed in what is concerning “*the future of the European identity*”.

The scenario of a “*social model*” is in the same time, questionable and disputable.

The European social model (ESM) is, in Giddens opinion, a disputed notion, since there are views according to which, the model is neither social (entirely), nor European (by tradition), nor... properly a model !

In order to sustain the relevance of the eco-social report, ESM is absolutely dependent on *two essential economic factors: economic prosperity and redistribution schemes*.

In spite of these, ESM is suffering due to the lack of economic support, both factors being put under impossibility sign, since of the actual crisis.

The golden era of the “*welfare state*” has passed since unemployment, inflation, globalisation, lack of social protection measures have gathered and questioning ESM, even determining its collapse. If it is respected the connection ESM – economic prosperity, then the indicator GDP/inhabitant is eloquent to prove that the economic performances are supporting the high level of social performances and standard of living.

The different types of social models: northern (providence state), conservative or corporate (Germany, France, Italy), liberal or Anglo-Saxon (Great Britain, Ireland), Mediterranean (Spain, Portugal, Greece)²³⁹ are a starting point in the analysis of the most suitable development forms of the social space with mutual implications on the economic performances.

In support of the veracity of these correlations, it has been added three criteria that form “*the trilema of economy working*” (according to Esping-Andersen). These are:

1. a balanced budget,

²³⁸ The information documents concerning the ethical investments (RSI) are low as number, which indicates a lack of concern for this category of investment. They are reaching a level of 5% only in Great Britain. Nowadays, the attitude has significantly changed also at EU level, by reaching a greater level of interest for the RSI products. Thus, 30% of the managers consider RSI of important success on short term and 86% appreciates its profitability on long term.

²³⁹ The classification of welfare state from Europe has been realised for the beginning by Gøsta Esping-Anderson, and reviewed then by other dedicated authors.

2. reduced economic inequalities, and
3. a high level of employment.

We need to mention that these criteria are to be found in Lisbon Treaty.

Of course, the capacity of governments to promote satisfactory policies for all three lines of action is limited. This is why the social models are distinguished through the different combinations of those three criteria; clearly, though never it will be possible to simultaneously achieve all three objectives.

And then, how should we obtain economic growth and social justice in the same time?

An economically disputable idea is that of the correlation of a high level of employment (70% in accordance with Lisbon regulations) with a minimum decent wage. In our opinion, the present European context is marked by the struggle of trade-unions for a level of *European income*, which makes questionable the above-mentioned correlation. The flexibility of the labour market is another dimension that, in theory sounds well.

In reality, the pronounced practice of protectionism by EU leading countries is an opposite reaction to the right of free movement of the workforce.

2.-Competitive advantages of economic development models.

The classification of economies in four categories: state managed capitalism, oligarchic capitalism, big companies capitalism and entrepreneurial capitalism²⁴⁰ leads to the idea that in the companies behaviour it is compulsory to be introduces the concept of “*corporate social responsibility*” (CSR) in order to define an European system suitable to the human being and not only to the business world. *The responsibility and social cohesion are integral parts of the competitiveness.*

This term has acquired new connotations since, with great insistence, *social affairs, workforce and equal opportunities* have represented at European level the three forces that have expressed the concern and interest for the fundamental objective: creation of new jobs in view of modernizing economies.

The motivation of introducing CSR in the behaviour of companies, it can be found actually in their attitude towards the issue of the hired worker. It is well-known the fact that businesses that disregard or neglect the man and its social problems, especially the position of workers employed, do not meet the ethical criteria. The existence of the market and the analysis of its eco-social dimensions highlight the inequity and the need of social justice caused by the competitive mechanism. Moreover, a behaviour that proves neglect of accountability and social responsibility of the employer towards the employees leads to conflict, unfavourable tensions for work climate and finally to a decrease of the profit.

The second reason for taking into the account the CSR by the companies is the desire to be successful in business, to display a reference example in business world on how to approach the employer to employee, always ready to respond to the issues related to the place and work conditions, the level of income claims, social insurances, etc.

Since the competitiveness is a qualitative feature, it arises that CSR is expressing a trait and a quality of management style and activity organisation that contributes, through its positive effects, to the development of the individual and society progress, diminishing in the same time, the environment impact. *In this case, the social responsibility it can be considered as added value for the company and society.*

²⁴⁰ The classification belongs to Baumol-Litan-Schramm authors and it is welcomed to explain the advantages/disadvantages of guiding the development efforts of its suitable markets.

3.- The responsible entrepreneurship and "triple profitability line"

The assessment of the company responsibility level is performed through the awareness of the positive effects of SR on businesses. The transfer of know how among good practices of the companies contributes to the improvement of the application framework of the social responsibility.

The inclusion of SR in the European policies significantly contributes to the European strategy for economic growth and job creation.

In the partially confuse application and assessment circumstances of SR at European level, there are several approaches that try to prove nevertheless the existence of interest and concerns related to the concept implementation in business behaviour.

Involvement of social actors in policy formulation and search of SR implementation related solution is a task and an objective of U.E social-economic policy.

„The culture” of a company is fundamented on compulsory and voluntary basis to adopt economic and social responsibilities. The firms have a economic accountability towards the shareholders and a ethical and social responsibility towards employees.

The adversity and opposition of the enterprises comes even from the incumbency feature of the constraint and the need to assume the SR measures.

Major issues facing the EU today are:

- ***The social-responsible approach*** to the problems at European level which can lead to successful economic recovery;
- Application and generalization of a ***European "social model"*** confirms that ***economic competition can be reconciled with social and environmental responsibility***, which means that economic profit can be assimilated with the social-human one;
- Determination of leaders to build a better and stronger Europe, ***for the benefit of citizens***.

If the European Commission does not support more vigorously the implementation of CSR principles, it is possible that the UN initiative "Global Compact Network" and the "Global Reporting Initiative" to take the bar in the procedures for implementing CSR.

In the current context of qualitative development of European space, CSR must prove its viability and to manifest as fundamental element of the European social model. The practices related to the social responsibility are a contribution to the sustainable development and providing equal opportunities to all members of the society becomes a long term strategy of the sustainable development.

In a society fully marked by risk and uncertainty of today and tomorrow, the restoration policies do not provide job security or continuity of employment. ***The restoration interventionism*** as positive approach of social protection comes to ensure further coverage of the risks.

Diversity and welfare, immigration and citizenship, lifestyle changes, environmental issues, climate change associated with energy shock are all the issues of the current period, which we are living in.

Europe's right to a second chance has become an obsession. The idea is fair and retains its identity in the throughout the conceptions marked by a unite Europe's ideology. Here it is a reflection subject for us all.

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A POSSIBLE FRAMEWORK TO ASSESS THE GROWTH EFFECTS OF FDI ON THE HOST ECONOMY

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It is generally assumed that foreign direct investment (FDI) inflow has positive impact on economic growth. However, empirical evidence doesn't always support this assumption. The inflow of FDI - particularly in the case of developing and emerging countries - can be an important vehicle for transfer of technology and knowledge, which according to leading growth theories are the main contributors to economic growth. We indicate some links between FDI and the most accepted economic growth theories. We argue that positive effects of FDI depend on a range of factors: type and form of FDI on the one hand, and host economy characteristics (absorptive capability, institutional environment, initial income level of the country etc.) on the other. The present paper tries to determine a possible framework for this assumption.

Key words: foreign direct investment, economic growth, host economy characteristics, type and form of FDI

JEL classification code: F43, F21

Introduction

It seems logical to argue that FDI contributes to higher economic growth in host economies. Inflow of physical capital contributes to higher gross fixed capital formation (GFCF) that may cause some positive effects on GDP growth already on the short term, depending of course on the amount of the foreign capital. More FDI in relative terms²⁴¹ believed to have stronger impacts on the host economy, however, as we are going to explain in the present paper quality of FDI is more important than that of quantity.

The aim of this paper is to explain briefly the role of FDI by the mean of main growth theories and illustrate that different types of FDI have different growth effects on host economies. However, the paper doesn't take into consideration the detailed growth effects of foreign direct investments. We argue furthermore, that local factors of the host economies should be considered as important factors if evaluating FDI growth promoting effects.

FDI and growth theories

Inflow of FDI is preferred generally because of its long term effects: employment effects, as well as technology and knowledge spillovers. Due to transfer of higher level technology and more advanced knowledge to the host country the productivity is expected to improve. As a result of this FDI can promote economic development. Modernization theory follows this assumption.

On the other hand dependency theory emphasizes the negative effects of foreign direct investments. Especially in case of developing and emerging countries it is a relevant question whether FDI can contribute to economic development through some channels or FDI rather crowds out domestic enterprises and doesn't lead to improvement.

If we would like to measure the effects of FDI on economic growth it is useful to determine what kind of factors are likely to lead to economic growth at all. For this purpose it is worth to have a look at the main growth theories.

²⁴¹ FDI per capita, FDI per total GFCF, FDI per domestic GFCF, FDI per GDP are the most often used indicators to compare relative levels of FDI among economies.

Capital accumulation is considered as one of the most important factors of economic growth. According to the neoclassical growth theories the less advanced is an economy, that is the smaller is the capital stock, the higher is the rate of return to capital. Due to increase in capital stock per capita returns to capital will decrease. Thus one can expect positive effects of FDI considering physical capital only on short term (*Herzer et al., 2007*). Additionally, according to other assumptions of the neoclassical models (constant scale efficiency, positive elasticity of substitution, perfect competition) FDI as pure physical capital cannot contribute to long term economic growth (*Sass, 2003*). Moreover, neoclassical growth theories treat FDI identical to domestic investment.

In spite of that the indirect role of FDI already appears in neoclassical growth theories. More capital due to more intensive FDI inflow may contribute to employment growth and technology and knowledge development, thus generating total factor productivity growth. However, neoclassical growth theories consider technology only as an exogen factor.

In endogen growth models FDI is assumed to be more productive than domestic investment, because FDI promotes the incorporation of new technologies in the production function of the host economy (*Borensztein et al., 1998*). Technology is considered as an endogenized factor and diminishing returns to capital can be offset by spillover effects stimulating long-term economic growth. According to *Yao and Wei (2007)* domestic capital is essential for faster economic growth, but it doesn't provide possibility to take over more advanced technologies. In contrast to this capital stemming from abroad may accelerate the takeover of generalized purpose of technologies and knowledge²⁴² and the dissemination of special technologies and knowledge. Moreover, in this view FDI has positive impact on the quality of labour. More advanced management practices may also contribute to higher productivity.

Consequently, deriving from a brief description of growth theories regarding the role of FDI one can argue that FDI may promote economic growth via several channels.

Categorization of FDI in the light of its growth effects

Taking into account different categorizations of foreign direct investments some important conclusions can be drawn. Direct investments coming from abroad have advantages or disadvantages depending on the investors' motivations. Resource-seeking, efficiency-seeking, market-seeking or strategic FDI is assumed to have different impacts on long term economic growth. The literature suggests that resource-seeking FDI doesn't generate positive spillovers. *Adams (2009)* points out that in some developing countries rich in natural resources²⁴³ significant part of FDI goes to the primary sector. Investments in the primary sector don't have linkages with other branches; furthermore technology and knowledge spillovers are likely to be insignificant. For example in Nigeria, where mining and oil-industry is the main target of foreign investors, technology transfer is not really typical (*Akinlo, 2004*). One may argue that resource-seeking FDI doesn't affect host country's productivity positively.

Efficiency-seeking FDI seems to be more useful regarding its growth effects. This type of FDI is often realized in manufacturing that operate with knowledge and technology compatible with the host countries development level (*Nunnenkamp-Spatz, 2004:58*). Despite the logical assumption it is worth to take into consideration that low level manufacturing may preserve economic structures on a longer term. Based on this it is also worth to take into consideration that one should distinguish between different manufacturing investments if examining FDI growth effects. Market-seeking FDI is likely to be beneficial for host countries' consumers by introducing new products and services. More intensive competition may force domestic companies to produce more productively, but crowding out effects can be unfavourable. Additionally, *Nunnenkamp and*

²⁴² e.g. computer

²⁴³ for example Sub-Saharan Africa studied by Adams (2009)

Spatz (2004) raise the attention that profit repatriation is a typical negative effect of new market seekers FDI.

Alfaro (2003) has come to the conclusions that FDI has ambiguous impacts on growth depending on sectors. According to her empirical cross-country analysis²⁴⁴ FDI in the primary sector exerts negative effect on economic growth, while investments in manufacturing tend to have a positive one. Growth impacts of FDI in the service sector proved to be ambiguous.

Beugelsdijk (2007) analyses FDI growth effects depending on whether they are vertical or horizontal ones. Vertical FDI is mainly present in low-skill-level industries and tries to make use of cheap labour-force. Horizontal FDI is considered as substitution for export-activity. Since both types of FDI have different motivations growth-effects should be also different. Horizontal FDI can be more beneficial for the host economy because spillover-effects are relative strong, while vertical FDI has favourable impacts on the labour market. According to *Beugelsdijk (2007)* these two effects together determine the role of FDI in economic development.

Agosin and Mayer (2000) emphasize that investments in form of merger and acquisitions (M&A) do not necessarily lead to additional capital accumulation in the host country. Basically, already existing assets are taken over by foreign investors. M&A could be noteworthy in the statistics, but it is unlikely to bring significant amount of technology and knowledge. They argue furthermore, that crowding out effects can be typical in the case of this kind of FDI. In light of the above it should be an important step to distinguish between greenfield investments and cross-border M&A if studying FDI growth effects.

Some examples above already show that traditional examination of FDI growth effects, namely using aggregate statistical data, may lead to mixed and unbiased results. Findings of cross-country studies, panel estimations, time series analysis are often viewed by scepticism. *Lipsey (2006)* points out the problem of aggregate FDI statistics as follows: significant amount of FDI goes to Luxemburg, but it is almost unlikely that foreign capital has led to productivity and GDP growth in the country.

The question of the localization advantages of the host economy

FDI is welcomed and encouraged in almost all countries in the world. One of the reasons for this is some successful stories, for example South-Korea. But impacts of FDI cannot be equal in all countries. Localization advantages of economies, even in certain country-groups too, are very diverse, therefore effects of FDI are very various on different host economies. One may also argue that countries in different stages of development benefit differently from FDI. Host economies' localization advantages are changing over time providing changing environment for foreign investors. The Investment Development Path²⁴⁵ (IDP) model suggests that less advanced economies host rather resource-seeking and labour intensive FDI (*Dunning – Narula, 1996*). In this early stage of development localization advantages of the country are still not able to attract FDI with high technology level. The economy due to low absorptive capability, namely quality of human capital and ownership advantages of local enterprises, wouldn't be able to benefit from foreign investments. Higher income-level countries are ready to compete more successfully with foreign companies and to take over and integrate technology and knowledge from them. Combination of localization advantages and ownership specific advantages therefore tend to play an important role in realization of FDI growth effects.

Blomström et al. (1994) found that low-income developing countries don't benefit substantially from FDI, while high-income developing countries do. This can be explained by the fact that less advanced economies can be characterised by lower level human capital and absorptive capacity.

²⁴⁴ Based on a sample with 47 developing, emerging and developed countries between 1981-1999

²⁴⁵ Investment Development Model²⁴⁵ suggests a systematic relationship between the level of development and net investment position. The model indicates five stages of development.

A certain threshold level of development is crucial to be able to absorb new technologies and knowledge from FDI. Conclusions of *Borensztein et al. (1998)* are similar to this: FDI can exert positive growth effects only if the level of education is above a given threshold; only countries with sufficient absorptive capability are able to utilise spillover effects from FDI.

Alfaro et al. (2004) and *Alfaro et al. (2009)* indicate the role of financial institutions. The authors argue that FDI plays an important role in economic acceleration in the investigated developed and developing economies, but the quality of the local financial markets is crucial for positive impacts to be realised. Importance of institutions is emphasized by *Bengoa and Sanchez-Robles, (2005)*. The role of economic policy proved to be a key factor regarding growth effects of FDI on Latin-American countries (*Bengoa – Sanchez-Robles, 2005*).

In contrast to the above *Carkovic and Levin (2005)* argue that country specific factors, such as income level, quality of human capital, openness of the economy etc. don't play significant role regarding FDI growth promoting effects.

Results of numerous empirical investigations depend on the econometric methods used, the group of countries, the number of years, the influencing factors selected etc. In our opinion both type of FDI and development level of the investigated country, that is localization advantages, are important to take into consideration if analysing FDI benefits.

Conclusions

Many papers so far have investigated economic effects of FDI on host economies. In light of the above one can argue that investigation of FDI growth enhancing effects should be based on differentiated approaches. Econometric modelling with aggregate FDI data may lead to biased and ambiguous results; therefore it seems to be logical that differentiation of FDI data should be the first step when evaluating FDI growth impacts. In addition, several studies argue that it is important to identify the main characteristics of the host economy if comparing large number of countries. Absorptive capability, institutions, the structure of the economy etc. determine whether economies are able to benefit from FDI or not.

In new EU member states FDI inflow has accelerated after accession; governments have encouraged foreign investors to set up affiliates in their countries. In some aspects it has led to a regional competition for more capital in order to be able to provide more workplaces already on the short run. Sometimes, however, long term impacts of growing number of foreign companies haven't been really taken into consideration. In some of the new member states dominance of FDI has already led to economic and social problems, especially when economic policy for domestic-owned enterprises hasn't been tailored to the new conditions. The recent economic crisis also raised attention to the dependency problem of small economies. Study of the possible effects of FDI using a similar framework described in the paper would lead to a better understanding of FDI impacts on Eastern European host economies as well.

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BIODIVERSITY'S CONSERVATION AND ITS IMPORTANCE - NEW CHALLENGES FOR ROMANIA IN THE CONTEXT OF EUROPEAN INTEGRATION

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The concept of biodiversity or biological diversity has been defined for the first time in the context of a new international instrument for the environment, the UNCED Earth Summit in Rio de Janeiro 1992. The biodiversity ensure the life support system and the development of socio-economic, reason for that it is essential for the ensurance of the survival of all forms of life. That is, from an ethical standpoint, each biodiversity component has an invaluable intrinsic value and the human society has the obligation to ensure its conservation and sustainable use. The costs of biodiversity loss or damage are very difficult to determine, but studies realized so far at the world level shows that there are substantial and in growing. For Romania, the biodiversity conservation, have, as goals, the following one: conservation of biological diversity; sustainable use of components of biological diversity; fair and equitable sharing of benefits arising from utilization of genetic resources.

Keywords: biodiversity, conservation, goals, European integration, sustainable development.

JEL Classification: Q - Agricultural and Natural Resource Economics; Environmental and Ecological Economics; Q5 - Environmental Economics; Q57 - Ecological Economics: Ecosystem Services; Biodiversity Conservation; Bioeconomics; Industrial Ecology

1. Introduction

Biodiversity means the diversity of life on earth and involves four levels of approach: level of ecosystems, species, genetic and ethno-cultural. The economic value of biodiversity is reflected by capturing its components, such as: non-renewable natural resources; renewable natural resources; the services provided by ecological systems. The aesthetic value of biodiversity is a fundamental human need, the natural and cultural landscapes being the basis of the touristic and recreational development sector.

Biodiversity conservation, ratified by Romania by Law no. 58/1994 has, as goals, the following one: conservation of biological diversity; sustainable use of components of biological diversity; fair and equitable sharing of benefits arising from utilization of genetic resources.

2. Some specific aspects regarding the role of biodiversity principles for development

At EU level, the Strategic Plan for biodiversity conservation plans to reduce the current rate of biodiversity loss at global, regional and national level, as a contribution to poverty alleviation and for the benefit of all life forms on earth, by creating an European ecological network (Nature 2000 - covers 17% of the EU territory, being the most extensive network of protected areas in the world) which includes a representative sample from all species and natural habitats of Community interest, for the adequate protection of them and ensuring their long-term viability, through the objected manifested against the current trend of fragmentation of natural habitats. That opposition is based on the fact that the development of the socio-economic systems can only be based on natural and semi-natural ecological systems. Regarding the principles underlying at

the basis of the biodiversity conservation and sustainable development of socio-economic system, there are presented in Table no. 1.

Table 1 Principles of biodiversity

No.	Principle	Provisions
1.	preventing	Biodiversity conservation is carried out effectively if they are eliminated or mitigated the effects of possible threats
2.	precaution	Lack of full scientific studies can not be regarded as motive for acceptance of activities that may have significant negative impacts over the biodiversity
3.	polluter pays	The one who is causing the destruction of biodiversity has to pay the costs of prevention, reduction impact or environmental reconstruction
4.	public participation in decision making and the access to information and environment justice	The public should have access to environmental information and the right to participate inside the process of making environmental decisions
5.	good governance	The government must fulfils eight major characteristics - to be participatory, measurable, transparent, accountable, effective and efficient, equitable and consistent with the legal norms
6.	sectoral integration	The biodiversity conservation and sustainable use of its components must be taken into account in making decisions and establishing of sectoral policies process
7.	ecosystem approach	Is an integrated management strategy, adaptive, based on the application of appropriate scientific methodologies which takes into account the ecosystems structure and functions and their support ability
8.	ecological networks	To ensure the connectivity between the components of biodiversity with the one of the landscape and social structures, having as central components the protected natural areas are established green color links
9.	subsidiarity	Regulates the exercise of power; decisions should be made to the lowest level (local, regional, national)
10.	compensation	In case that exist a negative impact and in the absence of alternatives solutions, for major public interest objectives are established countervailable measures

Source: Ministry of Environment and Forests – *National Strategy for Biodiversity Conservation*

At the meeting on the environment in March 2009, the Council called the elaboration, at the EU level, of a new perspective and a new target in mater of biodiversity, based on and contributing to the international discussions refers to an biodiversity global perspective by 2010, as part of an updated strategy which will be adopted by the end of 2010 for the CBD implementation.

To implement the EU strategy looking the biodiversity conservation has been established an Action Plan with the following priority objectives: maintaining the diversity of ecosystems and habitats inside the protected areas; maintaining the specific diversity through: restore, maintain or reduction the decline of the populations belonging to the protected species and the improvement of the status of the endangered species; maintaining genetic diversity through: preserving the genetic diversity of crop plants, domestic animals, of the species of economic importance and also, the maintenance of local communities traditions for their use; the reduction of the pressures looking the habitat loss, through the land use change; the limitation of the invasive species

impact; the stopping of the unsustainable exploitation through: the use of products derived from biodiversity components that are exploited sustainably; the production areas managed in accordance with the requirements for biodiversity conservation; no endangered species of fauna or flora must not be the subject for international trade, etc.

3. The evolution of biodiversity conservation policies in Romania

Regarding Romania's policy looking the biodiversity conservation, its temporal evolution shows from Table no. 2.

Table 2 The evolution of the policy looking the biodiversity conservation in Romania

No.	Period	Events
1.	XV – XIX century	Appears the first rules aimed the safeguarding which are traceable to ancient Romanian law; that provide a better conservation of natural resources, being a law which impose a strict set of rules and measures;
2.	1922 - 1928	Is a period with busy activity for nature protection, backed by brand names in the world of biology, geology, geography and forestry
3.	1930	Is adopted the first law to protect the nature monuments, which marked a new phase of nature protection in Romania. Based on this piece of legislation, was established the first Commission to safeguard the nature monuments.
4.	1935	Establishment of National Park Retezat
5.	After 1990	Is repeated and strengthen biodiversity conservation activities by developing of new laws and creating appropriate institutional structures
6.	2005	Accession Treaty of Romania to the EU and the Protocols includes Romania's transposition concrete commitments, implementation and control of the entire <i>acquis communautaire</i> and provide some transitional period of implementation of certain environmental obligations;
7.	2007-2013	National Development Plan (NDP); orient and stimulate economic and social development of the country in line with the EU Cohesion Policy setting as global goal, as quickly as possible, the reduction of the socio-economic differences between Romania and other countries of EU and detailing the specific objectives of the process on the following priority areas: the increasing of the economy competitiveness and developing based on knowledge; bringing to the European standards of the basic infrastructure; the protection and the improvement of the environmental quality; improving the sectorial and regional systems of the environmental management; the biodiversity conservation and the ecological reconstruction; risk prevention and intervention in cases of natural disasters; the development of rural economy and the increasing of the productivity in agriculture, forestry and fisheries sector; the reducing of the development disparities between regions and inside them.
8.	2007-2013	National Strategic Reference Framework (NSRF); sets priorities for intervention of the EU financial instruments (European Regional Development Fund - ERDF, European Social Fund - ESF and Cohesion Fund - FC) inside the policy of economic and social cohesion and linking the priorities of the 2007-2013 National Development Plan with the one of EU established by the Community

No.	Period	Events
		Strategic Guidelines looking the Cohesion 2007-2013 and the renewed Lisbon strategy;
9.	2010-2030	National Sustainable Development Strategy; main lines of action: rational linking of the development goals, including the investment programs, with the potential and capacity to support biodiversity; the accelerated modernization of the education, training and public health systems, taking account of adverse demographic trends and their impact on the labor market; the use of the best available economically and ecologically technologies for the investment decisions of public funds and the stimulation of such decisions from the private sector; the firm introduction of criteria of eco -efficiency in all production activities and services; the anticipation of the climate changes effects and the develop of solutions for both long-term adaptation and action plans; ensuring food security and safety by building Romania's comparative advantages looking the development of agricultural production, including organic products; providing food for humans and animals, without compromising the requirements for maintaining and enhancing soil fertility, biodiversity and environmental protection; the need to seek additional sources of funding, in terms of sustainability, for projects and programs that impacted particularly in infrastructure, energy, environmental protection, food security, education, health and social services; protection and enhancement of cultural and natural national heritage

During the prolonged process of transition to the democratic governance and to a functioning market economy coexisted management policy objectives and administration forms belonging also to the old and new cycle of development: private and state ownership, centralized and decentralized administration, systems of intensive farming and subsistence. So, currently, dominates a series of threats for the biodiversity in Romania, such as: land conversion, infrastructure development, expansion and development of the human settlements, hydraulic works, overexploitation of the natural resources, inappropriate exploitation of the non-renewable resources, nvasive species, climate changes, pollution.

4. The accordance of national strategy for development with European strategies

Research, education, business and civil society engage with authorities and local communities to promote conservation and sustainable use of the biological diversity. The national strategy to conserve the biological diversity is not a simple action but focuses, on a harmonized manner, the general objectives of conservation and sustainable use of the biological diversity, ensuring, at the same time, the integration of national policies at regional and global level.

The new financial mechanisms whose purpose is to protect and produce economic benefits for present and future generations, are developed in line with the new type of innovative solutions whose effect is manifested, on the one hand, towards the conservation of the biological diversity and sustainable use, and secondly, to maintain and improve the socio-economic stability. According to the internationally agreed policies, the biodiversity conservation can not be done in an abstract context because it is closely linked to the processes of human socioeconomic systems of development.

In that direction and given the time in 2010-2020, Romania will need to successfully tackle a series of challenges posed by systematic strategic objectives in Table 3.

Table 3 Romania challenges regarding biodiversity conservation as part of European strategy

No.	Challenge (strategic objective)	Operational objectives and action plans
1.	The development of the general institutional and legal framework	SNPACB's adoption by a legislative act, which assure the legal power and the strengthen of the existing legislative framework; setting clear of the mandates of the institutional structures, to avoid conflicts of interests and responsibilities; the ensurance of the necessary staff and the increasement of its training; the staff stimulation to ensure business continuity in the environmental structures; the establishing of a separate budget lines for the biodiversity conservation at the level of the central public authority for environmental protection;
2.	Ensure consistency and efficient management of the national network of protected areas	The development and the implementation of the methodologies and technical rules for the administration financing assurance of the protected natural areas; the development and the implementation of appropriate methodologies and rules for the allocation of the compensatory pays; the creation of an additional financial system to supplement the budget of protected natural areas (taxes, tariffs, rules which allow that the incomes produced by the protected natural areas to be used for the management measures and not to be transferred to the state budget, etc.); the improvement of the financing mechanisms for the biodiversity conservation; the creation and the development of appropriate institutional structures to coordinate the management of the entire network of protected areas; the improvement of the legal and regulatory framework necessary to ensure the conservation of the biodiversity in protected natural areas; the ensurance of the appropriate management structures for all the natural protected areas; the establishment and the adoption of models for the content of the Magement Plans for all categories of protected areas; the developing and the approving of the management plans for protected natural areas; the developing of the guidelines for management of Natura 2000 sites;
3.	Providing a favorable conservation status for the protected species	The developing, the update and the adoption of the National Red Book Lists of flora and fauna; the adoption of specific regulations and of the appropriate institutional framework to ensure a favorable conservation status of strictly protected species of Community and national interest positioned outside of the natural protected areas; the improvement of the institutional and administrative framework to control the work of harvesting/capture, purchase and sale of protected species;
4.	Sustainable use of components of biological diversity	Proper impact assessment of the strategies, policies, plans and programs over the biodiversity; the increasing participation of the interested factors in the proper impact assessment procedures; the internalization of the biodiversity value of the cost/benefit analysis; the establishment of the eco-labeling schemes based on life cycle analysis of the products for which the production, distribution, use or depositing may affect the biodiversity; the integration of the biodiversity concept in the evaluation mechanisms;

No.	Challenge (strategic objective)	Operational objectives and action plans
5.	The control of the invasive species	The preventing of the intentional and unintentional introduction of allochthonous species; the rapid detection and identification of new potential invaders before entering to the national territory; the rapid answer to the penetration of the allochthonous invasive species;
6.	The access to genetic resources and equitable sharing of benefits arising from their use	The development of an appropriate legal and institutional framework which corresponds to the consistent implementation of the international regime of access to the genetic resources and to the equitable sharing of benefits arising from their use.
7.	Support and promote knowledge, traditional practices and innovations	The development of a consistent national policy looking the protection of the knowledge, traditional practices and innovative methods in connection with the access and utilization of the genetic resources; the development of legal framework looking the intellectual property rights necessary for the promotion of the knowledge, traditional practices and innovative methods.
8.	Promotion of research and technology transfer	The development of the National Program for taxonomy; taking into account the priorities of the biodiversity conservation, the development and the technology transfer in the National Strategy for Research, Development and Innovation;
9.	Communication, education and public awareness (CEPA)	The CEPA strategy development; the development of the institutional capacity in the communication area; the alignment to the ideas of the Convention looking the biodiversity conservation in the communication, education and awareness;

5. Conclusions

We can not conclude without mentioning that after the EU accession, large companies and corporations in Romania have become more attentive to the environmental issues (the biodiversity conservation), developing and financing corporate social responsibility projects whose annual value is the order of several million euros. As financing sources for the biodiversity conservation are and will remain the LIFE + Programme, the European Funds and the Environment Fund. Absorption capacity of these funds must be improved by the reviewing of the access criteria that have proven ineffective so far. Romania must also strengthen the financing capacity of existing financial instruments (The Environment Fund) and to continue to focus on the developing of new financial and economic instruments to achieve the objectives of the convention looking the biodiversity.

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ACHIEVING SUSTAINABLE SECURITY – VULNERABLE PUBLIC GOOD IN THE CONTEXT OF A NONPOLAR SECURITY ENVIRONMENT. SHIFTS IN THE CONCEPT OF SECURITY

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It is important to start our assumptions from the fact that, from some economists' point of view, most of the cases which were considered examples of actual public goods were found to be wrong. So, what we want to find out is whether, considering the fact that security must not be provided only through private means, we can still talk about an equal distribution of it, or it has shifted to a selective distribution of security. In order to answer the question whether security can still be provided by the state in an equal distributional system, we will use it as a premise and try to prove it. Beginning with the theoretical characteristics of a public good and with the definitions of the present concept of security we will try to find out if one can still speak of security as a public good, and moreover, as a global public good.

Key words: public goods, global public good, security

JEL Code: L88, L86, L70

1.Current security environment characteristics - the globalization of insecurity

Sustainable development of a state is meant to combine economic growth with preservation of the natural human health as a prerequisite for ensuring the equilibrium of systems that brings about the existence/operation itself of society and the maintenance of a stable security environment. Therefore, any modification to any of these components leads to changes and alterations of the whole process of sustainable development. Events occurring worldwide aimed at national and international safety and security have determined a new approach to national security, demonstrating how vulnerable are certain areas or sectors that provide essential services to all areas of social life.

By analyzing the international security environment, it is noted that many concepts have changed, many developments have been altered after all terrorist attacks of this decade. This raises a crucial question: 'Which are the characteristics of the world today?' Nowadays, the international environment is characterized by the extension of the influence of globalization in increasingly more activity areas, and this implies, as I said above, a redefinition of all concepts that until now seemed well founded.

In this respect, debating security, Timofte (2005) showed that 'extremely fast current changes require responses adapted to the multidimensional reality of security, removal of barriers between different measures of the intelligence services, in order to allow cross action, integrating all its dimensions (diplomatic, military, economic, socio-cultural, humanitarian, environmental and other), as well as the progressive adjustment of all types of societies'.

Also, in a paper on security standards, Muresan and George (2005) state that "events such as March 11th, 2004 (terrorist attacks in Madrid), August 14th, 2003 (USA left in the dark because of

a power failure) and September 11th, 2001 (terrorist attacks on the WTC) have become benchmarks in the process of assessment and identification of new requirements relating to the priority of reforming the whole concept of security and its management at the individual to international level .(...) An initial issue dealt with only by the military sector, security tends to be a common good, being characterized by the phenomena affecting existing goods in a market.”

In this context it should be given greater attention to these areas of interest which directly concerns civil society, but also national security, given the extent and negative consequences that may result from disruption of the functioning of these industries or sectors. “The world will not be the same” was one of the most frequently used phrases after the tragic events of September 2001 in the USA. And indeed, now, after almost 9 years, we can say with certainty that the world has changed. First of all the principles that the whole world was based on have changed, principles that in the last decade of the XXth century – that began with the fall of the Berlin Wall and the disappearance of the Soviet Union – have seen an expansion of democratic regimes in the world, the flourishing of globalization, legitimization of the rule of law and human rights. Also, the individuals’ perception on the state's capacity to protect them has changed, they acknowledging the increased vulnerability of the citizen, of the state and of the security systems in general.

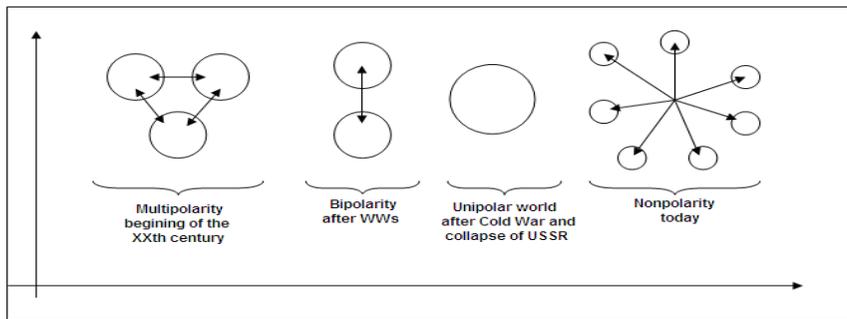
Therefore, it was clearly stated that the lack of control over the complex process of globalization has profoundly negative effects on ‘this interconnected world (Sarcinschi, 2006), globalization being seen as an amplification factor of insecurity. Also, because these systemic changes, ‘the classical array of security proposed by the Watson Institute for International Studies specialists²⁴⁶, is rather an array of globalization, insecurity, whereas illustrates how the risks, dangers and threats spread from the individual to global level and vice versa’ (Sarcinschi, 2006).

1.1.Nonpolarity – characteristic of the current security environment

Haass (2008), in Foreign Affairs, said that the main feature of international relations in this century is nonpolarity: a world dominated not by one, two or more states, but by the dozens of actors with different power. This trend is in itself a profound break from previous eras. In the first part of the XXth century we have a multipolar distribution of power, followed by the rise of a system of international relations dominated by two superpowers (the bipolar era). The Cold War and the collapse of the Soviet Union announced the beginning of unipolarity, an international system dominated by a superpower – the United States.

At first glance, today's world seems to be multipolar. The major powers (China, EU, India, Japan, Russia and USA), combined, comprise about half of world population, 75% of global GDP and 80% of the defense expenditures. However, appearances are deceptive. The world today differs substantially from what we call a classic multipolar system, because we see an unprecedented dispersal of power to various power centers, of which only a minority are states. Indeed, an emblem of the new world is that nation-states lost their monopoly on power and ability to influence global dynamics alone. The authority and power of the states is now shared with the main actors of globalization: global and regional organizations, NGOs, international corporations, media, paramilitary organizations, cities (New York, Shanghai), political parties, organized crime cartels, NGOs. In the era of nonpolarity, power and influence are becoming less interacted.

²⁴⁶ Watson Institute for International Studies, <http://www.watsoninstitute.org>.



The nonpolar world is a consequence of globalization. Globalization reinforces nonpolarity in two ways: a large part of cross-border flows take place outside the control of sovereign governments, and often without their knowledge. In this respect, globalizations dilute the influence of major powers. Likewise, globalization increases the power of non-state actors: energy exporters, terrorist organizations, multinational companies. It is increasingly clear that to be today's most powerful state does not mean to hold a virtual monopoly on power. It is very easy for individuals and private groups to acquire and to exercise substantial power.

The international security environment is marked by developments and major changes taking place globally, being characterized by a relatively high degree of instability, unpredictability, as well as by the expression of risks and new, asymmetric threats, thus emphasizing the need to redefine the whole concept of security and proper management of potential threats, both internationally and at the individual level. Thus, the focus moves on human security²⁴⁷, with an agreement regarding that security should be considered from a broad perspective, taking into account factors other than the military. But this expansion entails risks, namely that the security sector can become too powerful if it is active in the society's demilitarized areas, or may not have expertise to address these challenges. (EURISC Foundation 2004) And in these circumstances, can we speak of security as a public good?

2. Public goods and global public goods – definitions and characteristics

In the classical theoretic school, public goods are characterized as being non-exclusionary and non-rival, and can be also externalized. Perhaps, as Kaul (2000) stated, the easiest way to define a public good is to examine it in opposition with a private one. Private goods are typically traded in markets. Buyers and sellers meet through the price mechanism. If they agree on a price, the ownership of the good can be transferred. Thus private goods tend to be exclusionary, as they have clearly identified owners, and also tend to be rival, as, usually, only one individual has property rights over them at one time.

However, not all the goods are consumed similarly. The question that rises is: could there be exclusion without rivalry for some goods? And the answer is a positive one, although it is quite difficult to provide perfect examples of such goods. So, public goods have just the opposite qualities to those of the other goods. They are non-exclusionary and non-rival in consumption. In other words, the concept of public good refers to the fact that these goods belong to everybody in common, so that the consumption of a good by one individual does not affect the consumption of the same good by another individual - Samuelson (1954).

The classical example is that of a light house that is meant to guide the ships' crew to sail safely to the land. So, any ship that is near the light house and can see its light can use it, without paying anything and without excluding anyone else from using it. Still, some economists reject the idea

²⁴⁷ UNDP introduces for the first time in a report of 1994 the concept of 'human security', that was developed subsequently. It is suggested to change the concept of security in 2 ways: from an increased approach on territorial security to highlighting individuals' security, and from a security based on weapons to a security based on sustainable human development (<http://www.undp.org/hdro/hdrs/1994/english/94overview.pdf>)

of public goods. For example, Fudulu (2003), speaking of this classical example, argues that if two or more fishermen are approaching the same lighthouse, they are using in fact different goods, because ‘there is at least one aspect of consumption which is different. They might be using the same building and other technical facilities, the same power, the same personnel, but they cannot use the same location to watch the lighthouse. Fisherman A’s location cannot be employed by fisherman B. The area from which the consumption of the good can be performed (which is a fundamental aspect in this peculiar case) has shrunk and it will shrink as the number of fishermen increases; the lighthouse is less and less “good”. In fact, we can say that we are dealing with different goods.’

In spite of these theories, whether there are public goods or whether individuals are left only with “the choice of a distributional system, that is, equal distribution (for what economists call public goods) or selective distribution (for what economists call private goods)”, as considers Fudulu (2003), economically speaking, public goods have the following characteristics: *non-rivalry*, that is a public good is non-rival in consumption because the margin cost associated with this good by another person is zero and the variable costs remain constant no matter the number of individuals using it and *non-exclusiveness*, that signifies that technically it is impossible to exclude a person from benefiting from a public good through a divisibility mechanism, *i.e.* the price.

Based on these characteristics, one can ask where public goods come from, that is who provides them, because, once they exist, they are there for all to enjoy. Economists such as Fudulu (2003) say that it is because of these special features of the public goods that markets cannot produce them, or at least not in sufficient quantity, hence compensatory state actions are required. So, as there are situations when market failure phenomenon appears (noticed through the existence of externalities), the state intervenes in order to correct this situation through the provision of public goods that can satisfy the demand, facilitate the development and promote social cohesion. As we have said previously, this phenomenon appears when the market itself can not allocate the resources efficiently.

We must add that economists define *externalities* as instances where an individual or company’s actions have economic consequences for others for which there is no compensation. One important distinction is between positive and negative externalities. Instances of the latter are most commonly discussed, such as the environmental pollution caused by a plant, which may have impacts on the value of neighboring homes. The basic conclusion is that, in the absence of government intervention or other solutions to internalize the externalities, negative externalities are over-provided and positive externalities are under-provided.

As any kind of good, public goods are produced and require resources. So it is often the most rational strategy for private actors to let others produce them and seek to enjoy these goods without contributing to their production. This is perhaps the greatest dilemma that public goods face. Without some sort of collective action mechanism, they risk being under-provided. Conversely, without collective action, public goods would be over-provided – and Kaul (2000) mentions here “public bads”, such as pollution, noise, street crime and so on.

For a long time, during discussions on public goods, there was the assumption that they have exclusively a national nature. But in the present reality, the new challenges that our world faces, and we mean here the systemic changes generated by the irreversible globalization process, have imposed a reshaping of the concept of public goods. Globalization is associated with increased cross-border flows that include goods, services, labor and financial capital. We can no longer speak only of public goods at a national level, as globalization has affected this concept, too, and led to the emergence of *global public goods*.

Based on the same theoretical aspects presented above, we can characterize global public goods as goods whose benefits reach across borders, generations and population groups. So global public goods provide non-rival and non-exclusionary benefits to people living in different countries. The only difference from the national public goods is that, if at the national level states

often step in to facilitate the collective action needed to avoid over-production or under-provision of public goods, at the international level there is no such institution. Yet, as history has shown, if global public goods do correspond to national needs and interests, states manage to reach agreement on coordinated action.

3. Security as a global public good

International developments thus led to a reassessment of the concept of "security" and to the need to redefine it.. The Challenges induced by globalization, its overlapping with the trends towards regionalization and fragmentation, generate new tensions and new risk factors. Great disparities in the economic development, which increasingly emphasizes within conditions of unprecedented technological progress, discriminatory access to education and health, vital life resources, information and knowledge cause serious social crisis, generate frustration and raise discontent. With economic globalization, social crises are accompanied, not once, by identity crises, generating unexpected violence.

International relations explain, traditionally, the concept of security through the concepts of power (supported by the disciples of the Realist School) and peace (associated to the disciples of the Idealist School). These concepts have governed all the aspects of national security until the 80's. Speaking of the security concept, Buzan (1991) pointed out that "this is a more fickle, sharp and useful approach to the international relations studies than power or peace". The current international situation advocates the revival of some geopolitical theories which consider globalization as a central component of national strategic power. Most citizens tend to define the risks to their security predominantly in domestic terms – from drug and people trafficking to terrorism, organized crime and state corruption. In the past, national security was considered "the nation's capacity to follow its national interests" (Hartland-Thunberg, 1982) or "the nation's capacity to hold out against foreign aggressions" (Giacomo, 1989). In others' point of view, national security was "that part of the governmental policy that has as objective the creation of national and international conditions favorable for the protection and extension of national values against real or potential enemies". (Trager and Simonie, 1973)

Nowadays, the concept of *security* has acquired different dimensions within the context of globalization, such as economical, political, ecological and military dimensions. Conventional military power has lost its role as an indicator of one state's power and as an institution able to dishearten a wide range of possible threats. According to Krell (cited in Ionescu, 1993), "military security no longer means ensuring territorial inviolability, but protecting the individuals and their daily life against military violence". Thus, national security became human security, focusing on the individual and the community.

Based on the theories of public goods, and on the definitions of security experts consider that *national security* is a *public good*, the citizen being the beneficiary of the state's efforts. The international organizations consider the concepts of security and also peace as being public goods. Moreover, with the outgoing process of development and globalization, both the United Nations Program for Development and the World Bank have also included these concepts as being global public goods. Why?, one can ask. Because, besides creating and preserving the equilibrium of the social and economic systems, another role of the state is that of protecting the interests of its citizens. For such purpose the national interests are defined as the totality of the common factors in the diversity of the particular purposes of the people, which refers to the present and future protection of the citizens, at the same time with the rational, efficient and sustainable use of the resources.

Buzan (1991) states that, in the context of the actual international system, security represents the ability of the state and society to defend the autonomy of its integrity and identity. Thus, based on the above, and even on Samuelson (1954), one can notice that the state's intervention in

regulating the economic order and ensuring the equilibrium of national systems in order to create and maintain a safe and stable security environment is perfectly justifiable.

Conclusion

Non-rivalry and non-exclusiveness define public goods. However, because of the recent transformations and shifts in the international relations and in national policies, the concept of security tends not to be considered anymore as a public good, as it comprises the characteristics of rivalry and exclusiveness, if only we consider the problems the minorities encountered in the US after September 2001. To amend this, as security must be a state produced and provided good, the government should shift the focus from national defense to human security and must interact with the civilians in order to realize a compromise between ensuring national security and preserving human rights and liberties.

Although in the current international context, the contradiction between freedom and security has become undisputed at the practical level, we cannot say yet that this antithesis has a degree of artificiality in the sense that 'we cannot talk about the existence of a total security status, as meeting the objective and subjective conditions referring life and living conditions vary from one individual to another, from an international player to another' (Sarcinschi 2006). In this context, what is possible for someone, for someone may be objectionable, and hence the problems that occurred. In fact, the main question is 'how much people are willing to give of their rights and freedoms for an added security?'

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POLICY CHALLENGES AND PROBLEMS FOR EUROPEAN COUNTRIES AFTER THE CRISIS

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Most countries in Central, East and Southeast Europe have emerged from the trough of the crisis already at the end of 2009. Several leading indicators point to a modest upswing. All countries in the region will grow again only by 2011. Growth may accelerate slightly in 2012, but will in general be slower than in the pre-crisis period. Given the weak rebound of economic activities, unemployment will continue to rise. Economic policies should focus on countercyclical measures, correcting real exchange rate misalignments, as well as changing the regulatory framework and a range of supply-side policies. This article argues that three specific policy issues need to be addressed urgently in Central, Eastern and Southeastern Europe in order to avoid a new sustained period of recession or depression: orderly exchange rate adjustment, fiscal stress and, financial sector vulnerability.

Key words: crisis, New Member States, economic growth, financial stabilization

JEL Classification: O10, R58

Recession deeper than expected

After a long period of convergence, Central, East and Southeast Europe experienced a deep recession in 2009. The relatively moderate GDP decline (-3.6%) on average for the new EU member states (NMS) reflects Poland's weight in the group, the only EU country to have recorded positive GDP growth last year (Albania, Kazakhstan and China registered positive growth rates as well – see Table 1).

In most other countries the catching-up process was interrupted, in particular the Baltic States were thrown several years back – more than Russia and Ukraine. The most conspicuous response to the crisis was a radical depletion of inventories and, closely related to this, a dramatic improvement in net exports since the contraction of imports was much larger than that of exports. This, together with less profit realized by foreign companies operating in the region, resulted in a sizeable reduction of current account deficits.

Modest upswing in the making

Most countries in the region have emerged from the trough of the crisis already at the end of 2009. Several leading indicators point to a modest upswing. Poland's growth will once again boost the NMS average in 2010, while the rate of expansion in the Czech Republic, Slovakia and Slovenia will be meagre. Hungary, Romania and Bulgaria are still expected to stagnate in 2010, the Baltic States will record further negative growth rates – just as Croatia, Bosnia and Herzegovina and Montenegro.

It is expected that all countries in the region to be growing again only by 2011. That growth may accelerate slightly in 2012, but will in general be slower than in the pre-crisis period. The main prerequisite of an upturn is a marked recovery in global trade, including a rise in demand for imports from the region. Increases in private consumption are not likely to be very pronounced as long as employment fails to grow. Investment will not act as a strong engine of growth either.

Given the generally weak rebound of economic activities, unemployment will continue to rise, probably peaking in 2010, before falling slowly to pre-crisis levels. The most vulnerable group of workers affected by the crisis are again those with low skills.

Table 1. *Overview developments 2008-2009 and outlook 2010-2012*

	GDP					Consumer prices				
	real exchange in % against previous year					change in % against previous year				
			Forecast					Forecast		
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Czech Rep.	2.5	-4.1	1	2.6	3.5	6.3	0.6	1.5	2	2.5
Hungary	0.6	-6.5	0	3	3.5	6	4	3.8	3.5	3.3
Poland	5	1.7	2.5	3	3.4	4.2	4	2.6	2.5	2.5
Bulgaria	6	-5.1	0	3	3.5	12	2.5	2	3	3
Romania	7.3	-7.2	0	3	4	7.9	5.6	4	3	4
EU-15	0.5	-4.1	0.7	1.5	-	3.3	0.3	1.1	1.5	-
EU-27	1	-4	0.7	1.7	-	3.7	0.7	1.3	1.6	-
	Unemployment based on LFS*					Current account				
	rate in %, annual average					in % of GDP				
			Forecast					Forecast		
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Czech Rep.	4.4	6.7	8.5	8.5	7.5	-3.1	-0.7	-1.1	-1.3	-1.2
Hungary	7.8	10.3	10.5	10	9.3	-7.1	0.5	-1.3	-2.2	-2.4
Poland	7.1	8.5	10	9	8.5	-5.1	-1.6	-1.7	-2.5	-3.1
Bulgaria	5.6	6.7	9	8.5	8	-	-8.6	-7.8	-8.5	-9.3
Romania	5.8	7	8.5	8	6	-	-4.3	-5.6	-6.5	-7.1
EU-15	7.1	9.1	10.3	10.3	-	-0.3	-0.1	-0.4	-0.2	-
EU-27	7	9	10.3	10.1	-	-0.8	-0.2	-1.5	-1.3	-

Source: Eurostat. Forecasts by wiiw and European Commission for EU-15

Downward risks of forecast

There are several downward risks to our forecast. The revival of financial intermediation may turn out to be sluggish. With the upturn of economic activities more firms may find it difficult to secure funding. Withdrawal of demand-supporting schemes and the need to consolidate fiscal balances may delay or weaken recovery in the EU and put a brake on export-driven growth of the region. A possible revival of cross-border capital flows would again exert strong pressure on exchange rate appreciation – with all the familiar negative effects. The main risk associated with the current problems in Greece is that the extension of the euro area may be delayed. That may well cross the plans of those NMS that have based their medium-term economic strategy on the earliest possible adoption of the euro.

Redirecting the growth model?

Until the recent economic crisis the countries of Central, East and Southeast Europe benefited for a long period from a process of ‘catching-up’ based on two pillars: (i) a high degree of liberalization of trade, capital movements and financial market integration, and (ii) membership in the EU or the prospects of either accession or a strong association with the EU. Both these two

sets of factors will still be in operation also after the crisis, but there will be some significant changes in the way the 'integration growth model' will function. A combination of both changed external conditions (for example slow growth in main export markets, higher risk assessment of the region) as well as internal behavioral responses to the crisis (for example more difficult financing conditions, increasing savings rates of the household sector, constraints on fiscal spending) will shape the growth paths of the region.

Emerging Europe, the EU and the IMF

The conclusions of the G20 Summit do not address directly the problems that countries in Central, Eastern and Southeastern Europe (CESE) face. These countries can be differentiated by three criteria:

- by the distance to the EU and the euro (New Member States, NMS; Future Member States, FMS; Neighborhood States, NS);²⁴⁸
- by their exchange rate regimes (fixed or floating);
- by the state of their external balances (deficit or surplus, the latter mainly oil exporting countries).

When it comes to the NMS, those are mostly countries with current account deficits, but they differ with respect to exchange rate regimes. Slovenia and Slovakia are in the euro zone, the Baltic countries and Bulgaria are on fixed exchange rates (indeed, they mostly rely on currency boards), while the rest float their exchange rates. To all of them, the G20 conclusions offer the opportunity to approach the IMF and make use of its reformed and increased lending capabilities. There is nothing else that would be specific to these countries.

The FMS are in a different position due to the fact that they are financially and in terms of trade integrated with the EU, but cannot hope to be supported by the ECB or by the EU budget to the same extent as the NMS. Therefore, they have to rely more heavily on the IMF. Indeed, most of these countries are contemplating a program with the IMF. Serbia already has a standby agreement, Bosnia and Herzegovina is preparing to work on one, and Turkey is probably going to ask for a new program, while the others are more reluctant to go down that road, though that may prove necessary. In these group of countries, there are those who use euro (Montenegro and Kosovo; unilaterally, not as members of the EMU), and those who rely, *de facto* or *de jure*, on fixed exchange rates (Albania, Bosnia and Herzegovina, Croatia and Macedonia), while a minority, Turkey and Serbia, rely on floats or rather managed floats (though Serbia in essence alternates between fixed and floating exchange rate policies). All of these countries report trade and current account deficits, some very large ones.

The NS are an even more differentiated group. Those that have experienced dramatic changes in their external positions, in trade and in exchange rates, have already approached the IMF: Ukraine, Belarus, Armenia, and Georgia. Its increased budget and reformed model of lending may prompt renegotiations of the already existing programs and may also induce other countries to approach the IMF in order to anchor their macroeconomic stability. The exceptions are oil exporting countries that have accumulated large reserves and may not feel the need to seek further financial support (e.g. Russia and Azerbaijan).

Three problems that need addressing

²⁴⁸ NMS: former socialist countries that joined the EU in 2004 and 2007: 5 Central European countries (the Czech Republic, Hungary, Poland, Slovakia, and Slovenia); 3 Baltic countries (Estonia, Latvia and Lithuania); 2 Balkan countries (Bulgaria and Romania). FMS: candidate countries (Croatia, Macedonia and Turkey) and potential candidate countries (Albania, Bosnia and Herzegovina, Montenegro and Serbia). NS: Eastern European countries covered by EU Neighborhood policy (essentially former Soviet Union member states or members of the Commonwealth of Independent States now).

Apart from the strengthened mandate that the IMF has received by the G20 Summit and apart from the effort that this institution has made to reform its procedures and conditions for lending in order to make it easier for countries to approach it, the Summit has not really addressed the main problems that these groups of countries face. These are essentially the following three:

- exchange rate adjustment,
- fiscal stress,
- financial vulnerabilities.

Given that most of these countries run high trade or current account deficits or both, exchange rate adjustments seem mandated. In the case of countries with flexible exchange rates that is being done via nominal depreciation. This, however, threatens the sustainability of their balance sheets – fiscal, financial, corporate and those of the households. Large initial devaluations in some of these countries (e.g. in central Europe) prompted the fear that their banks may run into troubles that may put much of the EU banking sector at risk.

The action of the IMF, the ECB, the European Commission and individual European countries with large financial exposure to these financial markets have managed to stabilize the vulnerable exchange rates, but their sustainability will depend on the depth and the duration of the recession in the EU and in these countries. The persistent weakness of the Hungarian economy, for instance, suggests that the existing challenges have not been addressed adequately. Indeed, Romania has recently joined Hungary as an EU member state with rather shaky macroeconomic stability and in need of a similar support package.

Countries with fixed exchange rates are trying to adjust their real exchange rates by wage and expenditure cuts and are facing deep recessions. The Baltic economies are currently shrinking at a rate of about 10% and Bulgaria seems to be entering a rather deep recession too. Things may change if external demand improves dramatically in the next few quarters, otherwise the prospect of a depression may prove unavoidable and their currency arrangements may collapse leading to a disorderly adjustment. The additional problem that countries that are trying to adjust through deflation face is that not very much can be done to help them if they do not want to deviate from that path of adjustment, at least not through the instruments enumerated in the G20 Communiqué. Clearly, fiscal stimulus is not supportive of deflation and the same goes for increased financial support.

The IMF programs, where they exist or may be contemplated, could only bring additional support to the exchange rate, but they cannot make this process easier. The alternative, of course, is orderly nominal exchange rate depreciation.

The FMS are, for the most part, in a similar situation as the NMS with fixed exchange rates. The difference is that they have less of an incentive to contemplate a change in their exchange rate regimes, if they happen to rely on fixed exchange rates. This is because they have fewer sources of support for an expansionary fiscal and monetary policy either from the IFIs or from the EU. The new IMF approach to lending could support a nominal exchange rate adjustment, as in the case of the classical Bretton Woods system, but whether that can come together with more expansionary fiscal and monetary policies is an open question. Certainly, the answer will be easier to come with if there were an additional financial support that would target the fiscal and the financial balances. Similar problems are faced by FMS with floating exchange rates and by most NS. Even in the cases where expansionary policies would be advisable, it is not clear how those were going to be financed. These problems have not been addressed by the G20 Summit in their policy conclusions.

Thus, if real exchange rates are to be adjusted and deep recessions and even depressions, with their uncertain political and social outcomes, are to be avoided, sources to support fiscal and financial balances will have to be found. For most countries considered here, EU should be ready to provide that support or at least advocate that it should be provided. This is for the reason that these are either member states or future member states or are economies that are increasingly

integrated with the EU single market. So, their macroeconomic stability and growth are important for the EU itself.

Exchange rate adjustment

In addition to the increased and reformed role of the IMF, three policies could be developed by the EU in order to support the stability and growth in CESE. One is orderly adjustment of the exchange rates of countries with unsustainable external balances. The experience so far seems to indicate that countries with flexible exchange rates have managed to adjust their real exchange rates through nominal depreciation, while countries with fixed exchange rates have yet to manage to do that. Therefore, the latter should be supported in that process. That would mean nominal adjustment similar to that which took place in central European countries with floating exchange rates, e.g. about 20 to 30%.

This adjustment may be resisted because of the widespread euroization in these countries. In order to overcome this resistance, various schemes of compensation of various sectors could be used through a combination of tax reliefs or with appropriate transfers.

Fiscal stimulus

In addition and in conjunction with that, there is a need to support these countries in their ability to have a countercyclical fiscal policy. Currently, in the majority of these countries, fiscal deficits are increasing even though public expenditures are declining. This is because of negative growth. Thus, fiscal policy is both pro-cyclical and unsustainable; the latter because it is difficult to finance these higher fiscal deficits. In the case of NMS, some support for fiscal stabilization if not expansion is available, though some countries still have difficulties placing their government bonds (e.g. Hungary). However, most other countries, with the exception of Turkey, can hardly find sources to finance increased public spending.

Those sources cannot be found in the IMF loans, so additional sources of sovereign lending should be created. At the moment, the EU has set up a stabilization fund that could perhaps mobilize 600 to 700 million euro for FMS, but that is far too little for what needs to be done to support stability and growth in these countries. A Fund with three to four times that money may prove to be helpful and should not be a huge burden on the EU member states.

Financial stabilization

Finally, more will have to be done to support financial stability of these countries. In a number of cases, e.g. Romania and Serbia, IMF programs have come with the commitment on the part of the EU banks to refinance the corporate sectors in these countries. It is not all that clear what that means in practice as credit and other financial flows to many of these countries are declining rather dramatically. There is a danger that the process of deleveraging of the banks will be accompanied with large number of bankruptcies and rising unemployment in these countries. In addition, that development will leave these countries with higher credit risks that will stifle their growth prospects in the medium run. These problems, arguably the key to stability of the whole region, have yet to be addressed.

Conclusions

In order to make it possible that CESE countries weather the current crisis and go through the process of adjustment that will make it possible to them to return to the path of convergence growth, the increased role of the IMF should be supplemented with:

- Orderly adjustment of real exchange rates in countries with unsustainable current account deficits,
- A support for countercyclical fiscal policy, and

- Support for the continuous credit activity of EU banks in order to avoid the process of deleveraging that leaves mass bankruptcies behind.

For all these, huge amounts of money are not necessary, political will and coordination is.

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REGIONAL GOVERNMENTAL BOTTOM-UP DECISION MAKING PROCESS USING ONLINE CHANNELS

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The paper introduces an innovative approach related to the citizen-oriented governance paradigm implemented through a regional virtual platform. The solutions proposed rely on the potential of the information and communication technologies (ICT) for inclusion, democracy and development, and represent the results of a Romanian research project: “Knowledge management architecture in environmental, social and economic areas, designed to support the sustainable regional development strategy”, financed under the national research budget. This work was supported by CNCSIS –UEFISCSU, project number 896 PNII – IDEAS contract 383/2007. The e-Participation process focused on the sustainable regional strategy design stands for an efficient solution to increase the public engagement of the citizens around the issues that affect their lives.

Key words: e-Participation, e-Voting, regional development strategy, bottom-up decision making process

JEL Classification: H11, H79

1. Regional development strategy as a knowledge based process

The research contextualizes Romania’s challenges, taking into consideration the specific situation of the transition from a centralized to a decentralized governmental system. In addition, another major challenge for the reform of the public administration is making governmental decision making process more efficient, as well as accelerating the transition of the public administration to the knowledge society, consisting in the use of advanced e-Governance paradigm, not only for reducing the bureaucracy, but also for increasing the transparency and the democratic engagement. The actual Romanian legislation creates the frame for the design of the regional development strategy, taking into consideration the European Cohesion Policy, the main challenges of the knowledge society, the decentralization priorities and the new created Romanian territorial structures (the eight development regions). The institutional infrastructure for the new territorial structures is represented by the eight regional development agencies, non-governmental entities providing public services and cooperating with the public local and central administration. In addition, the challenges of becoming a member of the European Union lead to a wide re-engineering process for the local and central governance, due to the increased need of connectivity and efficiency. The regional development stands for the main driver for increasing the competitiveness and attending the goals of the Lisbon Strategy. Simultaneously, due to the increased complexity of the actual development and the various challenges of the global knowledge society, the local governance has to double the efforts for finding the best ways to integrate the regional knowledge and expertise resources and to create a holistic approach related to the regional strategy design. The public administration is involved in and has the responsibility for the design of the regional strategy, as a participative and iterative process.

The coordination of the regional strategy design represents the responsibility of the Council for the Regional Development (CRD), the main decisional actor at the regional level, integrating representatives of various public administration entities. The Council also coordinates the activity of the regional development agencies (RDA) and validates the final version of the strategy. The development of the regional partnership represents the responsibility of the regional development

agencies, which are also in charge with the design of the regional development strategy, coordinating the activity of the Committee for the Design of the Regional Strategy (CDRS). The CDRS is responsible with the consultation process, creating the opportunities for the wide regional debate among the main regional stakeholders: representatives from the central and public administration, socio-economic entities, high education institutions, research centers etc. A key role plays the National Institute for Statistics (NIS), providing the main information for a quantitative analysis. The regional strategy represents the basis for the elaboration of the Regional Development Plan (RDP), including concrete measures for the implementation of the strategy and the adequate financial plan. The Ministry for the Regional Development and Tourism (MRDT) has the responsibility for the design of the RDP, integrating the regional strategic frames.

The transition to the knowledge society involves a deep innovative process, mainly based on ICT, applied to all the entities representing public administration, business, education, social, and cultural areas, including the communication between the regional stakeholders and the governmental entities. The reform of the regional governance represents one of the major priorities in the knowledge society, due to its strong interaction with the citizens or juridical entities, increasing the efficiency of the public administration and the regional competitiveness (priority of the information society i2010 initiative, main component of the Lisbon strategy [6]). Consequently, the design of the regional strategy, due to its complexity and wide integration of various knowledge and perspectives, becomes a knowledge based process. Despite the legislative framework, ensuring the premises of a participative process for the design of the regional strategy, in fact, the direct observations and the surveys carried out revealed a lack of citizens' involvement and a very poor regional entities' involvement in the consultative and decisional processes. The analysis of the consultative processes carried out in Romania during the regional strategy design period (2005-2007) indicates a gap between rhetoric and reality, such as the lack of a consistent dialogue between the local governance and the regional actors, including the inhabitants of the region. Moreover, the analysis highlights also the reduced use of the digital tools, including data bases, analysis instruments and a specific interface for providing public information related to the regional strategy design, a consistent SWOT analysis, benchmarking results for a deep understanding of the positioning of the region compared to other similar regions, aiming at creating a realistic view of the strong and weak points, as well of the regional trends. Simultaneously, the previous strategy design process has integrated especially quantitative approaches related to the sustainable regional development, calculating various indicators and comparing the results to the other similar European regions. The previous process of designing the regional strategy was based on a set of global statistical indicators which could not reveal all the important real life aspects for a realistic socio-economic analysis linked with environmental issues. Consequently, the debates in the work groups have not been always conducted taking into consideration a realistic and scientific base and thus the results have not the expected relevance.

The consultative process was limited at the organization of some workshops with the representatives from various regional entities, but their number and consistent contribution were quite reduced. The conclusion of the desk research consists in the identification of a limited stakeholders' participation in this process, without creating a real wide regional partnership. Moreover, the citizens do not represent a target group for the consultation and deliberation activities of the regional strategy design. Beyond the need of stimulating the public engagement in the process, it is also necessary to improve the set of indicators and to provide advanced sustainable development models, in order to present various simulations for the possible regional development, taking into account the environment, the social, economic and personal development.

2. The transition to the e-Governance

The regional development, as main pillar of the European cohesion policy, represents a very important pole of creativity and innovation, contributing to the increase of the competitiveness, goal of the Lisbon strategy. The actual approach focuses on a global perspective in order to improve the local action (“think global – act local”). The sustainable regional development is articulated in the actual global frame, taking into account the international agreements, the European sustainable development policies and the national sustainable strategies. The actual European strategic frame integrates various policies which have the same goal: to create a space with better conditions for all the European citizens in a sustainable way. The renewed Lisbon strategy aims at integrating also the environmental perspective, as Göteborg strategy stipulated: “the urgent need to secure a better quality of life for present and future generations”. This requires sustained economic growth which supports social progress and respects the environment, a social policy which underpin economic performance and a cost-effective environmental policy [14]. In order to cope with the actual challenges and the increased complexity, the public administration has to improve its activity by using the potential of the information and communication technologies on one side, and improving the public services and democratic processes and strengthen support to public policies, on the other side. “The use of information technology to support government operations, engage citizens, and provide government services” [3] represents one main issue for the transition to the e-Governance. In addition, this transition process involves also major structural changes for the public administration and the governance of the society [8] on one side, and crucial citizens’ mentality changes on the other side, developing the regional stakeholders’ pro-active behavior in the framework of the policies design, approval and implementation. In this perspective, the e-Participation concept has strong links with the e-Democracy, which refers to “the possibility to develop the influence and participation of the public in the political sphere” [11], using advanced and efficient online interaction channels. As the European Commission outlines, “the pressure on public administration is so great, that improving existing routines with the help of ICT alone is not enough; progress also requires more innovative approaches” [7]. E-Participation relies on consultative processes based on two ways online communication channels, helping the citizens to experience results they can see and touch. “By investing in transferable local models and tools, more people will use the Internet as a tool to strength their communities, protect and enrich their families and neighborhoods, and be heard in a meaningful way” [2]. The e-Participation tools as “web based systems for supporting the decision-making at governmental levels” [12] increase the interactivity between the governmental entities and the public, which creates advantages from both parts: administration and citizens. The regional governance has to cope with major challenges induced by the increased global competition, the democratic deficit, the ageing population, and the actual financial crisis. Due to the actual complexity of the global environment the regional governance has difficulties in developing appropriate policies and in finding the best solutions for their implementation. Meanwhile, the citizens and the regional entities have the opportunity to contribute with their opinions and views to the regional strategic issues, influencing the regional policies. The direct consequence is the openness of the public administration [10] and the extended use of the ICT tools, namely the Internet for providing efficient communication (e-Consultation and even e-Voting tools) between public and policy makers. Despite the democratic deficit, the observers of the European e-Consultation processes noticed that the citizens’ initiatives “have been poorly and arbitrarily integrated in the respective policies they intend to inform” [13]. Thus the governmental systems, the decisional processes and especially the mentality of the politicians need major changes for integrating bottom-up decision procedures supported by the online channels.

3. e-Region platform for the sustainable development

In accordance with the European framework, the Romanian procedure for the strategy design includes the participation of various actors in a formal or informal way in order to support decision-making process for public policy purposes at any stage of the policy lifecycle [12]. The lack of citizens' participation to the public policy definition represents a weak point of the previous procedure related to the regional strategy design, therefore the involvement of the citizens is a major concern of the Romanian local government. According to the desk research, surveys and direct observations, the research team identified the use of a virtual regional platform (e-Region), as an efficient solution to fit the actual requirements of the e-Governance and to bridge the gap between citizens and regional public entities. This approach is in line with the decentralization process in the public administration and also with the need of changing the system-oriented strategy design process to an actor-driven one, in a democratic-centric view. In this perspective, the main goal of the e-Region platform is to contribute to the regional development and to increase the regional competitiveness.

Analyzing the state of the art in the realm of the regional virtual platforms, we identified various initiatives of using the ICT tools at the public administration level, such as the "e-democracy.org, a citizen project promoting democracy in public life", illustrating "how e-tools can be used not only to give people a voice, but also to really solve problems in communities and to make democracies vastly more engaging. Ultimately, it is a negative approach to politics if citizens remain limited to the use of electronic tools to politically arm themselves and to fight for influence and power, or if they simply remain hidden behind a disempowering anonymous cloak with online news and blog comments" [2]. An European approach is the British forum (<http://www.e-democracy.org/uk/>) which provides a virtual space for sharing best practices, knowledge and for finding solutions for specific issues. Another regional internet portals [9] are more business oriented, such as the digital business ecosystems platform [1], and not a bridge between public administration and the regional actors.

The online Romanian regional platform focuses on main regional workflows which could facilitate administrative and operational processes supporting citizens, research, academic and business entities in their interaction with the regional/local administration, aiming at contributing to the regional strategy design and implementation. The structure of the online e-regional virtual platform is built taking into consideration the regional organizational infrastructure and the relationship between the local and central public authorities and implements SOA concepts. In this view, the Regional development agency could be the integrator of the information workflows, ensuring interfaces with citizens, business, academic and research entities (end users), as well as with other regional entities and public authorities, at local level (Regional Development Council, Town Halls etc) or at central level (Ministry of the Regional Development and Tourism, Ministry of the Environment and other sectors ministries). The regional platform, proposed by the research team, offers the infrastructure and the specific tools for the e-Knowledge, e-Consultation and e-Voting tools. The paper emphasizes the idea that the e-region platform could be the main knowledge integrator and generator at the regional level for the accuracy of the process of the sustainable regional strategy development and implementation. The regional virtual portal provides simultaneously a quantitative approach represented by the information concerning the regional opportunities and possible evolution trends, based on advanced modeling tools and indicators, and, complementary, a qualitative approach using various tools for the direct expression of the specific actors' opinions. The set of integrated indicators and models for the sustainable regional development stands for the regional knowledge base, which is permanently enriched with the regional actors' contribution (especially by the integration of experts' knowledge). The e-Region platform provides advanced tools for the presentation of the data and simulations, according to the various sustainable development models, aiming at informing the regional actors concerning the evolution of the region and the future trends. The two ways online communication channels ensure also the integration of the

experts' knowledge in the existing regional knowledge base, creating the premises for a better valorization of the regional intellectual capital. The regional experts' contribution for the refinement of the sustainable regional development models represents a major benefit for the public administration in its efforts to cope with the actual challenges induced by the globalization process and the actual complexity of the sustainable development in the knowledge society. The e-Knowledge processes strengthen the connectivity of the regional governance with the regional academic and research community, creating efficient links in the interest of the local development. Beside the advantage of a permanent improvement of the regional knowledge related to the design and implementation of the sustainable strategy, the e-Region platform provides open accessibility to the regional information and knowledge, increasing the capacity of the regional stakeholders to be involved as contributors to the strategy design. For this purpose, the regional knowledge base provides valuable knowledge and information related to the regional development trends, models and scenarios. The accessibility to this information, the simulations, the benchmarking and the various scenarios provided offer a scientific frame for a better understanding of the possible evolution of the region and a holistic and accurate approach related to the sustainable regional development. The platform, through its specific e-knowledge tools, supports the quantitative approach and provides valuable information for the regional actors, including the citizens. The quantitative analysis involves advanced sustainable indicators and models, for the appropriate evaluation of the region compared with other similar European regions and with other Romanian regions. The sustainable models and complex indexes integrate four axes: human development, environment protection, economic and social development. The information provided illustrates the positioning of the region in the European and national space and the future trends in the regional sustainable development. The open access to the information concerning the regional data, and the various analysis and interpretations provided, support the need of the regional actors, including the citizens, to be informed and to formulate their opinion by analyzing the information and taking into consideration the real opportunities, according to the existent resources and development trends. The e-Knowledge provides also two ways communication tools for updating the database and the knowledgebase. Thus the regional actors are simultaneously beneficiaries and contributors to the regional knowledge base. Apart from the e-Knowledge tools, the e-Consultation tools implemented through the e-Region platform provide specific structured and unstructured questionnaires for gathering the regional actors' opinions. These primary data, representing the regional actors' views on the regional priorities for the sustainable development, will be integrated with the secondary statistical data. The holistic perspective created through the integration of the regional actors' views with the experts' and public administration's views represents a better basis for the design of the regional sustainable strategy. This new approach introduces a qualitative and sustainable dimension by creating new infrastructures as the regional online platform for empowering the regional actors and their interaction with the public administration structures. The e-Governance approach articulates technologies and knowledge with democratic centric tools, aiming at strengthening the regional partnership and creating a scientific base for the open decisional processes. In this perspective, the decisional process integrates bottom-up views having a more realistic dimension and facilitating the consensus building regarding the strategy design. Consequently, the major idea promoted by the project stands for creating the infrastructure related to the regional e-Governance, aiming at facilitating the design of a regional knowledge base focused on the sustainable development issues and also regional actors' active involvement in the regional policy design through the online channels. The fulfillment of these ambitious goals involves a complex process for translating the research results into practical applications, which enables transformational changes based on technology, as mentioned at the Ministerial Conference in Lisbon, 2007 [5]. The e-Governance involves advanced and efficient interaction tools such as: e-Knowledge and e-Democracy (including e-Participation and e-Voting services), enabling the

regional actors' pro-active and participative behavior in relation with the local government and in the framework of the local policies design, approval and implementation.

3. Conclusions

The main findings introduced by the research project are represented by the improvement of the scientific base of the regional strategy design and by the efficient interaction of the regional/local public entities with the stakeholders. This innovative approach represents a qualitative change at the regional/local administration level, involving major process re-engineering decisions. The decisions makers, represented by the various local/regional or central entities will have at their disposal accurate information, including the feedback obtained from the regional actors, in order to improve the process of the design of the sustainable regional strategy. The information could be used as well during the strategy implementation for the ongoing assessment of the regional projects, aiming at meeting the strategic goals. The platform articulates functions and components such as the regional knowledge repository and generator, the e-Participation and e-Voting tools, creating the premises for bridging the gap between local governance, main stakeholders and citizens. The platform offers also a solution for the decentralization process, which represents a real challenge for the Romanian local administration. This stands for an efficient way to involve citizens and organizations in the regional development, as a knowledge based process. The design and the implementation of the regional/local strategy becomes an efficient and more realistic bottom-up process, integrating the best experiences and practices and better responding to the local needs.

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COMPETITIVENESS OF ROMANIAN TOURISM

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The purpose of this paper is to present the current situation of Romanian tourism and its prospects in the context of international competition in tourism.

Romania's exceptional tourism potential is characterized by two essential components: natural component, represented by spectacular scenery, diverse relief combinations, favorable climatic conditions, therapeutic value and abundance of natural treatment factors and anthropic component, represented by the remains of civilizations that have succeeded on Romanian territory since time immemorial, monuments and religious artifacts or secular, elements of ethnography and folklore of great beauty and originality.

Keywords: tourism, tourism potential, tourism structures, competitiveness

JEL classification: F15, L83, J63, O18

1. Introduction

Before 1990 Romania was an important tourist destination for the Eastern European market, mainly promoting the seaside tourism products, balneoclimaterical resorts, cultural programmes and the famous monasteries located in the Northern Moldavia and Bukovina. The Romanian tourist offer has not changed significantly over time. However it became uncompetitive in relation with the requirements of tourism demand and with similar tourism products available on international markets. This is why, even though all the eight Regions of the country, especially those lagging behind in development, have a significant potential for tourism development, currently the tourism contribution to the growth of the national economy is still low.

The Romanian tourist industry “engines” are actually some segments which are well functioning: agro tourism, mountain and spa tourism, events and tours tourism. More than one third of all European mineral water can be found in Romania. Thus, due to the Herculane Spa, attested since the 2nd century A.D., Romania may be considered one of the founder countries of spa tourism.

The accommodation capacity (number of places) by Regions indicates important differences. The South-East Region has the largest accommodation capacity (47%), being hardly followed by Centre Region (12.5%) and North-West Region (9.2%). It can be estimated that in the next period, the distribution of accommodation capacity on regions of development will be balanced, due to the interest displayed by the entities involved in tourism, but also by the support provided by the local authorities. However, the coastal tourism of Black Sea and Danube Delta and Carpathians and Carpathian areas are expected to continue to develop in the next period of time.

In Romania, the accommodation capacity is significant (280,000 beds²⁴⁹), compared with other countries that recorded outstanding achievements in tourism such as Czech Republic, Croatia, Poland, Hungary etc.). However, because of the mass tourism, a lower category of

²⁴⁹ <http://www.eu-turistul.ro/analiza-pietei-turistice-romanesti/2-capacitatea-de-cazare-turistica.html>.

accommodation establishments (the weight of 1-2 star hotels on the Romanian coast exceeds 80%) has been predominant.

The number of housing units has increased over the past decade by about 25%, especially due to the emergence of new forms of accommodation (rural, urban and agro hotels, youth hostels). However, places of accommodation on all types of units and categories has decreased by almost 7% in the last decade, due to the restitution of nationalized properties (including tourism villas) and a change of destination structures.

Tourist reception structures and particularly the recreational offer are outdated, uncompetitive, the tourism services and tourism programs being accomplished stereotypically and are characterized by a modest quality and the quality-price ratio is inconclusive. Therefore, a steady decline of foreign tourism demand for Romania has been recorded in the last 20 years.

Thus the upgrading, re-launching and development of Romanian tourism and the creation of new modern and competitive tourism products are necessary on the tourist market. Therefore the main purpose is to develop the recreational and animation offer which displays in general high attractiveness, by creating entertainment and theme parks, water parks, offers that are present in the world countries having tourist tradition. The main key tourism indicators reflect discrepancies on the regional level, both in terms of number of tourists as well as the capacity of employing facilities.

2. Competitiveness of Romanian tourism

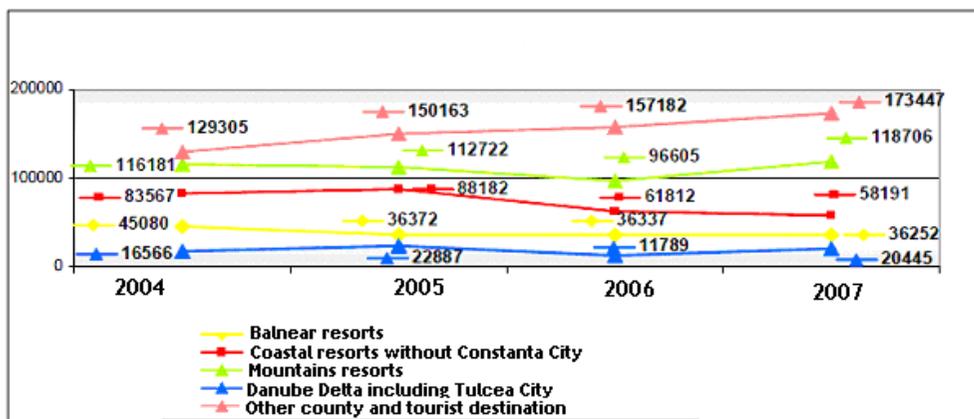
Regarding the total number of tourists that have been accommodated in the registered accommodation structures, a positive development can be noticed thus improving the tourism sector's contribution to gross domestic product (GDP).

Regarding the total number of tourist on development areas, the most important increase has been recorded in the Bucharest area, displaying an increase of 76.54%. The other examined areas, such as the coastal resorts or the ones from the mountain area or the balnear resorts have recorded modest increases or even they have entered the regression, an instance in point being the Danube Delta area.

The number of foreign tourists fluctuations acted in the same way as the total number of tourists described above. Thus, the most significant increase has been recorded in the county seat and in Bucharest, whereas the Danube Delta or the coastal resorts, excluding Constanta, have recorded negative trends.

The extremely low percentage of tourists who chose the Danube Delta can be noticed, approximately 1% of total domestic tourists, representing a paradoxical situation in terms of tourist potential of the area, a potential that unfortunately cannot be taken advantage of due to the lack of proper facilities and poor condition of infrastructure.

Figure 1 Foreign tourist evolution number 2004-2007



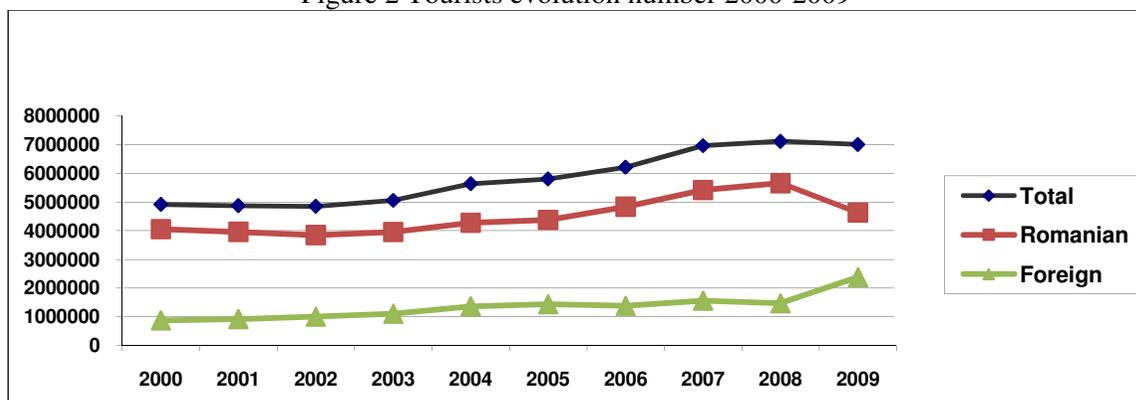
Source: Statistical Yearbooks, NIS

Table 1 Evolution of the main tourism indicators between 2005 – 2009

Region	Accommodation capacity 2005 (No. of places)	Accommodation capacity I/2009 vs.2005 (%)	Overnight staying 2009 (thou)	Overnight staying I/2009vs.2005 (%)	Arrivals 2009 (thou)	Arrivals I/2009 vs.2005 (%)
North-East	18,718	+5.48	1,436	-2.1	622	+14.5
South-East	132,965	-0.83	5,139	-5.7	1,108	+13
South	22,292	-0.62	1,807	+3.8	574	+3.9
South-West	14,672	-4.07	1,601	+0.6	334	+2.1
West	21,291	-2.06	1,836	-2.2	535	-5.8
North-West	26,019	+1.84	2,290	16.8	733	+31.1
Centre	35,479	+0.7	2,782	+8.6	1,068	+23
Bucharest-Ilfov	11,225	+41.56	1,481	+48.7	831	+59.8
Romania	282,661	+0.95	18,373	+4.1	5,805.0	+17.9

Source: Statistical Yearbooks, NIS

Figure 2 Tourists evolution number 2000-2009



Source: Statistical Yearbook, INS

According to the analysis of tourism competitiveness, based on the development indicators 8 countries were considered as competing countries in tourism against Romania: Bulgaria, Croatia, Serbia and Montenegro, Hungary, Czech Republic, Slovakia, Poland and Ukraine.

The project strategy for the period 2007-2013 of the National Tourism Authority (NTA) Romania is overtaken by Hungary, Czech Republic, Bulgaria, Croatia, Poland and Slovakia in the tourism industry's competitiveness index.

Compared with these countries, Romania has an average tourism competitiveness index of 58.91, which is lower than the values recorded in Hungary (78.44), Czech Republic (74.47), Bulgaria (68.57%), Croatia (68, 04), Poland (66.03) and Slovakia (62.84). however this index is superior to the one recorded in Ukraine and Serbia - Montenegro. Romania is more competitive in prices, environment, openness to international trade and tourism and in social services.

Nevertheless, our country retains an advantage over Ukraine and Serbia - Montenegro. Romania is more competitive compared with some of its competitors in price, environment, openness to trade and tourism and social and less in technology, human resources and infrastructure.

Compared with Bulgaria, Romania is more competitive in pricing (concerning the hotel room tariffs; PPP index, level of taxation in tourism), infrastructure (only concerning the roads and the railway – displaying indices that are superior to Bulgaria), environment (carbon dioxide emissions are less than those in Bulgaria but having a higher population density), technology (only concerning the high-tech exports), social (regarding the index of newspapers and television).

Compared with Croatia, Romania is more competitive in pricing (only regarding the tourism tax), environment (carbon dioxide emissions being less than in Croatia but a higher population density), international openness (concerning the level of taxation in international trade) and social (the index of newspapers and television).

As far as Hungary is concerned, Romania is more competitive only in pricing (regarding the tariffs charged on hotels room and the level of tourism tax) and social (only the TV index), according to the data provided in the document.

Romania is also more competitive but only in pricing compared with Slovakia (regarding the tariffs charged on hotels room), human tourism (only concerning the number of people involved in tourism), environment, technology (only in high-tech exports), international openness (regarding the visas) and social (the index of newspapers and television).

Compared with the Czech Republic, Romania is more competitive only in pricing (regarding the tariffs charged on hotels room and the tourism tax) and social (regarding the index of newspapers and television).

To Poland, Romania is only competitive in pricing (regarding the tariffs charged on hotels room and tourism tax), human tourism (concerning only the economic impact of tourism), technology (only in high-tech exports), international openness (the tourism openness index and trade openness index) and social (only the index of newspapers and television).

Compared with Ukraine, Romania is more competitive in pricing (regarding the tariffs charged on hotels room, purchasing power parity and level of taxation in tourism), human tourism (only concerning the population involvement in tourism), environment (carbon dioxide emissions being less than those in Ukraine, a higher population density), technology (concerning the number of Internet users, mobile high-tech exports), international openness (regarding the visa section and the tax on international trade) and social (concerning the human development index, newspapers index, computer index and television index).

Compared with the existing potential in our country and compared with other Central and Eastern European countries, Romania is presented in terms of modest economic performance displayed by the tourism industry.

3. Tourism trends in Romania

A 3.6% increase of tourist structure capacity of accommodation (from 283,701 places to 295,898 places) was recorded in 2009, the largest increase of 4215 places being recorded in urban and rural hostels.

This phenomenon can be explained due to the lower volume of financial effort required by the investments in boarding houses and also to the increase of interest in this form of tourism. However it is noteworthy the investment effort shown in the developing and modernizing the upper class tourist structures, the increase pace of these categories capacity being of 17.8% for 5 stars, 38% for 4 stars and 3.5% for 3 stars.

The year 2009 displayed a tendency of reducing the average length of stay in hotel structures, brought about by the increased tourist traffic in weekends and also by the fractionation trend of holidays, a phenomenon which has become more obvious in our country. Therefore the figures provided by the travel agencies are below those recorded in 2008 concerning the national tourism actions. A decrease can also be noticed regarding the number of days spent by tourists in such accommodation structures, this decrease being of 8.7 % compared with the data recorded in the previous year.

Table 2 Arrivals of foreign tourists in Romania from European Union by country of origin

COUNTRY	2008	2009
AUSTRIA	217965	194350
FRANCE	184515	171718
GERMANY	473431	485890
GREECE	104507	110236
ITALY	397592	397705
NETHERLANDS	79334	75638
POLAND	191022	266546
UNITED KINGDOM	118495	121596
HUNGARY	1743093	1789490
BULGARIA	818009	1035913

Source: EUROSTAT

Regarding the foreign travel statistics shoe an unexpected development, which is mainly due to the reduction of their costs that was generated by the global economic crisis. The explanation of foreign travel increasing is the strengthening of the middle class and their wish to travel abroad and to make contact with other cultures and civilizations, high quality tourism services as well as freedom to travel in Europe.

4. Conclusions

In 2009, the profit made from the international tourism earnings was of EUR 4.5 billion, while the GDP tourism contribution is still low (only 3.5% of GDP contribution from tourism activities for 2008²⁵⁰); the number of tourism work places is quite significant - 105 thousand jobs (1.2% of total employment).

Concerning the tourism sector support, by investments in tourist attractions, accommodation and infrastructure services, it is expected that these positive trends characterizing this particular field to continue in the next period of time as well. This optimistic forecast is also based on the analysis of the development of the tourism sector on the world level.

Among the most significant issues the following ones may be mentioned : increased number of tourists, increased number of people interested in ethnic tourism (visits to native places),

²⁵⁰ <http://www.ziare.com/business/economie/02-19-2009>.

increasing demand for new destinations, increased attendance at health resorts and spas (due to increasing concern for body maintenance, beauty, gymnastics, fitness, etc.), increasing number of older people who are more active and willing to travel, tourists become more experienced, they expect quality attractions, facilities and services ensured by the tariffs/prices which are adequate to the quality of their traveling facilities; business environment development or for congresses, conferences, meetings, etc., increased number of tourists concerned with preserving and protecting the natural environment, tourism uses to an increasing extent the modern technology in fields like online booking services and marketing; in recent years, the Internet has become an increasingly important means of information and marketing.

These expectations may indicate a growing demand for tourism in Romania, especially as the accommodation facilities and tourist attractions will adapt to the market requirements, achieving a quality and a capacity which are significantly higher to the current ones. The National Association of Travel Agencies from Romania hopes that in 2010 the Romanian tourism will recover from 2009 and record a slight increase of at least 5%.

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THE CURRENT ACCOUNT DEFICIT AND THE FIXED EXCHANGE RATE. ADJUSTING MECHANISMS AND MODELS.

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The main purpose of the paper is to explain what measures can be taken in order to fix the trade deficit, and the pressure that is upon a country by imposing such measures. The international and the national supply and demand conditions change rapidly, and if a country doesn't succeed in keeping a tight control over its deficit, a lot of factors will affect its wellbeing. In order to reduce the external trade deficit, the government needs to resort to several techniques. The desired result is to have a balanced current account, and therefore, the government is free to use measures such as fixing its exchange rate, reducing government spending etc. We have shown that all these measures will have a certain impact upon an economy, by allowing its exports to thrive and eliminate the danger from excessive imports, or vice-versa. The main conclusion of our paper is that government intervention is allowed in order to maintain the balance of the current account.

Keywords: current account, trade deficit, trade surplus, absorption, elasticity, the Keynesian multiplier model of national income, fixed and floating exchange rate.

JEL codes: F32, F31, O11, O24, P1.

1. Adjusting mechanisms of the current account deficit, if the exchange rate is fixed.

Both in practice and theory, the accent is set on the deficit of the external trade balance (and not on its surplus), because the adjusting process determines the reduction of the international reserves, and forces the country to impose corrective measures.

If the exchange rate is fixed, the corrective process involves the transfer of national resources abroad. These transfers can be measured by the following methods, which limit at studying the behavior of the current account and the adjusting process of its deficit: elasticity approach; income approach; absorption approach.

1.1. Elasticity approach

The elasticity approach is based on the variations of the nominal exchange rate (devaluation, appreciation) for the necessary adjustments in reestablishing the external balance. By devaluation or appreciation of the currency, there will be an inflationary or deflationary regime that counts for the growth or decrease of the internal prices.

In the case of a regime of fixed exchange rates, currency appreciation or devaluation are used to optimize the external trade balance. This affirmation is based on some key premises that some economists consider that are arguable in some poor developed countries. These premises refer to the extent that the change in import prices affects the quantity asked by imports and exports, measured by the elasticity of demand by price.

In the case of devaluating the national currency, the relative prices of imports and exports suffer changes. So, the export prices in foreign currency decrease compare with other countries prices, and the internal import prices rise compared with the national products that substitute imports, provoking the decrease of the imports volume, and the growth of the export volume of goods,

thus improving the situation of the current account. So, the devaluation concentrates on the reduction of excess spending on imports, and the appreciation process focuses on the reduction of excess revenues from exports.

The elasticity of imports (exports) by price, is an instrument which shows the measure that physical volume of imports (exports) suffers modifications, when the price fluctuates. This is reported like this: $E_{M(X)} = \text{percentage modification of imports (exports) quantities} / \text{percentage modification of imports (exports) prices}$.

If the price modification reflects in the modification of imports, than the demand is elastic to the price. If the demanded quantity suffers less modifications, than the demand is inelastic to the price.

If the elasticity of demand for imports based on prices is nil, than the demand for imports is perfectly inelastic, and the same amount of goods will be imported no matter what the price is in the national currency.

1.2. The absorption approach

The absorption approach is the name of a set of ideas about the external trade balance, associated with the work of Meade, Alexander and Mundell, expressed in a paper by Johnson (1958).

In a closed economy, the national income can be separated into sectors where the production is being sold: consumption, investments, public spending; and also in those sectors where it is won: consumption, saving and taxes: $C+S+T = Y = C+I+G$, (1) were: Y is the national income, C is the consumption, S is the national private savings, T is the taxes, I is the national investments, and G are the governmental spending.

Because $C + I + G = A$, were A is the internal absorption, it results that $Y=A$ (2).

From equation (2) we conclude that in a closed economy, the national spending has to be equal to the national income. And, if we assume that there is a budget equilibrium ($G=T$), it results that the national investments has to be equal to the national private savings ($S = I$).

When we pass to an open economy, we add the income earned through exports (X) minus the national spending on imports (M). The equation becomes (1) $C+ S+T = Y= C+I+G +X-M$ (3)

By reorganizing the equation number (3), we obtain: $X-M = (C+ S+T) - (C+I+G) = Y-(4)$

The national income can be larger or smaller than the internal absorption, meaning that the current account output can be a deficit or a surplus.

Starting from equation number (3) and by rearranging the terms we have: $S +(T-G) -I = (S-I) +(T-G) = X-M$ (5). The equation number (5) signifies that the net financing capacity of an economy = net financing capacity of the private sector from which we lower the need of financing of the public sector = the account of the current operations.

If we consider the budget surplus (T-G) as governmental savings, or the budget deficit as spending, we can define the national savings as $EN = S+(T-G)$. Than the equation can be written $EN - I = BC$ (6). This equation has the following meanings: the total national savings out pass investments with a sum equal to the external trade balance account.

1.3. The income approach (the Keynesian model of the national income)

1.3.1. The Keynesian model of a small country

The income approach refers to the effects of the national income modifications over the adjusting process of the current account. The modifications of the national income can contribute positive or negative to the correction of the external imbalance, but in both cases, the effects can be incomplete, having to be accompanied by alternative correction measures, like the change of the nominal exchange rate. *This analysis derives from the model of the Keynesian simple multiplier, in the case of a small but open economy.*

The national income in an open economy is determined by the sum of consumption, investments, governmental spending and the net external spending on goods and services. So, by resuming the equation number (3): $Y = C + I + G + (X - M)$ (3)

$$C = C^* + cY \quad (7)$$

In the simple Keynesian model, both governmental investments and spending are considerate exogenous (fact showed by the asterisk in the right of the letter) $I = I^*$ și $G = G^*$

The demand for exports (imports for foreigners) is a function of relative prices and national income from abroad (Y^*): $X = X_d(E, Y^*)$

So the simplified formula for the demand of exports, regarding the fact that the exchange rate is fixed, and the foreign income is exogenous, we have: $X = X^*$ (8)

The demand for imports depends on the relative prices and the national income: $M = M_d(E, Y) = M^* + mY$, (9) were: Y is the national income; C is the aggregated consumption; C^* is the autonomous consumption; c the marginal inclination to consumption; I^* are the autonomous investments; G^* is the governmental autonomous spending; X is the exports determined by external factors (like the external income); M is the aggregated imports; M^* is the autonomous imports; „ m ” is the marginal inclination to imports affected by the national income, and assures the connection between the national income and those of the imports. We consider „ m ” as positive and subunit, following the fact that imports are an increasing function of national income. So the imports go the same way with the national income, but in a smaller proportion.

Replacing the equations (7), (8) and (9) in the equation number (3), we obtain: $Y = C^* + cY + I^* + G^* + X^* - (M^* + mY)$

$$\Delta Y = \frac{\Delta C^* + \Delta I^* + \Delta G^* + \Delta X^* - \Delta M^*}{1 - c + m} \quad (10)$$

The multiplier of an open economy, like in the equation number (10) is $\frac{1}{1 - c + m}$. This is

smaller than in a closed economy, ($\frac{1}{1 - c}$) because of adding the marginal inclination to imports

(m), which represents a leakage of incomes abroad care.

$$\frac{1}{1 - c + m} < \frac{1}{1 - c}$$

$1 - c = s$, were „ s ” is the marginal inclination to savings.

The equation number (10) can be expressed:

$$\Delta Y = \frac{\Delta C^* + \Delta I^* + \Delta G^* + \Delta X^* - \Delta M^*}{s + m} \quad (11) \text{ or } \Delta Y = \frac{\Delta A^* + \Delta X^* - \Delta M^*}{s + m} \quad (12) \text{ were}$$

$A^* = C^* + I^* + G^*$ represents the exogenous component of the aggregated demand.

The multiplier for any autonomous component of the spending is: $\frac{\Delta Y}{\Delta A} = \frac{1}{s + m}$ (13)

In practice, the sum between „ s ” and „ m ” is less than 1, and by this ht multiplier is supraunit. That means that an autonomous increase of spending can provoke the increase of the national income in a greater measure.

The equation number (11) can be used for determining the impact of the modification of the components of the national income over the external equilibrium. The current account can be expressed like this (if we consider that as majority the commercial flows, and the other components – the income and transfers – unimportant): $CC = X - M$ resulting $\Delta CC = \Delta X - \Delta M$ (14)

By replacing the equation number (9) in the equation number (14) we obtain $\Delta CC = \Delta X^* - \Delta M^* - m\Delta Y$ (15)

With the help of the equation number (15) we can determine the direct impact of the modification of autonomous imports and exports, and the indirect impact of the modification of any component of the national income, over the external equilibrium. So, the changes of the national income (in any direction) will affect the external equilibrium.

By introducing in the equation number (15) the ΔY from the equation number (11), and by rearranging the terms, we obtain:

$$\Delta CC = \frac{s}{s+m} (\Delta X^* - \Delta M^*) - \frac{m}{s+m} (\Delta C^* + \Delta I^* + \Delta G^*) \quad (16)$$

If we suppose that ΔM^* is very small, almost equal to zero, then: $\Delta CC = \Delta X^* - m\Delta Y = \Delta X^* -$

$$m \frac{1}{s+m} \Delta X^* = \frac{s}{s+m} \Delta X^* \quad (17)$$

The expression $\frac{s}{s+m}$ is smaller than 1, which means that external trade balance is improving

less than the exogenous growth of exports, because of the increase of imports based on the increase of the national income. Per total the effect is positive, because imports don't increase as much as exports.

1.3.2. The Keynesian model with two big countries

In this model we consider two countries large enough to affect each other's national income, because the development of the rest of the world depends on the evolution that country, and the exports evolution of the host country depends on the abroad evolution. By this, the rest of the world (in order to ease the analysis we consider the rest of the world as one country) and the host country are interdependent.

Because the abroad national income is endogenous, the foreign country shapes itself analog to the host country, admitting that its exports are the imports of the host country. This depends on the national income of the host country: $M = M^* + mY$ (18)

The imports of the foreign country are the exports of the host country. These depend on the national income of the foreign country: $X = X^* + m_s Y_s$ (19) where m_s is the marginal inclination to imports of the foreign country, s_s is the marginal inclination to savings of the foreign country, and Y_s is the national income of the foreign country.

So, from the equation number (19) results that when the national income increases abroad, the foreigners import more from the analyzed country.

In the equation number (12) X^* is replaced by the new expression of exports, resulting a new

$$\text{formula of the equilibrium national income: } Y = \frac{A^* + X^* - M^* + m_s Y_s}{s+m} \quad (20)$$

From the above equation we assume that the internal national income depends positively from the foreign national income. When a big country registers an expansion, it imports more from its trading partners.

In these conditions, the solution for the foreign equilibrium income is: $Y_s =$

$$\frac{A_s^* + M^* + mY - X^*}{s_s + m_s} \quad (21), \text{ where } A_s^* \text{ represents the autonomous component of foreign}$$

spending.

The equation number (21) is the version for the foreign country of the equation number (20). The equilibrium national income for any of the two countries is obtained by resolving simultaneous of the two equations. The multiplier of an expansion of the host economy is:

$$\frac{\Delta Y}{\Delta A} = \frac{1}{s + m - \frac{m_s m}{s_s + m_s}} < \frac{1}{s} \quad (22)$$

This is larger than the multiplier of a small country $1/(s + m)$, because a part of the spending that gets out of the country as imports they come back as exports. Also, the multiplier from the equation number (22) is smaller than that of a closed economy ($1/s$), as long as "m" and "s" are higher than zero.

In the case of the model with two countries: $\Delta BC = m_s \Delta Y_s - m \Delta Y$ (23). From the equation number (23) we find that if the host country registers an expansion larger than the foreign country, than the host country will suffers a deterioration of the external trade balance, assuming that two countries have the same marginal inclination to imports.

1.3.3. Transmitting the economic shocks in the Keynesian model

Next, we will analyze the way of transmitting, over the borders of one country, the economic shocks, in the conditions of a fixed exchange rate in comparison the floating one, starting from the Keynesian model. This comparison is one of the criteria that a country uses in order to chose its exchange rate.

1.3.3.1. Transmitting the economic shocks in the case of a fixed exchange rate

For simplicity we start from the premise of a small country. Another premise is to ignore the repercussion effects due to the modifications of the foreign national income.

According to the equation number (13), an internal imbalance, like a reduction of the demand of investments, can provoke the decrease of the internal national income with $\frac{\Delta Y}{\Delta I^*} = \frac{1}{s + m}$ in the

mode with a small country. An external imbalance, like the reduction of the export demand, can provoke the modification of the national income wit the same amount: $\frac{\Delta Y}{\Delta X^*} = \frac{1}{s + m}$. In this

case, a part of the foreign modification is transmitted, through the external trade balance, in the host country.

In the model with two big countries, the export multiplier is higher (as we can observe from the equation number (22)), because a part of the national income leakages return as imports, return back as exports

1.3.3.2. Transmitting the economic shocks in the case of a floating exchange rate

In the case of the floating exchange rate, the Central Bank doesn't intervene. We assume that there are no capital, financial or transfer flows, so the external trade balance is nil. In the condition of a floating exchange rate, you cannot realize a surplus of the external trade balance, because the excess of the foreign currency, obtained by reducing imports, provokes the appreciation of the national currency, which in return supports imports and discourages exports.

The zero sum of the external trade balance means $\Delta BC = \Delta X^* - m \Delta Y = 0$, from which results $\Delta X^* = m \Delta Y$.

The reduction of net exports determinate by the appreciation of the national currency has to be suffice to counteract the downfall of imports provoked by the diminish of the national income. To calculate the variation of the national income we start with the equation number (11): $\Delta Y =$

$$\frac{\Delta I^* + \Delta X^*}{s + m} = \frac{\Delta I^* + m \Delta Y}{s + m}$$

$$\Delta Y = \frac{\Delta I^*}{s} \quad (24)$$

1.4. Conclusions of the mechanisms that adjusts the current account when the exchange rate is fixed.

The adjusting problems do not appear in the case of floating exchange rates, because in this regime the adjustment is automatic and its determined by the market conditions. The nominal exchange rate reacts in the changes of the supply and demand of imports and exports, and thus, the adjustment of the external balance is done automatically.

The analysis stated above has only one major flood, and that is the minimization of the external balance to a null entry in the current account (the difference between imported and exported goods and service registered in the current account), the capital and financial accounts not being analyzed This characteristic imposes serious limits regarding the conclusion of this paper.

In practice, the external balance is equal to the zero sum of the aggregate current account and the capital and financial accounts. By introducing the capital and financial accounts, changes the shape of the analysis in a radical way.

Although the model of the national income multiplier is restrictive, with its help some interesting information can be obtained.

The most important conclusions are evident in the simpler form of the Keynesian model, when the foreign national income is considered constant. This premise is realistic if we assume that the host country is too small to influence the foreign national income. The first conclusion refers to the variation of government spending. Such changes have a multiplying effect upon the national income, because at every round of spending, a part of the obtained income is transforming in more spending, but the effect upon the national income is lower than in a closed economy, because a part of the income is spent outside the country for new imports, which can increase the deficit of the trade balance. Feedback effects through the foreign national income can be obtained only in the case of big countries, and amplifies the effects upon the internal national income.

The next conclusion refers to devaluation. If the Marshall-Lerner condition is obtained, the devaluation of the national currency will determine the improvement of the trade balance, and of the national income, because of the multiplier, but because the growth of the national income amplifies imports, the improvement of the trade balance will be smaller than in the case of omitting the effects of the income.

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ROMANIAN WORKFORCE FACING EUROPEAN UNION'S NEW CHALLENGES-THE UPSURGE OF ACADEMIC SPIN-OFFS

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*In facing new European Union challenges in terms of **higher transfer of knowledge** some Romanian organizations founded as efficient creating a new linkage between the theory and practice in terms of using the newest information cited in the specialty literature within the **reengineering of the managerial processes** in order to adapt to the actual financial and economic conditions. Thus according special attention **to the empowerment of the academic spin-offs** the organization also empower the essential knowledge and know-how transfer from the field of universities and research institutes into the economic field.*

*Therefore we found, as a sine qua non condition of facing the European Union challenges, the need of **promoting a new, improved linkage between the educational environment an the entrepreneurial environment.***

Keywords: intellectual capital, academic spin-offs, know-how transfer, education inclusion, work-integrated learning.

JEL Codes: I21, J54, O31.

1. Introduction

European challenges brought us in front of new managerial paradigms, aimed at **forming a culture of performance in both public and private sector**. In this regard, efficiency, effectiveness and high quality of services offered by an organization, the replacement of hierarchical organizational structures, highly centralized to decentralized structures, where decisions on resource allocation and service delivery are taken closer to the place of delivery, flexibility to explore alternatives for direct public provision and regulation are constantly setting up the guidelines for underlining the sine qua non condition of cost efficiency optimizing.

Moreover, **the tendency to exploit the capacity for holistic knowledge**: reason, sense, and will, of the human brain, **joins a progressive upward trend by acquiring new productive forces** in order to provide a rational way of life in the idea of finding and implementation of new types of education that effectively manage and ensure the organization-education synergy development.

The actual occurrence of financial and economic crises and of major disorders in economic activities generated within the labor market a major unemployment rate sizing, effect which required finding new solutions in order to restore the economic equilibrium.

Therefore the European strategies to develop a knowledge-based economy promoted the work-integrated learning policy that acts in synergy with the financial-economic cohesion policy and with the information society development initiative in order to highly capitalize new informational technologies, action that can create the socio-economic progress preconditions²⁵¹.

In the current situation, **work-integrated learning is viewed as a solution of facing the European Union new integration challenges** that lie within the approaches, methods,

²⁵¹ Nica E., Popescu Gh., Work-integrated learning an anticrisis policy to empower economic growth, Bulletin of the Transilvania University of Braşov, 2010.

techniques of companies generated by focusing on production and use of knowledge, which provides a superior way of development, in regard of multiple facets of knowledge. The need of adjusting Romanian economic principles to the new European guidelines is founded on the pillar of accessing new world wide opportunities.

Therefore, work-integrated learning occurs in all areas relating to the new organization, and highlighted the practice before the theory. Moreover, in developed countries in particular, there are operating thousands of **firms that have developed practices focusing on knowledge management in their various forms, in order to access a substantial addition of functionality.**

2. Academic spin-offs projecting premises

The first Romanian economic issue that stands before know-how transfer is the education one. The access to pre-primary education has started to have an more important role in employment participation, particularly for those facing other barriers such as single parenting or higher education conditions in order to access a future employment.

The statistics published by the competent authorities regarding the European Union status showed that in 2007, almost half (46 %) of all children aged between zero and two in the EU-25 were cared for solely by their parents²⁵². For children in childcare for 30 or more hours per week a small majority were in formal care arrangements, while for shorter periods other care arrangements were more common. The statistics show that parenting covers a very significant percentage of a person's time. Thus the time spent for continuous educations is found to be, as time goes by, often reduced. Therefore the medium of human factors accessing higher education, statistically speaking, joins an decreasing trend.

These being taken into consideration is vital to be mentioned that low levels of educational attainment and illiteracy are often barriers to employment and further training, this becoming an rigorous condition found within all European Union countries, not only al Romanian level.

The same statistics cited above, underlines the fact that participation in education (among 15 to 24 year olds) averaged just less than 60 % in the EU27 in 2007. Moreover the cut-off age of 24 years allows a comparison between young and adult populations, although the resulting rates are influenced by choice or students having to repeat school years and reflect national service commitments. A high proportion of students may also have already completed tertiary education before the age of 24 in a number of Member States. The majority of education funding in the Member States comes from public rather than private funds; this government spending accounts for approximately 5 % of GDP. Financial aid may take the form of scholarships, grants, and child allowances, reimbursement of expenditure, or loans as the most recent statistic calculations are underlining.

The European Union has foreseen this to be happening an thus the new project of Europe 2020 aims at social inclusion that 75% of the population aged 20-64 years must have a job. And in order to be doing that the human factor has to be educated.

From this point of view the European Commission²⁵³ apart from setting up the objective of sending 3% of the EU's GDP to be invested in Research &Development, sets up a new target: The share of early school leavers should be under 10% and at least 40% of the younger generation should have a degree or diploma. Which is going to be **a great European challenge for Romania**, as the thoroughly analysis of dropout rate in higher education is being constantly increasing. As we can observe from the below the histogram of dropout rate in higher education Romania has almost doubled this education indicator:

²⁵² Eurostat Statistical Books, Combating poverty and social exclusion, A statistical portrait of the European Union 2010, Belgium 2010.

²⁵³ Europe 2020: Commission proposes new economic strategy in Europe, Brussels, 3rd March 2010.

Table 1. Dropout rate in higher education²⁵⁴

	-Percentage-							
	2000	2001	2002	2003	2004	2005	2006	2007
Primary education in which:								
Primary	0,9	0,6	1,2	1,2	1,5	1,7	1,8	2,0
Secondary education	0,8	0,6	1,0	0,9	1,2	1,3	1,5	1,7
Highschool education	0,9	0,6	1,4	1,5	1,7	2,0	2,1	2,3
Vocational education and apprenticeship	3,8	3,5	3,3	2,7	2,4	2,3	2,7	3,3
Secondary education and apprenticeship	6,1	6,6	6,8	7,9	5,9	5,5	7,4	8,2
Secondary education and apprenticeship	8,5	7,6	9,5	8,1	7,7	9,2	8,6	7,5

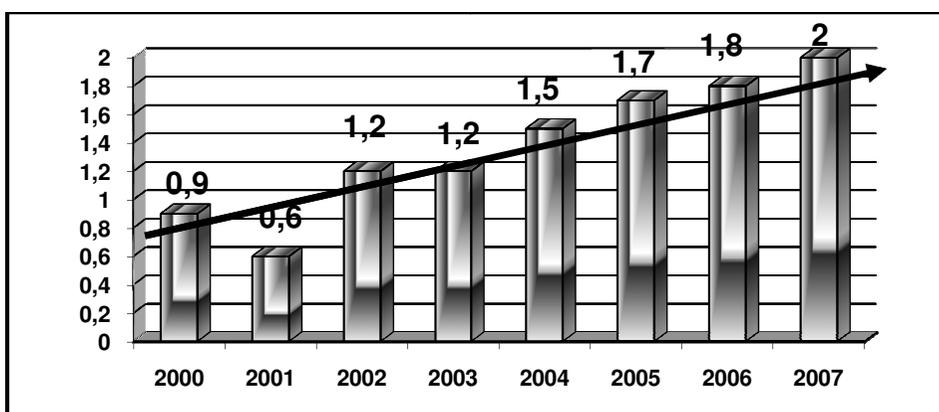


Figure 1. Dropout evolution

As the European Union statistics capture more than a third of the EU population between 25-64 years participate in formal or non-formal education and training²⁵⁵. There are significant country differences in participation rates according to results from the first Adult Education survey. But the particularity is that among those participating, **a large majority participate in non-formal education and training and over 80% of the non-formal activities are job-related**, that means that the human factor is not involving itself in lifelong education, unless it is a part of the job description, fact that is worrying.

Another specific characterization is that about 6% participate in formal education and training. Formal education and training has a large share of total instruction hours. The reason is also the lack of time, thus being known that the non-formal education and training involves spending a shorter period of study.

What is remarkable is the issue consisting in intellectual capital motivation for accessing the lifelong learning programs and that is to do a better job and **improve career prospects**, which is in economical speaking **raising the competitive advantage**. Taking into consideration that most non-formal education and training activities are job-related, underlines an innovative aspect: the involvement of an increased number of companies are preoccupied by human factor optimization

²⁵⁴ Anuar statistic 2008, <http://www.inse.ro/cms/rw/pages/anuarstatistic2008.ro.do>.

²⁵⁵ Boateng S. K., Population and social conditions, Statistics in focus, 44/2009.

by education. Employers and non-formal educational institutions are the most significant providers of non-formal education and training and thus the **employed human capital rises up its efficiency also throughout programs based on work integrated learning**. And the common evolving practice around all the European Union countries is that about 60% of employed participants are sponsored fully or partly by the employers, aspect that shows once again that most of the productive companies are being aware of the need of know-how transfer from the education institutions to the employed human capital.

Thus lifelong learning is occupying its vital role in designing a most competitive and dynamic knowledge-based economy in the world, and a cohesive and inclusive society aiming at world wide know-how transfer between organizations and not the least between countries.

Aiming at **acquiring continuously updating and improving the skills and competencies** of the employed human capital **is considered a prerequisite for organization's development and participation of all employees within all aspects of managerial processes reengineering**.

But these objectives cannot be acquired unless the organization do not allow the upsurge of²⁵⁶:

-**developing higher education employability** by finding the most effective ways to take advantage of synergies with industry;

-**identifying best practices and experiences and enterprise integration**, exacerbating their sustainability in a system-level point of view;

-**defining guidelines for an integrated program linking universities and enterprises**, the guidelines must being tested and reviewed with a wide range of stakeholders and policy makers, and also put into context in relation to current initiatives education and new national and European programs.

Continuing on this line it is foreseen the need of a **higher collaboration between the academic institutions and the public and private organizations in order to empower the know-how transfer**.

3. The upsurge of academic-spin-offs

Promoting the concept of the increased need of informational transfer from the academic sector towards the public and private sector we encounter a major aspect increasingly present on the point that companies should consider certain factors relating to sources of scientific opportunities as a present conditions for becoming increasingly competitive. According **special attention to the empowerment of the academic spin-offs** the organization also empower the essential knowledge and know-how transfer from the field of universities and research institutes into the economic activity through the direct involvement of their employees who participate in entrepreneurial activities.

So these academics, researchers and students sustain a direct involvement in the recovery of economic opportunities associated with such scientific knowledge which they possess. Their work is both in the initiation of entrepreneurial action and in granting DC consulting, training, technical assistance in order to maximize the economic opportunities identified by the organizations.

Taking into consideration that **spin-off stands for the new business initiatives creation within an existing company or organization**, started by an employee or a relatively small group, the organization may declare that spin-off become so independent, that with their feasibility in terms of legal structure, technical and business, are creating a new company. But when we found it implemented with the help of academic researchers, organizations are referring to this as **creating an academic spin-offs**.

So in facing new European Union challenges in terms of higher transfer of knowledge some Romanian organizations founded as **efficient creating a new linkage between the theory and**

²⁵⁶ Cooperation between higher education institutions and enterprises, Lifelong Learning Programme, Compendium 2008.

practice in terms of using the newest information cited in the specialty literature within the reengineering of the managerial processes in order to adapt to the actual financial and economic conditions.

In facing these new challenges most of the organizations learned from experience that not only the material, informational and financial resources need to be optimized but also the human resources must be continuously improved. And the best way of making human capital provide gainful results was found to be throughout educating it. So the basis of developing academic spin-offs are found once again in the need of putting valuable information in well cognitive developed person's hands. Therefore distributing the most precious know-how must cover the specialized labor force

From this point of view new business development, particularly in the context of high-tech or knowledge-intensive, is found by the organizations being a complex process in which many agents, organizations and other stakeholders are involved. Thus universities are expected to support further development of markets for innovation dissemination, and evaluation of their transfer to industry.

So, the processes to commercially exploit research results vary widely upon organization. This may involve licensing, creating partnerships and joint ventures to share both the risks and rewards eventually creating spin-off companies. As shown below:

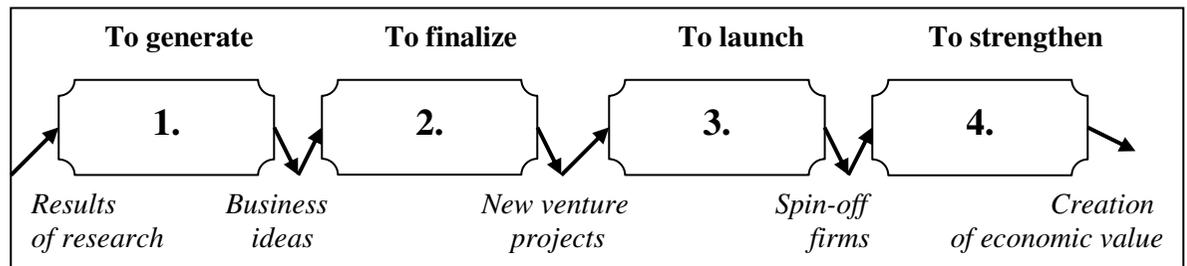


Fig.1. The global process of valorization by spin-offs²⁵⁷

A spin-off company emerging from the University enhances the interaction and contact between the latter and the market, and it also helps **transform the academic culture in an entrepreneurial environment focused on market and society.**

The experience showed that there are **three main types of academic spin-offs**²⁵⁸:

- established teaching and research staff of universities and autonomous research institutions;
- DC students or graduates established firms to commercially exploit research results in which they were involved throughout the study;
- companies set up to commercially exploit research results completed within the university.

Most experts consider that, in fact, only the first two categories of firms represent the authentic academic spin-offs. In order to maximize economic and scientific opportunities offered by the university there have even developed models based on competence and competition in recent years, policies and programs for special actions. **These practices empower increasingly the awareness of the valuable benefits generated by developing academic spin-offs.**

Presenting the academic spin-offs has several advantages as rapid discovery of economic opportunities offered by scientific knowledge nouns, operative recovery, through entrepreneurial, pragmatic values of associated scientific and scholarly knowledge and know-how transfer, the acceleration of company's establishment and development in tech, essential to economic progress

²⁵⁷ Ndonzuau F. N., Pirnay F., Surlemont B., A stage model of academic spin-off creation, Technovation 22/2002.

²⁵⁸ Nicolescu O., Nicolescu C., Intreprenoriatul si managementul intreprinderilor mici si mijlocii, Concepte, abordari studii de caz, Editura Economica, Bucuresti 2008.

of each country, recovery and talent development among teachers, researchers and students, **achieving synergy effects of scientific and entrepreneurial environments as a result of combining scientific activities, teaching, consulting and entrepreneurship.**

Therefore we may find that often spin-offs are developing in the incubators and technology centers, which are generating increasingly important economic opportunities in the fields of science and cutting-edge information technology, biotechnology, electronics and many other domains.

In order to **promote the benefits of academic spin-offs** many companies, universities and governmental organizations now have an "Office of Technology Transfer" (also known as "Tech Transfer" or "TechXfer") dedicated to **identifying research which has potential commercial interest and strategies for how to exploit it**²⁵⁹. In economic terms the importance of education in acquiring skills that can be used in the labor market is underlined by the substantial differences in unemployment rates depending on the level of education attained by members of the workforce. Generally, higher levels of educational achievement reduce the likelihood of unemployment²⁶⁰.

Hence **the academic spin-offs upsurge can be used as an innovative solution for the Romanian entrepreneurial domain in facing the new European Union challenges.**

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THE LISBON TREATY- LINK BETWEEN PARTICIPATIVE DEMOCRACY AND ADMINISTRATIVE MODERNIZATION

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This paperwork examines briefly, the implications it carries on the Lisbon Treaty, the organizational, institutional and decision-making level in the current context of the European Union, included in the reform process. It is important to mention that the European Union's desire is to assign a new role, upwards of national parliaments it is materialized with the new regulation of the Lisbon Treaty. This creates premises to develop a common foreign policy, providing Member States and Community institutions the chance to creatively use new opportunities. The Treaty encourages participative democracy and citizen participation with implications in decision-making efficiency gains.

Keywords: subsidiarity, the Lisbon Treaty, national parliaments, reform

Jel Code: N14, G18

1. Review of the Lisbon Treaty: coercive measures or participation for the European Union citizens

The Lisbon Treaty entered into force in 2009, it didn't radically change the institutional structure of the European Union, but the expansion and the need for legislative adjustments was necessary for the community. Initially the legal rules were designed for a smaller Union, with a capacity of less predictability, regardless of an economic recession, financial climate change, sustainable development issues, high crossborder crime environment and corruption. These adverse events have expanded from year to year, and the need for change and legislative update for the European Union was inherent. Countries that signed the Treaty, sustained that this change is necessary to adequately solve the new issues that appeared.

The Treaty outlined new tasks for European Parliament, Council and Commission, which have a decisive role in the European Union. All started from premises that the members welfare is very important for the Union as it was intended to approach their institutional environment. Union Citizens, represented by the parliaments of their Member States exercise their rights by contributing to the expansion process of European Union. The Parliaments of each Member State receive the permission in order to express opinions regarding legislation, how it is applicable differentially for each state, as required.

European Union must aim the welting life of their citizens and members within the context of the general good and cannot exist without the Member States, being established in order to help them. If we accept the idea of administrative communication, formal communication directions respects the relations in the institution, communication is taking place generally in three directions: top-down, bottom up, horizontal. We can consider that the intervention of the citizens within the expressing of the opinions regarding the European Union is an application of the administrative communication, this time it's about European institutions communication.

2. The changing process and its implications on the increasing the decisional power of the Community institutions

Although other EU treaties, including the Amsterdam Treaty, didn't achieved high expectations of Member States, the treaties, however amplified the EU decision-making power. One of the important changes brought about by the Lisbon Treaty, is the right of Governments, the European Parliament or the Commission, Council of Europe to submit proposals for revising the treaties. These proposals shall be submitted to notify the European Council and national parliaments, with the purpose to increase or reduce the competences awarded the European Union treaties.

Institutional power, by strengthening the role of Parliament, is a key point, thereby, grant new powers to national parliaments, and thereby increase the force decisions of Member States, streamlining decision-making at European level. The role of the increased parliaments of the Member States power aim to protect the rights of each Member State on issues of taxation and defense.

The legislation elaborated by the Union is forwarded to national parliaments. By the early warning system, parliaments shall have eight weeks to support their view to EU legislative proposals. If the proposals do not meet the social, economic, political realities and there are disagreements with provisions in relation to the real situation, the national parliaments can make additions or changes on behalf of these proposals.

From the perspective of Member States involvement in decision making, the problems outlined by the states must be supported by the other Member States. Some areas require unanimous approval as tax issues and defense issues, and other decisions must be taken by qualified majority vote, the double majority.

The Lisbon Treaty is aimed to ensure the EU citizens' freedom, justice and security, disclaiming the internal barriers.

Sustainable development is a goal achieved by the Treaty being possible to have balanced growth, economic competitiveness, employment, and maintain stable exchange rate of euro, finally resulting uniformity in economic welfare, while maintaining traditional values of each Member State. Member States established force, is determined by investing the national parliaments with new powers. National parliaments will have a direct input into European decision making.

The system introduced by the Lisbon Treaty gives Member States the role of national parliaments to observe and control the European Union in not exceeding its powers, because there are certain problems that can be handled at the country level, regional or local level.

The democratic nature of the European Union is greatly improved by increasing the power of Parliament, and the competence of the Union it's defined by the European Union Member States. The powers are outlined by the principles of subsidiarity and proportionality.

Within the Lisbon Treaty are recognized the regional and local dimensions of subsidiarity and a great importance have the introduction of a flexibility clause where European Union get the goals they are not expressly covered by treaties.

Lisbon Treaty gives the right of Member States to withdraw from the European Union. Withdrawal is realized through one agreement between the applicant Member State and European Union, formally from the negotiations. Decision is taken by the Council in order to obtain qualified majority voting. This is possible after Parliament approval, so the procedure has a long journey after careful and complex analysis.

The European Union operates with the principle of representative democracy, citizens are directly represented at the Union Parliament. Member States are represented in the European Council by the heads of states and/or Government and by the Council of each individual state government that are accountable to parliaments and citizens of the Member States.

Lisbon Treaty governs the right of every citizen to participate in the democratic life of the Union, and through political parties at European level, citizens are given community decisions.

3. Content and implications of new regulations of the Lisbon Treaty

Lisbon Treaty has reinforced the power of Member States by granting power to involve in decision-making, but strengthened the attribution of European institutions. Regarding the European Parliament, as the representing citizens of Member States, following the Lisbon Treaty, has increased its powers at the legislative level, the budget and approval of international agreements. Changes have occurred in its structure too, the number of European deputies has exceeded up to 751. Allocation of seats per Member State will be under the principle of degressive proportionality, deputies in countries with a huge population will represent a higher number of citizens than the deputies that represent countries with a lower population. The modification brought with the Lisbon Treaty involves the European Council and refers to the decision process. Council will decide by qualified majority. There are exceptions in cases where treaties provide another procedure, as unanimous vote. These changes will strengthen the transparency and efficiency. The Council represents the member governments and this respects its role that remain unchanged, also maintaining its role in foreign policy, security policy and coordination of economic policies.

European Commission's role is to promote the general European interest and the Lisbon Treaty without changes in its structure. According to the principle of equal rotation between Member States, since 2014, the college will be composed of an equal number of commissioners with two thirds of Member States, 18 in case of European Union has 27 member countries.

European Council, institution of the European Union, will not have another attributions added. As a novelty, however, the Treaty creates a new post, the President of the European Council. It is elected for a term of two and a half years and provides training and continuing work.

Provisions in the European Union Court of Justice has changed, the Lisbon Treaty extends the scope of its intervention, in terms of criminal cooperation measures such as introducing some procedural changes.

The role of the European Central Bank and the Court of Auditors has not changed following the adoption of the Treaty.

Court of Justice becomes the European Union Court of Justice, Court of First Instance Court is changing its name, judicial chambers are specialized courts also remain Public Function Tribunal.

4. The role of national parliaments in the context of the subsidiarity principle

The Lisbon Treaty, through the Protocol regarding the role of national parliaments in the European Union and the Protocol regarding the principles of subsidiarity and proportionality, gives new competences and strengthens the role of national parliaments in the European Union.

Council of Europe is an organization of parliamentary cooperation between national parliaments and recovery tasks in compliance with human rights.

Subsidiarity principle it is seen in terms of political concept which aims regulator powers of European member states. It is a principle of legitimation of powers that implies three rules: efficacy, tolerance and respect, competence of individuals and groups. [Bîrzea, 2001]. The Treaty brought an extremely important regulator of novelty, stating that national parliaments are directly involved in monitoring EU activities in the correct application of the subsidiarity principle.

Through the subsidiarity, the European Union institutions restricting their area, assuming only the action that can't be achieved at the Member States level. Investments with decisional power are made at the citizen level, the citizens have the right to express their views to EU decisions, this fact highlights that the EU gives rights to citizens of Member States in terms of decision making.

Inside the Treaty are reminded issues such as how national parliaments exercise control over their governments regarding the activities of the European Union. This aspect is governed by constitutional organization and practice of each Member State. Through the Treaty is encouraged participation of national parliaments in EU actions to strengthen and to express views on draft EU legislation and on other matters which may be of particular interest to them. [Lisbon Treaty, 2009]

Through the Treaty are determined the forms of transmission of legislation, for example if the draft legislative acts issued by the Commission, shall be forwarded to national Parliaments at the same time as to the European Parliament and Council. Draft project of legislative acts are sent by the European Parliament to national parliaments.

Interparliamentary measures and cooperation are indrawn, the European Parliament and national parliaments set together and start organizing cooperation within the Union.

The protocol on the principles of subsidiarity and proportionality wanted decisions to be taken at a level as close to citizens. [Lisbon Treaty, 2009].

Desire Treaty on subsidiarity and proportionality establish a system for monitoring the application of these principles.

Legislative acts elaborated by the Commission are consulted with regard to regional and local dimension of expected action.

The treaty required the organization of conferences designed to promote information exchange experiences between national parliaments on specific issues, foreign policy and security issues.

Draft legislative acts shall be justified in relation to the principles of subsidiarity and proportionality. Any legislative draft should contain a detailed statement to assess compliance with the principles of subsidiarity and proportionality. This statement should include elements to assess the financial impact of the project concerned. [Lisbon Treaty, 2009]

Annually, the Commission must show a report to the European Council, European Parliament, Council and national parliaments on the application compliance with the Protocol on the role of national parliaments in the European Union, and the Protocol on the principles of subsidiarity and proportionality.

Therefore subsidiarity is essential for the proper design of the Political Union and the legitimacy of skills and activities. In this sense, subsidiarity has always been accepted, although the Maastricht Treaty left much to be desire in the implementation. Given that subsidiarity is to ensure effective decisions, moving the center of gravity closer to the citizen, in practice often found the existence of centralized accents, as opposed to the original wishes.

Lisbon Treaty is involved in regulation of the subsidiarity principle, offering to other treaties of the EU reform a treaty with a mission to change the rules for EU states, is closely related to the principles of proportionality and necessity.

Conclusions

Lisbon Treaty provisions have emphasized the primary role of the principles of participatory democracy, this concept is getting new values in the territorial space of the Member States. The Treaty creates favorable conditions for expansion of participatory democracy within the European Union. The Lisbon Treaty provisions facilitate communication between community members and decision-making capacity increases relative to the rationality and efficiency of decision making.

News to the Lisbon treaty meant to improve standards of ongoing European process, under the banner of "Unity in diversity". EU Reform Treaty gives further advisory role, coordination and support of Member States, defense, monetary and economic issue, taxes, drawing the coordinates followed to ensure optimal balance of the Union. Trends harmonization of Member States does not diminish the sovereignty of nation-states, does not affect the cultural traditions and customs, on the contrary, it aims to improve relations between Member States, ensuring rising living standards in a different EU, but several guards measures of identity.

"The word power" of the European Union member states, enhanced by the Lisbon Treaty, invests the European Union with an unitary force coordination, bringing their own development strategies to ensure convergence.

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EUROPEAN POLICIES FOR THE STIMULATION OF THE DEVELOPMENT OF SMALL AND MIDDLE SIZE ENTREPRISES

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Europe's small and medium-sized enterprises are the engine of the European economy and the main drivers for achieving sustainable growth and more and better jobs. At EU level, the European Commission has developed a comprehensive SME policy, which aims to ensure that Community policies and actions are small-business friendly and contribute to making Europe a more attractive place for setting up a company and doing business.

Keywords : SME's, European Commission, financing opportunities, private and governmental policies.

Cod JEL lucrare: M31

Introduction

The Small and Middle Size Enterprises represent the engine of European economy and are also the most important driver of new jobs and economic growth. The European Commission through its actions, sets the needs of the small enterprises in the center of its policies. The European Commission develops and applies a variety of political measures especially conceived to support the SMEs in Europe. These policies have in view to create those conditions on which the SMEs can be created and be prosperous. But the SMEs will have the main role, if the EU follows its objectives of acceleration of the economic growth and creation of more and better jobs.

The new strategy of the Commission in the field of the SMEs aims to apply the principle „think small first” that allows the improvement of the business environment for the SMEs, the reduction of administrative costs, the simplifying and accelerating of the compulsory procedures, the improvement of the access of the SMEs to the markets and the growth of their competitiveness. The member states have taken responsibility, through the European Charter for the Small Enterprises, to develop a favourable business environment for the SMEs. One of the main objectives of the Community action is to allow its member states to benefit of the experience of their homologation and make use of its policies. This way everyone may become aware of the good practices and can apply them in his case.

The Commission has initiated a process of reduction of the bureaucracy the firms are confronted with and revises the existing community legislation, aiming to eliminate the unuseful administrative requirements. Also the member states are asked to follow the example of the Commission. According to the estimates; this exercise may reduce the administrative costs by 25%, costs that are presently paid by the SMEs.

The new Community policy on small and medium-sized enterprises (SMEs) creates a more coherent, pragmatic and horizontal framework for these enterprises.

It aims to unlock the vast untapped potential of SMEs to create growth and employment within the European Union. SMEs will become more competitive, due to the promotion of entrepreneurship, improved access to internal and external markets, simplified Community legislation, improvement of their growth potential and an effective partnership with SME stakeholders²⁶¹.

²⁶¹ European Parliament Resolution on a strategy for the simplification of the regulatory environment (Rapporteur: MEP Giuseppe Gargani ref. A6-0080/2006 – PA_TA-PROV (2005/2006))

Small and medium-sized enterprises (SMEs) make a major contribution to growth and job creation in the European Union (EU). This is why the new policy on small and medium-sized enterprises (SMEs) creates a more coherent, pragmatic and horizontal framework for these enterprises.

Promoting entrepreneurship and developing an environment favorable to SMEs will allow them to become more competitive. SMEs are very diverse, and consequently have different needs to become more competitive. Some are active in vast markets, others in local or regional markets. If by definition all SMEs have fewer than 250 employees, some are micro-enterprises, others are family SMEs. In order to unlock the growth potential of SMEs as a whole, policies and action to support them need to reflect this diversity.

The success of this new policy will depend on the effective involvement of all SME stakeholders, national, regional and European, public and private.

1.Policies in the field of the SMEs - Contents

The SMEs are responsible for a great proportion the economic and vocational activity in Europe. This governmental policies must be adopted that should contribute to the stimulation of the development of the SMEs.

1.1 Presentation of the main financing opportunities granted to the SMEs

The Capital is essential for the start of development of a company, but to find out the most adequate financing form is very often a major obstacle for the small and middle size enterprises. The investors and the banks often avoid paying the initial costs of foundation of the SMEs due to the implied risks. Sometimes the entrepreneurs do not entirely understand the concerns of the investors or the banks, fact that makes it difficult to find the necessary financial support. Presently, the European Commission is implementing a number of programs especially granted tot the environment of financial improvement of the SMEs in Europe.

The European Union offers support to the small and middle size enterprises in Europe.

This may be found under different forms, like subventions, loans and in some cases –guarantees. The support may be offered directly, in the forms of the programs managed under national or regional level - as the Structural Funds of the European Union. Also, the SMEs may benefit of a variety of non-financial consultancy measures offered as programs and services of support for enterprises.

This tool aims to present the main community programs existing for the SMEs and contains a short description as well as the main sites of each program.

The European Commission collaborates with national authorities at the improvement of the financial environment for SMEs. Through the organization of experience interchanges and good practices between the national governments, the Commission has allowed many member states to bring concrete improvements to the financial environment for the SMEs. Also the Commission has taken floor in the dialogue between bankers and SMEs in order to identify and reduce the main obstacles that the small enterprises may come across when looking for a financing form.

1.2 An adequate legal framework for the stimulation of the development of the SMEs.

Presently the European Union undertakes huge efforts to reduce bureaucracy inside the existing legislation as well as in the legislative propositions. For the beginning, the Commission has rejected 68 projects of laws in 2006 and other ten projects in 2007. For the beginning the Commission works at the diminishing of the number of laws that has in view the simplifying of the SMEs' activities. These include the reduction of the reporting imposed by the accounting regulations, the reduction of costs for the trans-border taxes and the simplification of the customs

procedures. We have to assure the fact that the new laws do not make the activity of the SMEs more difficult but have in view their needs²⁶².

This is a part of the principle “think small first”, introduced by the Commission in 2005, once with the presentation of the new policy regarding the SME’s. All the legislative propositions have as object of a thorough verification regarding their potential impact on the SMEs.

1.3 Guarantee of the loyal competitiveness

A unique competitive and open market is the best guarantee offered to the SMEs, that follow to increase the effectiveness and their innovation potential. Thus the EU has introduced a powerful policy in the field of competitiveness which should protect the SMEs against the non-loyal competitions of other economic agents. Without neglecting its engagement for a free competitiveness in Europe, the Commission updates its regulations in order to encourage the national and regional authorities to further redirect the public subventions. The Commission will continue to reduce the controversial actions and those which modify competitiveness in favor of the national champions and in change to sustain those measures that contribute evidently to the intensification of growth and job creation.

Because the European SME’s have the biggest growth potential and of new job creation, the small firms will be the first ones to benefit of these measures.

A particular field the Commission is concentrated upon is the prevention of abuse of dominant position. The large firms that exploit its power of market in order to eliminate the smaller competitors are implicated in anticompetitive practices that are forbidden by the Community legislation. The Commission grants a special attention to the complaints made by the small enterprises that reflect such situations.

Also, such fusions are forbidden that create or consolidate a dominant position, impeding such potential abuses that may come afterwards. Generally the mergers which imply SMEs are not object of a Community control, because these cases do not have a European dimension. However, some arrangements between the large companies can damage the competitors, against the smaller enterprises. The most familiar examples are the arrangements regarding the prices or the cartel in which the companies establish as commonly agreed the level of prices, thus the clients cannot benefit of the competition between the suppliers in order to obtain lower prices.

On the other hand the arrangements between the SME’s are to a high extent exempted from the interdictions stipulated in the Community treaties.

These should be able to protect from the competitors from abroad who do not observe the rules. The objective of the European commercial protections tools TDI is to protect the European companies from the commercial un-loyal practices from the third countries, as well as against the dumping or subventions that negatively transform the market. Also, these instruments protect the European producers in case of some strong and instant waves, of unforeseen import. The antidumping anti-subvention measures aim to reestablish of an efficient and loyal competitiveness on the inner market. These instruments have an important role for the SMEs. The Commission has initiated communication and counseling actions especially by the Euro-Info Centers wanting to assist the SMEs in their work with these instruments²⁶³.

Also an assistance office was launched for the SMEs. At the same time the Commission views upon the third countries in order to verify whether these use the commercial protection instruments legally and correctly, directed against the EU. In case needed the Commission intervenes to guarantee the access of the European companies on the third country markets many representing a problem to the SMEs.

²⁶² European Council (15 and 16 December 2005): Conclusions of the Presidency
<http://ec.europa.eu/enterprise/policies/sme>

²⁶³ http://ec.europa.eu/enterprise/entrepreneurship/docs/financing/sp_2008_ro.pdf

Conclusions

The development policies of European level aim to improve the existing situations, to eliminate the existing disfunctions, the balancing of the future development and consolidate the developing directions.

According to the specific situation on local level the, development policies may be separated as:

- Policies based on opportunities that allow the contraction of weaknesses - combinations that support strategies directed towards change.
- Policies based on opportunities sustaining strengths – combinations that sustain offensive strategies.
- Policies based on weaknesses and threats – combinations that support defensive strategies
- Policies based on strengths and threats – combinations that sustain diversified strategies

For each one of the given policies development programs are proposed, as general formulas, which at the stage of the action plan will turn into groups of projects, whose accomplishment will lead to the implementation of development policies.

The success in solving the problems of economic development of the SMEs and of implementing the adopted policies can be attained only through collective efforts of the governmental, private and non-governmental sectors.

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SIBIU EUROPEAN CULTURAL CAPITAL PROGRAM: MEASURING THE IMPACT ON THE ACCOMMODATION SYSTEM

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The Sibiu 2007 European Cultural Capital (ECOC) was monitored in order to highlight the long-term impacts of the event. Preliminary findings on the tourism impacts are presented based on field research among visitors and statistics and field inventory. The most visible as well as the most significant impact on the city is the growth of accommodation supply. Not only did the number of licensed units and room grow substantially, but there was also considerable growth in the informal accommodation sector. Not only the city of Sibiu, but also the surrounding region benefited from the ECOC opportunity. The research shows that although the informal sector was able to respond fastest to the growth in accommodation demand, the greatest economic impact came from the development of large commercial hotels in the city itself.

Keywords: European Capital of Culture, tourist accommodation, economic impact
JEL: O22

The European Capital of Culture staged in Sibiu during 2007 was a unique event. It was the first European Capital of Culture (ECOC) to be staged in one of the post-2004 EU accession countries, and it represented a major challenge in being staged just as Romania was joining the EU. A framework for monitoring the impacts of the 2007 ECOC in Sibiu was established in January 2007, as part of the ATLAS Winter University, which formed part of the ECOC programme. Pilot surveys were carried out with residents and visitors in order to design the final research instrument. This was largely based on questionnaires already utilized for other ECOCs, including Rotterdam (2001), Salamanca (2002) and Luxemburg (2007).

The surveys were also designed to provide comparisons with earlier surveys conducted in Sibiu by the “Lucian Blaga” University in the framework of the ATLAS Cultural Tourism Research Project. These surveys provide a useful benchmark for the period before the ECOC, with data collection having started in 2001. This research, which is still in progress, has revealed some particular methodological problems that arose in comparing field research with official or officious statistical data. Most of these issues are related to accommodation data.

In attempting to measure the tourism impact we have found that it is difficult to separate the impacts of the ECOC itself from the general growth in tourism supply in Sibiu, which would probably have shown some growth without the ECOC. However, looking at the pace of growth, it is clear that the period after 2007 has seen a substantial increase in the supply of hotels and other accommodation facilities. In particular there was a sharp increase in the number of hotels and hotel beds in the city of Sibiu itself.

Capacity in Sibiu county hotels, 2006-2009 according to official statistics

	2006	2007	2009
units	22	27	43
rooms	1072	1227	1988

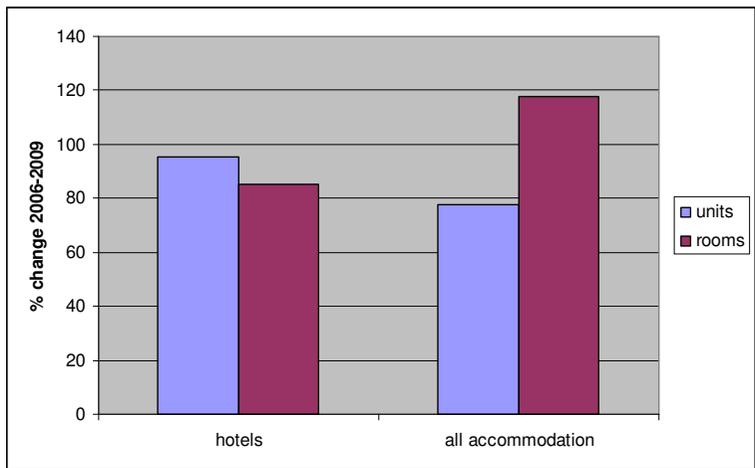
This growth has been reflected to a greater or lesser extent across the county of Sibiu and in other categories of accommodation as well.

Capacity in Sibiu county all accommodation, 2006-2009 according to official statistics

	2006	2007	2009
units	271	359	481
rooms	2316	3057	5039

The overall result has been a doubling of total accommodation supply since 2006.

% growth in accommodation supply 2006-2009



Trends in the economic impact of tourism are also evident from the data on tourism tax revenues. These show clearly that 2007 marked a giant leap forward in terms of the development of the tourism economy of the city and the contribution of tourism to civic finances. Tourism tax revenues grew by over 70% between 2006 and 2007, and have remained at these high levels in 2008 and 2009. In spite of the general downturn in tourism in Romania, tax revenues were still 70% higher in the first half of 2009 than they were in 2006. This shows that the ECOC was successful in stimulating a qualitative change in the development of the tourism industry in the city.

Although the overall pattern of growth in accommodation supply is clear, detailed analysis of the accommodation data reveals major challenges in trying to reconcile different sources of information. Hotel statistics present considerable problems of analysis, because of different categorizations and a lack of coverage of certain types of accommodation. The Master Plan for tourism in Sibiu County presented in November 2009 by Marketscope shows that Sibiu County has a total of 518 accommodation units, of which most are rural tourist pensions (159), followed by general category of pensions (124) and urban tourist pensions (66).

Sibiu County: synthesis parameters of accommodation capacity								
BY TYPE OF UNIT, CLASSIFICATION OR AS ASSUMED BY THE UNITS								
Types units	Classified				Inventory (total tourist)			
	Number of units	% Of total units	Capacity (capacity)	% Of total capacity	Number of units	% Of total units	Capacity (capacity)	% Of total capacity
Apartments for rent	1	0.3%	2	0.02%	18	3.5%	117	0.9%
	11	3.3%	464	5.2%	36	7.0%	1,173	9.1%
Rooms for rent	14	4.2%	152	1.7%	17	3.3%	176	1.4%
Camping	2	0.6%	120	1.3%	2	0.4%	120	0.9%
Hostel	8	2.4%	389	4.3%	18	3.5%	984	7.6%
Hotel	32	9.5%	3,107	34.6%	39	7.5%	3,584	27.8%
Motel	7	2.1%	257	2.9%	8	1.5%	281	2.2%
Pensions	69	20.6%	1,218	13.6%	124	23.9%	2,144	16.6%
Rural Tourist Pension	125	37.3%	1,865	20.8%	159	30.7%	2,332	18.1%
tourist town Pensions	61	18.2%	1,173	13.0%	66	12.7%	1,278	9.9%
Villas	5	1.5%	236	2.6%	31	6.0%	704	5.5%
TOTAL	335	100%	8,983	100%	518	100%	12,893	100%

Source: Marketscope (2009)

In respect of accommodation available, rural tourist pensions account for less than one fifth of the total (18%) and hotels account for approximately 28%. But pensions have almost half the total volume of accommodation available in the county (44.6%).

Accommodation supply in Sibiu County, 2009 (official statistics)

Types units	Sibiu County	
	Number of units	Capacity (places)
Hotels	28	2473
Hostels	3	147
Motels	7	197
Touristic Villas	6	263
Touristic Chalets	11	396
Touristic boarding houses (pensions)	32	580
Agro-tourist boarding houses (pension)	74	1135
Camping	1	120
School and pre-school camps	7	590
Touristic house let-type units (<i>casute</i>)	3	112
Total	172	6013

Hostels and camp sites are not counted either by the Sibiu County Statistics Direction's monthly report or the National Institute for Statistics. The data as presented in Annex 2 of the Master Plan also show that some of the listed units are excluded from the statistics, as accommodation units of less than 5 bed spaces were not taken into account by official statistics and from January 2009 all units with less than 10 places were excluded.

Comparing the data from various sources underlines the problems in monitoring the accommodation impacts of the ECOC.

Accommodation supply according to different data sources, 2005-2009

	2005	2006	2006	2007	2007	2009	2009	2009	2009
	statistics	statistics	licensed	statistics	licensed	statistics	AJTS	licensed	inventory
total county									
units	111	120	273	137	359	172	481	335	518
rooms			2315		3067		5039	3335	5417
places			7399		8362	6013	12083	8983	12893
average places/room			3.20		2.08		2.40	2.69	24.89
average places/unit			27.10		17.69		25.12	26.31	24.89
sibiu town									
units			82		82		162	108	148
rooms			1029		1321		2284		2284
places			3756		2463		4633	3735	4584
average places/room			3.66		1.86		2.03		2.01
average places/unit			80.58		29.91		28.60	35.05	30.97
around sibiu									
units			170		221		189	no data	189
rooms			852		1305		1289		2284
places			2199		2467		3919		4663
average places/room			2.58		1.91		3.04		
sibiu and surroundings									
units			232		303		351	no data	
rooms			1881		2626		3573		4568
places			5955		4940		8552		9247
other locations									
units			41		56		130	no data	
rooms			434		451		1466		849
places			1444		1412		3531		3646
% of sibiu in county									
units			44.45		43.21			0.00	440.93
places			30.76		38.62			42.14	35.66

In general, the data show that the surrounding regions of Sibiu (villages and towns with in 30 km of the city) reacted sooner than city to the opportunities presented by the ECOC. The main growth in the Sibiu region took place in 2007, but the main expansion in the city itself didn't come until 2008, largely as a result of the delayed opening of major hotel projects there.

It is clear that the Sibiu region has a large number of small capacity units (most of them pensions), which practically double the accommodation capacity of the city. Field research has shown that the prices in this area are much lower than in Sibiu itself, and clients choose them not only on the basis of lower prices but also as a distinct offer, with a rural lifestyle contrasted to the urban experience offered by the city.

According to the Tourism Ministry data Sibiu county had 2315 rooms with 7399 places (3,2 places / unit) in 2006 compared with 4354 units with 11882 places (2,96 places / unit) in 2009. The number of units also grew significantly in the city, from 1029 units with 3756 places (3,65 places / unit) in 2006, to 2062 units with 6106 places (2,96 places / unit) in 2009. In spite of the opening of large chain hotels in Sibiu the smaller accommodation units grew faster. In the period before the ECOC in 2002 – 2005 this led to a shift away from tourists staying with friends and relatives towards staying in the newly-opened small accommodation units.

Although the informal sector was able to respond more rapidly to growing accommodation demand prior to the ECOC, our field research shows that few small owners had any specific business strategy or marketing plan. Some owners took advantage of growth in demand by opening their own website, often linked to the homepage of the Municipality. Many simply relied on month to month promotion. There is a general lack of professionalism among smaller accommodation operations and there is a need for special training.

The most surprising findings relate to the influence that the city has in the surrounding areas. These areas saw a growth in accommodation units of 116% between 2006 and 2009, and a 98,4% growth in the number of beds over the same period. Together, the city and the surrounding areas now have 3904 units with 19469 bedspaces, or almost 90% of the capacity of the county as a whole. The city of Sibiu itself only accounts for 53,3% of overnights in the county, which indicates that the city has generated tourist flows in the surrounding region more than in the city itself. Building the tourist offer for Sibiu must take into account the surrounding regions both in terms of additional supply and as a complementary tourism product.

However, effective planning for tourism development must also be based on accurate information about the supply of accommodation. These official figures from the Sibiu Department of Statistics are calculated using a sample of the licensed tourist accommodation units. In using these statistics the composition of this sample must be taken into consideration. Because of the ECOC the sample for Sibiu is larger than those for other counties as stated by officials from Sibiu Department of Statistics. It is very difficult to use detailed data from this source as the databases are custom-made and have to be analysed by the Department itself. These databases also contain no qualitative information on issues such as: tourist motivation, sources of information, tourist expenditure, etc. To gather these data field research is required.

The importance of collecting more detailed statistics is indicated by long term trends in tourism demand. An important change in the tourist season has occurred since 1990: a change in seasonality for high category hotels. Until 1990 all hotels were full from April until October because of mass tourism and coach groups. During the low season from November to March the only foreigners were Soviet groups on their way to visit relatives on Hungary, Czechoslovakia or the GDR. Now the major chain hotels have their low season in summer and their high season in spring and autumn because of events organized in Sibiu mainly by Romanian companies or global companies located in Romania. Further investigation is required to analyze this trend.

There are also no available data on the turnover of tourism industry in the city. Direct observation has shown that the restaurants are well developed in the city and in the neighborhoods. They are not only serving local people but also contribute to the animation of the areas in which they are located. During January 2007 the students of the ATLAS Winter University found that 84% of people visiting the main square regarded the general atmosphere of the city as the most important factor in their visit.

Some of the increase in hotel revenues is due to tourism growth, but there is also an important effect from the upgrading in the hotel stock. By 2009 Sibiu had an additional 6 four or five star hotels compared with 2006.

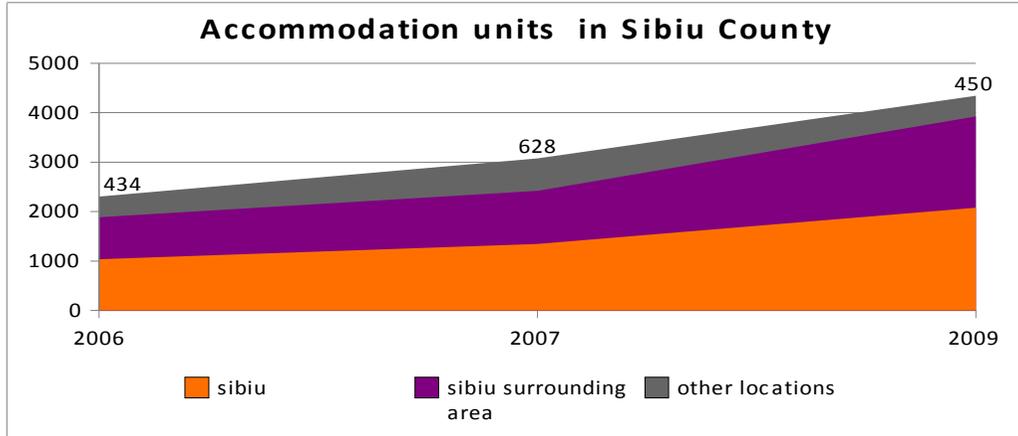
Number of hotels by category in Sibiu

	unclassified	1*	2*	3*	4*	5*	total
2006			6	6	1		13
2008			5	9	1		15
2009	3	1	7	12	6	1	30

Because many of the hotel projects related to the ECOC were not actually operational until 2007 or even in 2008, the biggest effects of hotel development were actually felt the year after the ECOC.

Not only did tourism increase, but visitors also stayed in higher grade accommodation and therefore paid higher average room rates. This picture only began to reverse in 2009 with the effects of the crisis, but this decline is also in line with national trends.

The growth of hotel accommodation in Sibiu itself also had a strong impact on the surrounding region. Growth in the regions close to Sibiu was just as strong as in the city itself.



In conclusion, our preliminary findings show that Sibiu ECOC has had a strong impact on accommodation development both in terms of quantity and quality, not only in the city itself but also in the surrounding region. Although the informal accommodation sector responded fastest to the opportunities offered by increased demand stimulated by the ECOC, the greatest economic impacts were derived from the opening of high-quality chain hotels in the city centre.

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THE COMPETITIVENESS OF EMU MEMBER STATES IN THE FINANCIAL CRISIS

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In the context of the financial crisis the imbalances in the euro area have been underlined. The issue had been previously debated during the years preceding the financial crisis, but the strong global economic expansion and the ongoing economic integration within the euro area partly masked the problems arising from these differential developments. This paper analyses the advantages and disadvantages of the monetary union before and during the financial crisis and focuses on identifying solutions to correct the structural problems that are at the root of the economic divergencies within the euro area. Another issue that we discuss is how did price competitiveness diverged from one euro-area member state to another since the introduction of the euro, causing gains in price competitiveness for a small group of countries and significant losses for a larger group. The issue of competitiveness is essential for Romania as we are heading towards joining the euro zone.

Key words: EMU, competitiveness, structural problems

JEL classification: H7, O2, O4

1. Introduction

It is clearly that since it was created ten years ago, the economic monetary union contributed to a favourable climate for economic growth within the euro area. Throughout the financial crisis, however, the euro proved to be far more than a growth factor for the euro area. In several respects it has stabilised the member economies (the absence of exchange-rate risk within the euro area has represented an additional benefit during the crisis avoiding problems like appreciating currencies and inflationary pressure). Practically, it has significantly diminished money market tensions and therefore served as a buffer against global financial market shocks.²⁶⁴

At the start of the global recession, the Euro appeared to be faring relatively well. Germany and France were two of the first major OECD economies to emerge from recession. The collapse of Iceland had many people suggesting the Euro as the solution to global instability. However, in the past few months, the growing problems of Greece and other peripheral Eurozone countries have highlighted some of the problems with the bold Single Currency experiment.

The first problem facing the Eurozone is the prospect of a deep and persistent recession in the southern Eurozone economies. Greece, Spain and Italy already have falling GDP, but, current economic policies make it hard to see how they will recover.

²⁶⁴ Weber, A., Challenges and opportunities for the competitiveness of EMU member states. The euro in the financial crisis, Presentation at the Copenhagen Business School, Copenhagen, 22 March 2010

Taking the specific adjustment processes in a monetary union into account, we have to think about the conditions for sustainable growth in all euro-area economies and about how they can be achieved.

2. Literature review

There are several papers on the subject of the European Monetary Union. We will provide only a short description and analyse of the way the idea was created, developed and implemented.

After 1993, when economic growth was strong, both in Europe and The United States, the enthusiasm grew among European policy makers for completing the transition to the monetary union. Still, there were two countries that dropped out of the process: the United Kingdom and Denmark. Targets for inflation, interest rates, exchange rate stability, and fiscal stability were set as criterion for participation in the monetary union (the most important: a budget deficit of not more than 3 % and a public debt of not more than 60% of GDP).²⁶⁵

In order to preserve the fiscal discipline, a Stability Pact was agreed in June 1997, and for stabilizing exchange rates between the euro and the currencies of the EU members that hadn't entered the monetary union, an ERM II was established. As for the ones that were to enter the euro area, they agreed to lock their exchange rates from the mid-1998 for January 1999.

In 1998, The Economic Council decided for a large monetary union (including: France, Germany, Austria, Belgium, Luxembourg, Netherlands, Ireland, Italy, Spain, Portugal and Finland). The European Monetary Institute was created to prepare the common monetary policy.²⁶⁶

The European Central Bank developed the common monetary policy, focused on establishing anti-inflationary credentials. Critics argued that it was excessively rigid in what unemployment was concerned, but it allowed inflation to repeatedly stray above its target of 2%. The introduction of the euro began in 1999 and was completed at the beginning of 2002 (including Greece).

In 2002 and 2003, Portugal and then France and Germany violated the rule concerning the maximum percent of budget deficit in GDP. The Stability Pact was repeatedly bent and broken, under the umbrella of reformation in order to permit greater budgetary flexibility.²⁶⁷

The ECB considered price stability as an important objective, so in the context of a common monetary policy, the only tool that remained for dealing with each country's difficulties was national fiscal policy. The effective use of this instrument requires a budget close to balance in good times, so that a larger deficit would not damage confidence.

3. Implementation of the ECB Common Monetary Policy

3.1 Joining the euro area: advantages and disadvantages for national economies

Obviously, a single monetary policy was difficult to satisfy the needs of several national economies. For example, Italy, which competed with China in the production of specialty consumer goods, would have preferred a weaker euro exchange rate and a looser ECB policy, in contrast with Ireland, whose fast growing economy led to rapid increases in property prices, so a tighter ECB policy would have been preferred.

For the relatively poor countries, like Portugal, joining the euro area meant decreasing the interest rates, which led to growth of house-hold consumption and investments of firms. Increased demand resulted in increased wages, lagging competitiveness, and rising unemployment. The only solution was deflation and fiscal restraint, which were rising political issues at the national level.

²⁶⁵ Miron, D., Folcut, O., *Economia Integrării Europene*, Editura Universitară, București, 2008

²⁶⁶ Ghica, L.A. et al, *Enciclopedia Uniunii Europene*, Editura Meronia, București, 2005

²⁶⁷ Eichengreen, B., *Globalizing capital – A History of the international monetary system*, Princeton University Press, 2008

The main advantage of the single currency is that it eliminates most of the financial risks, as the intra-European exchange rates fluctuations could no longer be a source of such risks, or of amplifying them. Another positive result of the euro was stimulating the growth of European securities markets, by the effect of scale economies on bond markets, greater liquidity and lower transactions costs. It became easier for companies to issue bonds, which meant they benefited from a lower cost of capital, that results in an increased competitiveness.

An important beneficiary of the euro is the European consumer, as he can easily compare prices from different countries, which puts more pressure on the retailers and wholesalers. Studies by the OECD suggested that product market competition is critically important for stimulating productivity growth.

3.2 International currency competition

The short-term impact of the euro introduction was to reinforce the dollar’s preeminence, as the foreign-currency reserves of two important European economies were transformed into dollars. France needed to exchange it’s reserve of deutsche marks into dollars and Germany did the same with it’s reserve of francs.

After that, the euro began to gain strength, as the financial markets in euro area became more liquid than before, when there were many different national currencies.

Five years after the single currency creation, international debt securities issued in euros actually exceeded those issued in dollars (2004). The United States remains the world’s largest financial market, but the evolution of exports shows clearly that the EU is the international major exporter.

Table 1: Exports in goods (value), in billions of US dollars, monthly average

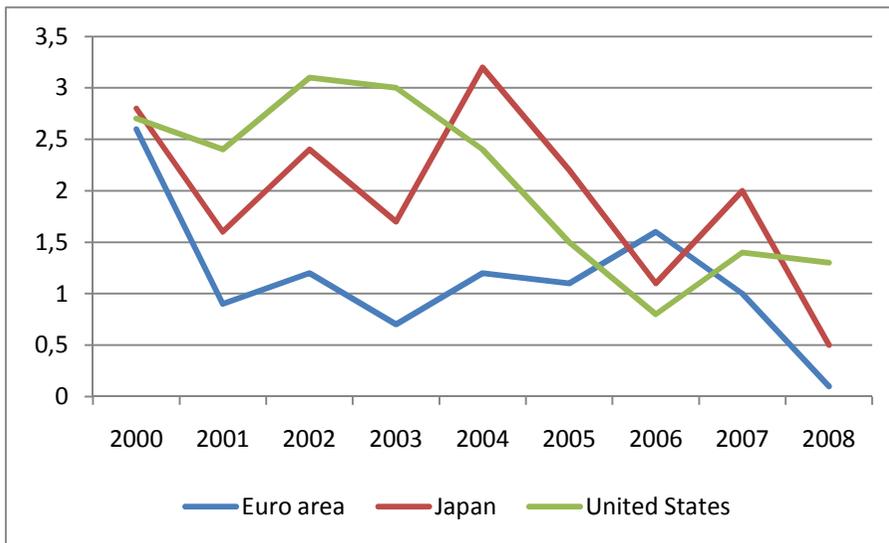
	2008	2009	2010 Jan
European Union	489,15	379,44	404,02
United States	107,29	88,07	98,40
China	119,16	100,13	123,70
Japan	65,31	48,25	63,68

Source: Monthly Statistics of International Statistics, OECD, 2010

The adoption of the euro by Slovenia (2007) and Malta (2008), extended the euro area, plus the prospect of new members from Central and Eastern Europe gives hope for the single European currency to gain more ground.

Of course, the evolution of the currency is directly related to labour productivity.

Figure 1: Labour productivity annual growth rate



Source: OECD, Statistics, 2010

3.3 Effects of the crisis on the euro-zone. The issue of price competitiveness

The financial crisis has led to a renewed debate about perceived imbalances in the euro area, which revealed the structural nature of the disparities. The issue had been previously debated during the years preceding the financial crisis, but the strong global economic expansion and the ongoing economic integration within the euro area partly masked the problems arising from these differential developments.

One of the practical problems that EMU member states have to face is that of differences in price competitiveness between them. Losses in competitiveness that some countries have experienced are not the root of the problem but rather a symptom of underlying unsustainable structural developments in some member states. Accordingly, the marked gains in price competitiveness the German economy has experienced have been a result of necessary structural reforms that were finally addressed in 2003 when domestic problems such as high structural unemployment, rising social security contributions and repeated excessive public deficits became more and more pressing. Analysing the German experience can help draw some conclusions for those countries that have lost competitiveness since the launch of the euro.

One important reason for growing heterogeneity within the euro area is that the benefits of monetary union, in particular lower interest rates and the elimination of exchange rate risk, have not always been used wisely and have tempted some countries to live beyond their means: Too often inflowing capital did not reach the most productive sectors, and in some cases cheaper and easier access to funding led to excessive credit dynamics facilitating a rise in household and corporate debt and ultimately causing the real estate markets to overheat. In addition, fiscal policy often failed to use higher growth and lower interest rates to reduce deficits sufficiently. In economies with rigid or only partly flexible labour markets all these large expansionary stimuli resulted in accelerated wage increases that were well in excess of productivity growth, reducing price competitiveness and exports of domestic firms.²⁶⁸

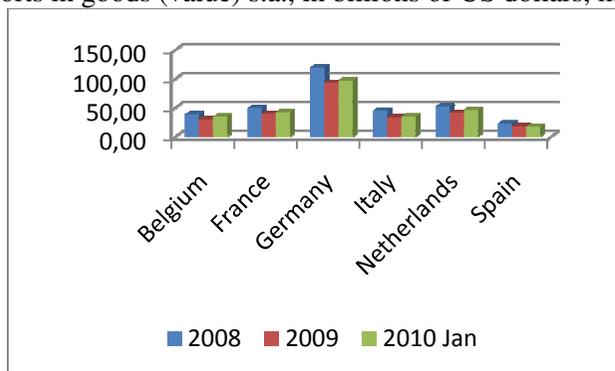
Consequently, price competitiveness has diverged significantly from one euro-area member state to another since the introduction of the euro. Whereas a small group of countries, led by Germany, has achieved gains in price competitiveness, a larger group suffered significant losses, amongst others Greece, Italy, Spain and Portugal. These underlying economic divergencies

²⁶⁸ Weber, A., Challenges and opportunities for the competitiveness of EMU member states. The euro in the financial crisis, Presentation at the Copenhagen Business School, Copenhagen, 22 March 2010

within the euro area are also reflected in persistent discrepancies in the current account positions of EMU member states.

The evolution of exports in the OECD countries can be observed in Figure 2, the main trend is descending between 2008 and 2010.

Figure 2: Exports in goods (value) s.a., in billions of US dollars, monthly average



Source: Monthly Statistics of International Statistics, OECD, 2010

As long as a flourishing world economy and the growth dynamics within the euro area masked the associated problems, those developments were neglected. However, the financial crisis has revealed the unsustainability of this state and therefore increased awareness of the risks it involves. These risks imply depressed future growth prospects, disturbances in capital flows if markets doubt the sustainability of large external borrowing requirements as well as difficulties for monetary policy as a result of the growing heterogeneity of euro-area member states. Hence, correcting the structural problems that are at the root of the economic divergencies is one of the major challenges for the future: For example, domestic firms have to become more competitive by increasing productivity and keeping costs in check, labour market flexibility has to be increased in order to mobilise a larger share of the working age population and to facilitate reallocation of workers to more profitable sectors (BIS Review 34/2010).

And structural deficits have to be brought down to sustainable levels by broadening the tax base or, preferably, cutting expenditure on government consumption and certain transfers.

Taking the current account as one indicator of the extent of these divergencies, one could get the impression that the financial crisis has halted the trend of growing heterogeneity within the monetary union, since current account positions have narrowed significantly in the years 2008 and 2009 (except for Italy and France). However, a closer look at the developments that underlie the changes in current account deficits shows that the reductions are still largely cyclical as they have been driven mainly by sharply falling imports rather than increasing export market shares. Hence, more profound and far-reaching changes have to be undertaken in countries that have lived beyond their means and thereby driven the divergencies within the euro area.

3.4 The competitiveness of Romania

The problem of competitiveness is becoming a vital issue for the future of every country and it is especially important for Romania as it is heading towards joining the euro zone.

A correspondent level of competitiveness needs to be mirrored first in the central parity which paves the way for ERM2 and, later, in the conversion rate agreed with the European Central Bank, the European Commission and the other member states. Blockages caused by the drop in

prices and salaries would burden and would make it more costly for the adjustment of a over-evaluated parity under the relation between employment and economic growth.²⁶⁹

In some economies, the authorities want depreciation due to the favourable effects on external competitiveness, but the negative impact may overcome the positive one. At least that is the opinion of specialists at The National Bank of Romania, so our currency is not overdepreciated.

4. Conclusions

Growth in the last quarter of 2009 has been revised downwards to 0.0%. Markets show no sign of letting up on the Greek Bond Market. The impact of this bad news has been to depreciate the Euro. The question is what will be the impact of a weaker Euro on the EU economy.

A weaker Euro would make Eurozone exports more competitive and increase the cost of importing goods into the Eurozone. A weaker Euro would make exports cheaper and could provide a boost to EU growth and employment. This is particularly important for Eurozone countries who rely on export led growth such as Germany.

However, the impact of a weaker Euro may be limited. Evidence suggests that demand for exports is often inelastic, a weaker currency is no guarantee of strong growth. The impact of a weaker Euro will have a different impact within the Eurozone. However, a weaker Euro will do nothing to redress the imbalance within the Eurozone area. Much more is needed than a depreciation in the Euro, as the majority of trade in the Euro is within the Eurozone. For example, a depreciation in the Euro would not restore the competitiveness of Spain's exports with regard to EU partners such as France and Germany. Other solutions must be found to solve the pressing problems in many Eurozone economies.

Structural reforms should be initiated for achieving the necessary adjustments to the market and bring back heterogeneity within the euro area to a natural and sustainable level. In addition, the effort and inconvenience associated with those adjustments will pay off as they lead to strengthened economic conditions in the individual economies and the euro area as a whole. The EMU urgently needs such market-based adjustments as they are a prerequisite for economic divergencies to come to a halt, for sustainable economic growth within the euro area and thereby for the continuing success of the euro.

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FINANCING THE PROGRAMS OF LOCAL DEVELOPMENT IN TOURISM

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To remove the economical and social disparities between the regions, with the purpose of achieving the economical and social cohesion, in Jiu Valley microregion, due to the critical issues facing communities in this area a strategy has emerged for sustainable development for the period 2007-2013. Vulcan City, like other towns in the area, is a monoindustrial city focused on extracting coal. Thus, in the opinion of most political, decision-makers accountable, and the population, promoting tourism is the only option for recovery of the area. Therefore, Vulcan municipality developed a strategy that will have regard to the implementation of several projects with european funding aimed at boosting economic zone, increasing living standards, reducing unemployment and attracting investors.

Keywords: structural funds, tourism, strategy, financing, local development

The European Union works under the Structural Funds, the Cohesion Fund and other financial instruments to support the fulfillment of the general objectives (convergence , regional competitiveness and employment , European territorial cooperation), to remove the economical and social disparities between the regions, with the purpose of achieving the economical and social cohesion.

During 2007 - 2013 there are three financial instruments known as Structural Funds, namely:

- The European Regional Development Fund (ERDF)
- The European Social Fund (ESF)
- The Cohesion Fund (CF) and two complementary actions, namely: - The European Agriculture and Rural Development Fund (EAFRD); - The European Fisheries Fund (EFF).

Unlike the Structural Funds, The Cohesion Fund co-finances not programs, but provides direct funding for individual projects, which are clearly identified from the beginning.

The decision to finance a project is taken by the European Commission, in agreement with the beneficiary Member State, while the projects are managed by national authorities and are supervised by a Monitoring Committee. The Cohesion Fund is the financial instrument to support investment in transport infrastructure, energy and environment. The maximum rate of financing by the Cohesion Fund is 85% of public expenditure on the project.

The European Regional Development Fund finances activities in 14 main areas:

-Research and Technological Development-Informatisation Society - Transport - Energy - Environment - Tourism - Culture - Urban and Rural Regeneration - support for companies and entrepreneurs -- Investment in social infrastructure, including health and education. The Cohesion Fund finances major projects in transport (including transport projects aiming railways, multi-modal transport and maritime transport).

The European Social Fund finances projects from four main areas:

- Increase the adaptability of labor and business
- Improving access to the labor market
- Strengthening social inclusion (combating discrimination and facilitating access to the labor market integration of disadvantaged groups)
- Promoting partnership for reform in the areas of employment and social inclusion.

For a project to receive funding from the Structural Funds it should be in accordance with the requirements specified in the regulations of the European structural funds and the requirements of the operational program which was launched by the application proposals. Essential criteria,

conditions and documents required for access to funding will be detailed in each call for projects and related documents, including guide applicants. All documents related to a call for applications for projects will be available on the websites of the Management Authorities charge for managing the Structural Funds and on sites of intermediate bodies designated by the Management to meet the various activities. The development of a community, whatever it may be conceived in the absence of vision on the directions to which this community wants and can proceed.

Starting from the awareness of the current situation and through analysis of strengths, weaknesses, opportunities and risks, you built a real development strategy to base the future how a community that uses its existing resources and those that will be generated.

During the preparation of a strategic plan must take account of local needs and strategies of development that the county owned. In this context, the local community identifies ways of integrating the strategic plans for the development of community development strategies in the county.

The strategic plan of socio-economic development of the municipality Vulcan was developed in participatory by involving representatives of all social demographic groups in the community. Participation in developing the strategic plan of socio-economic development will help increase the spirit of initiative of people from the community, beds vulnerable to involvement in decision making and empowerment for decisions taken and the whole development process. However, the involvement of all stakeholders in the community will enhance the development of partnership between local government, community organizations and private businesses to solve community problems.

The facilitation of the participatory development of strategic plan for socio-economic development of the municipality Vulcan included the following steps:

- Step by Step preplanning

- developing strategic plan for socio-economic development of the municipality Vulcan

- supportive communities in the process of implementing a strategic plan for socio-economic development of the municipality prepared Vulcan.

Development and modernization of their communities in development and modernization is a priority of the microregion.

In the town of Vulcan was developed and approved the first strategic plan for social - economical development in the Jiu Valley being a pilot project of the National Agency for the Development of Mining Areas. This project was conducted in 2005, then in 2007 the strategic plan was updated until 2009, following this year that take place in participatory meetings with community members to refresh this until 2013. The need of the reactualization strategy is based on the fact that locally it has been successfully implemented a large part of the investment proposed to achieve during 2005-2009.

With the integration of Romania into the European Union to obtain funding for the projects aimed at socio-economic development, local communities must justify the need for projects that they find in a well-founded strategic plan and approved by the entire community.

It is very important that the skills and competence to be strengthened at the local level, which will allow communities to identify development projects adapted to their needs and requirements of the new legislative and institutional framework of Romania, the EU adapted. Each local community receiving assistance from the Regional Development Agency and the Center for Rural Development, the project "Strategies for local and global opportunities for a future European local communities in western Romania" for capacity building to develop strategies for development. By disseminating information, local communities will have - through a virtual platform StrategVest Project - local development strategies developed, the methodology and information on funding opportunities from the Structural Funds.

Besides this project, Regional Development Agency and will support all the local communities with information materials, documents the area needs and opportunities and sustain commitment to all projects that want to be “launched” by the agency.

From 1 January 2007 when Romania is a member with full rights of the European Union, all programs include the Government adopted as a priority, local development and modernization of local communities, but this upgrade is not feasible than from the inside, each administrative-territorial unit having to set strategic priorities and will identify sources of financing local development projects.

Given the nature of the critical issues facing communities in the 6 Jiu Valley towns: Petrosani, Petrila, Aninoasa, Vulcan, Lupeni. Uricani and need to concentrate efforts to develop socio-economic importance has emerged a strategy for sustainable development of the microregion for the period 2007-2013.

Achieving strategy for the Jiu Valley microregion was necessary for several reasons, significant being:

- the mobilization of the resources to cope with the problems faced
- the alignment of resources in relation to the mission and vision of local authorities
- achieving a perspective, a bridge between policy and action.

Within each community, there is a prior experience in developing / implementing local strategy, the implementation of local development measures with / without financing projects, and willingness to work to support the drafting and implementation of a development strategy socio-economic development of the Jiu Valley microregion of competitive projects.

To implement this strategy and to be able to obtain the funds needed to eliminate the disparities between communities, was considered and implemented, the association consists of the 6 locations of the Jiu Valley. This “Association for Sustainable Development of the Jiu Valley”, will be submitted for funding projects, encompassing all communities at these integrated projects which will aim at restoring the infrastructure at all levels. Structural and cohesion funds of the European Union are managed by the European Commission and intended to help finance structural measures at Community level and to promote the regions with delays in development, conversion of areas affected by industrial decline, unemployment combating long insertion training of young people or promote rural development.

On the other hand, each local authority, the partnership or the individual must ask the management, through application for funding, the amounts necessary to achieve objectives through the development strategy of the city, according to eligibility criteria, the available financial resources and the list of investments subject to approval from the local councils.

Based on the Operational Programs Regional priority axes and related guidelines for seeking funding, it is expected that each community in Romania to access the funds made available by the European Community, to align our standards of EU member countries.

The main objectives of the restoration is in infrastructure, whether it’s road infrastructure, social, environmental or any other kind of infrastructure. Efforts that each community must provide are long, expensive but they give satisfaction to the end of project implementation.

Projects, and the default management caused by the implementation of these projects involve performing interrelated activities, which can be shaped through networks. Since projects of this kind takes weeks, months or even years in their pursuit of changes that may impact on cost, technology or project resources.

Analyzing these factors allow local systems to plan, control and reorganize resources so that objectives to achieve the optimal and timely. The project is designed in the techniques of network planning as a collection of work, so default and events conducted within a certain period of time to meet a specific set of goals.

A project can be designed on different levels, encompassing problems of different sizes. Despite the extremely large variety of programs and projects are, however, some characteristics that we

find, regardless of size or geographical and temporal dimensions without budgets or teams to have any significant

The project represents a sum of activities leading to a common purpose and requires a significant consumption of resources (human, material, financial, equipment, information and documentation time). Implementation of a project involves an initial time and final time of the project, so lasting achievement. Initial time is considered in which the decision to move to design a project and the final one in which closed last activity provided by the project.

Project management, without which access to structural funds is virtually impossible, is a relatively recently emerged, and its importance has seen major growth because, at European and international level, more actions happen in some projects. Resources used by these projects, especially financial ones, play an increasingly large (such as the amounts carried by the PHARE and SAPARD) in economic development and their application is growing. Project Management consists of planning, organizing and managing the tasks and resources which aims to achieve a particular objective, the existence of constraints on time, resources and costs.

Vulcan to the municipality by development strategy shall have regard to the implementation of several projects aimed at boosting economic zone, increasing living standards, reducing unemployment and attracting investors to contribute to the elimination of all socio-economic disruption arising Jiu Valley began with the release of 1997. Vulcan City, like other towns in the area, is a city monoindustrial focused on extracting coal industry. Thus, in the opinion of most political, decision-makers accountable, and the population, promoting tourism is the only option for recovery of the area.

Such a study was conducted by prefeasibility, a feasibility study and developed the technical project for a large project, a project which is aimed at removing the Vulcan city of anonymity. Area proposed for this complex investment is Step Vulcan. But, aware that such a project "level" may not have positive results forecasted without collateral other projects at the municipality have undertaken the necessary to finance other projects, all of the structural funds. One of these projects was submitted to the Regional Development Agency West for evaluation, it will produce more desirable economic impact. It is the project "Modernization of the central road of the city Vulcan" which wants the modernization of the city's central boulevard, the road that connects directly with the road DJ 666, Step by Vulcan. This project has a value of 8,000,000 euros, with funding from the local budget by 2%. Another project, which was signed the grant aims at modernization of roads and alleys of the city of Vulcan, a \$ 750,000 project funded by the World Bank. Interesting is the fact that this community brings its contribution by 2% in value and the local authority co-finance with 8%. Also, Hunedoara County Council, will make funding a project which envisages the pitch of the road which connects the city and area tourist Vulcan Step Vâlcan respectively Vulcan 666 DJ - Step Vâlcan project worth approximately 3.5 million .

The microregion Jiu Valley has a rich fund travel far not enough exploited. Encouraged the Transylvanian Carpathians relief, the Jiu Valley offers a unique natural environment.

Although traditionally this region is not considered a tourist destination, there are at least three arguments which claim otherwise:

- Jiu Valley is the main gate of entry into the national park and access Retezat Muntii Parang, Retezat and Vâlcan - Jiu Valley is a region accessible tourism for all "pockets", □ tourist area Jiu Valley is a relatively undiscovered region. Due to geographical location and socio-economic context, the mountain forest and have not undergone the transformation lead to the same extent as most European tourist resort.

- is a complex investment objective, because the area Vulcan step will be divided into several sub-area, each bearing the imprint of an event in history, a personality that has passed through the area, etc..

From international experience it is found that, at present, resort tourism competitiveness can be maintained only through the creation of appropriate material bases. Attractiveness and success of

a resort is due to increasingly more entertainment and new things to be done. As a result, diversity and originality offer recreational items can be decisive in attracting tourist flows and a basis for assessing the competitiveness of tourism in the country, worldwide. The concept of leisure is a set of individual activities which are dedicated to free, to relax, to entertain, to meet aesthetic needs and to enrich their knowledge.

Step in the Vulcan are 49 private cottages and Cabana Step Vulcan with 80 places. To increase the capacity of accommodation in the area, owners can receive credits chalets advantageous for expanding and modernizing the chalets. In the area there is electricity, water and sanitation sector and soon will be installed the methane gas as pipeline gas main between Transylvania and Oltenia passing through the neighborhood, are already made the necessary steps to obtain the rate of gas required to feed the entire area. Also moves to buy a section of the line of the existing 110 kw, of which to make the supply of voltage of the entire area, and expansion of all areas for skiing until April.

To achieve the objective of the proposed investment in the municipality namely Vulcan "Development Step Vulcan tourist area " is intended a structural funding in the Regional Operational Program, Priority axis 5, and promoting sustainable development of tourism, the area of intervention 5.2"Establishment infrastructure development and tourism for recovery of natural resources and higher quality tourism services". If the funding can not be supported entirely from Western Region budget for this area of intervention - given the high value of the project - it is the difference budgetary request from ministries and the Ministry of Finance and Ministry of Tourism. The objectives of the proposed investment to be made by the project objectives are relevant objectives that will bring profit and only the local authority, which aims to be willing to "height" of European standards and which will certainly draw in the City of Jiu many Visitors lovers of winter sports and more. This will build 2 telegondolas that will "move" between the rates 770 - 1310m (3078m) and shares 1310 - 1620m (2995.18 m), which will have a capacity of 1800 persons / hour. Because European norms and to be felt in Pasul Vâlcan will be arranged and equipped ski runs of 3. Lengths that we will have these parts are modern 3768m, 738m and 642 m. Also, for tourists to enjoy the ski practice at night, all three parts will be fitted with facilities for night. All objects listed so far can not be put into practice if not improve the supply of electricity, which is why this investment was caught in the program. Establish water supply to normal parameters, it is an imperative because the ski will be equipped with facilities for producing artificial snow. To achieve the conditions of this plan, it is necessary to build two tanks 2x500mc. Through the project are provided to make construction and equipping of a health point of first aid, construction and equipping of a mountain of gendarmes, the construction and equipping of a mountain rescue and arranging two mountain rescue shelters. Therefore provided a signal and arrange accordingly, two mountain routes which will link between Vulcan and the Step Straja, and Step Schela Vulcan town and county of Gorj. The intention of a tourist information point, a goal that will end most specifically, to promote the resort Step Vâlcan and not only, both nationally and worldwide. Total cost of this project amounts to the sum of 31,000,000 euros.

All these efforts of the community and local government will work together with the signing of financing agreements, which will draw European funds, funds that will show that the Jiu Valley are both potential human and material.

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FOREIGN DIRECT INVESTMENT-FACTOR OF INNOVATION AND ECONOMIC GROWTH IN TRANSITION ECONOMIES

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Foreign Direct Investment (FDI) is an international venture in which an investor residing in the home economy acquires a long-term “influence” in the management of an affiliate firm in the host economy. Multinational firms own and transfer technology—which may not be available in the host country—that allows them to be more productive and profitable than firms that are not multinational in nature. Because such a transfer is assumed to contribute to the technical progress of the host economies, it is also assumed to contribute ultimately to their growth. The recent experience of Central and East European (CEE) transition countries testifies of FDI being the main vector of innovation diffusion in these economies. The present paper analyzes the contribution of FDI to the growth of CEE transition economies, with special reference to Romania.

Keywords: foreign direct investment, economic growth, transition countries

JEL Classification: E 01

1. Foreign Direct Investment in Central and Eastern Europe

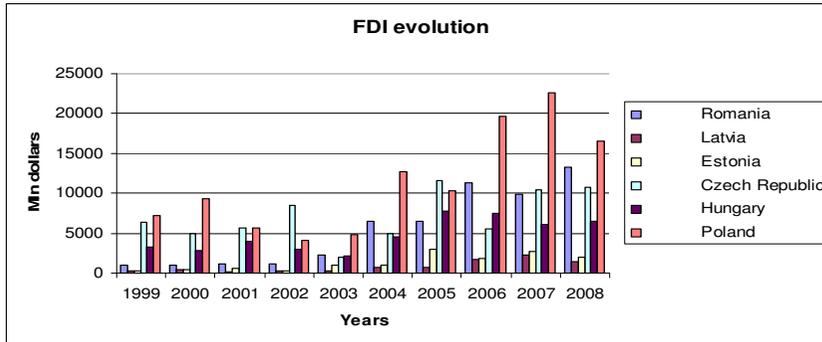
In a global economy, economic growth and human development are in direct relationship with international competitiveness. Capital flows, trade and financial markets' development, lower costs of transport, communications and information technology development all imply the development of global economic integration. Multinational companies combine advanced technologies, foreign capital and qualified workforce, creating development opportunities on an unprecedented scale.

Over the last decade, Foreign Direct Investment (FDI) became one of the main engines for integration into the world economy and contributed to the economic recovery and competitiveness increase of Central and Eastern European countries. After 1990, when the construction of a free market economy and its orientation to the world economy began, the economies of Central and Eastern European countries became an area of interest for FDI, particularly in developed countries. Western European countries of the European Union (Austria, Britain, Germany, The Netherlands, France, Italy, etc.), the United States of America and, to a less extent, Japan, represented the investment sources for the group of Central and Eastern European countries. EU Member States participated in foreign capital flows (1996) to Poland, Slovakia, Slovenia and Lithuania (60-80%), Bulgaria and Hungary (72-74%), Romania (50-54%). The countries that progressed most in reforming towards a free market economy were the main recipients of FDI (which was of considerable support in this complex and difficult process). In 1998, Poland, Czech Republic and Hungary held 64.1% of investments stock spreads across all countries in the region. As a proportion of GDP, few economies in the world had a similar level of FDI inflows as the Central and Eastern Europe leaders: Hungary, Czech Republic, Estonia and Latvia. In these four countries, investments were on average 4.5% of GDP during

1994 – 1999. FDI inflows during 1990-2000 were about \$ 142 billion. The largest amount was \$27.200 billion in 2001, which represented 3.7% of total world investment.

In the medium run, investment flows continued to grow rapidly in this area, due to the significant improvement of the business environment.

Table 1. FDI evolution during 1999 – 2008



Source: stats.unctad.org/FDI/TableViewer

Analyzing the chart above, we can see an increase in FDI since 2004, recording high jumps in Poland, Czech Republic and Romania. FDI flows in the Czech Republic, Poland and Romania represent 36-38% of the total FDI of the European Union.

National investment policies of Central and Eastern European countries share many common features, but there are also differences regarding facilities granted to foreign investors: at first, investments were made in areas considered strategic in terms of investors and national economies. Eventually, the investment policies in some countries became more permissive. To attract foreign investors, some countries in the region created a friendly environment and reduced bureaucracy, changed national legislation for investors, the country and its population.

Foreign investments are a main source of economic growth, their contribution resulting in:

- a) Capital growth
- b) Increased productivity and income
- c) Increased labour force both within their base and adjacent activities
- d) Higher production levels, due to the technological component of FDI
- e) Financing of the deficit of current account

Here are some factors that influence the size of FDI flows to a country:

- 1) The market size of both the investment exporting country and the investment importing country
- 2) The costs of production, the unit cost of labor, the fiscal level
- 3) Characteristics of the transition process, inflation, changes in currency, political risk, the privatization process.

These factors affect the decision of foreign firms' localization. Income tax reduction was a way to attract higher flows of FDI for Central and Eastern European countries that had similar level in terms of quality business and labour costs. The performance indicator of a country as concerns attracting investment (IPI) is calculated as the ratio of their share in global flows and their share in the World GDP; a value larger than 1 corresponds to a high flow of FDI relative to economy size. This index captures the influence of other factors besides the size of markets, namely business environment, the presence of natural resources, infrastructure and technology.

$$IPI = \frac{FDI/FDI_{world}}{GDP/GDP_{world}}$$

where IPI is Performance Index in Investment attraction, FDI_{world} is global flow, and GDP_{world} is global Gross Domestic Product

According to the World Investment Report 2007, published by UNCTAD, Romania ranked 21 among 141 analyzed economies, scoring 3791 points. This reflects a high capacity to absorb foreign investments, which will be exploited in the next period and can provide major benefits.

In 2009, Lithuania recorded a severe decrease in FDI flows, of 71%, with the most affected sector being real-estate. The only Central European country where real-estate flourished was Slovakia, where the TriGranit real-estate company had turnovers of \$2.3 billion. In Poland, the decrease of FDI flow was of 58% and affected key-sectors such as oil, natural gases and coal industries, as well as real-estate and finance. Although Poland succeeded in avoiding recession, FDI flows shrank: in finance by 86%, in the mining industry by 74% and in real-estate by 67%. A much smaller diminishment in FDI flows in real-estate (19%) was recorded in the Czech Republic. In 2008, the Czech Republic saw investments from car manufacturers Daimler, Volkswagen and Peugeot – Citroen. In Latvia and Slovenia, the diminishment of FDI flows was of 70%-71%. The cause for such a sharp decrease is the fact that, before the crisis, FDI in the two countries was rather limited and mostly focused on real-estate.

In order to forecast the recovery of FDI flows, PwC economists checked FDI dependency on various economic factors in several countries of the region. Overall, in the period 1997 – 2008, FDI in the region represented 4% of GDP. FDI was key to economic growth in Bulgaria, Estonia and Serbia and less important in Slovenia and Russia.

FDI flows are directly related to GDP/capita and inversely related to wages in the industrial sector and to credit risk premiums. By identifying key factors that influence the growth of investments, the experts worked out certain of scenarios for the period 2010 – 2014. The first and most likely is that risks will fall gradually and nominal wages will rise, along with GDP. By 2014, risks would reduce to their pre-crisis levels and FDI flows would be about \$172 billion. In the second scenario, wages would increase, as in the first scenario, but credit risks would also increase at first, compared to 2009, and then start decreasing. Under these circumstances, FDI would increase to \$147 billion in 2014. The assumptions of the last scenario are that risks will decrease, as in the first scenario, but wages would stagnate. This is the only case that would allow the investment boom seen in the period 2003 – 2007. This would imply that FDI would reach the levels of 2008 in 2012 and would increase to about \$234 billion in 2014.

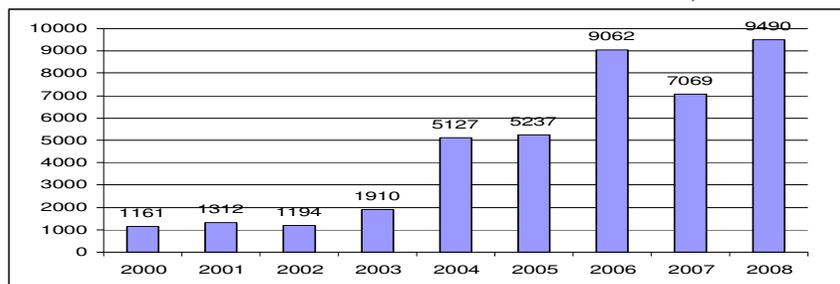
2. Foreign Direct Investment in Romania

After a timorous start in the first years of transition, FDI stocks increased significantly in 1997, being three times higher than in 1996, while in the following year, 1998, reached the highest value of FDI recorded in the '90's. The period between 1999 and 2002 was characterized by an FDI stock diminishment to about half of the value of 1998. In 2003, the investment value increased to a little over the value of 1998.

Starting with 2004, Romania has become one of the most important beneficiaries of FDI. If in 2000 it attracted 5% of total FDI in Central and Eastern European (CEE) countries, between 2003 and 2005 it attracted 15% of the total FDI in the region. Of course, these are very important years because of the great privatizations: Romtelecom (1998, 675 million €), SNP Petrom (2004, 1529 million €), BCR (2005, 3750 million €).

In the last few years, Romania benefited of high flows of FDI. Although FDI/capita is relatively low, reaching 35% of the average level of the neighbors from CEE, it has increased six times since 1999; in 2006, Romania ranked third among the New Member States (NMS), after Hungary and Poland, as this was a year in which many sectors continued the privatization, and the sectors already privatized continued to increase their capital, attracting new foreign and local investments, with effects on the structure of the economy.

Table 2. Evolution of FDI flows in Romania, 2000-2008 (mill. Euro)



Source: www.bnr.ro

In 2006, according to data from the National Bank of Romania, the total value of FDI stock reached 30.9 billion €. This represents an increase of over 9 billion €, in comparison with the previous year. In 2007, FDI flows decreased, as a consequence of the finalization of the privatization process. Greenfield investments had a significant increase after 2000. In 2005, there was an increase of 37% in Greenfield investments (235 projects of this type were recorded) in comparison with 2004. [World Investment Report 2006, UNCTAD, UN, New York and Geneva, pp. 263-265]

The main countries having FDI in Romania between 1991 and 2005 are: The Netherlands (15.75%), Germany (9.05%) and Italy (5.51%); over 80% of FDI is coming from EU.

The countries ranking 1 through 5 according to their contribution to total FDI in Romania, at the end of 2008, were Austria (18.8% of total FDI, decreasing from 21.4% at the end of 2007), The Netherlands (17.2% of total FDI, increasing from 16.3% at the end of 2007), Germany (15.4% of total FDI, increasing from 11.7% at the end of 2007), France (8.8%, same as in 2007) and Italy (7.3% of total FDI, increasing from 6.1% at the end of 2007, replacing Greece in the top 5 countries of origin of FDI in Romania).

The main sectors foreign investors were interested in are: production, trade, banking and telecommunications. Lately, important changes have taken place in the sectoral composition: investors' interests switched from low cost sectors to sectors with higher added value. This is reflected in the increase of the services quota.

The services sector attracted significant FDI flows in financial activities and insurance; in this sector, FDI stock as percent of GDP increased four times between 2003 and 2006.

Still, the most important beneficiary of FDI stocks remains the manufacturing sector, which represented more than one third of the total FDI in 2006.

Foreign investors are attracted by the cheap labor force, by proximity to the Euro zone, by the growth potential of the internal market. However, the boom of FDI determined by privatization is over. The advantage of the low cost of labor is slowly disappearing, as wages are growing significantly. The business environment and infrastructure become more important and, also, the availability of highly qualified labor force becomes an essential condition for investors. Accession to EU has contributed significantly to raising Romania's attractiveness for foreign investments. Through the adoption of *acquis*, it has conformed to European regulations, recorded economic growth and obtained a market economy status. The transition towards ERM II has created institutional instruments for a controlled inflation and competition pressures have strengthened monetary discipline. The geographical position, central in European space assures another advantage compared to rival emergent markets and offers advantages for investors in industries sensitive to distances, those supposing a fast reaction to changes in consumer markets, those using heavy, large or fragile products.

According to a study released by The World Bank [World Bank, Doing Business 2008, www.worldbank.org], in 2007 Romania ranked 48th out of 178 countries analyzed, concerning attractiveness to foreign investors, better than in the previous year (55th in 2006).

According to estimations made by the United Nations [United Nations, Prospects for Foreign Direct Investment and the strategies of transnational Corporations, 2005-2008, New York and Geneva, 2005, p.47], 22% of FDI experts and 27% of the questioned Multinationals appreciated Romania as being the most attractive investing destination in South-Eastern Europe, creating strong expectations for a positive evolution of investment flows.

According to CFI (Council of Foreign Investors), in 2009, FDI in Romania totalled €4 billion, half of the value recorded in 2008. The key factor for this decrease was the economic crisis, but political instability and the increase of the country risk also contributed to a lower appetite for investments.

To conclude, we could say that Romania has enough strength to be an interesting destination for investors, but the EU member state status is not a guarantee for attracting more FDI, without continuous efforts for further reforms and the business environment improvement.

3. The relationship between foreign direct investment and economic growth

As concerns the wide literature regarding FDI, most of the studies represent econometric analyses trying to establish, based on panel data, the relation between FDI and economic growth. We mention in this sense Li and Liu (2004), Durlauf and Quah (1999), Barrel and Pain (1997), Neuhaus (2006), Lensink and Morrissey (2001). Sova & al. (2009) has econometrically analyzed FDI for Romania.

From these studies, FDI seems to stimulate economic growth only for economies having proper “initial conditions”: highly qualified human capital (labour force with a high education level), a well developed financial sector and policies which stimulate free trade. Romania, like any other transition country from Central and Eastern Europe, satisfies these conditions.

In this sense, we mention the studies of Barro (1991) and Levine and Renelt (1992). The real gross domestic product regression is represented, in both models, by a four variable function.

In the case of Barro’s model, these are GDP per capita in the base year, primary school enrollment, secondary school enrollment and gross investments as a percentage of GDP. In order to estimate the regression equation in the case of Levine-Renelt model, the following four variables were taken into account: GDP per capita in the base year, the rate of increase in population, the gross rate of population in secondary school and the weight of investment spending in GDP. More recently, using extended data series until the mid-90’s, Fischer, Sahay and Vegh (1998) have applied these two models on the ten countries that were candidates to access EU. The aim of the study was to forecast these countries’ economies’ long-term development. The tested regression equations for CCE transition countries were the following: Barro’s growth equation is :

$$\text{GDP Growth /capita} = 0,0302 - 0,075 \text{ Y1960} + 0,025 \text{ PRIM} + 0,0305 \text{ SEC} - 0,119 \text{ GOV}$$

and the Levine and Renelt growth equation is :
$$\text{GDP Growth /capita} = -0,83 - 0,35 \text{ Y1960} - 0,38 \text{ POP} + 3,17 \text{ SEC} + 17,5 \text{ INV}$$
, where Y1960 is income per capita in 1960 expressed at purchasing power parity, POP – growth rate of the population, PRIM – primary school enrollment, SEC – secondary school enrollment, GOV –governmental expenditures as a percentage of GDP, INV – the weight of investment in GDP. All coefficients have a 5% level of significance, except the Y1960 coefficient from the Barro equation and the first term and the POP coefficient from the Levine and Renelt equation. The positive influence of FDI depends on its composition and also on its interaction with local investment. FDI flows in the primary sector can have limited benefits in GDP increase, since this often implies mega-projects, where, in general, no intermediary products created by local industries are used. On the other hand, FDI from the manufacturing

sector tends to have a significant effect on GDP growth, because of stronger connections between this sector and the rest of the economy.

In Solomon et al (2010), we performed an econometric analysis of the evolutions of FDI and GDP in Romania, based on a Markov switching model. From a regression analysis, based on quarterly data for the period 1998-2008, we concluded that there exists a strong correlation between FDI and GDP (the correlation coefficient being 0.976).

Another class of models (e.g. Keller (1996), Baldwin and Forslid (2000)) analyse FDI influence on growth in the context of endogenous economic growth models. Many studies (e.g. Borensztein, DeGregorio and Lee (1998), Bashir (1999), Contessi and Weinberger (2009), McGratten (2009), Chanda et al. (2007)) combine modeling with econometric techniques.

As concerns the existence of a causal relationship between FDI and growth, the results of econometric studies are contradictory.

Using GMM estimators and a panel data set covering the period 1960-1997, Carkovic and Levine (2005) conclude that FDI has no robust causal effect on economic growth. Gao (2005) studies FDI and economic growth in an endogenous economic growth model concerning two countries. Starting from a steady state between the center and the periphery, the model shows that economic integration generates FDI, leads to the expansion of R&D (Research and Development) in the industrial “center” and to the increase of the growth rate. In this process, the “periphery” enjoys an increase in living standards. As follows from this study, no causal relation is implied by the positive correlation between FDI and economic growth; both variables respond positively to economic integration.

On the other hand, Zhang (1999) finds, for China, bilateral causality between FDI and growth.

In Solomon et al (2010), we also studied the possible causality between the two variables, for Romania’s case, but we obtained negative results for the Granger causality test.

FDI can generate productivity through various channels, as imitation (adopting new production methods), acquisition of new skills (education/training of the labour force), competition (efficient use of existing resources by local firms) and exports (increase of local firms’ export potential).

An interesting study on FDI is the paper by Criscuolo (2005 b), which quantifies the contribution of foreign affiliates to productivity growth in OECD countries, using a growth accounting approach. The analysis confirms that foreign affiliates can make an important contribution to productivity growth. The contribution is larger in the manufacturing sector. In the services sector and in low-tech manufacturing sectors, the largest component of the contribution of foreign affiliates is due to the increased employment share of foreign affiliates. In medium-and high-tech sectors, the contribution is mainly driven by stronger productivity growth of existing foreign affiliates.

Conclusions

Foreign direct investment (FDI) has played and still plays an important role in the convergence process in Central and Eastern Europe, particularly in Romania, towards the development level and the welfare of the developed countries of the European Union. FDI can generate productivity spillovers through several channels, including imitation (adoption of new production methods), skill acquisition (education/training of workers), competition (efficient use of existing resources by domestic firms), and exports (expansion of export potential of domestic firms).

After a slow start in the first years of transition, FDI in Romania has significantly increased in 1997. Since 2004, Romania has become one of the most important beneficiaries of foreign direct investment in Central and Eastern Europe.

The main finding of the wide literature concerning the relationship between FDI and economic growth is that, in order that FDI had a positive impact on growth, the labour force of a given country must be relatively well trained. Romania, as well as the other East and Central European transition countries satisfies this condition.

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COMPETITIVENESS THROUGH ENVIRONMENTAL HEALTH

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Abstract: This millennium, confronted with a globalization of means leading as fast as possible at certain pursued aims, highlights the importance of competitiveness from the perspective of the continuous fight against limitation of resources. In this context, "the machine of life evolution and economy" has got an engine named competitiveness. "The rules of circulation" should focus on all livings to whom, from the perspective of survival and natural, human and social life accomplishment, the well-known concept of health may be attached. At the same time, competitiveness through environment health should try to reach the convergent performances which means that any form of superior knowledge and experience should always take into consideration environment health.

Keywords: competitiveness, environmental health, living entity

JEL: O13, I10, Q5

1. Remember

This millennium, confronted with a globalization of means leading as fast as possible at certain pursued aims, highlights the importance of competitiveness from the perspective of the continuous fight against limitation of resources. In this context, "the machine of life evolution and economy" has got an engine named competitiveness. "The rules of circulation" should focus on all livings.

"All livings" known on the Earth consist of a diversity of life forms, with human and nonhuman features²⁷⁰. People, families, environment, communities, organizations and institutions are common components of all livings. They are interrelated in an organic functionality, our existence depending on their normal development and purpose (desired) future. We raise the issue of analyzing all livings through the development of natural, human and social life. From the perspective of survival and fulfillment of human, natural and social life, the six components of "all livings" can be attached as a common denominator to the concept of "health."

"Extending the vision of human health on other components that define non-human life is meant to give a defining meaning to functionality without considering forms which manifest in terms of its purpose. This means, in our opinion, that as we talk about human health as a state of normality and harmony of life functions, we can also talk about family health, health organization, health communities, health institutions etc., as fully functional life status in these ways, in terms of their purpose as organic parts of all livings. While the concept of human's health is accepted as wellness excluding diseases, the other concepts, such as family health, organization health, environment health and so on, do not reflect the values that they define, the criteria that differentiate them and the indicators that quantify their evolution.

The model (see fig. no.1) denoting the health of "all livings" and its components is a nonlinear and dynamic that has to permanently adjust itself to new requirements and imperatives that exist or may appear.

²⁷⁰ Popescu, Constantin, *Raționalitate și speranță. Paradigma întregului viu*, Ed. Renaissance, București, 2006, p.34.

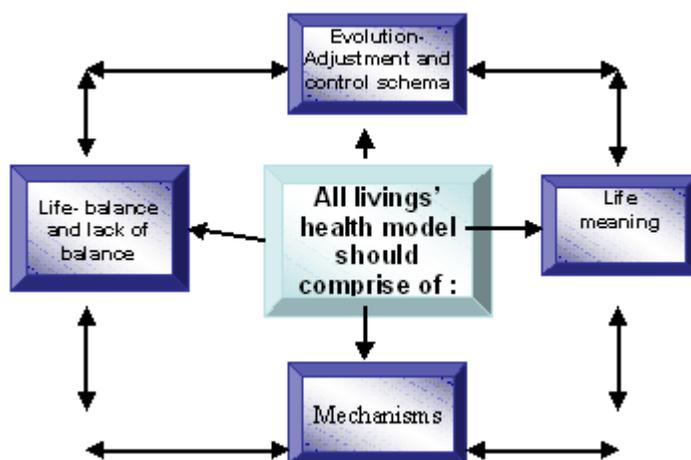


Fig. no. 1 Model of all livings' health

2. Competitiveness through environment health

The health of „all livings” is defined as an assembly of natural- social parameters of which constants give shape to the convergent evolutions in the time and the space of our common microcosm, for the phenomena and the processes generating life from the perspective of the paradigm presented above

For example, Hubert Reeves- physician and laureate of Albert Einstein prize wrote in 2005²⁷¹ that our Earth is sick. The planet is getting warmer and warmer, natural resources are getting fewer and fewer, soil and water are polluted and many species of plants and animals are either extinct or in prone of extinction. There are just negative effects of the damage that our civilization brought about in its race for development ignoring exactly the fundamental conditions of its own existence.

In other words, one of the components of the all living system- environment, is heavily affected by the action of other component- HUMAN. The consequence is the extinction of both components due to their interdependent relation. But, actually, what is environment or ecosystem made up?

The ecosystem is made up of communities of livings (biogenesis) occupying a space or a geophysical niche (biotope)²⁷². The interactions that take place within the system design and redesign a balance between the following moments entrance, birth, abandon and death.. The conflicts, adaptability, hierarchic organization are just several of the ecosystem principles and are similar to those of human society. The ecosystem relation is integrative between two open systems, which, actually, are part of the other one, but each of them stands for a whole system. At the same time, there is a direct relation between the autonomy of a living system and ecosystem: the bigger the degree of autonomy is, the more dependent on the ecosystem it is. At the same time, the greater the ecosystem complexity is, the more able it is to provide goods and products for society, implicitly to human

The relation man-society functions according to the principle autonomy through dependence, development and autonomy maintenance, being linked to educational dependences²⁷³ (schooling and long socialization) cultural and technical. In other words, the degree of humans' ecologic

²⁷¹ Reeves, Hubert, *Pământul e bolnav, ce șanse avem să supraviețuim*, Ed.Humanitas, București, 2005, p.26.

²⁷² Morin, Edgar, *Paradigma pierdută: natura umană*, Ed. Universității Alexandru Ioan Cuza, Iași, 1999, p. 22.

²⁷³ *Ibid.*, p.24.

independence and dependence is manifested at the level of social and natural, practically, at two heteronomous levels in a permanent interdependence.

In accordance with the whole living's vision paradigm, the parties can not be separated from the whole. Therefore, the whole concept of health gives the composing part alive, which we have named the same value as the whole environment. Therefore, the health of economy can not be separated from its natural support systems, namely the environment from where people get more of our resources.

More than half of the world's people depend directly on agricultural land, grassland and forests and natural sources of fish. And, there are more addicted to industries that are based on wood products, leather products, cotton textiles and food industry in terms of their jobs.²⁷⁴

When defining competitiveness through environmental health, it is important to track the performance of meaning. Through performances of meaning we understand to use the conquests of knowledge and life experiences in order to improve environmental health service. For example, the strategy of development and of elimination of health may be a sense that environmental systems that support economy do not get worsen.

But ... unfortunately, farmland surfaces get even shorter with direct effect on agricultural crops, grasslands turn into desert areas which influences the food of animals or increases temperature. Lester Brown says that if the degradation of Earth still keeps on growing, then recovery will mean a huge international effort- even larger and more demanding than the Marshall Plan²⁷⁵.

The divergent performances mean to use knowledge and understanding of life experience to destroy all forms of environmental biodiversity under all its expressions of identity. Unfortunately, these performances are now scattered across the Earth. For example, the manufacture and detonation of the atomic bomb is a divergent performance due to its damaging effects it can have on environment! The environmental effects revealed by the images captured after running experiments with nuclear bombs stand for such evidence.

Pharmaceutical and petrochemical industries have expanded so successfully the control on their consumers' products because they share the same mechanistic world views and the associated value system, which corresponds to their technologies and represents the basis of their economic and political motivation. And although their methods are generally against ecological principles being unhealthy, they are strongly supported by scientific authority, which subscribes to the same improper vision of the world. Changing this situation is now absolutely vital for our survival and welfare which will be possible only if people could get a new vision, a holistic and ecological one.²⁷⁶

Pope John Paul II, referring to the environment problems, stated in his encyclical letter *Centesimus annus*, that humans, seized with their desires of possessing and using after their own pleasures, more than necessary, consume excessively and disorderly the resources of the planet and its own life. It is the anthropological error that destroys the natural environment which, unfortunately, is overspread significantly in our times. Discovering their capacity of transforming and creating life, humans seem to forget that it is done with full sacrifice. They think the planet can always be used for their benefits as if it had not got any shape or destination that they can neither develop, nor ignore as well.... Thus, unfortunately people generate the revolt of nature that they hardly master in their intention of controlling everything. Under such circumstances, it

²⁷⁴ Lash, Jonathan, *Dealing with the Tinder as well as the Flint*, Science, vol. 294, nr. 5548, 30 november 2001, p.1, 789

²⁷⁵ Brown, Lester, *Planul B.2.0. Salvarea unei planete sub presiune și a unei civilizații în impas*, Ed. Tehnică, București, 2006, pp. 150-151.

²⁷⁶ Capra, Fritjof, *Înțelepciune aparte, dialoguri cu oameni remarcabili*, Ed. Tehnică, București, 2004, p.208.

is easily to remark human's poorness and meanness revealing the desire of mastering for own interest and benefits²⁷⁷.

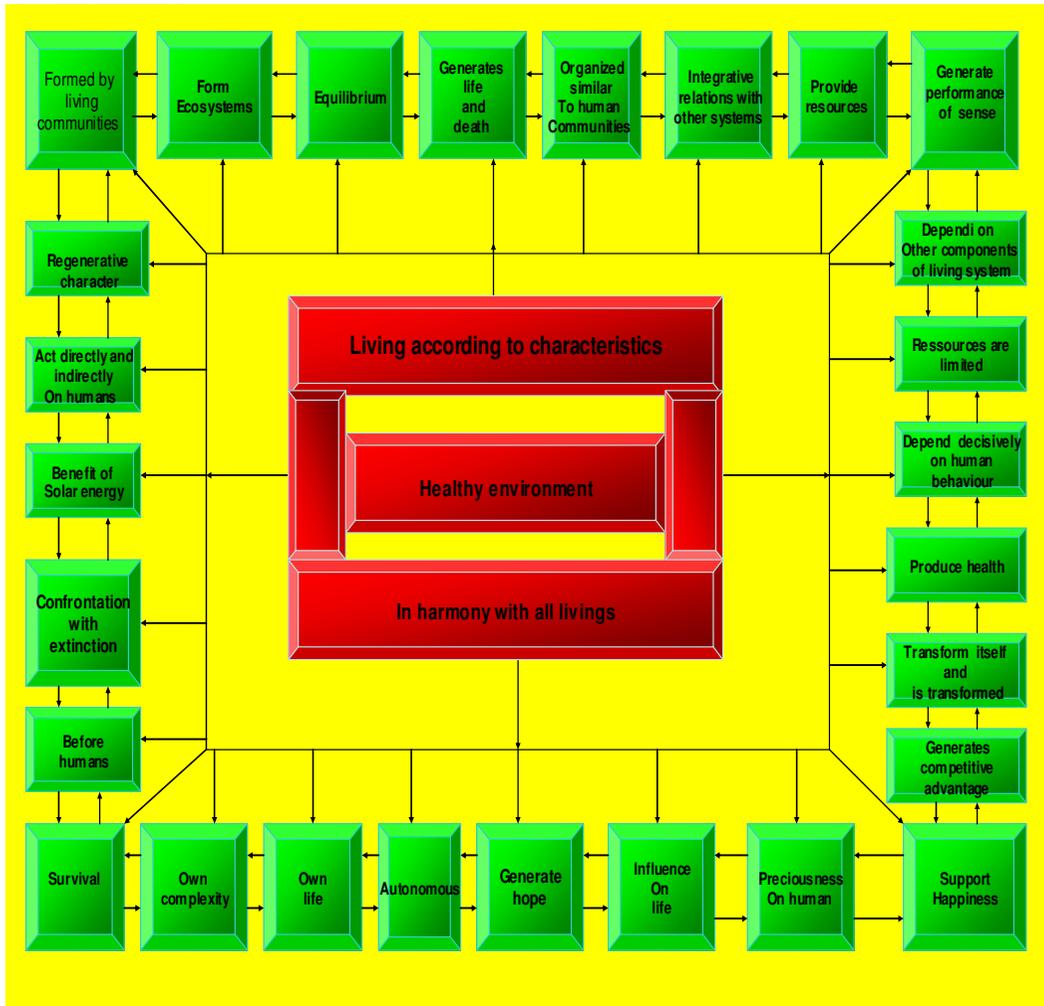


Fig no.2 Conditions for a healthy environment

3. Building a future together

We believe that it is time to reflect better of the consequences resulting from a rush at all costs after strict financial result competitiveness, whereas that environmental damage can quickly lead to economic decline, as it was the case with ancient civilizations that have shifted nature and have disregarded terms.

The solutions for the conflict between competitiveness and environment protection mentioned by several business people are generated, as Michael Porter asserted, by a narrow perspective on prosperity sources and static vision of competition. The strict regulations on environment do not end up the competitive advantage in front of rivals and certainly, it is often intensified. The properly established standards of results will encourage companies to redesign technology. In

²⁷⁷ Papa Ioan Paul al II-lea, Scrisoarea enciclică *Centesimus annus*, 1991, p.473-474 în *Enciclice*, Ed. ARCB, București, 2008.

many cases, it will lead to a process that does not pollute, but decrease costs and improve quality²⁷⁸.

It only depends on us the way in which we use democracy and power in order to understand amiably each other when approaching our future, world policies and customs to our children's benefits and the whole humanity. It is our duty to turn the 21st century in a flourishing epoch. Considering the context of this world economic crisis, we should free our imagination, invention capacity and spirituality with which we were also endowed. It is our responsibility. The future is ours²⁷⁹, the ex-president of the USA Al Gore asserts.

We can conclude that when fighting to get more resources definitely decreasing in number, to be competitive is quite real, but to be competitive and healthy is more important for our future as living forms of Earth, than for the interest of certain organizations or institutions. As responsible citizens of human society, it is high time to think of our future.

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²⁷⁸ Porter, Michael. „American's Green Strategy”, în R. Welford și R. Starkey (eds.), *Business and the Environment*, London, Earthscan, 1996, p.31.

²⁷⁹ Gore, Al, *Un adevăr incomod*, Ed. Rao, București, 2007, p.296.

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This paper aims to briefly present the effects of the financial and economic crisis in Romania in respect of the monetary developments and their impact on competitiveness, on firms involved in foreign trade on international market. All the analysis is undertaken in the general framework of the monetary integration process envisaging the Euro adoption, and in the context of actions of the Romanian National Bank as part of the foreign exchange and monetary policy strategy. Due to constant preoccupation from the most important monetary institution, the Romanian Leu has performed rather well compared to rest of the macroeconomic picture and seems to drag forward the whole set of other indicators, including economic aspects such as competitiveness. The connection between the foreign exchange rate and competitiveness can be best depicted in the effects on exporting firms.

Key words: exchange rate, competitiveness, monetary integration

JEL: F36, E42

Introduction

Everybody agrees on the fact that high liquidity has been an important issue in triggering the actual financial crisis. Many people have missjudged the phenomena as being a fundamental defect of capitalism. That is not true. The very inner nature of the economic cycle consists of ups and downs of recession and boom, with more or less acute picks. Realistically speaking, the crisis has been generated one one hand by cyclicity and on the other hand by missjudgement in the institutional level, in the system administration and capitalism itself is not to blame for the crisis. The economic overheat can most of the times generate such a recession if not well handled by responsible authorities well aware of the fact that individual consumers and firms must still be correctly directed, even in capitalism.

Crises and institutions can be connected to people. Administrators believed that the rules of functional economies could have been broken without any consequences. What will the lesson of this crisis be? Bad management can lead to such unfortunate financial events and not free markets.

Romania – Crisis and Competitiveness. A Monetary Approach

The starting hypothesis of the Romanian National Bank is that a more rapid increase in wages than in productivity would not lead to higher welfare, but rather to a lower one due to the gap between the two fundamental indicators and to the fact that the immediate consequences are a rapid price increase and the foreign exchange rate depreciation. All these have a negative impact on investments, on competitiveness and delay instead of

²⁸⁰ Article financed by UEFISCSU through the program IDEI, Contract CNCIS no. 826/19.01.2009

hurring the real economic convergence. This – real convergence - is the key linking element between competitiveness and the „big picture” of monetary integration for the Romanian Leu.

During the ten years previous to the financial crises, the yearly productivity gain has exceeded 10%. This has been determined by several factors: low starting point, significant decrease of population occupied in agriculture, and very important – an increase in investments and competitiveness. Even though, this increase has been surpassed by the one in wages and it accounts for the dramatic raise of the external deficit and also the inflationary pressure. In time, once the financial and economic crisis installed, the situation changed dramatically. Productivity decreased, bankruptcy spread and this in connection to economic rigidities, the infrastructure issues and the ever slowing economic restructuring process.

Considering all that, the National Bank has and will always been, for the sake of the Romanian economy, a promoter of a healthy and durable growth maintaining a real feature. Even beyond that, the market, and especially the traditional and well rained external market where our exporters evolve, will always depict growth based on a competitiveness surplus. Everything else will transform into inflation and into the depreciation of the national currency, bringing down the wages level to where it can be covered in productivity.

Many analysts believe that monetary policy in Romania still owes in regard of the recession control. The production gap of over 7%, seems to bring substance to that idea, but not for long. Even more, in its definition not influenced by offer factors, inflation has dropped from 6,3% in December 2008 to 2,8% in December 2009. This decrease is due both to recession and to the prudence of the Romanian National Bank in reducing the effective interest rate. Thus, we might believe that inflation is no more a real problem and this year, the RNB should lower the interest rate abruptly in order to stimulate economic growth and an increase in competitiveness. That is what firms and households expect. Even though, new economic evolution might emerge and the monetary strategy might have further constraints. Economic growth and competitiveness increase would restart under the influence of a remake in trust and external economic growth. That is why the National Bank supported exporters in the 2 month struggle with the foreign exchange rate appreciation as Romania experienced massive foreign capital inflows. This would reduce the disinflationary gap and thus it will contribute to the inflation and interest decrease less and less. Still it is rather probable that new factors emerge and support interest rates reduction, while others could act oppositely. Contradicting influences will bring further constraints to the monetary strategy.

Under these circumstances, achieving the inflation targets - 3,5% for 2010 and 3% for 2011 remains difficult. Once the global trust has been rebuilt, the chances for capital inflows to ingeminate increase. Globally, the financial crisis has brutally corrected lacks in balance. The still remains uncertain whether correction of the countries' current accounts – Romania's as well – are complete in connection to the long term trends, but it is certain that these corrections have only been the result of cyclical factors – as previously mentioned. Reforms meant to prevent remaking of un-sustainable unbalances associated to abundance in capital inflows did not take place, and that might strongly affect future competitiveness especially on foreign markets. The structural factors of imbalances have remained.

Though, even in countries with current accounts deficits, the crisis has brought an increase in savings. This process may be reversed once future positive prospects come up. In the Euro-Area – our permanent convergence aim - structural rigidities prevent a relatively high competitiveness and finally economic growth. This combination in structural factors

has existed previous to the crisis and lead to massive capital inflows, including in Romania. The new determining factor that could cause and inverse phenomena – meaning an outflow in the Romanian case is the financial crisis in Greece. This may occur as a consequence of the contagion effect. Only coherent policies can prevent that, for both the Euro-Area and the EU as a whole. As a consequence of recent actions of financial institutions from an international spectrum, that contagion probability remains rather low. The perspective of large capital inflows from 2010 is more probable. Recent foreign investments and net foreign transfers have restarted their increase. Recent estimates (*The Economist*) appreciate a total volume of investments close to 8 bln. Euros for this year and it may even exceed this figure. Even more, the interest rate differential stimulates the carry-trade operations. For the time being, the aggregate effect of these movements of capital on the current account deficit is not clear, but deterioration would not worry if reflective of the economic recovery.

For 2010, the capital inflows would probably have, from a theoretical point of view at least three effects: - inflation decrease; - stimulation of debts in foreign assets – a possible threat for the first one; - decrease of domestic competitiveness on international markets that would slow down exports. Mainly, a decrease in the interest rate does not stimulate the first effect, but contributes to the attenuation of the other two.

Thus, only through means of exchange rate, a change in the interest rate could have conflicting effects in achieving monetary aims.

Even though, for the Romanian case, this is not completely true. Influences on the RON appreciation on inflation heavily depends on the price setting mechanism. Data show that there are nominal rigidities in Romania, preventing a strict reflection of foreign exchange appreciation into significant decrease in inflation. Thus, disinflationary potential of the RON's appreciation remains rather low. Meaning, if we exclusively consider the exchange rate channel, a decrease of the interest rate does not cause significant damage in terms of inflation.

The need of interest rate reduction comes up from the perspective of the other theoretic effect of the foreign exchange rate appreciation – an increase in the foreign private debt. For 2009, the inflation decrease and the RON depreciation made that the gap between the costs of loans in domestic currency and in foreign currency to stretch. This year, an appreciation in the RON's foreign exchange rate could remake the gap. This would severely affect the imbalance in foreign currencies between assets (mostly in RON) and passives (mostly in foreign currency) as part of the real sector, making it vulnerable to eventual foreign exchange rate depreciation. Obviously, from this very perspective, the National Bank, responsible for the financial stability, is interested in reducing the interest rate.

Pressure for reducing the interest rate could also be generated by reasons of economic competitiveness. The National Bank has never shown lack of reaction to the domestic currency foreign exchange variations, always pointing out the managed float feature of the foreign exchange rate regime. This has also at times such as recently protected exporters.

A decrease in the unit labor costs, even more evident since mid-2009, has created the desired conditions for a reasonable appreciation that we have recently witnessed, an appreciation that has not affected firms' competitiveness and that has been buffered by the RNB. This gap has been recently consumed by the RON appreciation, being accompanied only by reactions from the same monetary institutions and not by significant lowering in labor costs. Concluding, it is rather probable that the remaining gap for foreign exchange rate appreciation, if there is any, determining disinflation could have significantly diminished. The tighter the gap is, the higher pressure for reducing interest rates aiming to temper capital inflows.

Conclusions

The relatively low impact of the financial crisis from a monetary point of view is due to the Romanian National Bank, to the features of the financial environment in Romania, and also to the prudential measures in monetary policy and in strengthening the financial stability. They could be resumed as following: - credit institutions in Romania do not have exposures on financial products that represented the origins of such turbulences (the „subprime” instruments); - most banks in Romania, even foreign ones are subject to prudential control from the RNB; - some of the National Bank’s measures have been more restrictive than Basel II; - the level of reserves stays high.

Even though, there have been several negative monetary aspects with further economic impact: high volatility of the foreign exchange rate, an increase in the external financing costs and a decrease in volume, a moderation in capital inflows and eventual repatriations, a possible deceleration of demand for Romanian exports as a consequence of competitiveness erosion and a decline in economic growth perspectives.

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THE COMPETITIVE ADVANTAGE OF ROMANIA IN THE CONTEXT OF ECONOMIC RECOVERY

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The economic crisis has given the opportunity for the world to reconsider the use of resources, so the subject of competitive advantage has become actual. There are several relevant papers on national competitiveness, but we consider that there are still important issues to discuss in order to identify the economic sectors in Romania that have the potential to create successful products for the global market. The paper applies modern competitiveness models on the features of our country, and concludes about the best use of our resources, in terms of increased productivity and optimal results. The goal is to encourage exporters to extend on several international markets and multinational companies to invest in developing new businesses in Romania.

Keywords: competitive advantage, resources, economic recovery

JEL classification: F16, F 59, O47

1. Introduction

The competitive advantage of a country refers to its ability to offer products or services on the global market, at the best price/quality ratio on a certain moment in time, and the national strategy for development should indicate the directions for assuring the sustainability of present competitive advantages and identifying new ones as the demand and offer on the global market changes. Obviously, the global financial and economic crisis, which started in 2007, had a strong impact on the global prices and sales on international markets. For example, the oil demand has decreased in 2009, and the price has fallen almost a 100\$ a barrel from a record high of 147,27 \$ a barrel. The consumption of oil worldwide can show a good perspective on the slowdown of the global economy.

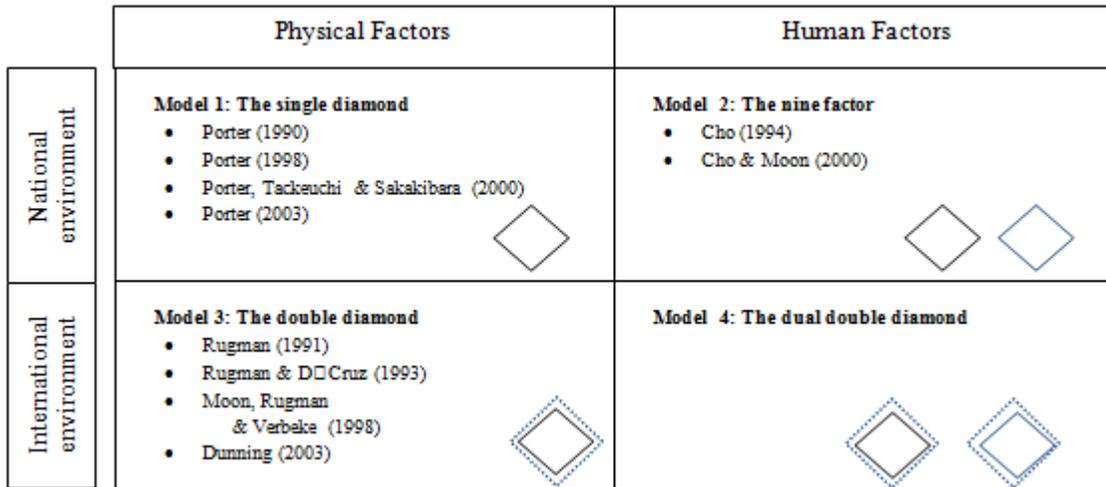
In this context, it is vital to reconsider our position on the international market, as a recovery after an economic crisis is always a time for earning new advantages or losing former ones. It is up to the country's leaders to formulate a winning strategy at this critical moment, and the economists must do their best to offer the theoretical basis for it.

2. Literature review

The main reference paper on the subject of national competitiveness is Competitive Advantage of Nations (Porter, 1990), where the author develops the diamond model, proposing five factors that influence a country's competitiveness on the global market. In his book, Porter argues that national prosperity is not inherited, but created under the influence of indigenous and exogenous variables. The indigenous variables are Factor Conditions, Firm Structure, Strategy and Rivalry, Related and Supporting Industries, and Demand Conditions. The exogenous variables are Government and Chances.

There were several developments of Porter's model, which are briefly presented in Figure 1 .

Figure 1: Extensions to the Diamond Model



Source: Moon, Hwy-Chang, 2006, *Competition and Cooperation between Korea and Japan: A Business Perspective*, 21COE, University of Tokyo MMRC Discussion Paper No.65

The horizontal axis shows the extension to the diamond model in terms of the sources of national competitiveness. The vertical axis, on the other hand, demonstrates the extension with regard to the scopes of national competitiveness.

The two extensions double the original single diamond in two distinct ways. Model 2 in Figure 1 introduces a new diamond of human factors as an extension to sources of national competitiveness.

On the other hand, Model 3 doubles its original diamond as an extension to scopes of national competitiveness, from a domestic context to an international context. Thus, the integration of these two extensions into a single framework results in a dual double diamond. At the lower right hand corner of Figure 1 is the DDD model, encompassing the previous extensions. The DDD model considers both physical and human factors in both domestic and international contexts.²⁸¹ There are two international institutions that publish national competitiveness reports: the International Institute for Management Development (IMD) and the World Economic Forum (WEF). The first report was published in 1989, when the two institutions were not divided, and they started to develop separate reports since 1996.

Table 1: Original models of the two reports (1996-2000)

IMD Report (1989 – 2000)	WEF Report (1996 – 1999)
Domestic Economy	Civil Institutions
Internationalization	Openness
Government	Government
Management	Management
Finance	Finance
Infrastructure	Infrastructure
Science and Technology	Technology
People	Labor

Source: Cho, D.S. and Moon, H.C., *National Competitiveness: Implications for Different Groups and Strategies*, International Journal of Global Business and Competitiveness 2005, Vol. 1, No. 1, pp 1-11

²⁸¹ Moon, Hwy-Chang, *Competition and Cooperation between Korea and Japan: A Business Perspective*, 2006.

We can see the similarity of factors which are taken into consideration by the two reports, still they have different views on the definition of competitiveness and their models have been evolving over years, as it can be seen in Table 2.

Table 2: Revised Models of the Two Reports

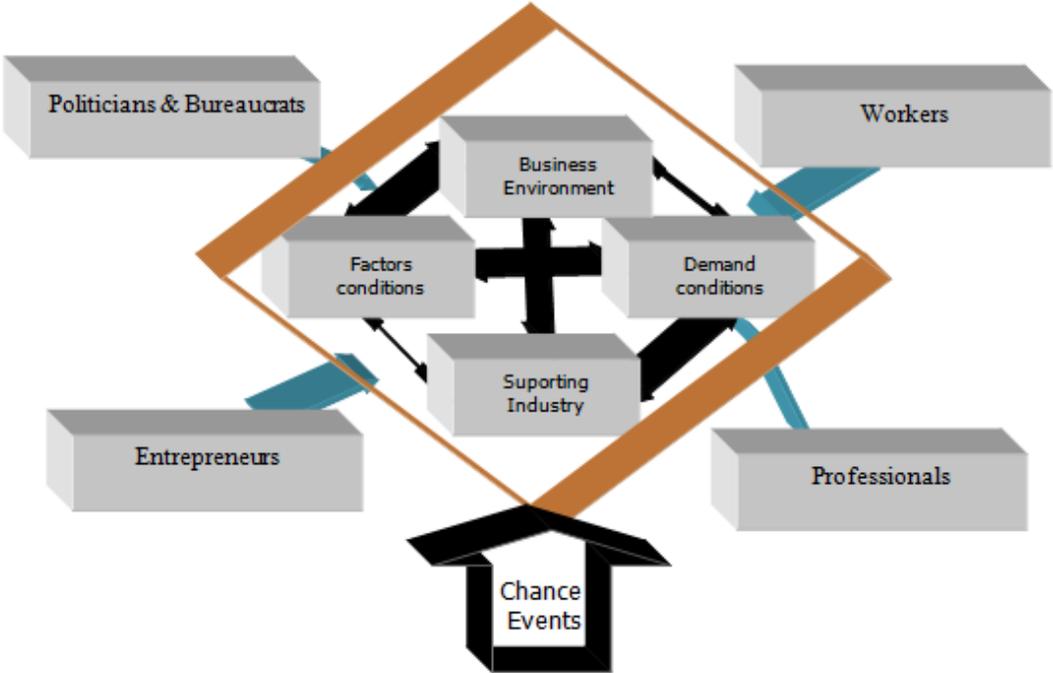
IMD Report (2001 – 2009)	WEF Report (2001 – 2009)	
Economic Performance	Aggregate Country Performance Indicators	Macroeconomic Environment
Government Efficiency	Public Institutions, Law	Public Institutions, Corruption
Business Efficiency	Company Operation & Strategy	Domestic Competition
Infrastructure	General Infrastructure	Cluster Development
	Technological Innovation and Diffusion	Information and Communications Technology
	Environment Policy	

Source: Cho, D.S. and Moon, H.C., *National Competitiveness: Implications for Different Groups and Strategies*, International Journal of Global Business and Competitiveness 2005, Vol. 1, No. 1, pp 1-11

3. Research methodology

After comparing the models found in the relevant literature on the competitive advantage theme, we chose an extension of Porter’s diamond model, the nine-factor model proposed by Cho, 1994; a comprehensive scheme is presented in Figure 2.

Figure 2: The nine-factor model



Source: Cho, D.S. and Moon, H.C., *National Competitiveness: Implications for Different Groups and Strategies*, International Journal of Global Business and Competitiveness 2005, Vol. 1, No. 1, pp 1-11.

The study we conducted applies this model on Romania, identifying the main features of each factor mentioned in the figure above. The informations were collected from official websites, reports and surveys among key-decision makers in the central administration.

4. Investors view on the competitive advantage of Romania

Sustaining the exporting activity is a rather difficult task for the government, as the economic situation doesn't seem to improve rapidly and the budgetary expenditures must be reduced.

So we can identify two main directions that should be included in the strategy for sustaining the romanian exports: the first one is offering tax reduction for the sectors which are identified as main export industries and te second one is to attract foreign investors for these.

Long-term investors seek attractively priced companies with prospects for sustainable value creation. Value creation means a company generates returns in excess of the cost of capital on its investments.²⁸²

Companies with global activity seek optimal supplying for material and components and choose locations for production in countries where they can get the highest scale economies.

Other resources that should be taken into consideration are the natural resources, like surface and underground waters, fertile agricultural land, oil and gas.

The table below shows the major macroeconomic development of Romania during 2005-2009.

	UM	2005	2006	2007	2008	2009
GROWTH AND ASSOCIATED FACTORS						
GDP growth	%	4.2	7.9	6.2	7.1	-7.2
Final consumption (% in GDP)	%	69.5	68.9	66.9	64.8	62.8
Gross Fixed Capital Formation (% in GDP)	%	23.7	25.6	30.2	31.9	25.6
TRADE AND INVESTMENT						
Exports FOB	Mil. Euro	22255	25850	29549	33614	29036
Imports FOB	Mil. Euro	30061	37609	47371	51813	35790
Trade balance	Mil. Euro	-7806	-11759	-17822	-18199	- 6754
Current account deficit	Mil. Euro	-6888	-10156	-16677	-16877	n.a
INFLATION						
CPI (average)	%	9.0	6.56	4.84	7.85	5
EMPLOYMENT						
No. of employees in economy	Thou. pers	4559	4667	4885	4806,0	4594,6
Unemployment	Thou. pers	523	460	367	403	709
Unemployment rate	%	5.9	5.2	4.0	4.4	7.8
EXCHANGE RATE						
RON/USD (average)	-	2.9137	2.8090	2.4383	2.5189	3,0493
RON/EURO (average)	-	3.6234	3.5245	3.3373	3.6827	4.2373
FOREIGN DIRECT INVESTMENTS						
	Mil. Euro	5237	8723	7047	9308	4766

Source of data: INS, BNR, Eurostat

As political advantages we can name the EU and NATO membership and as geographical location, Romania is situated at the turning point between EU, the Balkans and CIS countries,

²⁸² Mauboussin, Michael J., *The Ecosystem Edge*, Legg Mason Capital Management, 2005.

Romania is crossed by three important pan-European transportation corridors: corridor no. IV linking Western and Eastern Europe, corridor no. IX connecting Northern and Southern Europe and no. VII – Danube River, facilitating inland water transportation, at the same time connecting the Romanian Port of Constanta (the biggest Port to the Black Sea) to Northern Europe, through the Rhine.²⁸³

An increased interest of Foreign Investors has been noticed, Romania was found as leader destination for FDI in the region in a survey by Ernst&Young, April 2008.²⁸⁴

Still, the effects of the financial crisis can be observed at the level of Foreign Direct Investments in Romania, which has decreased in 2009, by almost 50% compared to the previous year.

An important resource advantage which our country can offer is a highly skilled labour force at competitive prices. The main sectors identified by the Romanian Agency for Foreign Investment are IT, engineering, and foreign languages use.

The premises for the development of the IT sector are insured if we take into consideration the numbers revealed by recent studies. There are over 13.000 IT companies in Romania (9.000 of which are exporters) and €400 million in software and IT services revenue each year.

As for the specialists in the IT sector, our country is the European leader and 6th in the world, in the number of certified IT specialists it produces: 230 IT specialists per million people graduate every year, one of the highest rates in the world and greater than that of the US and Russia.²⁸⁵

The Romanian market is, following Poland's, the second largest market in Central and Eastern Europe, with the fastest growing and the fourth IT market in Europe. Romanian companies serve the world's most demanding offshore customers in IT outsourcing, business process outsourcing, call center support, and product development.

4. Conclusions

In terms of implementing business projects, Romania offers an incredible potential for obtaining high profit margins. Whether they are situated in the western part of the country where business has grown bringing high rates of FDI, or the North Eastern area where lower FDI but high availability in terms of labor pool and land, locations for implementing business projects are spread all over the country.²⁸⁶ Investors can choose between greenfield or greyfield investments, as locations for buying or renting are available at lower prices than in developed countries in the EU, and there are several existing plants, which can be bought at acceptable prices, and can be modernised at affordable costs.

As for the main sector that has the greater potential for exports, is the IT sector we recommend that investments should be encouraged by taxes reduction and special condition in credit offers.

The industry has two main segments: IT services and hardware production. Both segments will be driven by some large projects for the upgrade and extension of IT systems in large Romanian companies, in banking, telecom, utilities or manufacturing, areas where the privatization process or fierce competition play key roles in IT adoption.

As for the exports of the Romanian IT sector, there are already foreign companies that are using services for software testing or creation and others that have delocalized their call centers for customers support. National policies should encourage investors to choose Romania for establishing their offshore businesses.

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LOCAL AUTONOMY AND RURAL DEVELOPMENT

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The paper presents an objective evaluation of the present state of the involvement of local public administration authorities in the development of rural communities, and it presents the necessary measures to improve life quality. Reaching such a goal will show why European Community and Governmental funds are so slowly obtained at the level of local public administration authorities and will allow the establishment of the ways to increase attractiveness for and interest in from the factors involved in promoting rural communities' development.

Keywords: local communities, autonomy, local public administration, development

JEL Classification Code: K 00, R 11, R 53.

The changes occurred in Romania in the aftermath of the so-called Revolution of 1989 on both political and economic levels, and particular on social level, have marked the entire Romanian society.

They have promoted, ever since the beginning of the '90s, studies concerning the market economy compared to centralised economic systems (which had proved inefficient). At the same time, they have removed both the State's intervention in economy and the so-called public control.

On the same occasion, they have defined new responsibilities at different levels. A new way of governing and a new legislative frame (adopted after existing models) have appeared.

To note that the option concerning the relationship between citizens and authorities (in the sense of their participation in social life) soon appeared and, in short time, it yielded good results.

At local level, decision-making is done with actual support from local authorities as a result of wide consultations.

At national level, the population is invited to express, through voting, its opinions and even sanction when it is the case.

Both local public administration and central public administration operate according to a well-known system, decentralisation.

This is how a series of responsibilities are transferred to the level of local communities and supported by the inhabitants of communes, towns, or municipia.

For a better distribution of the tasks, and also for an efficient knowledge, in accordance with a European model, Romania has an organic law regulating the activity of public employees as well as of the central and local administrative apparatus – the “**statute of public employees**”.

Local authorities are, in fact, representatives of the community. The issues of the communities are diverse and they need different specialists who, in close correlation, work to solve them.

The community is represented, locally, by authorities elected through universal, equal, direct, secret and freely expressed vote, under the conditions established by the law for the election of local public authorities.

The interests of the local community are different, and in close interdependence with its own potential of development.

The principle on which is based the functioning of central and local authorities is the principle of subsidiarity, defined both **horizontally** – market – family – community – State – and **vertically** – national level – regional level – local level – community level.

Any type of activity is based on a study or a project, and on an acknowledgement following public consultation. Carrying out these projects is possible due to the sums collected for the local budget and distributed in accordance with the needs of the community.

Building up local budgets is done in accordance with the principle of local autonomy by local councils, being made up of the totality of financial resources of the administrative-territorial unit.

Approaching this issue is a necessity asked by the need to find out sources for the progress of the Romanian village.

Sustainable rural development is a major objective of the national policy as part of the European Union strategy concerning the development of agriculture in accordance with the Common Agricultural Policy.

The notion of European administrative area

The notion of European administrative area was developed after the model of European economic and social areas.

A common administrative area is possible when a set of legal principles, rules and regulations is equally observed over a territory covered by a national Constitution.

The main texts making up the European Union (the Treaty of Rome – 1957 and the Treaty of Maastricht – 1992) do not suggest a common model of administration for its member states. Once the democratic nature of the political regime is established, the aspects related to Government and administration are subjected to the member states fully autonomous administratively.

Some of the aspects covered by the legislative activity of the European institution are:

- the intermediary role of the public administration which ensures free competition between the firms within the European Union stimulated so as to reach member-states specific standards;

- the support of the State for the enterprises, a support authorised and monitored by the European Union.

On the other hand, there is a rich legislative heritage concerning the autonomy, the legal aspects of some administrative sectors, which constitutes the so-called *acquis communautaire* (representing the entire set of common rights and obligations linking all the member-states within the European Union).

The structure of territorial public administration depends on the general option between centralising principles and decentralising principles. The necessity of local structures is determined by the fact that central public administration organisms cannot ensure the achievement of administrative tasks all over the territory and for which they need a local network.

Within the European Union, there are also both unitary administrative systems (France, Italy) and federal administrative systems (Germany, Belgium). These two forms of organisation mark the way local public administration is structured. Thus, a territorial community belonging to a unitary state is distinct from another one, which is a member of a federal state; the former will have only administrative competences and will not impact the state's unitary structure.

Integrated into a unitary administrative system or not, local communities benefit from the state's financial support – (federal) central administrations – but they are also tax-payers and produce a smaller income compared to the national average.

The institutional frame for the development of the rural communities in Romania

The administrative doctrine of the last years is based on three main principles when it concerns the way territorial administration is organised:

- the **principle of centralisation**, as a basic principle of organising local administration, supposes exclusively the dependence of local organs of the central administration, since they are, from a legal point of view, the only ones that adopt decisions applicable in the field, and territory authorities (we speak here only of state authorities) have only the competence of applying decisions of central authorities;

- the **principle of deconcentration** is, in reality, a form of centralisation of decision-making, and it consists in the acknowledgement of the state's agents distributed all over the country;

- the **principles of decentralisation** supposes the existence of some local public people designated by the community of the territory to have their own competences, and intervening directly in the management and administration of the community's "businesses": this notion also involves the idea of **local autonomy**.

The two notions are often used together, as stipulated by the art. 119 of the Constitution (1991): "*Public administration in administrative-territorial units is based on the principle of local autonomy and on the principle of decentralisation of public services.*"

As legal reality, local autonomy has varied depending on several factors such as:

- historical tradition;
- geographical environment;
- economic resources;
- degree of civic or political education;
- the state of national and international regulations.

Local autonomy in the communes and towns is exercised by two authorities: **local councils** and the **mayor**, elected under legal conditions. In this way, the legislator reflects the double nature of the commune, town or municipium, i.e. *community* and *administrative-territorial unit* (authorities elected through voting by a local community).

Through the prism of local autonomy, local public authorities are not subordinated to county or central authorities. But, on the ground of constitutional stipulations, **county councils**, the prefect or the Government may exert their prerogatives of *coordinating authority*, his/her prerogatives of controlling legality and its general public administration coordination, respectively.

Besides local public administration authorities, the institutional frame of the economic dimension of the management of regional and local development in Romania is ensured, mainly, by the following ministries:

- the Ministry of Economics and Finances;
- the Ministry for SMEs, Trade, Tourism, and Liberal Professions;
- the Ministry of Transport;
- the Ministry of Development, Public Works and Dwellings.

Conclusions

On the ground of our analyses whose results are presented above, we can say that Romanian administration is confronted with certain major problems needing solutions; it is obvious that the process of decentralisation of administration is stagnant since it lacks main elements such as basic rules, principles of functioning of the entire process, institutional structure that governs the process, the legal frame that allows the achievement of this process.

Local autonomy should function on the ground of some principles as subsidiarity – which supports wider competence delegation to local authorities in accordance with the European Chart of Local Autonomy – and solidarity – which aims at ensuring for all local communities the possibility of developing as harmoniously as possible in the spirit of national unity and of the observance of European standards.

Specificity of activities in the rural area does not contribute to the economic development of the villages.

It is imperiously necessary to attract investments for industrial activities or for the constructions which proved to be some of the basic branches of the national economy with important contribution to local development.

For these areas to become attractive from the point of view of investments we need to adopt and implement projects particularly in the field of transport infrastructure which should be contained in territorial management plans and, if the case, complementary to regional projects.

The lack of (little) funds at the disposal of local communities that allow the initiation and completion of feasibility studies in order to access European projects determines the lack of such projects thus depriving the community of its chances.

Thus, we need to find emergency solutions to meet the more serious issues accumulated in time, during the transition to market economy in Romania, as well as the changing of the concepts of social inclusion and development.

It is necessary to approach anti-poverty measures and to supply an action frame for their implementation, to permanently monitor the dynamics of poverty and of social exclusion, to develop reports concerning their specific aspects and to establish partnerships and cooperation relationship between the different institutions interested.

It is necessary to intensify actions in the field of social dialogue and child protection, to increase responsibility in supporting the families in need in order to prevent abandon and to protect the children in risk situations.

To sum up, the main factors leading to a flaw functioning of the local public administration are:

- dysfunctionalities in the relationships with the state decentralised institutions;
- insufficient financial resources at the level of local budgets;
- lack of funds for a good organisation of the different services;
- lack of space for the personnel and lack of technical equipment compared to the existing issues;
- flaws of the legislative system;
- lack of motivation of the personnel because of the low wages compared to the work and responsibility of the job;
- fear of unemployment.

In agreement with the present legislation (Law nr. 215/2001 concerning local public administration and Law nr. 315/2004 concerning regional development), local authorities should be involved in the development of programmes and in their implementation, no matter the financing form.

Thus, local public administration authorities become the main actors of local development.

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**SUB-SECTION: THE IMPACT OF FOREIGN LANGUAGES ON THE
BUSINESS ENVIRONMENT**

VOCABULARY AND LANGUAGE TEACHING

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In this paper we have looked at the difference between teaching language structure and teaching vocabulary. We have discussed how counts of frequency alone are not enough to determine what words should be taught. We have seen that knowing a word means more than just knowing its meaning. Even that is problematical since meaning includes sense relations and context, for example. To know a word we also need to know about its use, how it is formed and what grammatical behavior it provokes. Above all, in this paper, we have approached the idea of how vocabulary teaching and learning need to be emphasized in order for students to be competent language users.

Keywords: vocabulary, teaching vocabulary, learning vocabulary, word selection.

Jel Code: Y8

To the non-language specialist, the common sense view of how languages are learned is that you substitute the words in your first language for the corresponding words in the second language. Words represent the building block upon which knowledge of the second language can be built. Armed with this common sense but naïve view, non-specialists would therefore be surprised if they were to survey the history of language teaching. Far from being regarded of pivotal importance in language learning, the status of vocabulary in the last 50 years has, on the whole, been relatively low. For many years, vocabulary was seen as incidental to the main purpose of language teaching – more exactly the acquisition of grammatical knowledge about the language. Vocabulary was absolutely necessary to give students something to hang on when learning structures, but was frequently not a main focus for learning itself. Recently, however, linguists have increasingly been turning their attention to vocabulary, stressing its importance in language teaching and reassessing some of the ways in which it is taught and learnt.

Nowadays, people are more and more aware of the fact that the acquisition of vocabulary is just as important as the acquisition of grammar, although the two are obviously interdependent. If language structures make up the skeleton of a language, the vocabulary provides the flesh and the vital organs. Vocabulary is the knowledge of words and word meanings. As Steven Stahl (2005) puts it, "Vocabulary knowledge is knowledge; the knowledge of a word not only implies a definition, but also implies how that word fits into the world." Vocabulary knowledge is not something that can ever be fully mastered; it is something that expands and deepens over the course of a lifetime. Instruction in vocabulary involves far more than looking up words in a dictionary and using the words in a sentence. Vocabulary is acquired incidentally through indirect exposure to words and intentionally through explicit instruction in specific words and word-learning strategies.

Unless words are used, an ability to manipulate language structures does not have any potential for expressing meaning. Here we talk about the importance of choosing one's words carefully. In the real life it is possible that where vocabulary is used correctly, it can cancel out grammatical inaccuracy. The need to study language structures is obvious, as grammatical knowledge allows us to generate correct sentences. However, at the same time, we must have meanings that we wish to express, and we need to have a store of words that we can select from when we wish to express these meanings.

A common problem in teaching vocabulary lies in the fact that whilst there is a consensus about at what levels grammatical structures should be taught, we can hardly say about teaching vocabulary. Of course, there are syllabuses that include word lists, but there is no guarantee that

the list for a set of students is the same with the list for another set of students at the same level. But, in the same time we can say students have to learn the use of the verb 'to be' before they learn its use as an auxiliary in the Present Continuous Tense.

One of the problems of vocabulary teaching is how to select what words to teach. Dictionaries for upper intermediate students frequently contain up to 55,000 words or even more, and a word may have many meanings. They represent just a small fraction of all the possible words in a language. For a second-language speaker to get to native-speaker level takes many years of hard work. One would have to double the size of the active vocabulary at least. Some linguists estimate that educated native speakers could have an active vocabulary of between 8,000 and 10,000 words. Good second-language speakers might have an active vocabulary of 3,500 words. That is quite a difference.

Frequency has been a general principle of vocabulary selection. The criteria of how frequently some certain words are used can help us decide which words we should teach. The words which are most commonly used are the ones we should teach first. Another principle that has been used in selecting the vocabulary is that of coverage. A word is more used if it covers more things than if it only has a specific meaning. In order to know which words are the most frequently used, we can read lists containing the most often used words in a certain language. This was done by Michael West who scanned newspapers and books in order to list his frequency tables.

Perhaps the greatest revolution in vocabulary investigation and design, however, has been the harnessing of the computer to the task of finding out which words are used and how they are used. The massive Cobuild computer-based corpus at Birmingham University has been used not only for the design of a learner's dictionary but also as a resource for a vocabulary driven course book. That is the usefulness of the computer, of course: you can key in a word and it will immediately give you examples showing you the sentences and phrases the word occurs in and how often it is used. The Internet itself is an almost perfect learning space. It should be possible, then, to design vocabulary syllabuses on the basis of computerized information. If we feed in enough text, from newspapers, magazines, books, letters, conversations, and so on, we will be able to make accurate statements about what words to teach. There is no doubt at all that the use of the computers has gained enormously from the information they have been able to access. But even with such scientific power at our fingertips, the problem of selection has not been completely solved.

The first thing to realize about vocabulary items is that they frequently have more than one meaning. The word "book" for example, obviously refers to something you use to read from, "a set of printed papers fastened together inside a cover, as a thing to be read." according to the Concise Oxford Dictionary. But the same dictionary continues in giving eight more meanings of the word as a noun, two more meanings of "book" as a verb and three meanings where "book" + preposition makes phrasal verbs. So, we will have to say that the word "book" means the kind of thing you read from but it can also mean a number of other things, too. What a word means can be changed, stretched or limited by how it is used and this is something students need to know about. Word meaning is frequently stretched through the use of *metaphor* and *idiom*. Word meaning is also governed by *collocation* – that is which words go with each other. But words can change their shape and their grammatical value, too. Students need to know facts about word formation and how to twist words to fit different grammatical contexts. And they also need to know how suffixes and prefixes work. How can we make the words potent and expensive opposite in meaning? Why do we preface one with *-im* and the other with *-in*? Students need to know also how words are spelt and how they sound. Indeed the way words are stressed – and the way that stress can change when their grammatical function is different – as with nouns and verbs, for example, is vital if students are able to understand words and use words in speech. Part of learning a word is learning its written and spoken form.

Thus, we come to the conclusion that teaching vocabulary is obviously more than just presenting new words. This may, of course, have its place, but there are some other things to be discussed, too. For example, students see a lot of words during one week, some of them are used straight away, others are not. The question is the following: Should we teach some words which we need for structure practice, for example, and not teach others which occur incidentally in reading texts, for example? Is there any way in which we can encourage students to really learn a word?

Experiments on vocabulary seem to suggest that students remember best when they have actually done something with the words they are learning. There is a definite advantage in getting students to do more than just repeat them. Tasks such as changing them to mean their opposites, making a noun an adjective, putting words together, etc. help to fix the words in the learners' minds. One way or another, we have to get students interact with words. We should get them to “adopt” words they like and that they want to use. We should get them to do things with words so that they become properly acquainted with them. Especially at intermediate levels and above, discovery techniques – where students have to work out rules and meanings for themselves, rather than being given everything by the teacher, represent an appropriate alternative to standard presentation techniques. This is certainly true of vocabulary learning where students will often be asked to discover for themselves what a word means and why and how it is being used.

At intermediate levels we can assume the students already have a considerable store of vocabulary. Rather than teach them new words we can show them examples of words in texts and ask them to use their previous knowledge to work out what words can go with others, when they should be used and what connotations they have. Discovery techniques used with vocabulary materials allow students to activate their previous knowledge and to share what they know (if they are working with others). The conclusion we can draw from this discussion about active and passive vocabulary and about interacting are best summed up by a quote from Adrian Underhill: “...engaging the learner... is essential to any activity that is to have a high learning yield.” (Underhill 1985:107)

We have already said that selecting words for teaching purposes is a very difficult task to do. We based this on the enormous number of words that any language contains. For the same certainly students will want to enlarge their vocabulary with many more words than we, their teachers, can teach them. Where can they get this information? Certainly dictionaries provide one of the best resources for students who wish to increase the number of words they understand, or at least for students who wish to understand what a word means when they come across it in a text or a conversation. Most students will consult a bilingual dictionary to find the equivalent in their language. There is nothing wrong with such dictionaries except for the fact that they do not usually provide sufficient information for the students to be able to use. Perhaps the greatest resource we can give our students is a good monolingual dictionary. They provide information about pronunciation, spelling, word formation, metaphorical and idiomatic use – the entire profile of a particular word. The fact that students do not use monolingual dictionaries very much is not just because of language difficulty, however. Dictionaries are very daunting precisely because they contain so much technical information. Unless we train students in how to understand the information and use the dictionaries, the money they spend in buying them will be largely wasted since they never open them.

The scientific research on vocabulary instruction reveals that most vocabulary is acquired incidentally through indirect exposure to words. Students can acquire vocabulary incidentally by engaging in rich oral-language experiences at home and at school, listening to books read aloud to them, and reading widely on their own. Reading volume is very important in terms of long-term vocabulary development. Extensive reading gives students repeated or multiple exposures to words and is also one of the means by which students see vocabulary in rich contexts. Cunningham (2005) recommends providing structured read-aloud and discussion sessions and

extending independent reading experiences outside school hours to encourage vocabulary growth in students.

It seems almost impossible to overstate the power of words; they literally have changed and will continue to change the course of world history. Perhaps the greatest tools we can give students for succeeding, not only in their education but more generally in life, is a large, rich vocabulary and the skills for using those words. Our ability to function in today's complex social and economic world is affected by our language skills and word knowledge. In addition to the vital importance of vocabulary for success in life, a large vocabulary is more specifically predictive and reflective of high levels of reading achievement.

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L'EMPREINTE CULTURELLE ET SA DYNAMIQUE DANS LE MILIEU PROFESSIONNEL. COMMUNICATION ET ADAPTATION INTERCULTURELLES DANS LES ENTREPRISES ITALO-ROUMAINES

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The present paper presents a few aspects reflecting the difficulties that Italian businessmen face when adapting to the Romanian social and cultural environment or when leading Romanian working groups and their reaction towards working with Italian managers. The differences of mentality and both sides adaptation difficulties were detected starting from two questionnaires applied in mixed enterprises in county Bihor. The study underlines that the Romanians and Italians have two different ways of working, as a result of historical, economical, social and cultural differences.

Keywords: intercultural management, business culture, cultural dimension, cultural space

Cod JEL lucrare: F23, Y8, Z1

1. Introduction

Ces vingt dernières années, la réalité économique roumaine a connu une série de changements. L'un des plus importants concerne les investissements étrangers. Outre les incontestables bénéfices apportés par les investissements allemands, français, italiens ou américains, ceux-ci ont fait surgir des difficultés d'ordre juridique, économique, mais aussi culturel et ont déterminé des modifications significatives dans le milieu d'affaires et dans le micromilieu de l'entreprise.

Dans son ouvrage de 1996, Gh. Gh. Ionescu résumait les différences entre les organisations internes et les organisations mondiales à l'aide de deux notions: la *dispersion géographique*, relative à la question si les entreprises produisent ou exportent seulement dans des pays étrangers, et le *multiculturalisme*, à savoir les circonstances où plusieurs cultures interagissent dans les affaires.

La présente communication se propose d'analyser quelques aspects interculturels qui dérivent de l'implantation – dans la province de Bihor – d'entreprises dirigées par des investisseurs italiens. L'on retrouve ici les deux caractéristiques énoncées par le professeur Gh. Gh. Ionescu: les entrepreneurs italiens réalisent la production à l'extérieur de leur territoire national, en utilisant du personnel provenant de deux espaces culturels différents : l'espace italien et l'espace roumain. Nous définissons *l'espace culturel* comme l'ensemble des conditions matérielles et spirituelles dans lesquelles vit une communauté linguistique. C'est une réalité placée sous le signe de la tradition culturelle. Celle-ci peut influencer la manière dont les membres de la communauté perçoivent ou filtrent les informations, comprennent le monde, construisent leur discours et exercent leur activité (Catarig 2009).

En investissant en Roumanie, les hommes d'affaires italiens se sont retrouvés d'une part dans la situation d'entamer des relations d'affaires et de collaborer avec des entrepreneurs roumains, d'autre part dans celle d'embaucher, de diriger et de motiver le personnel appartenant à une culture différente. À leur tour, les hommes d'affaires et les employés roumains ont dû s'adapter aux exigences d'entrepreneurs étrangers.

Certes, entre les deux peuples il y a de multiples affinités, qui peuvent être expliquées par l'origine latine des Italiens et des Roumains. Néanmoins, le fait que chaque peuple a une histoire, des valeurs et des symboles qui lui sont propres crée un nombre considérable de différences

culturelles, que l'on ne doit pas négliger, car elles peuvent donner naissance à des malentendus, et parfois même à des conflits dans les relations de travail.

2. Méthode de recherche

Les chercheurs dans le domaine des études culturelles et dans celui du management ont démontré que les valeurs, les attitudes et le comportement des gens ont des racines profondes dans l'histoire et dans la culture d'un peuple. Ces aspects influencent non seulement la vie quotidienne, mais aussi la manière dont les gens travaillent. La plupart des études se réfèrent toutefois aux différences culturelles observées dans les milieux d'affaires américain, japonais, chinois, français ou allemand. Il y a très peu de recherches concernant la culture d'affaires en Italie ou en Roumanie.

Pour identifier et estimer les différences culturelles qui se manifestent dans le cadre des organisations dont les membres proviennent des espaces culturels italien et roumain, nous avons appliqué deux questionnaires dans dix entreprises fondées par les entrepreneurs italiens dans le département de Bihor. Pour que les résultats obtenus soient pertinents, nous avons sélectionné les entreprises qui opèrent depuis au moins dix ans sur le territoire de la Roumanie.

Le premier questionnaire, rédigé en italien, s'est adressé aux investisseurs, techniciens et ouvriers italiens et a été complété par douze personnes travaillant dans les domaines de l'industrie et des services. Au second questionnaire, adressé aux employés et collaborateurs roumains, ont répondu soixante personnes, dont 45% économistes.

L'analyse des réponses nous a aidé à établir en quoi consiste l'*empreinte culturelle* (ou les traits caractéristiques) respectivement des Italiens et des Roumains, à décrire comment s'actualisent ces traits dans les relations de travail et à plaider en faveur de la connaissance et de la gestion efficace des différences culturelles.

3. La manière dont les représentants de l'espace culturel italien perçoivent le milieu professionnel roumain

En général, les Italiens affirment que les principaux motifs pour lesquels ils ont investi en Roumanie ont été les perspectives de développement et la liberté d'action des entrepreneurs. Avant de réaliser l'investissement, ils ont analysé d'abord les réglementations économiques, ensuite le risque politique.

En ce qui concerne les relations avec le milieu d'affaires roumain, un nombre restreint d'Italiens travaillent directement et collaborent avec des investisseurs roumains. Ils considèrent que les entrepreneurs italiens ont une vitesse plus grande d'exécution des projets, une expérience plus vaste, un meilleur sens de l'organisation et une majeure précision.

Quant à la main d'œuvre roumaine, celle-ci est considérée assez compétente. Comme modalités de perfectionnement professionnel, les dirigeants italiens choisissent aussi bien pour le personnel italien que pour le personnel roumain les cours de spécialisation sur le lieu de travail et les cours de formation en Italie.

Devant faire un choix parmi plusieurs qualités figurant sur une liste, seuls 25% des investisseurs italiens attribuent aux Roumains des qualités telles que la précision, la ponctualité, l'opérativité, le sens de la communication, la flexibilité et l'attitude positive dans les relations avec les étrangers. Toutefois, la plupart des employeurs apprécie l'habileté manuelle des ouvriers roumains, même s'ils considèrent que le temps de réaction de ceux-ci est lent.

En revanche, entre 75% et 100% des employeurs italiens pensent que les travailleurs italiens peuvent être appréciés pour la ponctualité, l'opérativité, la précision, le sens de la compétition et le temps rapide de réaction. Suivent des qualités comme le sens de la communication, la disponibilité d'effectuer des heures supplémentaires, celle d'apprendre une nouvelle langue étrangère et la bonne attitude dans les rapports avec les étrangers.

Devant indiquer les points forts et les points faibles des Roumains, les Italiens apprécient le fait que les Roumains parlent plusieurs langues étrangères, qu'ils apprennent rapidement l'italien et qu'ils ont une bonne formation théorique. Mais, à leur avis, les Roumains n'obtiennent pas de bons résultats dans la pratique, sont caractérisés par un manque d'intérêt, ne se rapportent pas au futur, ne sont pas créatifs, rencontrent des difficultés dans les interactions avec les collègues et consomment de l'alcool pendant leur programme de travail.

En général, les Italiens croient que les principales différences entre les employés roumains et les employés italiens et les aspects auxquels les Roumains sont déficitaires peuvent être identifiés au niveau de la ponctualité, de la vitesse et de la précision dans l'exécution des tâches, de l'expérience, de l'engagement, du zèle et de l'intérêt pour le travail.

Bien qu'ils affirment qu'ils parlent assez bien le roumain, les investisseurs italiens préfèrent utiliser l'italien comme langue de communication dans l'entreprise.

Quant à la mentalité des Roumains, 50% des interviewés pensent qu'elle est différente de celle des Italiens et 50% affirment qu'elle est très différente. Aucun répondant n'opte pour les variantes « très similaire » ou « assez similaire ».

4. La manière dont les employés et les collaborateurs roumains perçoivent les représentants du milieu d'affaires italien

La majorité des répondants au second questionnaire sont embauchés dans des entreprises ayant du capital italien (86%) et occupent des positions d'économistes, techniciens, directeurs, juristes, secrétaires et ouvriers. Les autres (14%) sont des collaborateurs dans les domaines de l'assistance juridique, commerciale et des services immobiliers.

À la question « Quelles sont les qualités de l'investisseur ou de l'employeur italien ? », les répondants ont principalement choisi : les longues discussions, l'ouverture au dialogue, l'opérativité et la rigueur. Quant à l'investisseur ou à l'employeur roumain, celui-ci est perçu par ses anciens employés comme étant flexible, communicatif, permissif et caractérisé par l'esprit de compétition.

Les aspects auxquels les employeurs italiens et roumains ont obtenu un score similaire sont les suivants : l'ouverture au dialogue, la communication explicite, la ponctualité et la capacité d'apaiser les conflits. D'autres aspects communs, ajoutés par les répondants, sont : l'implication dans le déroulement de l'investissement, le désir d'obtenir du profit et l'inventivité.

Les plus grandes discordances regardent les longues discussions et la rigueur (propres aux Italiens), la permissivité et la flexibilité (propres aux Roumains). De plus, les répondants affirment que les Italiens sont plus habiles dans les affaires, se préoccupent davantage de la formation des employés, s'intéressent beaucoup aux nouveautés législatives et apprécient davantage le travail des employés, tandis que les Roumains se montrent plus compréhensifs et s'adaptent plus facilement aux diverses situations.

Chez leurs collègues italiens, les Roumains apprécient l'opérativité, la disponibilité d'effectuer des heures supplémentaires et celle d'apprendre une nouvelle langue, la ponctualité, l'esprit de compétition, la communication explicite, mais estiment qu'ils sont réticents dans les relations avec les étrangers, jasant et transmettent aux supérieurs hiérarchiques les discussions qu'ils ont eues avec leurs collègues roumains. Les répondants prisent également la spécialisation stricte, la connaissance, l'acceptation et le respect des règles, la discipline et les liens étroits avec les autres membres de la communauté italienne. Quant aux défauts, ils mentionnent le manque d'attitude collégiale et le fait que les employés italiens se lamentent beaucoup.

Parmi les premières différences de mentalité rappelées par ceux qui ont voyagé en Italie, on peut mentionner la propension à la propreté, le respect des règles, le respect de soi, la préoccupation pour l'élégance vestimentaire (surtout chez les hommes), le respect de l'heure du déjeuner, mais aussi l'avarice et la réticence envers les étrangers.

Finalement, 54% des répondants estiment que la mentalité italienne est différente de la mentalité roumaine, 28% considèrent que les Italiens sont assez similaires et 9% optent soit pour la variante « mentalité très proche », soit pour la variante « mentalité très éloignée ».

5. Conclusions

Quoique dans la vie quotidienne il semble que les Italiens et les Roumains se ressemblent beaucoup, en réalité l'on a affaire à deux modèles différents de perception du monde, qui dérivent d'un parcours historique, social et économique différent. Les différences culturelles deviennent visibles dans le milieu professionnel et donnent naissance à un style de travail typiquement italien et à un style de travail typiquement roumain.

Nous n'avons pas l'intention de faire une différenciation catégorique, mais nous pouvons extraire quelques caractéristiques déterminées par la manière dont chacun des deux peuples conçoit le monde, ainsi qu'elles résultent de l'attitude envers le travail.

L'empreinte culturelle de la communauté italienne inclut des traits comme : la préférence pour les longues discussions, la communication explicite, l'orientation vers le futur, l'individualisme, la discipline et le respect des normes et des règles, l'opérativité, la rigueur et la précision dans l'accomplissement des tâches, la spécialisation stricte, l'intérêt pour le travail, l'option pour l'italien comme langue de communication. L'entreprise est vue comme un système que la direction, mais aussi les employés doivent faire fonctionner.

L'empreinte culturelle de la communauté roumaine se caractérise par : la communication explicite, l'ouverture au dialogue, l'adoption très facile des langues de circulation internationale dans la communication d'affaires, la flexibilité, l'adaptabilité à diverses situations, l'habileté manuelle ou dextérité, l'orientation vers le présent et le passé, l'oscillation entre l'individualisme et le collectivisme, le laxisme en ce qui concerne la discipline et le respect des normes et des règles, le degré élevé de tolérance, la permissivité, la lenteur dans la réaction, un moindre intérêt pour la réalisation opérative, exacte et ponctuelle des tâches. Seule la direction est responsable du fonctionnement de l'entreprise.

Il est utile de connaître ces traits caractéristiques pour savoir surmonter les difficultés que suppose l'interaction des dirigeants et des employés au sein des entreprises multiculturelles. Les acteurs du milieu professionnel devraient acquérir une sensibilité interculturelle qui leur permette de transformer les différences culturelles en facteurs favorables à l'interaction, à la collaboration et au travail rentable.

Ces traits, dus aux évolutions historiques, sociales, économiques et culturelles des peuples, ne sont pas immuables. Des études ultérieures pourront refléter la dynamique des empreintes culturelles, étant donné les changements intervenus dans l'évolution de la Roumanie après l'intégration dans l'Union Européenne et les tendances de l'économie internationale.

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LES COMPETENCES LANGAGIERES – SUGGESTION POUR UNE ADAPTATION STRATEGIQUE DANS LE MANAGEMENT DE L'ENTREPRISE

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La dynamique de la société actuelle privilégie la libre circulation des personnes et de l'information. L'Europe, sans les frontières physiques qui séparaient autrefois les peuples, fournit le sentiment naturel d'un espace global, aujourd'hui violemment frappé par la crise économique. Dans le contexte des réductions des budgets, les entreprises doivent se redresser par l'implémentation de stratégies compétitives. Le modèle de la roue compétitive de Marc Ingham permet d'envisager les ressources humaines et leurs compétences linguistiques comme une valeur ajoutée, facteur stratégique révélateur de différences. La formation langagière étant cependant dispendieuse, nous suggérons une solution équilibrée et économique: la formation aux compétences partielles en langues étrangères par l'intercompréhension linguistique.

Keywords: intercompréhension, management, stratégie, compétences langagières

Cod JEL lucrare: Y8

L'EUROPE 2020 - la nouvelle stratégie globale européenne

Des syntagmes tels que « monde globalisé », « communauté planétaire », « village global », exotiques ou inexistantes à l'aube du XX^{ème} siècle, sont devenus aujourd'hui des lieux communs, usés par les analyses et vidés de sens à force des répétitions. Ces images de la globalisation doivent servir de toile de fond sur laquelle se lisent de nos jours la vie des individus et des organisations. Presque chaque famille de Roumanie compte au moins un membre qui est allé à l'étranger pour travailler ou pour faire du tourisme – et cela sans les entraves d'autrefois. L'idée de la libre circulation des biens et des personnes est complètement assimilée; les gens ne se posent plus le problème si *c'est possible* de travailler / voyager ailleurs, cette question étant remplacée par des préoccupations du genre *pourquoi, où, comment* ou *quand* le faire.

Tous ces propos, inattaquables il y a deux ans, portent aujourd'hui le gros fardeau de la crise économique déclenchée en 2008. Peut-être jamais le signal d'alarme n'a-t-il été si sonore, installant des priorités dans une stratégie multinationale. Publié il y a deux mois, en mars 2010, le projet « Europe 2020 » est la nouvelle stratégie pour une croissance intelligente, durable et inclusive décidée par les responsables européens.

La préoccupation sincère pour le devenir européen nous autorise à le lire plutôt comme un plan de sauvegarde pour une décennie décisive: *«L'Europe est confrontée à une période de transformation. La crise a annulé des années de progrès économique et social et révélé les faiblesses structurelles de l'économie européenne. Entre-temps, le monde bouge vite et les défis à long terme, comme la mondialisation, la pression sur les ressources et le vieillissement, s'intensifient»*²⁸⁷. (COM(2010) 2020: 3). Plus loin, la même analyse devient encore plus nuancée: *« La récente crise économique est sans précédent pour notre génération. Les progrès constants de la croissance économique et de la création d'emplois enregistrés au cours de la dernière décennie ont été annulés... notre production industrielle est retombée aux niveaux des années 1990 et 23 millions de personnes – soit 10 % de notre population active – sont*

²⁸⁷ Commission Européenne - EUROPE 2020 Une stratégie pour une croissance intelligente, durable et inclusive, COM(2010) 2020 , Bruxelles, 2010, consultable en synthèse sur

<http://ec.europa.eu/eu2020/pdf/COMPLET%20FR%20BARROSO%20-%20Europe%202020%20-%20FR%20version.pdf>, vérifié le 3 avril 2010.

actuellement sans travail. La crise a été un choc violent pour des millions de citoyens et elle a révélé certaines faiblesses fondamentales de notre économie. » (COM(2010) 2020: 6).

Face à ce tableau apocalyptique dont les traits définitoires sont *l'annulation* des années de progrès, de la croissance économique et de la création d'emplois, *les faiblesses* fondamentales, *la chute* de la production, *la perte* de millions d'emplois, plusieurs interrogations apparaissent naturellement: Quel est l'avenir des entreprises, nationales ou internationales, quelles stratégies de reprise et de développement devraient-elles implémenter afin de dépasser ce choc violent? Sur quoi intervenir? En quoi investir? C'est dans ce contexte que nous proposons d'encourager les entreprises à investir dans le personnel de l'entreprise, dans sa formation et ses compétences.

Parmi les sept initiatives phares²⁸⁸ imposées par « Europe 2020 » comme priorités dans la stimulation du progrès et d'une gouvernance économique crédible, nous trouvons un argument à l'appui de notre jugement. L'intérêt porté dorénavant de manière programmatique à l'implémentation d'une **stratégie pour les nouvelles compétences et les nouveaux emplois** permettrait aux personnes de développer leurs compétences tout au long de leur vie (COM(2010) 2020: 4). Ces compétences seraient un multiplicateur de valeur pour la personne, l'entreprise, le marché de travail et les relations qui s'y établissent, dans le sens de l'adéquation entre l'offre et l'emploi et la mobilité professionnelle.²⁸⁹

Pour l'instant la crise reste un indicateur d'inadaptation, et paradoxalement, devient un révélateur de stratégies d'adaptation et un ressort du changement.

La roue de la stratégie compétitive de Marc Ingham

Notre analyse se fonde en premier lieu sur un modèle bien connu dans la théorie du management, le modèle LCAG²⁹⁰ qui reste, malgré les reproches que lui sont faits, le premier modèle qui insiste sur le besoin d'une approche globale dans l'utilisation efficace des ressources et compétences distinctives dans l'espace économique.

Dans l'esprit du modèle LCAG, la roue de la stratégie compétitive, adapté par Marc Ingham d'après deux pionniers du management stratégique, Andrews (1971) et Porter (1980), relève une interdépendance de tous les facteurs impliqués dans une organisation.

Ingham note que dans son approche, le concept de stratégie « dépasse largement la définition de l'activité et le choix des produits-marchés et des activités pour inclure les principaux acteurs de l'environnement concurrentiel et socio-économique. La notion d'organisation recouvre les structures, les processus, les questions de leadership mais aussi les ressources de l'entreprise et les composantes distinctives dont elle dispose» (Ingham: 6).

²⁸⁸ Il s'agit, dans une énumération simple, des stratégies «*Une Union pour l'innovation*», «*Jeunesse en mouvement*», «*Une stratégie numérique pour l'Europe*», «*Une Europe efficace dans l'utilisation des ressources*», «*Une politique industrielle à l'ère de la mondialisation*» «*Une stratégie pour les nouvelles compétences et les nouveaux emplois*», «*Une plateforme européenne contre la pauvreté*».

²⁸⁹ Le même objectif, l'entrée sur le marché du travail, focalise les jeunes et le renforcement des performances des systèmes éducatifs dans le cadre du volet «*Jeunesse en mouvement*».

²⁹⁰ Le nom vient des initiales des chercheurs Learned E. P., Christensen C. R., Andrews K. R. et Guth W. D., auteurs de Business Policy, text and cases, Richard D. Irwin, Homewood, IL., 1965.

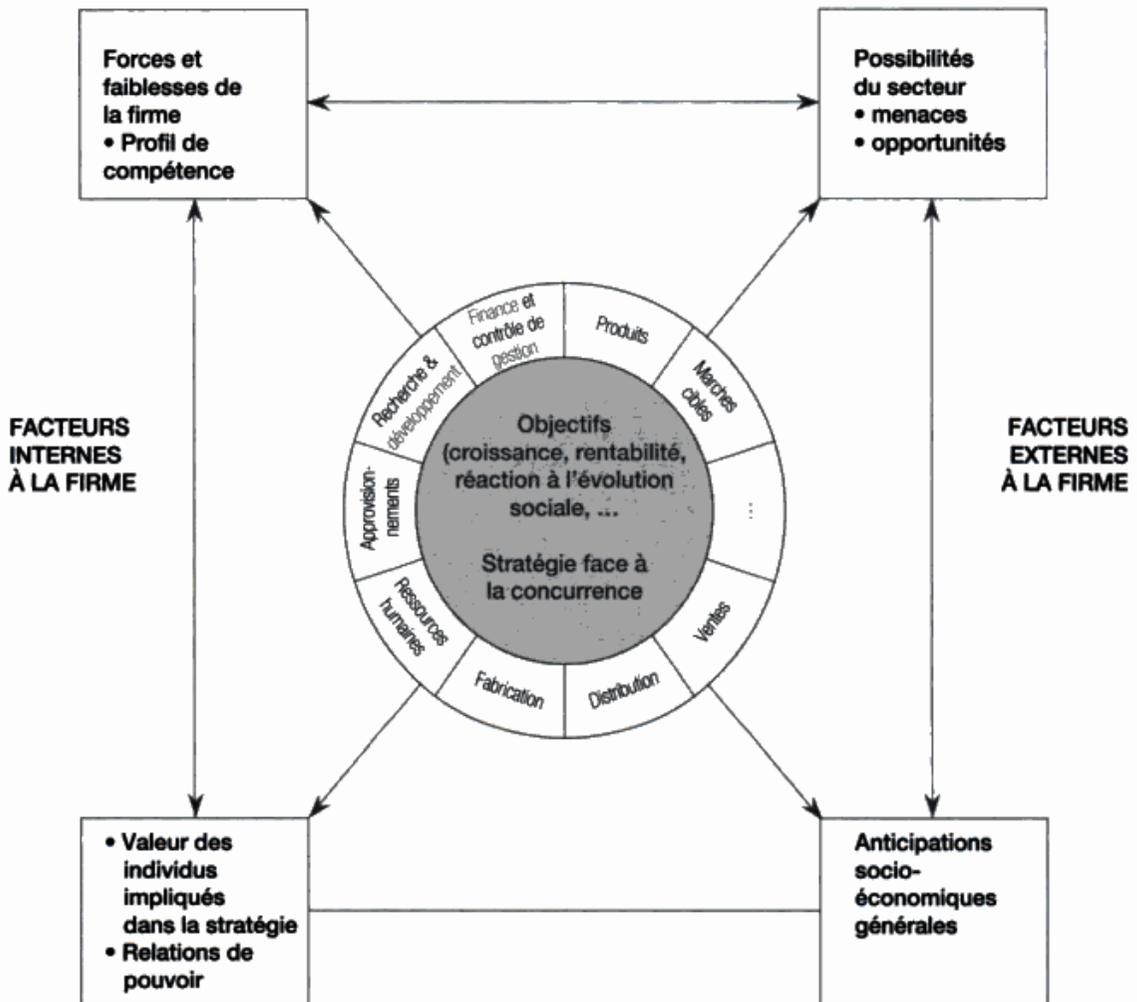


Fig.1 *Roue de la stratégie compétitive* d'après Marc Ingham (1995)

Nous nous permettons d'observer que la stratégie compétitive est comme un engrenage qui, actionné correctement, permet à l'entreprise de se débloquer et de rester sur le marché, produisant un avancement et une transformation; plus encore, tout ce mécanisme complexe et sensible ne serait pas à même de fonctionner en l'absence d'une bonne communication, l'équivalent d'une « huile » de qualité.

a). Au centre de la roue compétitive, en relation d'interdépendance, se trouvent d'une part les **objectifs** d'une entreprise soucieuse de faire face à la concurrence par une réaction adéquate à l'évolution sociale (croissance, rentabilité, etc.) et d'autre part la **stratégie** de la firme.

b). Tous les facteurs économiques – **finances et contrôle de gestion, produits, marché cibles, ventes, distribution, fabrication, ressources humaines, approvisionnement, recherche et développement** - sont ancrés au centre de la roue, dans les objectifs et la stratégie de management. Une relation d'interdépendance s'établit entre l'axe central et les rayons. Une intervention sévère sur une ou l'autre des composantes aurait un effet d'entraînement des distorsions.

c). Tout ce fonctionnement est cadré par un autre dispositif, plus général, qui est celui des relations entre les **facteurs internes à la firme** et les **facteurs externes à la firme**.

c.1). **Les facteurs internes** concernent d'une part les forces et les faiblesses de l'entreprise à travers l'identification des compétences distinctives par rapport à la concurrence

et d'autre part la valeur des individus impliqués dans la stratégie et les relations de pouvoir dressées au sein de l'organisation.

Dans la perspective de ce modèle, nous estimons les individus comme une ressource de l'entreprise et leurs compétences comme une composante distinctive. Ce sont les facteurs internes à la firme, générateurs de forces ou de faiblesses de l'entreprise mais aussi d'avantage compétitif. Nous constatons facilement que la dynamique de toute entreprise est extrêmement complexe et que « l'avantage compétitif des chances offertes à la firme de se faire une place de choix dans la concurrence et la synergie qui est une mesure de l'aptitude de la firme à réussir dans une nouvelle activité, jouent un rôle central dans le processus de croissance ». (Ingham: 7)

c.2). **Les facteurs externes** renvoient à l'identification des menaces et des opportunités du secteur, en lien avec l'anticipation socio-économique générale. Nous devons situer par conséquent notre réflexion sous le signe de la mondialisation qui a marqué le passage du national vers l'international, avec toutes les implications de renouveaux et d'adaptations stratégiques dans le management de la firme.

Attentif au processus d'accélération de **l'internationalisation** au début des années '90, Jean Brilman résumait les nouveaux mots d'ordre du management dans des directives qui restent encore actuelles « *Si vous êtes une entreprise nationale, devenez internationale! Si vous êtes une entreprise internationale, devenez mondiale!* » (Brilman: 22). Jean-Marc de Leersnyder (2002) observe²⁹¹ une tendance à la standardisation des managements: « Les principes du management tels qu'ils sont enseignés dans les business schools du monde entier tendent à se standardiser », suite à une tendance renforcée par des « réglementations de plus en plus pan-nationales » (in Dupriez, Simons: 5). A tous les niveaux d'entreprise: mononationales, semi-internationales, internationales, transnationales²⁹² (Hagedoorn et Schakenraad, 1995: 21), les roues de compétitivité se trouvent affectées dans un secteur ou dans un autre.

Les compétences langagières - composante stratégique dans la firme

Nous nous arrêtons en ce qui suit aux entreprises qui comprennent le trait inter-national et conséquemment inter-culturel et pluri-culturel. L'implantation d'une entreprise à l'étranger suppose automatiquement l'émergence de la problématique interculturelle et de l'apprentissage des compétences interculturelles, dans la gestion des particularités. Selon Brilman, dans le contexte international, l'homme d'affaires doit considérer *deux niveaux* de différences: *les différences de systèmes* (géographie, climat, démographie, organisation de la société, politique, économique, légale) et *les différences culturelles...*(Brilman: 357)

Les différences culturelles commencent avec *la langue* qui pose une empreinte sur la manière de penser. Dans la lignée de plusieurs études dans le domaine, Brilman affirme que la langue est *la base de la culture* et identifie dans les problèmes langagiers le plus grand défi de l'activité à l'international, remplaçant les anciennes entraves liées aux télécommunications, supplées par le progrès technologique. La langue est un facteur de différence et de différenciation, d'avantages économiques au niveau de l'entreprise et de l'individu L'œil de l'économiste observe finement « ceux qui opèrent dans leur langue maternelle ont un avantage considérable sur les autres en terme de facilité, vitesse, nuances. Les autres, dont la connaissance s'échelonne de nulle à bonne, accomplissent, en sus du travail normal d'écoute ou de formulation, un travail de traduction à la fois imparfait et fatigant. Ceux qui n'opèrent pas dans leur langue paraissent moins intelligents,

²⁹¹ Dans la préface signée à La résistance culturelle: fondements, applications et implications du management interculturel - publiée en 2002 par Pierre Dupriez et Solange Simons.

²⁹² Conformément à Lakehal « la firme multinationale ne se définit ni par la nationalité (multiple) de ses propriétaires ou salariés, ni par le nombre très élevé d'implantations, ni par la taille gigantesque de ses installations, ni par la part substantielle des profits réalisés à l'étranger. C'est une société de dimension internationale par sa stratégie et ses capacités financières face aux marchés mondiaux, disposant d'un siège installé dans le pays d'origine (société-mère) et d'un ensemble d'établissements appelés filiales-atelier ou unités de production et unités-relais, dans plusieurs pays ». Lakehal voit une relation de synonymie entre « firme transnationale » ou « firme multinationale ». (Lakehal: 325).

parfois primaires, moins professionnels car moins précis, plus lents...Le choix de la langue ou des langues dans une multinationale ou le changement de langue officielle est donc une décision majeure ». (Brilman: 359)

La langue a aussi une valeur instrumentale et d'activation. Partisan d'une approche de l'entreprise par la communication - qu'il caractérise comme *constante et mouvante*, Claude Duterme constate l'implication de tous les membres de l'organisation - dirigeants, personnels, actionnaires, syndicats - dans un procès communicatif vu comme « jeu d'interactions qui mobilisent et stabilisent le système ». La **communication** se trouve au croisement de plusieurs facteurs: contenus, opérations de transmission, flux informationnels, structure hiérarchique, nature du support (oral, écrit, média, etc.), dans le cadre d'une distinction classique entre la *communication formelle* (visant l'ensemble des informations transmises à l'intérieur de l'entreprise) et la *communication informelle* (constituée par les relations d'échanges linguistiques non-professionnelles). (Duterme: 11-27)

Vu la situation encore fragile du système financier, les difficultés à emprunter, à dépenser et à investir pour les entreprises et les ménages, l'état des finances publiques durement touchées, les déficits budgétaires et les niveaux de dette dépassant 80 % du PIB, le potentiel de croissance divisé par deux, le manque de financement et l'incertitude (COM(2010) 2020: 6), le choix de l'allocation des ressources à l'une ou l'autre des composante de la roue stratégique (Figure 1) s'avère problématique. Tous les facteurs économiques sont importants, mais plus que toute autre composante, la communication se glisse dans chaque secteur de la vie de l'entreprise et dans tout contexte hors travail. Elle est organiquement imbriquée dans chaque articulation et dans chaque séquence, ce qui exige le besoin de ressources humaines dotées, en autres, de compétences linguistiques.

Finances et contrôle de gestion, produits, marché cibles, ventes, distribution, fabrication, ressources humaines, approvisionnement, recherche et développement, objectifs et stratégie, relations entre facteurs internes et externes à l'entreprise... rien ne fonctionne sans communication. La roue est entretenue par une communication efficiente favorisée par des employés compétents linguistiquement. Surtout dans les organisations connectées à l'international, la préoccupation pour l'amélioration du potentiel linguistique, devrait devenir prioritaire. On remarque aussi qu'« il est difficile d'imaginer un changement de structure qui ne s'accompagne pas d'une adaptation subséquente de la politique de gestion des ressources humaine (Pichault : 10).

Formations linguistiques

Mais l'investissement dans la formation langagière des employés (dirigeants, cadres, fonctionnaires, etc.) est coûteux, si l'on estime les conclusions d'une étude sur les dimensions de l'industrie de formation langagière dans l'UE. La recherche commandée par la Commission européenne - « Study on the size of the language industry in the EU », *European Commission, 2009* - relève pour l'industrie langagière un chiffre d'affaires de 8,4 milliards d'euros en 2008 et prévoit d'ici 2015 un CA entre 16,5 et 20 milliards d'euros. Les observations de Karl-Johan Lönnroth, directeur général de la DG Traduction de la Commission, reprises par le site www.euractiv.com²⁹³, viennent à l'appui de la thèse que nous avons soutenue plus haut: les langues sont considérées comme un élément qui dynamise la croissance économique, plutôt qu'un coût supplémentaire, tant que l'on ne peut pas vendre son produit sans parler la langue du marché en question. L'étude montre d'ailleurs que beaucoup d'entreprises étrangères ne

²⁹³ <http://www.euractiv.com/fr/culture/industrie-linguistique-europenne-represente-84-milliards-euros/article-187821> vérifié le 3 mai 2010; pour consulter l'étude, disponible seulement en anglais, voir http://ec.europa.eu/dgs/translation/publications/studies/size_of_language_industry_en.pdf, vérifié le 3 mai 2010.

présentent pas leurs produits dans la langue des pays auxquels ils s'adressent, à cause du financements limités.

Ce qui est pourtant profit pour les entreprises de profil représente un coût pour les entreprises bénéficiaires. L'apparition de plusieurs offres d'apprentissage dans le domaine des langues étrangères prouve que sur ce marché il y a des concurrents qui créent des produits substitutifs des méthodes traditionnelles, grâce à leur habileté de venir à l'accueil des besoins des clients pour les produits différenciés. Si dans l'économie on peut parler de la fidélité pour une marque, dans l'enseignement des langues l'addiction à une méthode langagière a un autre statut: on pourrait parler plutôt d'un attachement à une méthode d'enseignement de la part du formateur moins disposé au changement, et non pas de la part de l'apprenant, plus ouvert aux opportunités d'amélioration des performances. Une simple recherche sur internet génère des millions d'entrées et permettent le choix de cursus adaptés au profil de l'organisation et des employés.

Les coûts seraient sérieusement limités si les responsables de l'entreprise prenaient le temps de se documenter et d'identifier les **programmes de formation appropriée**. Le point de départ serait l'identification correcte des besoins des employés en termes de compétences. Le plus grand nombre de situations ne supposent pas l'atteinte des performances au niveau des quatre compétences: les compétences de compréhension orale, d'expression orale, de compréhension écrite et d'expression écrite ne sont pas nécessaires en égale mesure à tous. La nature du travail et la perspective de travail de l'employé privilégient le plus souvent **les compétences partielles**.

Le programme ICE (Intercompréhension Européenne) démarré en 2001 à l'Université de Reims, Champagne Ardenne, a dévoilé au fur et à mesure sa capacité de répondre aux besoins des entreprises. L'intercompréhension est un concept complexe qui s'est enrichi ce dernier temps de plusieurs valences: méthode d'enseignement de langue, produit, phénomène, finalité ou démarche stratégique dans le cadre d'un management compétitif. En tant que méthode d'apprentissage de langues étrangères, l'intercompréhension offre aux apprenants l'accès à la compréhension des textes écrits dans une ou plusieurs langues non-étudiées antérieurement (l'appartenance à la famille linguistique de la langue maternelle en constitue un avantage), par un entraînement spécifique, déroulé pendant une période très courte. Sans détailler ici la méthode, nous nous limitons à donner quelques exemples des résultats possibles de l'intercompréhension, dans le contexte de l'entraînement des professionnel de l'entreprise au travail avec des langues étrangères non étudiées auparavant: la secrétaire qui est capable de lire un document palpable ou virtuel, écrit en 1, 2 ou 3 langues étrangères, le documentaliste qui trie et ressemble les documents, les chercheurs qui ont accès à des ressources publiées en langue étrangères non-étudiées par eux auparavant, les touristes qui lisent les brochures et les descriptifs, les ouvriers qui lisent des notices et des prospectus, les réunions à l'international où chacun parle sa langue étant compris par les autres, etc.

Eric Castagne qui, à côté de Jean-Emmanuel Tyvaert est le fondateur du programme ICE, avance d'ailleurs l'intention de démarrer « un projet global de formation de cadres d'entreprises internationales ». (Castagne, 2007)

Conclusion

Malgré l'incapacité de maîtrise complète d'une langue, «les compétences linguistiques sont indispensables pour établir des contacts et communiquer ». (Schneider, Susan C., Barsoux: 196)

Nous recommanderions une attention agrandie à cette composante prioritaire du management stratégique, liée aux compétences langagières des employés dans l'entreprise. Les firmes qui ne se sont pas préoccupées de l'état des compétences linguistiques de leurs employés - en conformité avec les besoins et les perspectives de développement de l'entreprise - devraient s'intéresser à la formation linguistique. Cela faciliterait *« l'acquisition et la maîtrise des ressources et compétences permettant à la firme de se différencier de ses concurrents, de déployer ses activités, d'innover ou de disposer d'une flexibilité suffisante pour s'adapter aux évolutions de*

l'environnement ou aux stratégies des concurrents ». (Tarondeau: 17). Le choix d'une formation axée sur l'intercompréhension est une solution équilibrée et économique, agréable et stimulatrice pour le monde de l'entreprise.

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CREATING COMPETITIVE ADVANTAGE IN TOURISM BY KNOWING FOREIGN LANGUAGES

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This paper tackles the importance of knowing foreign languages by the human resources employed in tourist services, as well as their importance on the business environment, giving a special attention to the way in which the foreign language becomes an important competitive economic factor. The main purpose of this paper is to prove that knowing one or several foreign languages and using them efficiently is essential for the human resources in tourism. These should know as many foreign languages as possible and improve the already existing linguistic skills in their attempt to settle new human relationships regardless of the position they hold in the tourism organization. If today, speaking one foreign language may prove enough and is considered quite common, in the near future, possessing adequate linguistic skills may imply knowing two or more foreign languages.

Keywords: foreign language, tourism, competitive advantage, linguistic skills.

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Need access to information and mobility in the contemporary world, together with the importance of effective communication with each other, have made at least study a foreign language to become an indispensable element in equipping each human resources to cope with the challenges of a society based on knowledge. One way of general training to each individual study a foreign language is to contribute in a specific manner to general training, in particular by developing communication skills in a foreign language but also by developing cognitive skills in general awareness cross-cultural issues, broadening the horizon of knowledge, increased self-esteem, and increase motivation for lifelong learning.

Knowing a foreign language is essential for human resources working in tourism. To ensure a high standard of customer service levels, but also adopts new employees to organizational values, tourism organization should pay attention when it comes to selecting staff, especially in terms of language knowledge.

To gain a competitive advantage, organizations must maximize tourism performance and innovation, constantly using all their talents and human resources. Thus, since there is more staff that has language, the more tourist organization can create competitive advantage in the market is positioned. On the basis of any human relationships underlying communication and to communicate effectively regardless of the language is a genuine competitive advantage for organizations that know how to use it.

Knowledge of foreign languages opens up new career opportunities, providing an advantage in light of any promotions or providing access to new and exciting responsibilities throughout his career. Human resources who speak several languages can communicate with more people in the world and this is one aspect which is increasingly important for many employers. Also, knowledge of several languages increases the chance to live and work in other countries.

In the globalize economy, the barriers to cooperation and international trade are gradually reduced, competitive organizations will be those who possess the human resources that use

multiple languages in the workplace. Therefore, people are looking for a job and know foreign languages have a competitive advantage and have more professional opportunities. Moreover, in every country there are populations who speak languages other than language. Extensive language skills can help ensure quality of service in many areas, but in tourism this is essential.

A European Commission study on the impact on EU economy of shortages of language skills in organizations estimated that 11% of exporting SMEs in the EU losing business because of language barriers. Language skills and intercultural improve the chances of getting a better job. In particular, knowing more languages provide a competitive advantage: HR organizations require interest tourist market becoming more competent in a number of languages to carry out specific activities, because human resources to perform activities Fri interest in permanent contact with people from different parts of the world. But human resources who know more languages can choose from a wider range of job offers, including jobs abroad. The study revealed that lack of language skills is the prime obstacle to working abroad.

From French, which was used heavily in the Romanian space by the eighteenth century, was passed today in English, the most used worldwide. Even if the English language has a leading role in the business world, knowing other languages will also offer EU organizations a competitive advantage and allow them to conquer new markets.

Language skills are an asset in all fields, not only for sales and marketing. All organizations, regardless of purpose or size, interact to a greater or lesser extent, with different categories of service providers and upstream suppliers. However, in many cases, organizations - especially medium and small ones - lack the knowledge and resources to incorporate languages into their business plans. Multicultural staffs need adequate training in language that is part of the organization and the organization should go further and find creative ways of using language resources that have their multicultural staff, but often in a form latent

As stated in the Forum, companies and business associations could usefully develop strategies to improve language skills for different functions. Management strategies such language will also have a positive impact on the language industry providing translation, interpretation and multilingual technology. It would also be in the interest of organizations to invest in language training and, with national, regional and local authorities to establish public-private partnerships to assist businesses, especially small and medium organizations to finance Language courses and developing new ways to improve the strategies in foreign language.

Romania's integration in the EU has led to the elimination of borders, allowing Romanians and foreigners to move freely within the Community, which means that our country is frequently visited many and Romanians visiting more and more other countries.

In this context, particularly in tourism, human resources providing services of interest are vitally necessary in order to know as many languages to communicate effectively. On the set, another change occurred in the labor market, as many companies came to Romania in order to invest, grow, and to seize market outlets here. This means that multinational companies need human resources to achieve particular goals and staffs need to know to communicate with them in the same language, human resources, know foreign languages to collaborate more easily, and for this purpose, benefits are numerous.

There is empirical evidence that skill in several languages fosters creativity and innovation: multilingual human resources are aware that problems can be resolved differently, depending on the linguistic and cultural context and can use this ability to find new solutions.

Knowledge of foreign languages is a prerequisite to employment of human resources for tourism, until recently, this requirement was characteristic only of certain tourist sectors. Among the knowledge required are English, French, German, Spanish or Italian, but lately noticed a steady increase for other languages, which until recently have had few followers.

According to a study presented by representatives of the International House, over 10% of Romanian very well knows English. Compared with EU countries, where average people who

know very well English is 22%, in our country only 10.5% of those questioned responded that this language very well mastered.

A percentage of 17.8% of respondents considered the country well know English language compared to a rate of 47% of EU citizens. Respondents said that their perception, the most important source of language learning is the school, at a rate of 40.1%.

For tourism in general and certain positions in the field in particular, knowledge of one or more foreign languages is essential to human resources, this leads to effective communication with foreign people. However, tourists assess the quality of human resources and tourism organizations in terms of language knowledge, leading to a certain extent the degree of return of tourists (provider effective communication with staff is one of the criteria by which tourists evaluate their leisure time or vacation leave).

Era of globalization we live in permanent contact with other people via the Internet to access information transmitted in different languages just because many people can understand them are some reasons why knowledge is useful and beneficial language. Knowledge of foreign languages is it one or two, or more, can not have any negative affect, and on the contrary, the gains can be significant.

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DER EINFLUSS DER ANGLIZISMEN AUF DIE DEUTSCHE WIRTSCHAFTSSPRACHE

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The present world has become small and manageable, in the era of modern means of transport and communication. The modern mass tourism brings millions of people each year to other countries. The economy, trade and transport are internationally intertwined, and mergers of large organizations do not represent any longer a rarity at the present time. More and more supranational organizations arise. States unite to form larger groups, such as the European Union. The word of the moment seems to be integration. Therefore, at least in the united Europe, a common language is necessary and the idea of multilingualism is becoming more and more important. In Europe today it is no longer enough to only master one language but someone must be able to at least speak one or two foreign languages fluently. The role of this common language seems to be inherited by the English language, because it is estimated that nearly two billion people routinely use English and the USA currently enjoy a dominant position in the world, politically, militarily, and economically. The Paper presents the influence of English words and the English Business vocabulary on the German Business environment.

Key Words: Business English, Lingua Franca, Semantics, International Business Context, German Business Environment

Einleitung

Die heutige Welt ist klein und überschaubar geworden, im Zeitalter modernster Verkehrs- und Kommunikationsmittel, welche schnellste Verständigung und Information ermöglichen. Der moderne Massentourismus führt jährlich Millionen Menschen in andere Länder. Die Wirtschaft, der Handel und der Verkehr sind international verflochten, so dass Zusammenschlüsse großer Organisationen in der gegenwärtigen Zeit keine Seltenheit mehr darstellen.

Immer mehr übernationale Organisationen entstehen. Staaten vereinigen sich zu größeren Verbänden, wie zum Beispiel die Staaten Europas zur Europäischen Union. Das Wort des Momentes scheint Integration zu sein. Deswegen ist, zumindest in dem vereinten Europa eine gemeinsame Sprache nicht mehr wegzudenken, welche nach der Auflösung der Grenzbarrieren, auch einen Fall der Sprachbarrieren mit sich bringt. Trotzdem gewinnt aber auch die Idee des Plurilinguismus im vereinten Europa immer mehr an Bedeutung (man denke da an die Einführung der Linguistischen Pässe). Es reicht also im gegenwärtigen Europa nicht mehr aus nur eine Sprache zu beherrschen, nebenbei muss man mindestens eine weitere Fremdsprache fließend sprechen können. Die Rolle der gemeinsamen Sprache scheint der englischen Sprache zuzukommen, da fast über zwei Milliarden Menschen, gut ein Drittel der Erdbevölkerung, laut Schätzungen routinemäßig mit der englischen Sprache in Berührung kommen und die USA gegenwärtig eine Vormachtstellung in der Welt, sowohl politisch und militärisch, wie auch wirtschaftlich genießt.

1.1 Geschichtliche Faktoren

Ein wichtiger Faktor in Sinne des Einflusses des Englischen auf die deutsche Sprache und Kultur ist die politisch-militärisch-wirtschaftliche Vormachtstellung der USA in Europa, zunächst in West-, nach dem Ende des Kalten Krieges zunehmend auch in Osteuropa, und die sich daraus ergebende massive Beeinflussung der europäischen Kulturen und Sprachen. Im besiegten und besetzten Deutschland war diese kulturelle und sprachliche Beeinflussung noch weitaus stärker und nachhaltiger als im übrigen Europa (Besatzungszonen), was zum Teil auch dadurch bedingt war, dass viele deutsche Intellektuelle durch die zwölfjährige Diktatur absurderweise die gesamte deutsche Geschichte entwertet und kompromittiert sahen, und versuchten sie zu verdrängen. Die Führungsschichten der Bundesrepublik orientierten sich daher von Anfang an ideologisch und kulturell an der atlantischen Führungsmacht.

1.2. Die wirtschaftlichen Faktoren

Um den Einfluss des Englischen auf der deutschen Sprache, und der Wirtschaftssprache überhaupt, darzustellen, muss man vorerst die wirtschaftlichen Faktoren, (und vor allem die außenwirtschaftlichen) berücksichtigen, welche Deutschland beeinflussen. Bei Deutschlands Handelspartnern steht Frankreich an erster Stelle, die USA und Großbritannien gemeinsam übertreffen es allerdings. Im Übrigen tauchen, abgesehen von den USA, an außereuropäischen Ländern lediglich Japan und die Volksrepublik China bei den Importen auf, was demonstriert, wie sehr trotz aller „Globalisierungsaktivitäten“ der „Exportweltmeister“ Deutschland doch eine in erster Linie europäisch und erst in zweiter Linie eine global agierende Ökonomie hat²⁹⁴.

Chemieunternehmen, Autohersteller und -zulieferer, Maschinenbauer und IT(Information technology) -Firmen schließen sich zu Verbände zusammen, so dass Produktion, Forschung und Entwicklung (Research & Development) meistens ins Ausland verlegt werden. Und internationale Geschäftstätigkeit erfasst selbst Kleinbetriebe wie etwa die Entwickler von Computerspielen in allen Funktionsbereichen ihres Unternehmens von Finanzierung, Einkauf und Produktion bis Marketing und Absatz. Schon Tucholsky stellte fest: „Was die Weltwirtschaft angeht, so ist sie verflochten.“²⁹⁵ Bei vielen Firmen wird es schwierig, eine Nationalität festzulegen. Sie verkaufen, forschen, entwickeln und produzieren in vielen Ländern „je nach profitabelster Kombination aus Kapital, Arbeitskraft und Gesetzgebung.“²⁹⁶ Englisch wird generell zur Firmensprache, wie bei Bertelsmann, Beiersdorf, DaimlerChrysler, der Deutschen Bank und der „Zürich“ Versicherung oder zur Verkehrssprache zwischen verschiedenen Teilen des Unternehmens wie bei VW und Bayer. Selbst bei französischen Weltunternehmen wie Alcatel, Axa und L'Oréal hat sich Englisch als Firmensprache durchgesetzt. Verträge und technische Dokumentationen werden nur auf Englisch verfaßt, Konferenzen auf Englisch abgehalten.

In den letzten Jahrzehnten haben weitere Faktoren den Einfluss der USA auf der Welt bestimmt: die Computertechnik. Der stark zunehmende Einsatz von Computern an Arbeitsplätzen, und auch die private Nutzung von PCs in den letzten Jahren, ist mit großer Wahrscheinlichkeit eine der Hauptursachen für die zunehmende Verbreitung des Englischen weltweit, da die größten Erfindungen rund um den Computer aus den Vereinigten Staaten kamen. Die Software von Microsoft war zunächst nur in der englischen Version erhältlich, ebenso, wie englischsprachige Websites das World Wide Web von Anfang an dominierten.

²⁹⁴ Karl-Heinz Stoll, *Megasprache Englische – Nischensprache Deutsch*, 2000 S.8.

²⁹⁵ Janos Burghardt, *Sorry, sprechen Sie Denglisch ?*, 2001, S. 1.

²⁹⁶ Dieter Herberg, *Anglizismen : Kein Grund zur Panik*, 2001, S.3.

1.3 Die sprachlichen Faktoren

Es heißt, dass jeder vierte Erdbewohner inzwischen Englisch fließend und kompetent spricht. Faktisch stehen den rund 100 Millionen Menschen, für die Deutsch sowohl Mutter- als auch Amtssprache ist, etwa siebenmal so viele gegenüber, die Englisch als Mutter- bzw. Zweitsprache oder als Fremdsprache fließend beherrschen. Weltweit gibt es 1 Mrd. Englisch- lerner²⁹⁷. Das Land mit der gewaltigsten Zuwachsrate ist derzeit China, in den Ländern der ehemaligen Sowjetunion lernen 50 Millionen Englisch²⁹⁸. Fast jeder Jugendliche Europas wächst heute durch den Schulunterricht mit dem Englischen als erster Fremdsprache auf. Also ist die internationale Sprache da. Weltweit ist von Englisch als der Lingua Franca Universalis (Universelle Fachsprache) der Gegenwart die Rede. In der weltweiten Buchproduktion ist der Anteil englischsprachiger Bücher mehr als doppelt so hoch wie der in jeder anderen Sprache.

Auch Linguisten sahen in der „Flut der Amerikanismen“ kein Problem, keine Gefahr, vielmehr wurden sie zu Fürsprechern, zu Ideologen der neuen Entwicklung, in deren Bann sie selbst standen. Unter dem Eindruck der strukturalistischen und funktionalistischen amerikanischen Linguistik hatte die deutsche Linguistik und Sprachkritik seit den 60er Jahren eine völlige Abkehr von der bis dahin vorwiegend historischen und sprachloyalen Betrachtungsweise vollzogen. Sämtliche Wörter der Gegenwartssprache und gerade auch die sogenannten Fremdwörter dürften nur nach ihrer aktuellen kommunikativen Funktion, d.h. nur nach ihrem gegenwärtigen Nutz- und Gebrauchswert für den Sprecher bewertet werden. Das bedeutet also, dass z.B. Computer und Rechner, happy und glücklich, sorry und Verzeihung, Ticket und Fahrkarte, Information und Auskunft zunächst einmal grundsätzlich gleichberechtigt und gleichwertig sind. Bei einer sprachkritischen Beurteilung und Bewertung dieser Wörter dürfe ihre Geschichte, d.h. ob sie deutscher oder fremder Herkunft seien, nicht die geringste Rolle spielen. Wichtig sei nur, ob und inwieweit sie im jeweiligen Verwendungszusammenhang kommunikativ, funktionell und effizient seien. Und da könne das entlehnte Wort durchaus kommunikativer, funktioneller und effizienter sein als das deutsche Wort.

2.1. Argumente für den Gebrauch von Anglizismen

Menschen, die dem Gebrauch englischer Begriffe gelassener gegenüberstehen, vertreten die Auffassung, viele Dinge könne man im Deutschen nicht ebenso gut ausdrücken. Zudem sei Sprache ein lebendiger Organismus, der ständigen Einflüssen und Veränderungen unterworfen sei, während der Versuch der „Reinhaltung“ ein Verharren beim Vergangenen sei. Außerdem gebe es überhaupt keine „reine“ Sprache: Seit man überhaupt von einer deutschen Sprache reden kann, steht diese in ständigem Kontakt mit verschiedenen europäischen Sprachen, denen sie Tausende von Wörtern entlehnt hat. Schließlich sei der Kampf gegen das Denglische eher ein Scheingefecht, da es eigentlich um allgemeinen [Kulturpessimismus](#) und einen latenten [Antiamerikanismus](#) gehe.

Der Gebrauch eines Anglizismus ist immer dann angebracht, wenn zur Bezeichnung des Gemeinten ein deutschsprachiges Äquivalent fehlt. In vielen dieser Fälle erspart die einfache Übernahme des fremdsprachlichen Ausdrucks eine semantisch ungenaue Übersetzung. Auch aus rein ökonomischen Gründen bietet sich der Import des fremdsprachlichen Ausdrucks an, wenn es (noch) kein deutsches Wort für den zu bezeichnenden Sachverhalt gibt. Zahllose Beispiele lassen sich sowohl in der Fachsprache, wie in der Allgemeinsprache finden: So benennt der wirtschaftssprachliche Fachbegriff Outsourcing die Übergabe von Firmenbereichen, die nicht zum Kernbereich eines Unternehmens gehören, an darauf spezialisierte Dienstleister, und auch Productplacement bedürfte der Umschreibung durch „im Film und Fernsehen eingesetzte Werbemaßnahme, bei der ein Produkt beiläufig, aber erkennbar ins Bild gebracht wird“. (oft wird aber der deutsche Ausdruck Schleichwerbung benutzt) Das im Zuge der gewachsenen Bedeutung

²⁹⁷ Karl-Heinz Stoll, *Megasprache Englisch - Nischensprache Deutsch ?*, 2000, S.11.

²⁹⁸ *Ibidem*.

des Umweltschutzes entlehnte Recycling ist eben nicht mit „Wiederverwertung“ oder „Aufbereitung“ identisch, sondern bezeichnet das Zurückführen einer stofflichen Substanz in einen bereits vorhandenen Kreislauf.

Denglisch-Befürworter halten es außerdem für positiv, dass neu entstandene Begriffe, etwa in der Technik, international einheitlich verwendet werden. Gerade im Internet fördere dies die Verständlichkeit. Für Menschen, die Fremdsprachen erlernen oder sprechen, stelle es eine große Erleichterung dar, wenn neue Begriffe (Neologismen) nicht übersetzt werden müssen. Wirtschaftsräume, die sich sprachlich dem vorherrschenden angloamerikanischen Sprachraum anpassen, genießen Wettbewerbsvorteile gegenüber isolierten Sprachräumen, was letztendlich Arbeitsplätze sichere.

Wichtige Funktionen erfüllen Anglizismen auch, wenn sich damit häufige Wortwiederholungen vermeiden, Aussagen stilistisch variieren oder syntaktisch straffen lassen. Je nach Äußerungskontext oder Textsorte kann auch der unübersehbare Trend zur Kürze im Sprachgebrauch – nicht nur in E-Mails wird der Telegrammstil gepflegt – einen Anglizismus rechtfertigen. So beansprucht der Trucker gerade zwei Sprechsilben, während es der „Lastwagenfahrer“ immerhin auf fünf Silben bringt. Entsprechendes gilt für die Synonyme Jointventure und Gemeinschaftsunternehmen und Management - „Unternehmensleitungen“. Letztlich entscheidenden Aufschluss über den Gebrauchswert eines Anglizismus bringt die Frage, ob das Fremdwort von seinen (möglichen) Adressaten eindeutig und ohne Schwierigkeiten verstanden wird. Ein Anglizismus sollte folglich vermieden werden, wenn Verständigungs- und Verständnisschwierigkeiten wahrscheinlich sind.

Leute, die dem Denglisch gelassen gegenüber stehen, unternehmen zum Teil den Versuch, Denglisch-Kritiker herabzuwürdigen, indem sie ihnen offenkundig unsinnige Übersetzungsversuche vorhalten bzw. unterstellen (*motherboard* = „Mutterbrett“). Denglisch-Kritiker hingegen versuchen, deutsche Wörter, die vor dem Auftreten eines bestimmten Anglizismus bereits vorhanden waren, weiter zu verwenden oder neu zu beleben bzw. Wörter zu finden oder zu erfinden, die stimmig und alltagstauglich sind (*motherboard* = „Hauptplatine“). Diese Vorgehensweise überzeugt dort, wo ein verständlicher Begriff gefunden wird. Puristen würden jedoch auch hier einwenden, „Platine“ könne kaum als ursprünglich deutsches Wort bezeichnet werden. Abgesehen davon können nicht alle dieser Versuche als gelungen bezeichnet werden, da es an allgemeiner Anerkennung und Verbreitung mangelt.

2.2. Argumente gegen den Gebrauch von Anglizismen

Fragwürdig wird der Gebrauch von Anglizismen, wenn sie nicht von sprachlichen Gründen bestimmt werden, also keine besondere inhaltliche, stilistische oder syntaktische Funktion haben. So müssen Anglizismen oftmals zur Prahlerei und Imagepflege herhalten, weil sich Sprachteilhaber davon eine Aufwertung des eigenen sozialen oder intellektuellen Ansehens versprechen²⁹⁹. Bei näherer Betrachtung gibt es für zahlreiche Anglizismen deutsche Entsprechungen und längst etablierte Lehnwörter: Die häufig befahrene Datenautobahn bedarf kaum einer sprachlichen Abwertung zum Datenhighway. Ein Feeling ist ein Gefühl, der Airport bleibt ein Flughafen, ein Deal ist nicht gewinnbringender als ein Handel. Die Rückmeldung ist gewiss nicht weniger treffend als das Feedback. Die News sind präziser entweder mit „Nachrichten“ oder „Neuigkeiten“ übersetzt, ein „nicht zuletzt“ ist sogar kürzer als last, (but) not least, und auch relaxen bietet im Vergleich zu „aus-,“ oder „entspannen“ keinen semantischen Mehrwert. Die nicht-deutsche Aussprache der englischsprachigen Wörter ist einer der Hauptgründe für die Ablehnung von Anglizismen. Die deutsche Sprache lebt und erfährt durch die Übernahme treffender Ausdrücke aus anderen Sprachen eine Bereicherung. Diese Erkenntnis

²⁹⁹ Claudia Döhner, *Für und wider des angloamerikanischen Einflusses auf den deutschen Wortschatz*, 2000, S.4.

hat heute in ihrer Anwendung auf Begriffe der Wirtschaft, der Technik und der Wissenschaft, deren Übernahme im Zuge der Globalisierung unvermeidbar erscheint, eine besondere Aktualität. Der Ende 1997 gegründete und schnell auf 10.000 Mitglieder angewachsene „Verein Deutsche Sprache“ (VDS) kämpft gegen „Denglisch“ bzw. „Engleutsch“ und wählt jeweils einen „Sprachhunzer des Monats“ und einen „Sprachpanscher des Jahres“. 2000 wurde die zweifelhafte Ehre dem Rektor der Münchner Universität zuteil für seinen Vorschlag, „Departments“ einzuführen. 1997 hatte den damals noch "Sprachschuster des Jahres" genannten Preis die Hamburger Modeschöpferin Jil Sander erhalten, für die früher genannte Aussage. Wenn man sich die Sätze jedoch etwas genauer ansieht, stellt man fest: Es sind deutsche Sätze, ihre Grundstruktur ist deutsch, die Amerikanismen sind Fremdkörper. Auch die „Moonshine“- und „Sunshine“-tarife der Telekom haben den begehrten Preis erhalten. 1998 erhielt den "Sprachpanscher" der Telekom-Manager Ron Sommer für eine Werbeaktion mit Sunshine- und Moonshine-Tarifen, City-Call, Free-Call, German-Call. Für ähnliche Leistungen wie Ron Sommer ist ein Jahr später der damalige Vorstandschef der deutschen Bahn AG Johannes Ludwig als "Sprachpanscher des Jahres" ausgezeichnet worden.

Gemäßigtere Kritiker akzeptieren generell, dass sich mit wachsender Mobilität der Menschen auch die Sprachen vermischen. Sie geben aber zu bedenken, dass es der Alphabetisierung nicht gerade dienlich sei, wenn die bei Nichtmuttersprachlern durchaus geschätzte ziemlich lautgerechte Schreibung des Deutschen aufgeweicht werde, weil beispielsweise englische Wörter (wo es kaum eindeutige Beziehungen zwischen Schreibweise und Aussprache gibt) unverändert übernommen würden (siehe *computer* vs. „Kompjuter“ u. a.). Bei Begriffen aus Sprachen mit nichtlateinischen Schriften (z. B. Griechisch, Russisch, Japanisch) werde schließlich auch nicht die Originalschreibung beibehalten.

3. Der Einfluss des Englischen auf die deutsche Wirtschaftssprache an Beispielen

In der Gegenwart spielt der zunehmende Bedarf nach einem internationalen, ja globalen Verständigungsmittel eine große Rolle. Als Ursache dafür wird immer wieder die Globalisierung genannt. Globalisierung erfordert eine Globalsprache - und diese Globalsprache ist die englische Sprache. Ihren Siegeszug als Globalsprache hat das Englische 1919 begonnen. Der 28. Präsident der USA, Thomas Woodrow Wilson, hatte Englisch als zweite Vertragssprache neben Französisch für den Versailler Vertrag durchsetzen können³⁰⁰.

Vor allem die Bereiche Wirtschaft, Wissenschaft und Bildung sind es, die mit großem Tempo auf Englisch als Globalsprache hinarbeiten. International warnen Linguisten schon lange vor den Folgen der Globalisierung und den weltweiten Vernetzungen wie dem Internet. In vielen Bereichen der Wirtschaft, der Wissenschaft und der Bildung dient Englisch bereits nicht nur international, sondern auch national als Lingua franca. Harald Weinrich, Mitglied der "Deutschen Akademie für Sprache und Dichtung", bringt das auf einen Nenner: "Verschiedene Wirtschaftsunternehmen mit klingenden Namen, jedoch multinational fusioniert und mit Firmensitz irgendwo in Byzanz, haben es in den letzten Jahren für richtig erachtet, Englisch als Konzernsprache einzuführen."³⁰¹ Ein Beispiel: Die Lufthansa Technik AG hat einem Techniker mit Entlassung gedroht, wenn er weiter deutsch statt englisch im dienstinternen Schriftwechsel verwenden würde. Klar und unbestritten ist, dass die Verkehrssprache der Piloten und Lotsen Englisch ("Airspeak") sein muss.

In der Werbung ist sogenanntes „Denglisch“ ganz normal. (slogan, headline, product placement, billboard, direktmarketing, coupon, publicity, tele-shopping, PR). Das liegt natürlich daran, dass dieser gesamte Wirtschaftszweig aus einem englischsprachigen Kulturgebiet stammt. Die Werbeagenturen gehen davon aus, dass die beworbene Zielgruppe so viel Englisch beherrscht, um ihre Werbebotschaft zu verstehen. Das mag bei Werbung für die IT-Branche vielleicht noch

³⁰⁰ Christian Meier, *Sprache in Not ?*, 1999, S.9.

³⁰¹ Thomas Niehr, *Anmerkungen zu einer populären Anglizismen-Kritik*, 2002, S.1.

stimmen (z.B. IBM: "Solutions for a small planet"). Desweiteren ist man in den Werbeagenturen beharrlich der Meinung, dass sich die englische Sprache wesentlich besser verdichten lasse als die deutsche, sie sei komplexer und treffe besser den Punkt. Betrachtet man jedoch die folgenden Werbesprüche, so fällt es sehr schwer, das zu glauben: "Nichts bewegt Sie wie ein Citroen", "Neckermann macht's möglich", "Nichts ist unmöglich! Toyota". Schon allein durch die Verwendung des Stabreims lassen sich originelle, witzige Werbesprüche texten. Eine Funktion von Werbesprüchen ist, durch Abweichung vom gewohnten Sprachgebrauch Aufmerksamkeit zu erzeugen. Das erreicht man sowohl durch englische als auch durch deutsche Werbesprüche.

Aber nicht nur dieser Zweig, sondern die gesamte Wirtschaft wird sprachlich von der Supermacht beeinflusst. Auf dem internationalen Markt macht man sich dann doch eher mit "Outsourcing" (Ausgründung), "Joint Ventures" (Gemeinschaftsunternehmen) oder "Cost-Benefit-Analysis" (Kosten-Nutzen-Analyse) verständlich, um den "Break-even-Point" (Gewinnschwelle) überschreiten zu können. Ein "Goal" (Ziel), das natürlich nur mit viel "Support" (Unterstützung) erreicht werden kann. Darum "recruitet" (anheuern) das "Human Resources Department" (Personalabteilung) nach dem "Career Check" (Lebenslaufbewertung) nicht nur "Consulter" (Berater) oder eine "Office-Managerin" (Sekretärin), sondern auch "High Potentials" (hoch qualifizierte Nachwuchskräfte) in edlen "Outfits" (Kleidung), die ihren "Eigenvalue" (Wert) kennen und "Soft Skills" (Schlüsselkompetenzen wie Team- oder Kommunikationsfähigkeit) mitbringen. Und wenn die dann dank ihrer "Performance" (Leistung) oder "Mailings" (Aussendungen) einen "Leverage-Effect" (Hebelwirkung) erreicht haben, stimmt - hoffentlich - ihre "Work-Life-Balance" (ausgeglichenes Leben) und der "Cashflow" (Zahlungsfähigkeit) des Unternehmens. Und falls nicht, werden die "Young Professionals" (junge Fachkräfte mit Berufserfahrung) zwar aufgrund mangelnder "Credibility" (Glaubwürdigkeit) "vom Boss gefired" (entlassen) ³⁰². Für die meisten solcher Anglizismen spricht das oben genannte Argument der Bezeichnungsangemessenheit: Anstatt nach einer häufig längeren und umständlicheren deutschen Übersetzung zu suchen, bedient man sich, indem man die Bezeichnungen der Herkunftssprache übernimmt, der Sprachkonvention der fremden Sprache und erreicht so in Bezug auf das Bezeichnete Eindeutigkeit. Aber, Computer, Service point, monitor, Facility manager, cargo, newcomer sind länger als "Rechner", "Auskunft", "Bildschirm", "Liegenschaftsverwalter", "Fracht" oder "Neuling".

Man findet aber Anglizismen aus der Wirtschaftssprache auch in der Alltagssprache, sie begegnen uns im täglichen Leben. Begriffe wie Onlinebanking, alle Arten von Service,, Teamwork, Know-how, Marketing und Workshop sind jedem vertraut. Für die firmeninterne Kommunikation in global agierenden Unternehmen ist die englische Sprache sinnvoll. Ein Nebeneffekt dieser Entwicklung ist jedoch, dass viele Amerikanismen aus der Fachsprache der Wirtschaft in die Alltagssprache übergehen, weil wirtschaftliche Prozesse im Alltagsleben der Menschen eine immer größere Rolle spielen. Der "Manager" fällt heute kaum noch auf, aber auch Wörter wie "Aktiensplit", "Broker", "Boom", "Börsencrash" gehören mittlerweile zur Alltagssprache. Allerdings wird der Anteil der Amerikanismen in der wirtschaftlich geprägten Alltagssprache erheblich überschätzt.

5. Schlussfolgerungen

Die heutige Anglisierung scheint auf den ersten Blick auf einzelne sachliche oder soziale Bereiche beschränkt. Beim zweiten Blick aber sieht man, dass niemand mehr un sie herumkommt. Die Lebensbereiche in denen die Internationalismen häufig vorkommen, sind : die Wissenschaften, die sich internationaler Konkurrenz stellen, der Computerbereich, der Bereich Reise/Verkehr/Tourismus, viele Zonen der Wirtschaft, die stark trendbestimmte Bereiche Werbung, Mode, Musik. In diesen Bereichen ist heute ein großer Teil, in den extremeren Fällen

³⁰² Claudia Döhner, *Für und wider des angloamerikanischen Einflusses auf den deutschen Wortschatz*, 2000, S.6.

schon die Mehrzahl aller sinntragender Wörter englisch. Das Englische dringt über alle Kanäle in unsere Sprache. Die Ursachen für die Verbreitung amerikanischer und britischer Fachausdrücke sind vielfach beschrieben worden. Durch die Globalisierung der Wirtschaft, den starken Einfluß von Popkultur, Werbung und Computertechnik auf unser Alltagsleben haben englische und amerikanische Ausdrücke und Satzstrukturen in die deutsche Sprache Einzug gehalten. Jugendliche haben heute einen weitaus größeren Wortschatz als die Generationen vor ihnen, aber aktiv benutzen sie weniger Worte. Es ist zu bezweifeln, ob durch Verbot von unnötigen Fremdwörter der aktive Wortschatz mitsamt deutscher Worte vergrößert wird. Es ist doch viel mehr zu begrüßen, wichtige Wörter aus dem Englischen, die Unsinnig wären zu übersetzen, zu übernehmen und gleichzeitig bewährte Wörter zu behalten. Sprachveränderungen konnten und können aber weder von Organisationen noch durch Verordnungen aufgehalten werden - das gilt auch für das Englische. Im Unterschied zu früheren Jahrhunderten, als Fremdwörter zumeist nur in der Sprache bestimmter sozialer Schichten (z.B. Adlige, Bildungsbürger) vorkamen, betreffen sie heute nahezu die gesamte Bevölkerung. Und das nicht nur in bestimmten Teilen der Welt, sondern global: Englisch ist die erste Sprache überhaupt, die in der ganzen Welt dominant ist, und Anglizismen sind daher häufig zugleich Internationalismen.

Neue Erfindungen bedeuten natürlich auch neue Benennungen und es liegt auf der Hand, das diese Wörter zunächst englisch sind, wenn die neu zu benennenden Produkte in den USA entwickelt wurden. Doch es sind auch Vorteile in der Sprache selbst zu finden. Englisch hat zwar ein riesiges Vokabular, doch kann man von einer „leichten Erlernbarkeit bis zu einer kommunikativ befriedigenden Verständigung“ sprechen. Die Sprache ist außerdem beliebt, weil Begriffe aus dem Englischen oft „kürzer und so bequemer anzuwenden“ sind³⁰³. Die englische Sprache verfügt über eine große Fülle an einsilbigen Wörtern und „cash klingt nun einmal flotter als Bargeld“. Auch von der „phonosymbolischen“ Kraft englischer Wörter ist öfter die Rede, man findet sie in Wörtern wie crash, boom, bounce oder splash.

Aber die deutschen Ausdrücke bieten nicht nur den Vorteil, anschaulich und sofort verständlich zu sein. Sie lassen sich auch mühelos in vollständige Sätze einbauen, dort bewegen und variieren.

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³⁰³ Christian Meier, *Sprache in Not ?*, 1999, S.14.

THE IMPACT OF THE ENGLISH ECONOMIC TERMS IN THE BUSINESS ENVIRONMENT

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In terms of quantity, the English (American) influence in the economic language is striking, remarkable. The adjustment of these terms is brief, relative, which is not a factor favoring the assimilation of loans, but is permissible, in principle, for Anglicisms. In what concerns the need for these loans, it can be deemed that the demarcation between “necessary loans” and “luxury loans” is not yet solid. Low frequency or isolated Anglicisms may be classified into the second category (some may even affect proper specialized communication). Even if enough Anglicisms recorded in the economic press will not remain in Romanian, “the era of the Internet, of globalization”³⁰⁴, we may consider a greater influence of English in the economy (perhaps similar to computer science).

Keywords: Anglicisms, economic terms, specialized communication

I.1. Our research is focused on analyzing the importance of economic terminology for broader socio-professional groups. An observation that emerges is the representative presence and use of *English terms* in texts which seek their spread beyond the field of specialists. Such texts belong, in general, to a certain type of media – the “popularizing” press, eventually the press of “scientific popularization”. The interest in such cases is amplified when there is an obvious extra linguistic reasoning, such as the case of a part of economic terminology in Romania since 1990, a period characterized by profound economic changes. These extra linguistic realities sometimes need to be defined by explicit terms (and the scientific terms must generally be mono-semantic and, therefore, precise). Explaining the meaning of specialized terms to ensure the accuracy of their interpretation and use by laypersons requires greater than in other terminology, careful analysis of the relation between specialized definition, lexicographical definition of and texts³⁰⁵. The analysis has started from a corpus of English terms³⁰⁶ which distinguish themselves by high frequency and, hence by their significance for expressing various concepts. The general economic press or the economic popularizing press represents an objective source for determining important English terms.

A survey has been carried out upon the economic press intended for laypersons. English terms, frequently used in the business environment, have been excerpted, which have been classified according to their occurrence in various publications or weekly newspapers: **Ziarul Financiar**, **Capital (Capital TV)**, **Adevărul economic**, **Săptămâna financiară**, **Averea**, **Bursa**, **Banii Noștri**, **Business Standard**³⁰⁷. These terms with English form, marked as novelty both by form and meaning, are generally mono-semantic, which grants them an obvious specialized nature. The presence of specialized English terms can be a challenge as they occur frequently in mass media and the layperson has no means (dictionaries do not list them, in general) to understand

³⁰⁴ See A.Stoichițoiu-Ichim 2006: 24 – 25.

³⁰⁵ Concerning various issues of scientific terminologies in terms of the interest for linguistics, on one hand, and for ordinary communication, see A Bidu-Vrânceanu 2007.

³⁰⁶ The analysis hereby will consider the works analyzing the importance of the English influence in the current Romanian. See in this respect A. Stoichițoiu-Ichim 2006.

³⁰⁷ To be mentioned that this publication overtakes TV shows of channels specialized in economy (Money Channel)

their mere broad meaning. However, some contexts attempt an explanation of the term's use, which triggers the advantage of some sort of decoding and even assimilation. For example: "if last year only TV channels were SOLD-OUT (their advertising space had been already sold – ed. note), **Capital**, 2007, no. 29, or a YIELD of 7.25%, namely return of 7.25%" (paraphrasing), **Capital**, 2006, no. 27, pp. 17 or "Tax DUMPING, respectively a lower taxation level than the European average....", **Saptamana financiara**, 2006, June 19, pp. 14 or "EPS – EARNING PER SHARE", **Bursa**, 2007, no. 87, pp. 3, etc. However, it is not a rule to attempt explaining the new English terms in the context where they appear. The focus is on what happens with the other classes of English terms.

I.2. The Anglicization is a trend in existing languages, namely to let the vocabulary assimilate the English influence. This is a highly interesting phenomenon given the internationalization trend, which displays a new dimension of the contact between languages. We should underline here the significance of English words, which we have also analyzed in our approach of the economic terms deriving from French³⁰⁸. Considering a different approach, most of the terms falling into this class (such as BUSINESS TREND, TARGET, etc.) are deemed by A. Stoichitoiu-Ichim 2006 as "luxury loans", which does not arise from our analysis. What interests here is, at what extent, some terms – noted by specialists, appear as less necessary.

Therefore, experts insist that Anglicisms are loans both from British English and American English, which – for different and complex reasons – are "under adjustment"³⁰⁹. Therefore, they cannot be classified in the category of *completely assimilated loans*, nor as non-assimilated called **xenisms** or **foreignists**³¹⁰. Other experts consider Anglicisms as "foreign words that maintain the foreign look in spelling, pronunciation or inflexion"³¹¹. According to the latter perspective, adjustment problems would not constitute a failure of this category of loans. The analysis of the economic terms of English origin carried out hereby is useful to determine the influence of the English language in the Romanian vocabulary, and especially in the economic vocabulary, although "certainly many of these words will not remain in the language as they do not meet the requirements for assimilation in the Romanian language"³¹². The current Romanian press uses many Anglicisms whose definitions are not found in general or specialized dictionaries, although they belong to different terminologies, which proves that in some cases, they have exceeded the boundaries of strict specialization, migrating to the common language.

I.3. Based on broad materials³¹³ provided by the aforementioned widespread press, we will handle the following issues regarding Anglicisms: their form adjustment – in terms of phonetics, spelling, morphology (II and III); terms are mainly grouped according to their higher (II 1) or lower (II 2) frequency. Given that economic Anglicisms are used as simple terms, as well as in complex forms of different types (composed and syntagmas), we will also attempt to classify the material according to this approach (IV). The Anglicisms' decoding by laypersons could be favored if these terms are to be listed in dictionaries (specialized, but mainly general), however the analysis does not have a positive answer for such requirement (V). Finally, the semantic areas to which belong the economic terms deriving from English words could increase their linguistic chances and, implicitly, the significance of such type of influence in the Romanian language.

³⁰⁸ See. A.Stoichitoiu-Ichim 2006: 16 – 17.

³⁰⁹ See. A.Stoichitoiu-Ichim 2006: 29.

³¹⁰ See. A.Stoichitoiu-Ichim 2006: 28, even if the solid demarcation of these classes is deemed difficult, the incomplete adjustments keeps its significance (see A.Stoichitoiu-Ichim 2006: 34), which is not an advantage in terms of loans' implementation.

³¹¹ See discussions in A.Stoichitoiu-Ichim 2006: 32.

³¹² See A.Stoichitoiu-Ichim 2006: 19.

³¹³ We shall not list here all occurrences recorded, but only in strictly necessary and relevant situations.

II. We will try below to see what issues arise from the English words from the economic press. Our intention is to ascertain the difficulties Anglicisms have to adjust to the Romanian phonetic, inflexion system, etc. fluctuations in their writing, meaning extending or restricting and similar situations.

1. A first class of Anglicisms, whose presence is noticed repeatedly and which appear quite often in the economic press (in every issue and even several times in the same newspaper) gathers the following terms: TREND, BROKER, BRAND, LEASING, BUSINESS, RETAIL (RETAILER, RETAILING), RATING, TRAINING, HOLDING, TRUST, SPONSOR, DEALER (DEAL), TARGET, DISCOUNT, TRADE, JOB, BOOM, DUMPING, PLANNING etc. We have listed in the following several examples for these terms, highly used in the economic press under investigation and, therefore, in the economic environment:

„The Bucharest Stock Exchange might resume an *upward* TREND”, **Business Standard**, 2007, no. 92, or „a closing of almost 1.3400 of the EUR/USD rate might lead to a continuation of the *downward* TREND”, **Capital**, 2007, no. 23, pp.34, „TREND The domestic media market is developing by integrating operations in large entities”, **Capital**, 2007, no.7, pp.20. We can note the term’s linguistic integration both by sound and spelling forms, which do not pose any issues, and, also, by an inflexion typical to Romania; moreover, a positive role is played by the term’s establishment in somewhat stable syntagmas.

„BROKERS expect increases after the nine month results”, **Business Standard**, 2007, no.92, or „Basically, the BROKER, not the client shall demand the release of the statements of account. In short time, all agencies of BROKERAGE companies in the country will be able to demand such services”, **Capital**, 2007, no.15, pp.25. In this case, the form of English loans does not trigger any sort of problems, which can be deemed as an advantage, together with the necessary specialized meaning.

Another frequent term of LEASING: „Personnel LEASING is a segment which has significantly contributed to the development of both companies”, **Capital**, 2006, no.22, pp.22, or „My clients, whose LEASING contract for non-European cars would have ended in January...”, **Capital**, 2007, no.7, pp.6. (We can notice here a sort of definition or explanation of the term LEASING). The term poses some issues as regards its form (differences between writing and pronunciation), but its considering and broad significance at the level of ordinary speakers has led to its integration due to the concept thereof.

The term BUSINESS: „The increase is due to the involvement of NEW BUSINESS in a field that is about to emerge on the market”, **Business Standard**, 2007, no. 88, pp.19, „The watchword seems to be concentrating BUSINESS operations under the umbrella of a trust”, **Capital**, 2007, no. 7, pp.20, „For BUSINESS clients, it is highly important to simplify the offer, **Capital**, 2006, no.22, pp.20”. This term has one of the most increased frequencies: titles of pages, articles of the economic press impose it through stability. The term withstands competition with its older and very frequent synonym: AFACERE.

Other terms, more recently appeared, such as RETAIL try to occupy a significant position based on their frequency: “EUR 3 billion represents the investments of major RETAILERS, expected in the coming years in Romania ... Kaufland, Auchan, Real and Interspar also land in the Romanian RETAIL environment”, **Capital**, 2006, no. 22, pp.61, or „a group of investors will build a mixed center, with luxury apartments, offices and RETAIL on the ground floor.”, **Capital**, 2007, no. 7, pp. 5, or in **Business Standard**, 2007, no. 88, pp.19 „Programs for RETAIL and shopper marketing have been those boosting the BUSINESS”. Also, in this case, the form issues and even a less necessary meaning do not hinder the term’s high frequency. A correlation is noted with a form with which can be associated in terms of form and semantics (RETAILER) and, especially in the last quote, we note the association, the simultaneous presence of several English terms in a close context (some of them frequent such as BUSINESS, others – isolated such as **shopper marketing**).

For terms such as: „TRAINING for the employees of the Commercial and Sales Departments. The successes obtained by Butan Gas Romania in the first six months of this year are mostly the outcome of such *specialized classes...*”, **Banii Noștri**, 2005, no. 34, pp.10, where they explain the English term with the help of a synonym Romanian expression. The same we see in **Bursa**, 2007, no. 87, pp.8: „Egedex brings an innovative concept of TRAINING solutions through specialized training programs for various professional fields...”. The word TRAINER shares the same situation, with a Romanian plural: “The Company has over 40 years of expertise in human resources development consulting and over 3000 TRAINERS (TRAINERI) certified in over 38 countries.”, **Business Standard**, 2007, no. 88, pp.13. The frequency of such terms (especially TRAINING) is quite high and the linguistic means concerning its implementation are similar to the examples discussed above³¹⁴.

2. The second class we have identified, gathers English terms with a lower frequency of even isolated occurrences (one, two occurrences and not necessary in every issue): PROVIDER, FREE-LANCER, PACKAGING, FACTORING, CONSULTING, LOW-COST, START-UP, KNOW-HOW, OUTSOURCING, OFF-SHORE, SOLD-OUT, BOND, COMMODITIES, OFFSET, YIELD, LOHN, HEDGING, TOKEN, HUB etc. The specific English spelling is highly obvious, with pronunciation issues in Romanian and difficult decoding, except for terms which are of interest for the common language and whose meaning becomes known through extra linguistic knowledge, for instance LOW-COST flights. We list below several examples in this respect:

“... Waiting for heavy OFFSET investments”, **Capital**, 2007, no. 29; „Yahoo! Has recently purchased a START-UP Company specialized in movie publishing”, **Săptămâna Financiară**, 2007, July, 9; „... capitals circulated through OFF-SHORES by current magnates...”**Capital**, 2006, no. 36, pp.8; „Teodor Droșcaru is convinced he can make the difference on the FREE-LANCER’s market”, **Banii Noștri**, 2005, no. 34, pp.17; „... he worked as designer, afterwards he switched to FREELANCING, because he didn’t manage to handle projects.”, **Capital**, 2007, no. 6, pp.22; „... movement of the dollar increase was synchronous with the steep decline in oil, gold, copper and other COMMODITIES...”, **Capital**, 2006, no. 21, pp.34; „FACTORING companies are most interested in this products, as they intend to insure the invoices purchased from their clients”, **Capital**, 2007, no. 7, pp.17.

III. 1. The phonetic and graphic adjustment of English terms depends on several factors: entry into language, linguistic consciousness of speakers (knowledge or lack of knowledge of English). The international character of these terms probably grounds their use in the original form (just to be an easy communication tool between specialists and not only³¹⁵). We have tried to show in the examples cited in II such adjustment problems. The result is that in most cases, English terms trigger graphic and phonetic problems.

2. The Romanian writing and pronunciation occurs for very few economic terms, such as: TREND, HOLDING, SPONSOR, FACTORING or TRUST – as assimilated term. Otherwise, the terms, we have selected, have English writing and pronunciation (BROKER, LEASING, BUSINESS, RETAIL TRAINING, RATING, BRAND etc.), as we have commented during the previous analysis. As seen from the Anglicisms’ definition (I 2), experts agree, in principle, their

³¹⁴ Even though some experts (v. A.Stoichițoiu-Ichim 2006: 61) consider them luxury Anglicisms.

³¹⁵ V B. Thiry 2004: 171-172, who quotes numerous Anglicisms from the current literature in the economic field: BUSINESS, BUSINESS PLAN, BROKER, CASH FLOW, DUMPING, FACTORING, HOLDING, JOINT VENTURE, LEADER, LEASING, LOBBY, LOCK-OUT, MANAGEMENT, MANAGER, etc. See also A. Stoichițoiu-Ichim 2006, pp.18-19, who gives several examples from the economic-financial terminology concerning the assault of Anglicisms in the context of relations with international institutions: RATING, CARD, CATERING, DEALER, STAND-BY AGREEMENT, LEASING etc.

incomplete adjustment to the Romanian phonological and spelling system³¹⁶. Causes can be **objective** (distance between the Romanian and English linguistic system, restricted movement) or **subjective**³¹⁷ (insufficient knowledge of English and convenience). The terms we have analyzed, highlight such issues.

Some English terms present various degrees of adjustment through articulation, but unadjusted through orthography³¹⁸, such as: LEASING, BRAND, BUSINESS, RETAILER, BROKER, KNOW-HOW, BOOM, OUTSOURCING, etc.

3. Another problem regarding morphological adjustment, in addition to those already reported, deals with the Romanian grammar mark to be added in a graphic form³¹⁹, which draws attention on the foreign nature of the term, trying to replace the absence of a phonetic adjustment. As regards the gender of nouns (which are the most numerous), most terms designating inanimate fall within the Romanian neutral: TREND(s), BRAND(s), BUSINESS(es), TRAINING(s), RATING(s), etc. Male English words are fewer, but they cannot be overlooked. For example: BROKER, DEALER, PLANNER, TRAINER, PROVIDER, FREE-LANCER, etc. Female English terms are not in the material under research.

IV.1. The interest for Anglicisms and their implementation into Romanian may be justified by the need expressed by their meaning. From this point of view, the focus is on the semantic areas where they belong.

A category of terms distinguished by their frequency in the press under survey is represented by the *name of professions* (capacities), usually held by economists in national and multinational companies, borrowed almost entirely from English, probably from a desire to express more precisely the specialized economic meaning (particularly with respect to international relations), or conversely, out of convenience or snobbery (to impress the reader or the audience).

We list below several *names of professions* commonly found in the investigated material:

TOP MANAGER, GENERAL MANAGER, EXECUTIVE MANAGER, MARKETING ASSISTANT, INTEGRATION COMMUNICATION DIRECTOR, DEPUTY MANAGING DIRECTOR, HEAD OF PLANNING, CLIENT SERVICE and NEW BUSINESS DIRECTOR, BUSINESS DEVELOPMENT MANAGER, ACCOUNT PLANNING MANAGER, COUNTRY MANAGER, SENIOR TAX MANAGER, MANAGING DIRECTOR, ACCOUNT MANAGER, ACCOUNT EXECUTIVE, ACCOUNT PLANNER, DEALER, CUSTOMER SERVICE SPECIALIST etc. Some of these terms are defined or analyzed in general or specialized dictionaries³²⁰ (*manager, broker, dealer, account executive, account manager, customer service specialist*).

A detailed analysis shows that only few of these terms are necessary loans.

2. Another class of Anglicisms, which occur often in the economic press, is represented by the types of companies met in the press under analysis: LEASING *companies*, OFF-SHORE *companies*, ASSET MANAGEMENT *companies*, PRIVATE EQUITY *companies*, JOINT-VENTURES, BROKERAGE *companies*, RETAIL *companies*, RATING *companies*, etc.

The same class includes names of companies headquartered in Romania and which have English names: the *international company* WILSON LEARNING, BIG FOUR, HEAD HUNTER MMV *Company from Galati*, MENTOR TRAINING *Company from Piatra Neamt*, PROFESSIONAL *Company*, MANPOWER *Company*, etc.

³¹⁶ See A.Stoichițoiu-Ichim 2006: 32.

³¹⁷ See A.Stoichițoiu-Ichim 2006: 35.

³¹⁸ See. A.Stoichițoiu-Ichim 2006: 22, who notes the tendency of keeping and even going back to the English spelling (for instance, LEADER).

³¹⁹ Phenomenon also noticed by A.Stoichițoiu-Ichim 2006: 47, especially regarding plurals' expression.

³²⁰ We refer to DEX, as general dictionary, Dictionar de Economie 1999, and also Dicționar de terminologie a profesiilor, C.Călărașu, Ed. Universității of Bucharest, 2004.

The economic concepts expressed by English terms are represented in the relevant examples above.

V. The Anglicisms' meaning issues can be many and varied and we will approach (additionally to those already debated) those which are important for assessing their status in the economic terminology. The frequency and the ability to assign *denotative* values to meet the referential and communicative functions of specialized languages may be factors favoring the implementation of several economic terms of English origin³²¹.

The semantic areas of Anglicisms from the economic press display predominantly a denotative interest (names of professions: TOP MANAGER, GENERAL MANAGER, EXECUTIVE MANAGER, MARKETING ASSISTANT, etc. or institution names: WILSON LEARNING, Big Four, etc.). Designating new necessary economic concepts is not always obvious, which may lead to the removal of many of these terms from the Romanian language³²².

Moreover, the general interest of regular speakers for economic terminology leads to the economic Anglicisms' implementation into the common language. This expansion results into the development of connotative meanings, which may affect the terminology's accuracy. We have not noticed such situations in the wide-spread economic press, which can be distinguished only on different types of texts (without specialized profile and only for specialized terms such as TREND, BRAND).

VI. Based on the analysis above, we may reach the following conclusions:

In terms of quantity, the English (American) influence in the economic language is striking, remarkable.

The adjustment of these terms is brief, relative, which is not a factor favoring the assimilation of loans, but is permissible, in principle, for Anglicisms.

In what concerns the need for these loans, it can be deemed that the demarcation between "necessary loans" and "luxury loans" is not yet solid. Low frequency or isolated Anglicisms may be classified into the second category (some may even affect proper specialized communication³²³).

Even if enough Anglicisms recorded in the economic press will not remain in Romanian, "the era of the Internet, of globalization"³²⁴, we may consider a greater influence of English in the economy (perhaps similar to **computer science**).

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³²¹ Therefore, in our opinion terms such as BUSINESS, TREND should not be considered "luxury loans" or cultism (See A.Stoichițoiu-Ichim 2006: 20). Moreover, we deem that BUSINESS is justified in terms of terminology in order to avoid the ambiguities of the synonym AFACERE (business in Romanian).

³²² The observation is also made by A.Stoichițoiu-Ichim 2006: 24 – 25 with respect to other fields. Also, the dynamics of Anglicisms' meaning should be studied; See A.Stoichițoiu-Ichim 2006: 105 – 106, 111.

³²³ See A.Stoichițoiu-Ichim 2006: 33.

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THE IMPACT OF LANGUAGES ON THE ONLINE BUSINESS ENVIRONMENT

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This paper deals with an analysis of the English language, as lingua franca of the Internet, mainly online business environment. If a business has already developed a Web site, it is important to translate the site into the target language of a particular foreign market. It sounds easy, but is a literal translation all that's required for a different culture? We shall see in the next parts of this paper. Indeed, nowadays, the whole humanity has at its disposal an exceptional, very powerful medium. The new communications technology is causing a revolution in many aspects of our lives, and its future effects are still unforeseeable. English is an integral part of business communication, job opportunities and globalization. Cultural translation goes beyond mere linguistic translation, since it involves designing a Web site that is sensitive to the cultural differences, between the originated country and the target country. If you ask any search marketer what the main issue is when trying to optimize website(s) for Europe he will tell you: language.

Keywords: English, languages, Internet, global, business transaction, culture, e-commerce, localization

JEL code Z 19

1. English- lingua franca of the Internet

Firstly, English is an effective method to communicate business transactions for a successful career. There are various ways of communication such as verbal and written form. Verbal communication conducted through phone can be used for telemarketing. For example, Ford Motor Company, American Express. Call centres in banks also use written form of communication. For example, the ABN AMRO bank, in spite of being a Dutch bank it has established itself in more than 53 countries and it is conducting business transactions in English.

English is the most commonly used language of international commerce, politics, science, diplomacy, and the most commonly used language on the Internet. It is a “lingua franca”, or vehicular language, i.e. a language spoken and utilized outside of the country or countries of its origin, as opposed to a vernacular language, i.e. a language spoken within and amongst native speakers in the country of origin. English, like other lingua franca of the past, is often used as a second language to effect common communication for a specific purpose (such as diplomacy) between people for whom the lingua franca is not their first language.

English is one of the most widely used languages in today's world and has a great impact on a successful career and also online transactions(marketers, on the one hand, and consumers, on the other hand). Due to rapid modernization and westernisation, the popularity of the English language has increased. It is internationally used and globally accepted. “English is being recreated every minute of every day, in billions of conversations in every country on earth; in countless books, films, television and radio programs, on the internet—recreated organically: that is, in ways that grow out of its extraordinarily, perhaps incomparably, rich history and flexibility.”(Robert Dessaix, 21/01/2006) English is an integral part of business communication, job opportunities and globalization. Although some say that English is not a commonly used language, statistics prove that increase in business transactions, job opportunities and

advancement in globalization are due to the wide influence of the most commonly spoken language, English. These two phenomena - the advanced computer technology and English with its status as a world language - are brought together in one whole and form something that is really exceptional and unique, something that is multinational and the most global thing ever in the whole of human history: they form the Network-of-networks, the Internet, and English as its lingua franca appears to be the network's inseparable part.

2. Importance of Going Global

With the ability of the Web to instantaneously reach a global audience, many e-commerce and e-business companies have attempted, or are attempting, to expand their markets beyond their home countries. As the number of Internet users grows at an exponential rate around the globe, there are great opportunities for companies to grab a share of the global market through the Web. Currently about 49% of the Internet population is estimated to be non-English speakers.

Expanding business through the Web may not require physically setting up offices physically in different regions or countries. If a business has already developed a Web site, it is important to translate the site into the target language of a particular foreign market. It sounds easy, but is a literal translation all that's required for a different culture?

According to Adam Jones, director of customer programs at SimulTrans, a translation company based in Silicon Valley, there are five basic localization strategies:

1. Use only U.S. English;
2. Translate portions of a given Web site into a target language;
3. Translate the entire Web site into a target language;
4. Culturally localize the site for a target audience; and,
5. Develop content in a target country, independent of the U.S. site.

The first three strategies involve linguistic translation of Web sites whereas the last two strategies involve cultural translation. Cultural translation goes beyond mere linguistic translation since it involves designing a Web site that is sensitive to the cultural differences between the originated country and the target country.

Localization of an e-commerce site also goes beyond the localization of a mere Web site. It involves more than just files residing on a server; it involves the entire infrastructure necessary for transaction, distribution, and customer services, which is often unique to a specific country and tied to a specific culture. Each country in the world has a distinct social system and culture. Nothing cannot be generalized in discussing specific localization strategies for a particular country.

3. Is English still present in international electronic commerce, is it still relevant to other cultures?!

It is important for all businesses to establish trusting relationships with their consumers. Companies

with established reputations in the physical world often create trust, by ensuring that consumers know who they are. These businesses can rely on their established brand names, to create trust on the web.

New companies that want to establish online businesses face a more difficult challenge, because a kind of anonymity exists for companies trying to establish a web presence.

Most companies now realize that the only way to do business effectively in other cultures is to adapt to those cultures. The phrase “think globally, act locally” is often used to describe this approach. The first step that a web business usually takes to reach potential consumers in other countries, and thus in other cultures, is to provide local language versions of its website. This

may mean translating the website into another language or regional dialect. Researchers have found that consumers are far more likely to buy products and services from websites in their own language, even if they can read English well.

Only 370 million of the world's 6 billion people learned English as their native language.

An important element of business trust is anticipating how the other party to a transaction will act in

specific circumstances. That is one reason why companies with established brands can build online

businesses more quickly and easily than a new company, without a reputation. The brand conveys some expectations about how the company will behave. For example, a potential buyer might like to know how the seller would react to a claim by the buyer that the seller misrepresented the quality of the goods sold. Part of this knowledge derives from the buyer and seller sharing a common language and common customs. Business partners ideally have a common legal structure for resolving disputes. The combination of language and customs is often called culture. Most researchers agree that culture varies across national boundaries and, in many cases, varies across regions within nations. All companies must be aware of the differences in language and customs that make up the culture of any region in which they intend to do business. Businesses that successfully meet the challenges posed by trust, language, and culture issues still face the challenges posed by variations and inadequacies in the infrastructure that supports the internet throughout the world. Internet infrastructure includes the computers and software connected to the internet and the communications networks over which the message packets travel. In many countries other than the United States, the telecommunications industry is either government owned or heavily regulated by the government. In many cases, regulations in these countries have inhibited the development of the telecommunications infrastructure or limited the expansion of that infrastructure to a size that cannot reliably support internet data packet traffic. English has always been the dominant language of the Web and electronic commerce, with an estimated 63.5% share of the world's online population. But a significant number of internet users either do not speak English or prefer to use their native language for Web transactions. According to Euro-Marketing Associates(EMA), a consulting firm specializing in multilingual marketing, non-English speakers also represent" the fastest-growing group of people online today." EMA estimates that 55.7 million people are part of the non-English segment, including millions of U.S. and Canadian residents who switch to Spanish, French, or some other languages at home.

One of the surprises in the Euro-Marketing statistics is that just two languages- Spanish and Japanese make up almost half of the non-English Web marketplace, a ratio that differs significantly from the actual number of native speakers for these languages.

4. The European online business environment is more than just using different languages

If you ask any search marketer what the main issue is when trying to optimize website(s) for Europe he will tell you: **language**. Europe consists of fifty countries. The European countries which are part of the European Union together already have 23 official languages.

Europe has many countries and many languages. Some say there are over 200 official languages to take in account. Others also look at the dialects and then count over a 1000. So language really is a big issue when optimizing sites for Europeans. The Europeans have different lifestyles, which means they also have different online behavior. One thing you have to keep in mind is that every country in Europe has its own culture. And though they might speak the same language, they feel they are completely different. Let's combine the two issues discussed above: language and culture.

There are more countries in Europe with that issue: in both Germany and Austria for example they speak German. But the language barrier is bigger than just the differences within the

language. For example, when targeting Austria, which is located just below Germany, it's tempting to set up a German site and use it to target the Austrians also. After all, the language is quite similar. However, chances are you will not get much traffic from Austrians. Why? Simply because the Austrians do not trust the German websites. If they see the shop is on a German .de domain they will be more reluctant to buy a product than when it's on an Austrian domain. Just because they have a different culture. The same might go for trying to sell products to a Dutchman and targeting him with a Belgian site.

In some countries there are even differences within the country. Take for example Spain, where Basques and Catalan really are living their own lives and where most feel not connected, even hostile in some cases, towards the country itself. A quick example to show how much: last year the Spanish national soccer team won the European Championships. Where in Madrid people were celebrating on the streets, in Barcelona it was relatively quiet. It was after all the Spanish team which had won, not the Catalan team.

The "problem" of focusing exclusively on languages in Europe is that its not one country, one language. It's one country, many languages. Take the Netherlands for example. With only 17 million people living on a little piece of ground which the official language is Dutch, but Frisian is also accepted as a official language. Next to that there are about 8 or 9 dialects, but when optimizing for websites you don't have to take those in account.

How to handle all of these language and cultural differences when optimizing for Europe? According to Bas van den Beld, a well-known web strategist, each search marketer should research the differences in languages, by knowing the history of the areas one is targeting and getting domains and writing sites for every specific country. We would like to add that in our opinion language is the most important asset of a website, if it is not understood by the online consumers, eventually the market share could sometimes fall dramatically.

5. The European Commission's policy regarding the role of languages in Europe's business environment

The Commission defines language as an integral part of a person's identity and culture. It argues that learning foreign languages also necessitates understanding other people and their way of thinking to oppose intolerance, xenophobia and racism.

Progress towards the "mother tongue plus two foreign languages" goal is slow. Half of the EU citizens polled in a recent Euro barometer survey say they can hold a conversation in at least one language other than their mother tongue. At the top of the class come the Luxembourgers (99%), Latvians and Maltese (93%) and Lithuanians (90%), while Hungarians (71%), citizens in the UK (70%), Spain, Italy and Portugal (64% each) tend to master only their mother tongue. The Commission also suggests that higher education institutions play a more active role in promoting multilingualism among students and staff as well as the wider local community. It warns that the trend in non-English-speaking countries towards teaching through the medium of English instead of through the national or regional language may have "unforeseen consequences" for the vitality of those languages.

The role of intercultural communication skills in global marketing and sales strategies is growing. Reacting to evidence that European companies are losing business because they cannot speak their customers' languages, the Commission published a study on the impact of the shortage of language skills on the EU economy in December 2006.

The study clearly revealed the link between languages and export sales, indicating that a language strategy is a significant element of the overall success of every European business. The Commission is well aware of the importance of effective language policies in supporting business development, and calls for language certification to be standardised throughout the EU.

More recently, a report presented by European business leaders in July 2008, entitled 'Languages mean business: companies work better with languages', found that EU businesses risk losing competitiveness as other countries start outperforming them in language skills.

The report, presented by the Business Forum for Multilingualism, chaired by former EU Commissioner Viscount Etienne Davignon of Suez-Tractabel, found that emerging economies, primarily in Asia and Latin America, are quickly acquiring the solid language skills necessary to compete successfully.

Europe will thus have to promote formal and informal language learning more effectively to keep up, it says, estimating that as much as 11% of European SMEs lose business every year as a direct result of linguistic and intercultural weaknesses.

On a more positive note, the EU's language industry is worth €8.4bn and is set to grow by 10% annually over the next few years after having recorded one of the highest growth rates of any industrial sector despite the economic crisis, according to a European Commission-backed study published in November 2009 (EuRActiv 30.11.2009).

6. Conclusions

If the earliest days of the Websites, at the onset of the 1990s, were dominated by English-language content as well as users, this situation is rapidly changing. In the mercurial world of the Web, where sites appear and disappear overnight and where not even the major web portals individually or collectively can provide access to all the available pages, it is impossible to be precise as to how many individual languages are represented currently on the Web. The New Babel: Language Barriers on the World Wide Web and the Babel Team results revealed a dominant position for English; nevertheless, close to two home pages out of ten were in some other language. When the enormous number of pages available on the Web is taken into account, another figure about which no precise estimate can be offered, but certainly well in excess of one billion (for a discussion of the problems of estimating the Web's size (Dahn 2000) this nevertheless represents a vast amount of information unavailable in English. German, Japanese, French, and Spanish all accounted for more than one percent.

A later analysis was conducted by FUNREDES: the Networks and Development Foundation. It estimated that English accounted for around 60 percent of web pages, a considerable decline from the earlier Babel study. On this basis, it then estimates the percentages for six other European languages. In all cases, their presence on the Web is proportionately higher than in the Babel study. All but one account for more than two percent of web pages. Furthermore, more than 19 percent of web pages are in languages other than these top seven:

Position	Language	%
1.	English	60
2.	German	6.3
3.	Spanish	4.85
4.	French	4.39
5.	Italian	2.77
6.	Portuguese	2.14
7.	Romanian	0.19
	Other	19.36

The EU's new multilingualism strategy, published on 18 September 2008 and entitled 'Multilingualism: an asset for Europe and a shared commitment', emphasised the importance of language skills in addressing challenges as diverse as globalisation and increased mobility and immigration. It sought to mainstream EU language policy across a number of existing policy areas, including the education, media, research, social inclusion and competitiveness fields.

The strategy highlighted the importance of language skills in improving the EU's social cohesion and prosperity in the context of the Lisbon Strategy for Growth and Jobs.

Recognising the growing importance of emerging markets for EU companies, the communication stressed the need for workforces to possess knowledge of the language of the regions in which they operate. It also highlighted the role of language skills in improving the employability of Europeans.

Moreover, given that 2008 was designated European Year of Intercultural Dialogue, the strategy emphasised the role of languages in removing barriers to interaction between cultures. We have already mentioned that cultural translation goes beyond mere linguistic translation, since it involves designing a Web site that is sensitive to the cultural differences, between the originated country and the target country. All the companies must be aware of the differences in language and customs that make up the culture of any region in which they intend to do business.

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DOUBLESPEAK AND EUPHEMISMS IN BUSINESS ENGLISH

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Modern English speech, while not always, is supposed to be uncommonly frank. Doublespeak and euphemisms are cultural phenomena as well as linguistic concepts. Both are deeply rooted in social life and have a great influence on social communications. Doublespeak has become part of the general language, shaping the context in which it is used. As a linguistic concept, euphemism has fast won close relationships with the western culture, and it reflects the life and values of English people and their history.

Keywords: communication, business, doublespeak, euphemisms

JEL classification: Y90.

1. Introduction

Human beings rely on symbols to construct their individual perceptions of the exterior world. Language itself results as the individuals need to communicate with their group their realities within the confines of a set code understood by each member of the group. When conducting the social communications, according to then polite principle, people always some implicit and elegant expressions to replace those that are violent and vulgar. In a knowledge-driven economy, like that of the 21st century, artifacts of written and spoken communication (i.e., texts, in a general sense) have acquired importance as a form of capital. Organizations are also in the business of producing and brokering information. They use texts to interact with clients, with government institutions, and with other organizations. Often, these texts act as rhetorical proxies for individuals, organizations, or other constituencies who may be physically absent. Yet, unlike people, texts are resistant to change and the damage that they may cause to business relationships can be difficult to undo.

American linguist William Lutz, co-author of the SEC's *Plain English Handbook*, author of *Doublespeak* and 16 other books on writing in clear language and professor emeritus at Rutgers University, in his "Life under the Chief Doublespeak Officer", said, "If there's one product American business can produce in large amounts, it's doublespeak."³²⁵ Euphemism is a sociolinguistic phenomenon with a wide application in English language. According to Lilia Borlongan-Alvarez, in an article entitled "The trouble with business gobbledegook" for the *Philippine Daily Inquirer* (20 March 2010) "[T]he current global financial crisis which has led to the mass firing of employees has spawned popular euphemisms which both government and private organizations find convenient to use to protect the latter from embarrassment or legal action."³²⁶

2. Definition and Usage of the Terms

2.1. Doublespeak

Doublespeak (sometimes called **doubletalk**) is any language that deliberately disguises, distorts, or reverses the meaning of words, resulting in a communication bypass.³²⁷ Such language is associated with **governmental**, **military**, and **corporate** institutions. Doublespeak may be in the form of bald **euphemisms** ("downsizing" for "firing of many employees") or deliberately ambiguous phrases ("**wet work**" for "**assassination**"). What distinguishes **doublespeak** from other euphemisms is its deliberate usage by governmental, military, or corporate institutions or in

³²⁵ <http://www.freerepublic.com/focus/news/812924/posts>, Last visited: 13 February 2010.

³²⁶ http://services.inquirer.net/print/print.php?article_id=20100320-259870, Last visited: 30 March 2010.

³²⁷ <http://en.wikipedia.org/wiki/Doublespeak>, Last visited: 2 April 2010.

other words **doublespeak** implies an intent to mislead or deceive while **euphemism** implies an attempt to soften something harsh. The term *doublespeak* was coined in the early 1950s. It is often incorrectly attributed to George Orwell and his 1949 dystopian novel *Nineteen Eighty-Four*. The term does not appear in that novel, although Orwell did coin *newspeak*, *oldspeak*, and *doublethink*, and his novel made fashionable composite nouns with *speak* as the second element, which were previously unknown in English. Doublespeak may be considered, in Orwell's lexicography, as the vocabulary of Newspeak, words "deliberately constructed for political purposes: words, that is to say, which not only had in every case a political implication, but were intended to impose a desirable mental attitude upon the person using them."³²⁸ Successfully introduced **doublespeak**, over time, becomes part of the general language, shaping the context in which it is used. Lutz explains why doublespeak is counterproductive to democracy, why people need to stop being passive consumers of deceptive language and what they can do to fight back. "Clear language is essential so that both parties understand what they are agreeing to. In any contract that you enter into, you have to understand what your obligations and rights are under the terms of that contract," says Mr. Lutz. "If a company writes a contract in such a way that consumers think they understand what their obligations are, but in reality don't, they may agree to something they don't understand, and ultimately cannot fulfil. When companies use anything other than straight-forward clear language to describe the terms of an offer, they're not dealing honestly in the marketplace, in they are setting up consumers to fail."³²⁹

The following list contains some examples of doublespeak in current business English usage, with etymologies and examples of clearer, simpler words which are being avoided. Yet, this list can never be more than illustrative, and there is an ongoing debate whether all of the examples below are doublespeak.

-layoff, downsize, RIF (reduction in force): mass dismissal of employees, usually due to business restructuring or economic conditions. e.g. U.S. Bechtel, the company building Romania's Transylvania Highway, has decided to put off plans for massive *layoffs* until after April 15 when it is expected to also decide on the number of employees to be sacked.³³⁰

-headcount adjustment e.g. Nokia Siemens Networks has completed the preliminary planning process to identify the proposed remaining headcount reductions necessary to reach its previously announced synergy-related *headcount adjustment* goal.³³¹

-realignment e.g. Two Procter execs promoted, one to retire, in *realignment*...³³²

-rightsize e.g. Lansing can't resolve its long-term budget crisis without *right-sizing* the Department of Corrections.³³³

-also counselled out, made redundant, let go, dismissed, terminated, services are no longer required, for firing in general. e.g. If, at any time in your career at Touche, the partners ever seriously questioned the possibility of your eventually joining their ranks, you would be "*counselled out*," or laid off. Consultants might be "*counselled out*" at any time of the year, but during the annual period in which promotions, raises and bonuses were determined, there was always a flurry of such dismissals.³³⁴

³²⁸ George Orwell, *1984*, London: Penguin Books, 2004, p.377.

³²⁹ <http://www.ontherecordpodcast.com/pr/otro/doublespeak-william-lutz.aspx>, Last visited: 4 April 2010.

³³⁰ <http://www.mediafax.ro/english/u-s-constructor-bechtel-puts-off-massive-layoff-plans-until-after-april-15-5823781>, Last visited: 9 April 2010.

³³¹ http://www.theregister.co.uk/2008/11/12/nokia_siemens_synergy/, Last visited: 9 April 2010.

³³² <http://www.bizjournals.com/cincinnati/stories/2007/05/14/daily3.html>, Last visited: 9 April 2010.

³³³ <http://www.freep.com/article/20100308/OPINION01/3080321/Business-joins-fight-to-right-size-prisons>, Last visited: 9 April 2010.

³³⁴ <http://financecareers.about.com/od/changingjobs/a/layoffadvantage.htm>, Last visited: 10 April 2010.

-job flexibility: lack of job security (where job security means an actual or implied promise of continued employment). e.g. *Job flexibility* has helped Britain weather the recession...³³⁵

-outsource: dismissing in-house employees to hire cheaper labour provided by another organization. e.g. A report by Pierre Audoin Consultants (PAC) says that Romania and other Eastern European countries are virtually ignored by U.K. companies but are predominantly the first *outsourcing* choice for the rest of Western Europe.³³⁶

-replacement workers: scabs or strikebreakers in labour disputes. e.g. *Replacement workers* are poison to organized labour. In effect, they sabotage a union member's right to strike, at least insofar as that right was understood and expressed in the comments of Justice Brandeis.³³⁷

2.2. Euphemisms

Neil Postman in his book, *Crazy Talk Stupid Talk*, suggests that a **euphemism** is an exalted term used in place of a down-to-earth term, or "an attempt to give prettier term to an uglier reality."³³⁸

A **euphemism** is a substitution of an agreeable or less offensive expression in place of one that may offend or suggest something unpleasant to the receiver, or to make it less troublesome for the speaker, as in the case of doublespeak. According to Postman, "euphemisms are a means through which a culture may alter its imagery and by so doing subtly change its style, its priorities, and its values." Lexicographer Bergen Evans of Northwestern University, believes that euphemisms persist because "lying is an indispensable part of making life tolerable."³³⁹ The English word **euphemism** is found for the first time in a book written in 1656 by Thomas Blount, *Glossographia*.³⁴⁰ It comes from Greek *euphèmos*, which is itself derived from the adjective *euphèmos*, "of good omen" (from *eu*, 'good', and *phèmi*, 'I say'). Etymologically speaking, a **euphemism** is linked to taboos, and traditionally consists in replacing the original signifier, perceived as being offensive or unpleasant, by another one; it is often referred to as a "veil" or a "shroud" thrown over the signified, as if to conceal it.

2.2.1. Types and Formation of Euphemisms

With the development of language, euphemism is evolving day by day, new expressions being formed. Euphemisms may be formed in a number of ways. The formation of euphemism, on a certain degree, follows some principles, although some language phenomena are not reasonable but come into use frequently. Many euphemisms are figurative, many having been or are being the cause of semantic change. Some show remarkable inventiveness of either figure or form and some are indubitably playful. Euphemism can be achieved through antithetical means, e.g. by circumlocution and abbreviation, acronym or even complete omission and also by one-for-one substitution; by general-for-specific and part-for-whole substitution; by hyperbole and understatement; by the use of learned terms or technical jargon instead of common terms, and by the use of colloquial instead of formal terms. Many learned terms and some technical jargon is either borrowed from another language or constructed from one: for English, they are mostly derived from Latin or Ancient Greek.

2.2.1.1. Lexical device - Due to different types of morphemes and word formation, lexical device can be applied to the formation of English euphemism.

1. Acronym- Acronym is made up of the first letters of an expression. In the formation of

³³⁵ <http://www.telegraph.co.uk/finance/comment/tracycorrigan/7462265/Job-flexibility-has-helped-Britain-weather-the-recession.html>, Last visited: 10 April 2010.

³³⁶ http://news.cnet.com/2100-1011_3-5074725.html, Last visited: 14 April 2010.

³³⁷ <http://www.counterpunch.org/macaray04162008.html>, Last visited: 14 April 2010.

³³⁸ Neil Postman, *Crazy Talk Stupid Talk*, New York, Delacorte Press, 1976, p.74.

³³⁹ <http://www.blogger.com/least-used-expression-business-politics-and-media-youre-lying>, Last visited: 19 April 2010.

³⁴⁰ Cf. Burchfield, R., *An outline history of euphemism in English*, in D.J. Enright (ed.), *Fair of Speech: The Use of Euphemisms*, London, Oxford University Press, 1985, p.13.

euphemism the first letters of taboo words or unpleasant words are taken out and then put together to get rid of rudeness. **CLM** – Career Limiting Move; **COB** - Close of business; **RFP** – Request for proposal; **EOD** – End of the day.

2. Analogy - Analogy creation can account for similar forms in the conjugation of words. Basing on certain words, the new expressions are coined with similarity in meaning. This means is mainly used to form euphemisms in the field of professions. Take the word **engineer** for example, **engineer** originally refers to “skilled person who control an engine or engines, esp. on a ship or air-craft.” Later it is extended to “person who designs, builds or maintains engines, machines, bridges, railways, mines, etc. In euphemism, “engineer” is greatly adopted, such as *telephone engineer* (telephone repairer), *automobile engineer* (mechanic), and *custodian engineer* (trash cleaner). By the device of analogy, it beautifies the title of some indecent professions and shows respect to them.

3. Borrowing - English language in its development has managed to enrich its vocabulary by borrowing words from other language. **Uber** – Very. As in, I’m *uber* excited about this merger.

4. Negation - Negation in euphemism formation mainly adds prefix to show the opposite meaning. **Outsourcing** – Sending work outside your office. Often means sending work to be done abroad. **Disconnect** – Lack of understanding on an issue between two people. On the one hand it prevents hurting the listener; on the other hand it achieves the speaker’s intention as well as drives a better communication.

5. Substitution - Substitution is to take something similar to replace the real situation. **On board** - Agree with something. Or commit to be a part of something. **Magic bullet** – The perfect solution to a problem. **Interface** – Let’s meet. Let’s talk. **Heavy lifting** – Doing the hard work. **Hot button** – An important issue. **B School** - It’s “Business School”.

2.2.1.2. Syntax Device - Syntax refers to the study of the rules governing the way words are combined to form sentences in a language, or simply, the study of the formation of a sentence.

1. Metaphor

By application of metaphor, a rhetoric device, many expressions are described vividly. For example, “taxes” have become nowadays such an unpleasant civic duty that people use different euphemistic terms for this word. Therefore, it is not surprising that there is an amusing range of terms for **taxation**: “access fees/charges”, “carbon footprint contributions”, “civic assessment fees”, “direct universal service support”, “economic incentives”, “economic stimulus packages”, “environmental externality factors”, “impact fees”, “income shifting options”, “innovative sources of financing”, “late fees”, “redistribution of wealth alternatives”, “redeployment of revenue”, “restructuring of budgets”, “revenue enhancements”, “service charges”, “socially-responsible public investments”, “social support subsidies”, “transfer payments”, “universal service charges”, and “value-added revenue opportunities”.³⁴¹

2.2.2. Business Euphemisms

Euphemistic language pervades the workplace and almost all business dealings: **involuntary separation, letting go, downsizing, re-engineering, restructuring, and streamlining** are preferred to “layoffs.” The word **challenge** is used to actually refer to “a problem.” “Recession” is used to mean a “depression.” When one is given the **pink slip**, he or she is “fired!” And a company **disinvests** when it fact it “closes a retail outlet in a community.” It is quite acceptable in some situations if euphemisms in business are used to identify a chain of command such as in the use of **chief executive officer** instead of “boss.”

³⁴¹http://www.squidoo.com/entertaining_euphemisms#module10221385 , Last visited: 24 March 2010.

Air Cover - When a senior manager agrees to take the flak for an unpopular decision, while someone lower in the chain of command does the dirty work. e.g. “As an executive development expert, I’ve facilitated dozens of 360 degree leadership assessments, team development, and new leader assimilation processes. Along the way, I have learned that leaders get dinged if they don’t provide *air cover* to their direct reports.”³⁴²

Alpha Pup - A market research term referring to the “coolest kid in the neighbourhood.” e.g. “If the *alpha pups* go for it, we’ll sell millions of them.”³⁴³

Business Ecosystems - When companies in the same markets work cooperatively and competitively to introduce innovations, support new products and serve customers. e.g. “... I described how the Australian lending industry was a great example of friction-loaded *business ecosystem* and how LIXI standards are aimed at reducing some of that friction.”³⁴⁴

Cookie Jar Accounting - An accounting practice where a company uses reserves from good years against losses that might be incurred in bad years. e.g. “Microsoft has an interesting, if dubious, *cookie jar accounting* scheme where profits from successful quarters aren’t reported so that less successful quarters can be padded.”³⁴⁵

800-Pound Gorilla - A company that dominates an industry short of having a complete monopoly. e.g. “BlackRock Is Now the *800-Pound Gorilla*”³⁴⁶

Ideation- Brainstorm session. e.g. “When setting up *ideation* sessions, we encourage invitations to other divisions. These newcomers will analogize a lot, relating what they hear to their own experiences.”³⁴⁷

Market Cannibalization - When a company’s new product negatively affects sales of its existing, related products, i.e., it eats its own market. e.g. “When Bayer made a debut of its ‘maximum strength’ aspirin, the new product ate into sales of classic old standby Bayer Aspirin. Bayer officials said *market cannibalization* was the only way to retain and build market share against new Extra-Strength Tylenol.”³⁴⁸

Pain Points - A favourite of consultants used to describe places where an organization is hurting due to poor operating structure, technology or inefficiencies. e.g. “If you ask reflective questions instead of questions that can be answered with yes or no, prospects usually share more information with you. This increases your chances of uncovering *pain points* that can eventually lead to sales.”³⁴⁹

Pockets of Resistance - Another borrowed military term that describes a person or group that attempts to stall, block or kill a project. e.g. “Our process includes: ... [A]chieving assimilation: coaching, problem solving, and addressing persistent *pockets of resistance*.”³⁵⁰

Reverbiagize - To reword a proposal with the hope of getting it accepted by people who did not like it the first time around. e.g. “Don’t worry about coming up with a new idea, we’ll just *reverbiagize* the old one.”³⁵¹

³⁴²<http://www.leadershingtangles.com/2010/01/why-exceptional-leaders-provide-air-cover-and-prevent-tangles/>, Last visited: 14 April 2010.

³⁴³Ron Sturgeon, Gahan Wilson, *Green Weenies and Due Diligence, Inside Business Jargon – Raw, Serious and Sometimes Funny*, Lynden: Mike French Publishing, 2005, p.94.

³⁴⁴<http://frictionlessbusinesscosystems.com/>, Last visited 3 April 2010.

³⁴⁵<http://www.windowitpro.com/article/news2/sec-investigating-microsoft-for-cookie-jar-accounting.aspx>, Last visited: 10 April 2010

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³⁴⁷<http://www.allbusiness.com/sales/customer-service-product-knowledge/515566-1.html>, Last visited: 17.04.2010.

³⁴⁸Ron Sturgeon, Gahan Wilson, *op.cit.*, p.99,

³⁴⁹<http://marketing.about.com/od/salestraining/a/salesperform.htm>, Last visited: 17.04.2010.

³⁵⁰http://www.tcs.com/offers/consulting/business_consulting/Pages/default.aspx, Last visited: 16.04.2010.

³⁵¹D.W. Martin, *Officespeak: The Win-Win Guide to Touching Base, Getting the Ball Rolling, and Thinking Inside the Box*, New York: Simon&Schuster, 2005, p.79.

Tszuj (Pronounced “zhoozh”) - To tweak, finesse or improve. It is an expression made popular by TV stylist Carson Kressley, meaning to add a special flare to an outfit or hairstyle. e.g. “*Tszujing* the cost-benefit tables can get you in a lot of hot water if you’re not a math whiz who loves to tweak via trial and error.”³⁵²

³⁵²Ron Sturgeon, Gahan Wilson, *op.cit.*, p.62.

3. Conclusion

Throughout time, language has progressively evolved and also the language and methods used by individuals who have the power to manipulate the views of the people and sway thought and behaviour. Doublespeak represents a very real danger to society that already holds influences over people's actions and thoughts because it distorts reality by creating false communication based on contradictions, misleading words, phrases and unnecessary complexities. On the other hand, it is considered that euphemism enriches the English language, and is one of the agents of the change and development of the language as well.

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EINFLUSSE DES ENGLISCHEN AUF DIE DEUTSCHE WIRTSCHAFTSSPRACHE UND JUGENDSPRACHE

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The paper presents the historical evolution of borrowings in the German language from the Greeks or Romans to the 20th century. The paper underlines the English borrowings present in the everyday speech from academic milieu to teenager medium and its social impact. The paper focuses on economical terms used in an economic magazine called Siemens Welt and on an teenagers everyday speech in magazine Bravo.

Keywords: borrowings denglisch economic terms teenager speech.

Durch ihre zentrale Lage in Europa wurde die deutsche Sprache über die Jahrhunderte durch andere Sprachen beeinflusst. Bereits in der Frühzeit der deutschen Sprachgeschichte finden sich fremdsprachliche Ausdrücke, vor allem aus dem Griechischen und Lateinischen.

Aus dem Lateinischen sind z. B. viele alltägliche Wörter, vor allem aus Architektur, Religion, Kriegswesen und Weinbau entlehnt. Auch die griechische Sprache hat das Deutsche in Religion, Wissenschaft und Philosophie stark beeinflusst.

Später war es dann vor allem die französische Sprache, die großen Einfluss auf das Deutsche ausübte. Im hohem Mittelalter kamen viele Bezeichnungen – vor allem in Verbindung mit dem Rittertum – aus dem Französischen ins Deutsche.

Im Spätmittelalter und in der frühen Neuzeit finden sich viele gelehrte Bildungen lateinischer Herkunft (z. B. *Centrum, Disciplin, Klasse, Universität*)

Im 17. und im 18. Jahrhundert herrscht wieder der französische Einfluss vor (*Alamodewesen*). Frankreich war in dieser Zeit die kulturell führende Nation Europas. Ausdrücke wurden u. a. übernommen in den Bereichen der Diplomatie und Verwaltung (*Depesche*), des Handels (*Fabrik*), des Transportwesens (*Karossee, Chaise*), der Esskultur (*Bouillon, Kotelett, Konfitüre*), der Mode (*Frisur, Garderobe*) sowie des gesellschaftlichen Auftretens (*Etikette*).

Nach dem Dreißigjährigen Krieg wurde an vielen Höfen französisch gesprochen und selbst preußische Könige beherrschten diese Sprache besser als Deutsch. Um 1750 berichtet Voltaire vom Hof des Preußenkönigs Friedrich II.: „Ich bin hier in Frankreich: Man spricht unsere Sprache, das Deutsche ist nur für die Soldaten und die Pferde“

Das 19. Jh. ist gekennzeichnet durch die Ablösung der französischen durch englische Wortschatzerweiterung. Großbritannien galt als Vorbild u. a. im Bereich der Wirtschaft (*Trust*) und der Presse (*Interview, Reporter*). Das Verkehrswesen verwendet weitgehend noch französische Ausdrücke (*Billet, Perron*), wobei allerdings auch hier der angelsächsische Einfluss auf dem Vormarsch ist (*Tender, Tunnel*). Ende des 19. Jh.s löst das Englische das Französische als Gesellschaftssprache weithin ab, was auch im Fremdwortschatz seinen Niederschlag findet: *Dandy, Flirt, Smoking, Cocktail*.

Man war – schreibt Peter von Polenz - *Gentleman, Snob, Dandy* oder *Selfmademan*, gehörte einem *Club* an, benahm sich *fair*, fand die Dinge *allright* oder *tiptop*, trug den *Cutaway, Frack, Smoking* oder die *Breeches*, aß *Beefsteak, Toast, Keks* oder *Pudding*, trank in der *Bar* einen *Whisky, Sherry* oder *Cocktail*, trieb *Sport*, spielte *Tennis* oder *Hockey*, machte *Picknick* und erlaubte sich einen *Flirt* oder gar einen *Spleen*.

Im 20. Jh. gewinnt das Englische auch in Form des Angloamerikanischen weiter an Bedeutung und wirkt bis in den privaten Lebensbereich hinein: *Bestseller, Jazz, Make-up, Pullover, Rocker, Sex, Teenager*.

Ab Mitte des 20. Jahrhunderts nahm in Deutschland das Englische zunehmend Einfluss auf die deutsche Sprache (Anglizismen). Diese Entwicklung wird von einigen skeptisch betrachtet, insbesondere dann, wenn es genügend deutsche Synonyme gibt. Kritiker merken auch an, es handle sich oftmals (z. B. bei Handy) um Pseudo-Englisch.

Auch technische Zwänge bei der Synchronisation englischsprachiger Filme üben mittlerweile einen Einfluss auf das Deutsche aus. Um Lippensynchronizität zu gewährleisten, werden Worte und Redewendungen kreiert, die zuvor im Deutschen nicht üblich waren, sich dann aber später in der Umgangssprache durchsetzen (z. B. „Oh mein Gott“ statt „Um Gottes Willen“ als Übersetzung für „Oh my God“). „Verdeckte“ Anglizismen“ gibt es mittlerweile auch aus anderen Gründen: So ist der heute sehr gebräuchliche Ausdruck „nicht wirklich“ die wortwörtliche Übersetzung von „not really“ und bedeutet demzufolge soviel wie „eigentlich nicht“ – allerdings hat sich der Ausdruck inzwischen verselbständigt. (aus Wikipedia, der freien Enzyklopädie.)

Früher hatte man noch Rollschuhe. Heute kaufen die Eltern ihren *Kids* lieber *Inline-skates*, alles andere wäre schließlich *out* und vollkommen *uncool*. Ihre Freunde rufen sie auf dem *Handy* an, ob man sich mal wieder zum *shoppen* verabreden könnte, um ein neues *Outfit* für die *Party* zu suchen. Danach gehen sie vielleicht zum *Hip Hop Event*, falls sie nicht damit beschäftigt sind, zu *jobben*, im *Internet* zu *surfen*, oder einem anderen *Hobby* zu frönen.

Englische Wörter sind aus unserem Alltag nicht mehr wegzudenken. Englisch ist nicht nur die *Lingua Franca* der Welt, sie verändert auch andere Sprachen.

Wer meint, das Englische im deutschen Wortschatz bliebe, wie in obigem Beispiel, auf die Sprache der Jugend beschränkt, der hat verpasst, dass der Rektor der traditionsreichen Münchner LMU die Fakultäten und Fachbereiche der Universität in *Departments* umbenannt hat und man heute schon beim täglichen Einkauf im Supermarkt an zahlreichen *Specials*, *Family Packs* und *Body Lotions* vorbeiläuft. Einigen scheint das gar nicht aufzufallen, andere protestieren heftig gegen die „Invasion“ von Anglizismen, die sie zu beobachten meinen. Der „Verein deutsche Sprache“ (VDS) etwa verlieh dem Münchner Uni-Rektor kurzerhand die Auszeichnung zum „Sprachpanscher“ des Jahres 2000 und startete nebenbei eine Unterschriftenaktion gegen „Denglisch“. Hat denn die englische Sprache tatsächlich einen so großen Einfluss auf das Deutsche, dass man schon vom „Denglischen“ sprechen kann? Einige Sprachforscher meinen: Ja, die deutsche Sprache würde durch den starken Einfluss des Englischen sogar „pidginisiert“. Andere sehen in der Aufnahme von Anglizismen in den deutschen Wortschatz eine Bereicherung und meinen in Aktionen wie die des VDS nichts als sprachliche Xenophobie und Kulturchauvinismus zu erkennen. Wer hat Recht, und wer liegt falsch? Schon die Fragestellung verrät: Eine eindeutige Antwort auf die Frage kann es nicht geben.

Sprache ist eine zu komplexe Sache, als dass es möglich wäre, solche klaren Verhältnisse schaffen zu können. Doch diese Arbeit hat sich auch nicht zum Ziel gesetzt, Urteile zu fällen, sie möchte eine Übersicht über die Veränderung der deutschen Sprache durch den englischen Einfluss verschaffen und mögliche Erklärungen für die bisherige Entwicklung beleuchten. Ein Vergleich mit unserem Nachbarland Frankreich soll aufzeigen, wie unterschiedlich verschiedene europäische Länder auf das „Phänomen Anglizismen“ reagieren und wie sich die Internationalismen im fremden Sprachgebrauch verändern, beziehungsweise wie sie verändert werden. Ein Blick in die Zukunft ist leider nicht möglich, denn was Prognosen der Sprachentwicklung angeht, kann nie eine sichere Aussage getroffen werden. Trotzdem sollen hier die Meinungen verschiedener Publizisten und Institutionen zur Zukunft der deutschen Sprache berücksichtigt werden.

Das eigentliche Bestreben dieser Arbeit ist die Schärfung des Bewusstseins im Umgang mit Sprache. Wenn es ihr gelingt, die Faszination der Sprache, nicht nur als Informationsträger, sondern als eigenen, lebendigen Organismus ins Gedächtnis zu rufen, dann wäre das Ziel erreicht, nicht nur in schulischer Hinsicht der Aufgabenstellung dieser Facharbeit genüge zu tun, sondern auch einen Dienst an unserer Sprachkultur zu leisten.

Zur Illustration des Vorkommens des Englischen in Wirtschaft und Marketing wird hier die SiemensWelt, die Mitarbeiterzeitschrift der Firma Siemens verwendet.

Bereits auf der zweiten Seite der SiemensWelt findet sich eine reiche Auswahl an Beispielen für den Gebrauch des Englischen in deutschen Publikationen. Die Zeitschrift ist dort nämlich in Rubriken eingeteilt, die folgende Namen tragen: „Coverstory“, „Team“, „Partner“, „Trends“, „Business“ und „Family“. Zusätzlich werden noch Seiten mit den Bezeichnungen „Zoom“, „Mailbox“, „Blackboard“ und „Spotlight“ angekündigt. Es handelt sich hierbei jedoch keineswegs um eine englischsprachige Zeitschrift, auch wenn sie auf dem Titelbild als „International Edition“ bezeichnet wird. Die Artikel sind, bis auf die zahlreichen Anglizismen, in deutscher Sprache verfasst. Begriffe wie *Management*, *Investment* und *Trend* lassen sich in fast jedem Artikel finden.

Ein Bericht über ein Projekt der Firma in Afrika enthält etwa den Satz: „Unternehmen wie Siemens sind hier Trendsetter.“ Besonders viele englische Begriffe werden in Artikeln gebraucht, die von Abteilungen und Konzepten der Firma berichten. „VDO verstärkte den Bereich Production and Logistic Systems und Demag Delaval das Industrieturbinengeschäft des Bereichs Power Generation.“

Die in der Zeitschrift aufgeführten Tabellen enthalten fast gar keine deutschen Wörter. „Ebit-Margen-Ziele der Bereiche“, eine Liste mit Zielsetzungen verschiedener Abteilungen der Firma führt unter anderem diese an: „Information and Communication Networks“, „Automation and Drives“, „Transportation System“ und „Medical Solutions“.

Auch die Werbeanzeigen in der Zeitschrift, oder zumindest ihre Werbesprüche, sind fast sämtlich englischsprachig. „Enter the race“ wirbt für ein einen „Netracer“, „commitment“ für „Fujitsu-Siemens-Computers“.

Man findet Anglizismen in der Wirtschaftssprache aber nicht nur in Fachzeitschriften. Sie begegnen uns im täglichen Leben. Begriffe wie *Onlinebanking*, alle Arten von *Service*, *Controlling*, *Teamwork*, *Know-how*, *Marketing* und *Workshop* sind jedem vertraut.

Dieter E. Zimmer führt in seinem Buch „Deutsch und anders - die Sprache im Modernisierungsfieber“ einen besonders illustrativen Satz über Englisch in der Wirtschaftssprache an: „Praktische Erfahrungen im Total Quality Management und/oder Business Process Re-engineering haben unsere Senior Berater/innen als externe Consultants oder in einem in-house-Team erworben.“

Das nächste Gebiet, an dem der Einfluss des Englischen auf die deutsche Sprache veranschaulicht werden soll, die Jugendsprache, unterscheidet sich in seinen Themen und seiner Zielgruppe stark von denen der Wirtschaft und ist deshalb gut geeignet, die ausgedehnte Verbreitung englischer Wörter im deutschen Sprachgebrauch zu demonstrieren.

Als Anschauungsmaterial zum Thema findet hier die Jugendzeitschrift Bravo Verwendung.

Besonders interessant für diese Untersuchung ist der „Bravo-Foto-Roman“, da darin Geschichten aus dem Alltag junger Jugendlicher erzählt werden. Der darin vorkommende Text sollte also zumindest bedingt repräsentativ sein für die Sprache von Jugendlichen allgemein.

Der Einfluss des Englischen auf die Jugendsprache ist in den Dialogen der dargestellten Mädchen und Jungen nicht zu übersehen. „Easy! Ich hab doch sein Handy!“ meint ein Mädchen in der Geschichte. Außerdem finden sich Bildunterschriften wie

„Meike stürzt wie eine Irre zur Haustür und sieht einen Boy auf einem Bike flüchten...“ oder, zwei Seiten später, „Meikes Bruder macht sofort ein Date mit dem Typen aus...“.

Auch im Rest der Zeitschrift finden sich zahlreiche englische Ausdrücke, besonders im Bereich rund um Musik und *Stars*. Die *Outfits* und der *Style* der Idole wird dort besprochen, die *Newcomer* und die *Megastars*.

Im Bereich rund um populäre Musik, der ein wichtiger Bestandteil der jugendlichen Kultur und Sprache ist, lässt sich der Einfluss des Englischen auf die Sprache nicht übersehen. Das könnte natürlich auf die Dominanz des Englischen in den Liedtexten selbst zurückzuführen sein.

Deutschsprachige Musik scheint wenig beliebt zu sein, bedenkt man, dass sogar eine Vielzahl deutscher Musiker auf Englisch, statt in ihrer Muttersprache singen.

In einer Ausgabe des Jugendmagazins „jetzt“ gibt es eine Rubrik, die sich „gute frage“ nennt. Jede Woche wird die Frage eines Lesers abgedruckt, dazu mehrere Antworten, ebenfalls von Lesern eingeschickt. Die „gute frage“ der Ausgabe 42/2000 lautete: „Ich finde, Pop Songs mit deutschen Texten hören sich kacke an. Du auch?“

Die Frage selbst, sowie die Tatsache, dass sie gedruckt wurde, sprechen eigentlich für sich und gegen die Beliebtheit deutschsprachiger (Pop-)Musik.

Martin Gauger, Romanist an der Universität Freiburg meint dazu: „Man muss einem 10-jährigen nicht mehr erklären, warum er Englisch lernen soll. Er ist schon durch die Musik motiviert.“

Wird ein englisches Wort in den deutschen Wortschatz übernommen, so behält es nicht immer seine ursprüngliche Bedeutung und Form. Da sich Englisch und Deutsch in ihrer Grammatik und Morphologie unterscheiden, werden Anglizismen häufig in ihrer Orthographie und Flexion an die deutsche Sprache angepasst. Gleichzeitig werden manche Regeln der englischen Sprache in die deutsche übernommen.

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SOME THOUGHTS ON WRITING SKILLS

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Writing is one of the central pillars of language learning and should be of major interest and concern to teachers, students and researchers. This paper is intended to be a plea for writing and explores issues regarding instruction and evaluation of writing skills of nonnative speaker students. It examines expectations of nonnative speakers writing quality and performance on writing proficiency exams, as well. Finally, it is trying to ring a bell about this skill that has been neglected in spite of its importance when it comes to foreign language acquisition.

Key word concepts: language, English, teacher, student, writing, skills

Cod JEL lucrare: F29, Y8

General background. Of all the language skills, writing is the most difficult challenge for language teachers because students have less experience with written expression. Stimulated by audio-visual materials throughout their lives, students are novices in the discipline of writing. Making writing an ongoing part of foreign language acquisition from the first day in class will help ensure student success.

The purpose of learning a language is to improve the learner's four skills of listening, speaking, reading and writing, to achieve the ultimate goal of mastering the language. Every time skills are mentioned, they are ordered according to the moment they occur in the teaching-learning process. Writing is the skill that has to be well approached only after the other previous three have already been employed. Nevertheless, it seems that because it is the last one in the series, most of the times it remains neglected.

Why are writing skills important?

First of all, writing skills help the learner to become independent, comprehensible, fluent and creative in writing, important abilities which help learners put their thoughts in a meaningful form and to mentally tackle the message in a proper manner.

When it comes to writing in a foreign language, it is even more challenging. Writing English clearly is an important goal for all English learners. It is not only because writing well- be it your own language, or a foreign one - clarifies your mind and orders your thoughts, but also because the ability to represent yourself well on paper will help you secure a job in the future.³⁵³ Most multinational firms use English to communicate with clients. Professional staff regularly have to write documents in English, although they are not native speakers. Despite having a good level of spoken English, many of them have not considered the elements of good writing. Therefore, most of them tend to write as they speak, or to translate from their first language. The outcome is documents which are unclear to the reader or use an inappropriate style. There are also often grammatical mistakes caused by first language interference.

Moreover, how you write, the style, cohesion, tone, attitude say a lot about you as a person, and headhunters, employers know this. It is not just what is on the paper that distinguishes one resume from another in a competitive job market. Presentation, clarity, and professionalism in a foreign language can help distinguish you from the rest. Thus, good English writing can open doors in almost any field you might choose in the future (as not so many people can write it well). A survey conducted among 64 American companies revealed that half of them pay

³⁵³ Paige Johnson Tan, *The Importance of Writing Well: A Justification and How-to Guide*, <http://people.uncw.edu/tanp/writingwell.html>

attention to writing when considering a person for employment or promotion.³⁵⁴ That is why, nowadays, the growing trend worldwide is oriented toward establishing stricter standards of writing proficiency, an issue that directly affects students who are nonnative speakers of English. Whether you are a teacher of English, a student or a businessperson, (academic) writing skills are necessary in today's world. All kind of papers, like essays, reports, presentations, research papers, to pick up just some examples of documents, need to be written in the correct style, so to say the academic style, which would be the final target. When used appropriately, the academic style presents a polished and professional image.³⁵⁵

Traditionally, institutions have attempted to address nonnative speakers writing needs differently, and where it may once have been possible for nonnative students to graduate without being expected to write as well as students who are native English speakers today's trend mandate (theoretically, at least) that they be held to the same standards of writing proficiency as native speakers.

"While trying to improve math, science, and technology in our schools, we've neglected writing," said Commission member Gaston Caperton, president of the College Board, which founded the Commission on writing in America³⁵⁶. "Writing is a fundamental professional skill. Most of the new jobs in the years ahead will emphasize writing. If students want professional work in service firms, in banking, finance, insurance, and real estate, they must know how to communicate on paper clearly and concisely."³⁵⁷ And this is said by Americans about English, their native language. Writing in a foreign language poses a lot more other problems, as speakers of different languages have different writing challenges that come from their own native language. Writing well in English can make the difference when finding a job. Speaking of jobs, nowadays applicants are asked for proofs, real document to support their declared knowledge of English. So learners have to sit for all kind of tests that assess their ability to use English, writing skills included.

How to improve writing skills? They are not just a set of basic skills people are taught at school. Writing and reading, listening and speaking are an integral part of each educated individual's life since they all mean communication. Written communication, in its turn, is another tool for people to express their ideas, and learn about those of others. Writing well is sure to earn respect.

Like all learning problems, difficulties in writing in a foreign language can be devastating to a student's education and self-esteem. If a learner fails to develop certain basic skills, he will be unable to write with the speed and fluency required to excel as these demands increase. Usually the normal steps in the progress of the learning process are tests and all sort of exams that are to prove their level of English. Writing is part of these tests. Paradoxically, this skill is not so much taught, rehearsed, improved even if everybody seems aware of the importance of writing, as shown above. Tests and language exams reveal this flaw of the instruction process. When preparing for them, students find themselves unequipped with the necessary knowledge to pass these exams. Not to mention what happens after graduation, when they actually need to get employed, so it is no longer about sitting for an optional exam like PET, CAE, BEC, TOEFL etc. Finding out the reasons for which learners consider writing a more difficult skill to approach and teachers, equally as a more challenging task to teach can be of a great help to overcome these shortcomings of the instruction process.

³⁵⁴ Alla Kondrat, *Importance of Good Writing*, 21 March 2009 http://www.suite101.com/reference/good_writing

³⁵⁵ Business Writing Seminars, www.linguarama.com/brochure/pdfbrochures

³⁵⁶ The National Commission on Writing for America's Families, Schools, and Colleges is a blue-ribbon group of leaders from public schools, higher education, and the business and writing communities.

³⁵⁷ Writing Skills Necessary for Employment, Says Big Business, http://www.writingcommission.org/pr/writing_for_employ.html

Naturally, for many English students learning to write fluently in English is much more challenging than learning to speak fluently. Even for advanced level learners, written communications can come much more slowly in English than spoken communications. The reasons for this are as follows: written communication is more formal, spoken communication allows for more 'mistakes', expectations are much higher for formal written English. Another reason for which some individuals might find it difficult or impossible to write, is that written language takes on many different *registers* depending on the function of the written word. Often, these functions are totally foreign to spoken language and can thus be considered 'artificial' to the speaker. These functions are often only used in written speech and are therefore even more abstract to some individuals than the already difficult transcription of simple spoken language into an alphabet.

Learning some basic tips of effective writing can help the learners. Effective writing:

- is focused on the topic and does not contain unnecessary or loosely related information;
- has an organizational pattern that enables the reader to follow the flow of ideas because it contains a beginning, middle, and end and uses transitional devices;
- contains supporting ideas that are developed through the use of details, examples, vivid language, and mature word choice;
- follows the conventions of standard written English (i.e., punctuation, capitalization, and spelling) and has variation in sentence structure.

Consequently, the whole writing activity should be reconsidered and structured in ways that help students learn to produce cohesive and coherent discourse on their way to become self-sponsors of their own writings. Writing tasks should not remain mere 'compulsory' tasks that just have to be done by both students and teachers as well; writing activities can turn into challenging, interesting, creative moments of the teaching-learning process.

Of course, there are differences between a research paper, a memo, and an answer on an essay exam; students may like some of these activities and reject others. However, they all share certain common features: they go somewhere; they argue something; they have a direction and it is only the teacher's task to draw the student's attention and to raise the student's interest towards writing.

Students need to be able to write all type of tasks; they have to be aware of the limits between formal and informal style, they have to develop the ability to recognize the audience expectations and requirements. In order to achieve all these, there are issues to be approached, and clarified and here is the moment and the time of the teacher. The learner has to be conducted so as to raise his awareness on the audience, to develop his/her academic writing skills (outlining, summarising, reporting and arguing, paraphrasing and synthesizing), he needs to be given some theoretical knowledge about writing from which he will later on benefit, he has to become aware of the issues such as the differences between written and spoken language, coherence, etc. Unfortunately, at almost all levels of the educational process, our system lacks all the above mentioned aspects. There is a kind of inexplicable reluctance and sometimes even fear of approaching writing. And it is maybe just because teachers themselves did not go through such kind of a training themselves. Academic writing is the ultimate goal and challenge of both teachers and learners.

Academic writing is formal writing. Most of the written pieces students are asked to produce refer to this particular style of expression. Many novice writers find it difficult to distinguish informal writing from formal writing. Informal writing is just at hand because it is more familiar. Informal writing is fine for diaries, blogs, personal letters or emails to friends. However, students working on papers for school, exams, scientific papers, presentations, business writing generally are required a more formal style.

Academic writing skills, can, anyway, be learnt, improved if students focus on several key areas; it differs from writing in high school.

1. Essay writing. It is interesting to notice that in most of the cases when teachers actually teach writing, we have to deal with the so-called ‘five-paragraph theme’ which is really a good thing. Students know that such a writing assignment begins with something general, narrows down in the middle to discuss specifics, and then branches out to more general comments at the end. In the classic five-paragraph theme, the first paragraph starts with a general statement and ends with a thesis statement containing three issues; each body paragraph discusses one of the issues in turn, whereas the final paragraph sums up what the student has written. It is a great way of learning how to write an academic essay; it is the easier or simpler version of the academic writing that requires stating an idea and supporting and arguing it with evidence. “Writing five-paragraph theme is like riding a bicycle with training wheels”³⁵⁸ and the difference between high school writing and further academic writing probably relies on that in high school the stress is on the who, what, when, where, whereas further academic writing asks the student to think the how and why.

Students have to know certain technical aspects of writing an essay, for example. They need a little bit of theory as input, somehow like a prefabricated recipe that they can adapt, improve, and feel free to employ whenever they are asked to write.

The title of the paper should suggest not just the topic of the paper but also the thrust of the argument, if possible. An essay of longer than three pages should probably have a title, or covering, page. This should include, at a minimum, the title of the paper, student’s name, the course name and number, teacher’s name and date of submission.

The Opening A good paper should have an opening that is interesting to the reader. It has to be something intriguing that you can grab the reader’s attention.

The Main Statement of the Essay A thesis statement should also be included in the opening as well; it briefly presents the main argument of the essay (this may be a how or why answer, a policy recommendation, or an opinion). Importantly, after the thesis statement, the paper should then tell the reader how the writer intends to demonstrate his argument or justify the opinion or recommendation asserted (an important aspect that many authors forget).

The Body In the body of the paper, the student should support his thesis. It is important after each point to link back to the thesis and refresh the reader with what you have told him so far. *The Conclusion* should not bring any new information. Rather, the conclusion should re-state the main thesis and show the reader how it has been demonstrated.

There are some common problems students should be let known of. For instance, writing a *paragraph* is not a natural skill, but a learned skill. Students should simply follow a structure: paragraph usually containing a general idea in one sentence, and 4 - 5 supporting sentences which expand this idea by giving explanation, details, and examples to support the main idea. Paragraphs are used to separate main ideas. A new paragraph signals to the reader that a new idea is about to be discussed.

Spelling becomes a widely spread reason why people dislike writing. However, it does not mean that we take it for granted and do nothing with language learners to improve the situation. Spelling, as any other language skill has to be given our thorough attention. Some people are naturally good spellers. Others worry about spelling but they have to realize that correct spelling is really only vital when we are writing final copies of assignments or other documents. The most important thing to remember about spelling is that it's a skill you learn by writing and seeing the words on the page. Proofreading is the key to a correct spelling.

Summarising and paraphrasing are difficult skills to acquire for our students at the beginning of the writing activity, since our education does not emphasise them properly.

³⁵⁸ *College Writing*, <http://www.unc.edu/dept>, last visited 10 April 2010

On the other hand, the after-writing steps are also extremely important for; consequently, students should be introduced to *strategies* such as revision, peer feedback, critical evaluation and group work gradually and the teachers should show the students the beneficial sides of these procedures, since our students seem neither familiar, nor inclined towards group work and critical evaluation.

2. *Formal letters.* A totally different story is that of writing technical, formal documents, like letters, memos, reports, that students tend to consider as easier assignments. Nevertheless, students seem to come to such conclusions only after having been presented a basic, simple, and clear summary of writing rules. In English there are a number of conventions that should be used when writing a formal letter, starting with its layout, the right place and content of the address, date, references. Furthermore, the letter should be as simple and as clear as possible; its length should be correct, not longer than necessary, whereas contractions proper to informal writing should be avoided.

The first paragraph should be short and state the purpose of the letter (be it an enquiry, request, memo or complaint etc).

The body of the letter should contain the relevant information that initiated the writing of the letter. Most of letters in English are not very long, so retain only the essential information; ideas should occur logically, clearly and cohesively.

The Last paragraph of the formal letter should state what action you expect the recipient to take. In addition, students have to be aware of the difference between formal and informal styles of writing. Even within academic writing, there are different levels. Good writers think about their purpose in writing and their readers when deciding how formal their text should be. It might help students a lot to imagine a sliding scale which measures the level of formality.

Extremely informal -----Extremely formal

Eg. diary, reminder

Eg. legal document

The facts tackled above represent only a very concise way of presenting a formal letter; this, together with samples and then the actual work on the composition are the stages towards exquisite pieces of writing. They are necessary; otherwise, set in front of a task (like the one below³⁵⁹) learners find it almost impossible to achieve it at the required level. The task does not seem extremely complicated. Still, taking a look at the right column we can see what is being actually assessed. If students are not familiar with this type of approach, they can easily fail. Sometimes the trouble is that teachers themselves are not prepared enough to train students, to support them and finally to assess their work.

<p>Question</p> <p>A restaurant in your region is to open shortly and the owner has placed the following advertisement in your local newspaper:</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>RESTAURANT STAFF NEEDED...</p> <p>...For a busy restaurant located in the main tourist area</p> <p>number of vacancies available, including:</p> </div>	<p>Content</p> <p>Should mention the post applied for, relevant skills and previous and personal qualities. Could also mention when available to attend interview.</p> <p>Range</p> <p>Language suited to a letter of application, e.g. correct use of present and past simple tenses for describing past experience(s). Standard expressions as 'I am writing with reference to...': 'I look forward to hearing fr</p>
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³⁵⁹ The complete text of the assignment is taken as proof from Certificate in Advanced English Paper 2 Writing, www.flo-joe.co.uk/cae/students/writing, last visited 12 April 2010.

<p>Junior Chef</p> <p>Waiter/Waitress</p> <p>Restaurant Manager</p> <p>Hours of work: 6 - 12pm, Mondays to Saturdays.</p> <p>Please send us a letter explaining which post you are interested in. We should consider you for the job. Interviews will be held a week from the date.</p>	<p>'Should you need further information....'</p>
<p>Write the letter of application. (Around 220-260 words).</p>	<p>Organisation</p> <p>Should have the layout of a formal letter, with appropriate opening (e.g. 'Dear Sir or Madam', 'Yours faithfully'). Should start with writing in the first paragraph. (e.g. 'I am writing to apply for the post of restaurant manager, which was advertised in The Daily Chronicle'). The second, third (and possibly fourth) paragraphs should describe your relevant experience and personal qualities as well as your general suitability for the job. N.B. In the exam there is no need to write addresses.</p> <p>Register</p> <p>Fairly formal. Should be consistently polite throughout.</p> <p>Target reader</p> <p>The reader would be persuaded that the applicant had the relevant experience, and would consider inviting the applicant for an interview.</p> <p>Language accuracy</p> <p>Should not contain major errors that lead to misunderstanding by the reader.</p>

The teacher's attitude toward correction, the way in which he offers it to students, and students' own feelings about the teacher in general are significant factors in the effectiveness of the writing process. Teachers should focus more on process and give multi-draft assignments; they should teach students how to use feedback to improve their writing skills. Moreover, teachers should provide feedback that addresses the specific needs and expectations of students. Some students need feedback on the content, style, and rhetoric; others may use corrective feedback of their lexical and grammatical expression.

Conclusion The paper has stated some thoughts about the teaching of writing in the nowadays context oriented toward establishing stricter standards of writing proficiency; it suggested some ways for teachers to help students become better in their writing, be creative and competent. It is a necessity for writing activities to be structured in ways that help students learn to produce cohesive and coherent discourse on their way to become better writers and critics of their own writings. Finally, the primary focus of writing practice should not be only on the correct word or phrase, but on the whole communication process that help improve the quality and image of the student himself.

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INTERCULTURAL COMPETENCES AND INTERCULTURAL DIALOGUE. CASE STUDY ON ACADEMY OF ECONOMIC STUDIES BUCHAREST

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The paper debates the topics of intercultural competences and intercultural dialogue. The main research whose results are being disseminated through this paper are part of a national research project, "Equality of chances and intercultural dialogue", project granted by competition and which benefits from the expertise of a dynamic team of University Professors and lecturers as well as enthusiastic PhD students. The authors present the results of their academic and research activities involving students (both Romanian and foreign) studying Economics in foreign languages (at the Faculty of Business Administration taught in foreign languages, English section within the Bucharest University of Economics).

Key words: intercultural dialogue, intercultural competence, intercultural sensitivity, knowledge-based society

The article's JEL code: A20, A22,A23,A29.

1. Introduction

MOTTO: "We want to go beyond multicultural societies, where cultures and cultural groups simply coexist side by side, where they live 'parallel lives'. We need to become intercultural societies where plurality of cultures cooperates in dialogue and in shared responsibility. 2008 as the European Year of Intercultural Dialogue is an important part of the effort to move beyond tolerance and towards a genuine intercultural Europe." (Ján Figel, Commissioner for Education, Training, Culture, and Youth, Intercultural dialogue as a long-term priority for the EU, "Intercultural Dialogue as the Fundamental Value of the EU", Ljubljana, 7 January 2008)

The issues of intercultural dialogue and intercultural competence play a key role in shaping and reshaping the future. Intercultural rhetoric uses cultural difference to build knowledge and support wise action. This paper examines examples of good practices used to design an intercultural dialogue, to manage diversity, and to build *intercultural knowledge competences* within one of the most important higher education institutions from Romania.

Promoting *a diverse multiethnic student groups* demands more elaborate pedagogical approaches to facilitate every student's acquisition of *intercultural competencies within the framework of intercultural dialogue*. Due to its importance 2008 was declared the *European Year of Intercultural Dialogue*.

Drawing from a case study regarding learning in foreign languages economics subjects and one based on learning a foreign language dedicated to support economics competences the paper argued that *intercultural communication* and *dialogue* can play a key role for a knowledge-based society. The paper stresses the need for *intercultural communication education (ICE)* that concerns several academic disciplines - psychology, social psychology, sociology, education, media studies, cultural anthropology and management (Stier, 2003).

2.Higher Education and intercultural dialogue. From intercultural sensitivity to intercultural competence and effectiveness

Recent debates tended to be more practically oriented. Good intercultural teaching practice (for example in languages) focus on the intercultural competence which requires shifting from "intercultural awareness and sensitivity" to "intercultural effectiveness" (Salo-Lee, 2007). A constructive intercultural dialogue within a university is becoming essential to perform successfully in the long-run. Universities should promote "cultural respect" that requires respect for all persons involved in intercultural communication, regardless of their origins and cultural choices. G. Chen and W. J. Starosta (1996) describe a model which focuses on four elements: communication skills, personal attributes (including the capacity for "social relaxation"), psychological adaptation (including the ability to cope with stress), and cultural sensitivity. Kim (2001) examines the importance for intercultural communication of: cognitive components, affective components and operational components.

Intercultural competence can be divided into: *content-competencies* and *processual competencies* (Stier 2003). *Content-competencies* have a one-dimensional or static character and refer to knowing a specific aspect. *Processual competencies* consider the *dynamic character of intercultural competence* and its *interaction context* (Hall 1976; Stier, 2004). This *knowing how-aspect* of intercultural competence, involves *intrapersonal* and *interpersonal competencies*. *Intrapersonal competencies* involve *cognitive* and *emotional skills*, coping with diverse feelings - xenophobia, frustration, ethnocentrism (Gudykunst 2003).

Interpersonal competencies refer to *interactive skills* being aware of one's own interaction style (*communication competence*) and adequately responding to *contextual meanings* (*situational sensitivity*). *Intercultural communication education (ICE)* should enhance students' understanding of the *dynamics of intercultural interactions*. It should enable them to obtain *intercultural competence*. *Intercultural Programmes' Student Outcomes (IPSO)* refer to *meta-competences* and extend beyond 'knowing that' and 'knowing how-aspects of culture'.

Instead they are about *knowing why and or even knowing why one knows why*. The *Features of Academic Curricula and Teaching Orientations (FACTO)* make up a fertile ground for *intercultural learning* and acquisition of *intercultural competence* (Stier 2006).

3.Intercultural Competence when all the subjects are taught in foreign language and when we deal with diverse multiethnic student groups. The cases of the Faculty of Business Administration (taught in foreign language), at the Bucharest University of Economics

The majority of courses offered in our universities are taught in Romanian. However, there are faculties where all the subjects are taught in foreign languages. We focused our research on the *Faculty of Business Administration (taught in foreign languages)* that offers courses taught in foreign languages (English, French, German). This faculty was created in 1990 and now there are both Romanian and foreign students (from more than 50 countries). We consider that this faculty is *an example of good practice* for a *multilingual university* that facilitates *intercultural dialogue*. We had applied the questionnaire method.

In the case of the *Faculty of Business Administration (taught in foreign languages)*, English section we applied a questionnaire on a number of 98 respondents, all of whom are students at the *Faculty of Business Administration (taught in foreign languages)*, English section, at the Bucharest University of Economics. Most of the respondents taking part in this study are aged 19 years old (64% out of a total of 98 students) and they are first year students. As for the respondents' nationality, at the *Faculty of Business Administration (taught in foreign languages)*, 86% are Romanian. 4% of the respondents did not declare their nationality, while the others have Israeli (3%), American (2%), Turkish (2%), Lebanese (1%), Palestinian (1%), and Belarusian nationality (1%). Their citizenship is almost the same as their nationality with very few exceptions. Most of the Romanian students (having Romanian citizenship and/or nationality) have Romanian parents. Almost all of the foreign students have parents of different nationalities from the Romanian one with only very few exceptions (one Israeli student having parents of Romanian nationality). The nationality declared for the parents are: Lebanese, Israeli, Romanian, Palestinian, Belarusian, Turkish, American and German, while 6% of the respondents chose not to declare their parents' nationality and citizenship.

When asked *whether they interact with foreign students or not*, at the *Faculty of Business Administration (taught in foreign languages)* the large majority declared that they do interact with foreign students (Romanians and foreign students alike)-figure 1.

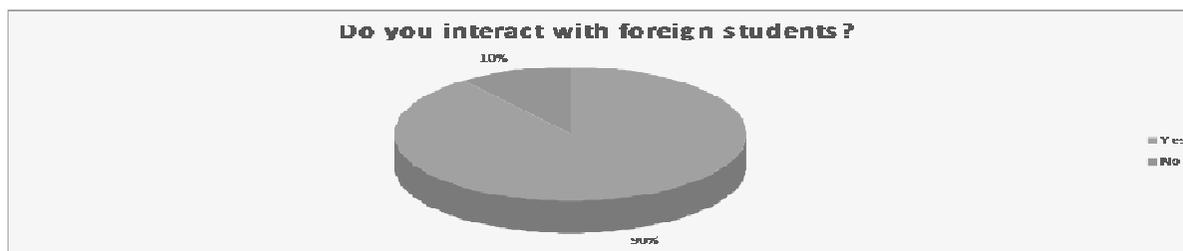


Figure 1. Answers of students from the *Faculty of Business Administration* to the question "Do you interact with foreign students?"

However, 10% of the respondents did not give a positive answer. It seems that they feel just like they *coexist* in a "multicultural situation" (Taylor, 1992; Semprini, 1997). It is very likely that their answer explains or reveals the lack of communication with their foreign colleagues despite the fact that they are students in the same year and series with foreign students. All of the negative answers were given by Romanian students meaning that all foreign students interact with Romanians and not only with students of their own nationality and/or citizenship. Out of the 88 students having stated that they interact with foreign students, 71% said that they interact with less than 10 foreign students, 13% said they interact with more than 11 students but with less than 50 students and only 1% said they interact with more than 50 foreign students. However, a part of the respondents (15%) did not provide any figure at all. The circumstances under which the students of the *Faculty of Business Administration (taught in foreign languages)* declared that they interacted with foreign students were: university activities (an expectedly large proportion 71%) and other activities and circumstances (17%) – figure 2.

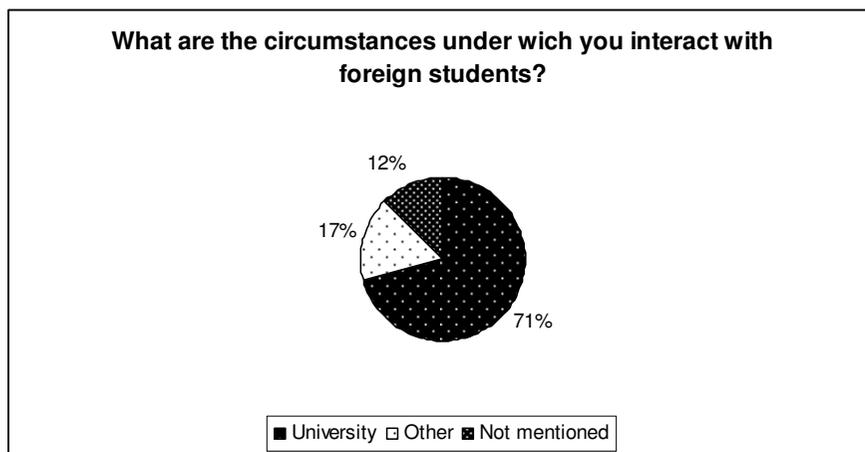


Figure 2. Answers of students from the Faculty of Business Administration to the question “What are the circumstances under which you interact with foreign students?”

12% of the respondents, however, did not want to state what these circumstances were. Within the category “other circumstances” fell: leisure activities, extracurricular activities or both.

When asked to point to the main difficulties that foreign students face, the answers were almost equally shared among the four alternatives: understanding the language (27%), adapting (23%), socializing (23%) and the academic environment (27%). Asked to say what policies or measures they would suggest in order for the Faculty/University to improve or resolve such difficulties, students said that the best policy to be applied would be promoting courses to boost intercultural dialogue and sensitivity focusing on the cultural specificity of each student (37%). Then followed the organization of workshops with all the students of different nationalities (25%), special preparation programs (22%) and the dissemination of materials with useful information (15%). It is more than obvious that the need for more communication would be a possible solution to these difficulties.

When asked to provide more such solutions, students suggested the following: mixing students of different origins (nationality, citizenship) in groups and series; organizing tour guides for foreign students; “showing around” sessions for first year students; organizing more language courses (Romanian); offering more language courses (other than English and Romanian); organizing trips to facilitate communication among students of different nationalities; group and team-building activities; sports events; cultural workshops in music, arts; team projects; different workshops; English as compulsory communication language; socializing and extracurricular activities; brainstorming sessions; better prepared administrative personnel; special advisers for foreign students; after school classes; making more room for NGOs to deal with this problem; encouraging more communication in seminars; having more dialogue in classes; cultural exchange programs and intercultural activities; spending more time with Romanian students; informal meetings for students; culturally-diverse menu at the cafeteria; Romanians offering volunteer to help foreign students adapt.

Asked whether there is any specific policy meant to promote intercultural dialogue in the university, in the case of students in economics the large majority (60%) admitted having no idea about any such policy, while 28% said there is such a policy and 12% said there is no such policy. This question is very useful in understanding the degree of information of students on such issues. For the question “How much does your University/faculty focus on supporting management of diversity, inclusive treatment and equal opportunities?” the answers were: “a lot” (11%), “to some extent” (45%), “not enough” (27%), “I don’t know” (17%).

For the question “*What are the communication difficulties that you encountered in the relationship with students of other nationalities?*” the answers were: different perceptions on things (41%), “*the language*” (24%), “*the culture*” (18%), “*preconceived opinions*” (16%), other (1%).

When asked *whether there are any benefits for students to be taught in a foreign language*, at the *Faculty of Business Administration (taught in foreign languages)*, 87% said there are benefits, 3% said there are no benefits, while the remaining 10% did not know what to answer - figure 3.

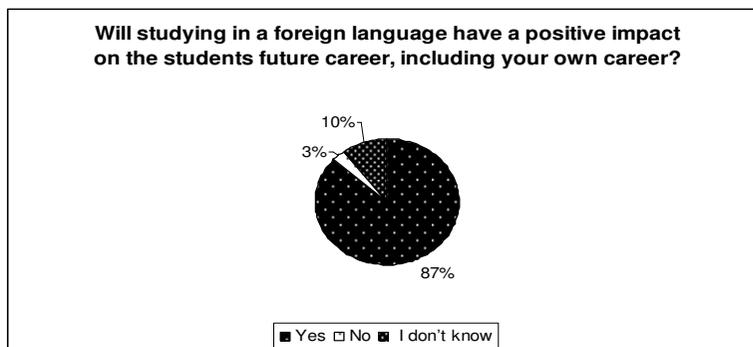


Figure 3. Answers of students from the Faculty of Business Administration to the question “*Will studying in a foreign language have a positive impact on student’s future career ?*”

Most of the positive answers (32%) were in favour of a better preparation to face any future challenges related to intercultural dialogue. 25% of the answers referred to better and improved language skills due to courses taught in a foreign language; 22% of the answers pointed to an easier socialisation due to courses taught in a foreign language; 20% of the answers referred to openness to communicate. Other students (2%) suggested that enlarging career opportunities and learning about other cultures would be other benefits. The respondents consider that the academic curricula taught in foreign languages are adapted to internationally agreed contents and standards (58%). 23% marked the “*not the case*” variant, while the remaining 19% chose “*I do not know*”.

When asked what students should focus more on in order to make the best of the intercultural dialogue to work in favour of stimulating creative and innovative potential of foreign students, their answers were: displaying an inclusive and supporting behaviour (33% for economics and 29% for engineering), forming diverse teams (23%), having an international experience of their own in order to understand cultural diversity (19%), asking for their help (11%), just being tolerant (9%), learning their language (5%).

Conclusions

In our case study students were very confident and said that studies in foreign languages and studying a foreign language like English could contribute to make them *feel better prepared to face any future challenges*. Some suggested that intercultural competences and dialogue could be a means of better adapting to a foreign country, as well as an opportunity to study topics of professional interest in the original. *The interpersonal aspect* was not ignored, as many students mentioned *socializing easier* as a plus of studies in foreign languages, while a lot of students remarked that students participating in such studies were *much more open to communication*.

We consider that we need to work on various fronts: *first*, making people and universities aware of what they can gain from *lifelong learning investing in language training* and in adopting a strategic approach to *knowledge management based on intercultural dialogue and competences*. *Second*, as English is seen more as a ‘*basic competence*’ that everyone needs in the labour market.

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URBAN DEVELOPMENT & CREATIVE COMMUNITIES AS A PREREQUISITE FOR TOLERANCE AND INTERCULTURAL DIALOGUE

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It is obviously that all over the world, mostly after 2000, a new approach for urban development and for regional development emerges. We choose Romania taking into account also the idea that it has old tradition in cooperation mostly within the areas near the borders where diversity and multicultural environment can allow more space for diversity management and for tolerance. One of the main challenges for the creative communities and for the creative industry sector and for those who engage within is how to encourage longer-term growth of these small lifestyle businesses. It seems that there is quite difficult to identifying creative workers due to their diversity (understood in a complex sense, in terms of cultural diversity that is more relevant for creative communities than ethnic, religion or other way to look traditionally for diversity).

Key words: urban development, regional economics, creative cities, creative communities, creative economy

The article's JEL code: R11, R58, R59.

1. Introduction – the necessity to promote, implement and develop the creative economy during crisis time

The global crisis that has made its presence felt since 2008, has already affected to a large extent all sectors of activity, regardless of country, region or continent. It has not avoided the creative sector or creative domains. Despite the potential of the creative economy to generate wealth and create jobs and growth, the creative economies must face the same threats that all economies face. The question is to what extent it affected the creative sector and what are its prospects for development in today's context.

As the global crisis affected without exception all areas and industries of the economy, the creative economy could had not avoid this major global change. The current social and economic landscape could be described broadly by the disappearance of a large number of jobs and the remaining being at risk, businesses which go bankrupt, owners that move etc. All these phenomena occur simultaneously worldwide in all industries.

Moody's (Economy.com) published a report on the recent economic activity in the United States of America. The report investigated 381 metropolitan regions, out of which 302 were already in strong recession and 64 were at risk of recession. When the research was conducted, only 15 of those 381 regions were still experiencing economic growth. The regions which were the least affected, according to the survey, were those regions rich in oil and other natural resources (e.g.

Texas and Oklahoma), who were *saved* by declining energy prices. As well, the Washington DC region still provides and creates new jobs in law and administration, due to nationalization of financial companies and fiscal expansion (Florida, 2009). At the opposite pole are the regions less associated with massive funding, which are most affected by the crisis.

In this context, sooner or later, all world regions will be affected by the recession, to some extent and for a certain period. As the crisis deepens, some regions will be more affected than others. Moreover, it is likely that certain regions or cities will have fully recover, reaching back their past performance, and others not to come back ever again. One thing is certain, however, that the world economy is deteriorating, and the response of different regions to these new conditions is various.

Similarly, *The Big Economic Crisis* or the *Great Depression* of 1929 began as a banking crisis caused by insolvent mortgages and complex financial instruments. Soon, however, the effects of this crisis widened and affected even the real economy, giving rise to a very high rate of unemployment (e.g. unemployment rate in New York was 25% and in some countries exceeded 30%). At that time, the oil industry, building railways and the steel industry were well developed. This is the context in which appeared *the dawn* of a new period of innovation and industrial growth. A similar opportunity may be identified today for the creative economy, since it can play a key role in the current crisis, its ability to revitalize, which was already proven during the periods of growth and expansion.

One of the root causes of the crisis is the increasing difficulty of the West to offset internal exhaust by attracting resources from other parties. Exhausted, the West founded the globalization of markets (especially financial markets) to attract resources from elsewhere, enabling it to maintain the same standard of living, but created a financial bubble at world scale. Everybody was interested in the fictitious and uncontrolled growth that was going: on the one hand, Western economies could maintain their growth, governments assured full employment today with the money of the tomorrow taxpayers, companies provided the required products without increasing the wages, employees were finding jobs, shareholders were getting significant value gains, the poorest had access to housing, banks gained enormous profits, United States effortlessly maintained their supremacy, the southern countries were involved in the growth with the help of U.S. imports and the world financial system stored much of the world added value.

The creative economy combines creativity with the commercial sense and research. The development of creative businesses is directly linked to the dynamics of the *new economy*, which becomes informational, global or networked. The new economy is based on knowledge – intellectual property – and contributes to the welfare of a nation. If the cultural industries were not substantial sources of revenues and economic growth before, during the past few decades they led to the revival of many European regions where the traditional industries had disappeared and left behind a desert landscape and a decaying society. It is the case of *Newcastle-Gateshead* urban conglomerate in Great Britain, former mining region; at present, this region is flourishing due to the development of the creative industries, and examples can be offered from many other geographic regions in this respect. It was thus proved that the creative economy has a major role in any society through social inclusion, urban regeneration and personal motivation they generate. Hundreds of years before art and culture did not represent productive activities, even though they used to have intrinsic value. Gateshead and Glasgow placed the creative industries and the cultural activities at the centre of their development strategies.

2. Creative cities, creative communities and creative regions – people and places that fire the engine of the entire economy – revitalization power

While the concept 'creative' is ubiquitous in everyday life, the concept of a creative city reflects a variety of examples with special applications of creativity to urban economic progress. For

purposes of this writing, the creative city will be viewed as engine for creative regions and as a general movement that uses the application of this concept primarily in the revitalization of cities and whole regions in terms of strengthening the competitiveness of cities that are based on creative community potentials.

The city in the 21st century takes precedence in terms of the number of residents who live in it. Certain sociologists who deal with the phenomenon of the city go so far as to claim that the global society in the 21st century is going through great paradigmatic change, because it is making a transition from a society of the national state to a society of the city.

Cities have always been and still are the focus of modern society and they are socially, culturally and economically dynamic entities and they are the engines of regions where they are placed.

One of the ideological mantras of globalization is that it does not matter where you are. The technology is "*aligning*" the playground-market and the world has become flat global village. Some authors as Pine and Gilmore (1999) argue that increasing competition in the market means that 'goods and services are no longer enough' and that producers must differentiate their products by transforming them into 'experiences' which engage the consumer. Today's global economy has its "*peaks*" of experience. Moreover, the highest "*peaks*" of experiences are cities and regions that are drivers of world economy, those that attract talented, educated people from all over the world, generate knowledge and largely contribute to global innovation, and each are very closely related activities of a group of people by Richard Florida, urban theorist, called "*creative class*." The main sources of the creative potentials in cities and regions are their people. What makes the creative city? It is people - people interacting with people (Hawkins, 2002).

"Today, we need creativity to be able to connect, collect and measure the impact of different spheres of life for a holistic understanding of the city i.e. how it materially affects our perceptions, in order to grasp the delicate ecological system of our lives and make it sustainable. We need, in other words, the skills of a broker, a person who thinks through several disciplines, which is in a network and connects - we need '*softer*' skills' (Landry, Bianchini, 1995).

Contemporary cities see their development through different models: intercultural city, environmental city, green city, slow city, cool city, etc. All these models are linked to changes with the economic and social aspects of the city starts from creative individuals and independent organizations to different administrative and policy systems.

Creativity is available to each city through their creative individuals and if the city promotes creativity and enables those individuals to show in public their creativity the city space would be enriched and more creative. Creativity is not a concept that can easily be caught. According to this in some cities and countries that are still going through transition and that are struggling with basic problems as it is lack of infrastructure and lack of sources for serious social problems, creativity is hardly acceptable. Although creative solutions usually cost very little they have big effect that shows example from the world such as Montpellier (Landry, 2000)

3. The stakes of the creative economy in the emerging countries of Southern and Eastern Europe. The case of Romania

In Romania, the concept of creative economy, as well as the one of creative industries and cities, is still at the beginning of its research; there are no broad researches or specifically focused works on this topic, as it is the case in those countries that initiated and promoted this concept.

The existing statistics at national level in Romania do not allow a fine and precise classification that outlines the creative industries exclusively as it is the case in Great Britain and Australia. Rather, activities in Romania are divided according to a broader classification.

Thus, several blooming creative activities in Romania cannot be separately interpreted due to the

classification procedure and statistical reporting. The general conclusion regarding the creative economy and industries in Romania is that the structure of classification of the economic activities in Romania does not particularly focus on them.

Actions aimed at developing Romanian creative economy and creative cities must take place in a wider context, an *international* one, in the South-eastern Europe space or even in the European Union. Nordic countries are the most eloquent example of such cooperation among nations, which can only lead to the development of the creative economy and cities.

One Romanian town – *Iasi* – was *elected the creative town in Romania*. This project was part of a larger *Central and Eastern European programme*, conducted by *the British Council*. The purpose was actually to map the creative industries in this creative town in order to create awareness about these companies and bind them all in a network. We hope soon other cities will be considered as creative cities and creative communities. Why not Oradea that is also an multicultural community where we can apply intercultural sensitivity tolerance and intercultural dialogue principles.

The measures taken in Romania in support of the creative industries are not part of a national strategy or policy. However, there have been several incentives for the software industry for some years whereby the profit was not taxed on such activities. Moreover, the crafts are supported by a national programme whereby craftsmen can benefit by financing provided the activity remains basically and mostly manual and it preserves the traditions.

In Romania the concepts of the creative economy and creative cities are still at early stage even though there is a time of discussing the creative economy on a highest level in the country.

Exploitation of knowledge and creative skills is one of the most lucrative industries in the world; the only problem is that in Romania it is not easily converted into capital. Lack of awareness of the importance of creativity in companies on the one hand, and outdated education system that does not encourage the development of creativity, on the other hand, are the main problems of the creative industries in these countries, participants emphasized the forums.

Conclusions and recommendations

In the content of the new urban development perspective creative cities, creative communities and creative regions are place where we can hope to find a reliable and sustainable source for long-run sustainable competitive development even during crisis time. Like Phoenix bird recovering from its ashes, creative communities have a real potential in order to identify the real source for regional sustainable development among the creative corridors and creative cities. According to the sustainability of interventions and involvement of the population, creative cities can act properly like fire engines for the long-run sustainable development of the whole region to which they belong.

In Romania, the concepts of creative economy and cities are still in early developing stage and they are still based on enthusiasm of creative organization and individuals.

The awareness of companies and individuals in majority is not high enough and creativity is seen as waste of money and time.

Authors are optimistic and hope for the best perspective for their country, Romania.

That is why as researchers we had done our best to promote this new approach within our country and we are very happy that we obtain on competition bases some research funds for a national research project (IDEI 1224) specially dedicated to the topic of "*The creative economy & knowledge-based society. Challenges & opportunities for Romania*". This project started in 2007 and is running also in 2010.

As teachers we also promote this topic among our students on all the Bologna Process levels (undergraduates, Master and PhD Programmes). One of the authors is a PhD candidate who had chosen to the research project topic for the PhD dissertation paper.

We are convinced that by promoting creative economy new approaches among students when these students will graduate they will do their best in order to promote this approach in Romania. Or at least they will not block other's people initiatives that will support creative economy promotion both at the national and regional level.

The regional and territory dimensions have a special meaning for the cotemporary development. And the creative & innovative communities can make the difference also for Romanian regions on their way towards a creative & innovative economy.

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LE DEVENIR DE L'INFORMATIONNEL ET DES PROJETS DANS L'ENSEIGNEMENT DU LANGAGE ECONOMIQUE

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Informatics, especially the Internet represents a new approach for the teacher interested in new methods of teaching foreign languages. More and more attracted to the Internet, the students will combine what is necessary with what is pleasant in learning rapidly a language for special purposes. In this paper I have presented the objectives of teaching French language for the Economics starting from an authentic material on the Internet: Lafarge Group which is a multinational enterprise and a world leader in building materials, with a branch in Romania, Constanta County, Medgidia town.

Mots-clés: informatique, Internet, sciences économiques, site, authentique, entreprise

Cod JEL: A12, A19

L'information est un enjeu incontournable du maintien et du développement de la domination des acteurs du secteur économique. Sans elle, la gestion et le renouvellement des produits et des marchés, l'organisation de leur diffusion et de leur consommation à l'échelle de la planète ne seraient pas possibles. L'information étendue et profonde est si bien captée par le secteur économique, que c'est à lui principalement que revient le mérite des réussites incontestables qui n'existeraient pas sans elle. L'économie est dopée à l'information sous presque toutes ses formes: technoscientifique, géographique, médiatique. Toutefois, cette domination de l'information a réussi à créer des domaines spécialisés du point de vue du langage nécessaire à appréhender les problèmes fondamentaux et globaux. Morin note que: «sous la pression de l'économie, le tissu complexe de la société a été tailladé en petits morceaux; difficile de reconstituer l'ensemble. Aux économistes, l'économie, aux démographes, la démographie»³⁶⁰

Selon les exigences de la société contemporaine, on doit souhaiter l'ouverture du lexique économique et son intégration dans une communauté plus ample, celle de l'université mais également dans le milieu des affaires. De la sorte, l'économie et son langage au service de l'être humain devraient nous conduire à civiliser la terre en une société moderne qui favorise la compréhension du langage spécialisé économique mais aussi des mécanismes qui y agissent.

L'informationnel dans l'économie est une conquête de complexité sociale. Elle institue à la fois des règles pour les individus, des impôts qui assurent le contrôle des entreprises, des régulations qui empêchent l'évasion fiscale.

Or, les nouveaux enjeux d'une économie informationnelle mondialisée doivent transmettre aux étudiants en sciences économiques tous ces termes spécifiques des mécanismes en fonction.

Dans la *perspective actionnelle*, les étudiants en sciences économiques sont à envisager non seulement en leur qualités d'individus mais, à la fois, dans le rôle d'acteurs sociaux ayant à traiter une multitude de situations communicatives auxquelles ils se confrontent à l'avenir dans une entreprise, et qui exigent l'accomplissement d'un certain nombre de tâches. Pour les mener à bien, ils mobilisent une série de compétences dont ils disposent déjà et, en parallèle, en acquièrent d'autres.

³⁶⁰ Morin Edgar, Naïr Sami, *Politique de civilisation*, Ed. Arléa, Paris, 1997, p. 288.

La définition d'objectifs communicatifs impose comme nous l'avons vu, la prise en compte des besoins du public visé. Sophie Moirand³⁶¹ conçoit un schéma fonctionnel menant à la formulation des objectifs en faisant distinction entre objectifs situationnels et objectifs communicatifs – la traduction des objectifs situationnels en objectifs communicatifs se réalisera à coup d'identification des divers paramètres, par leur mise en relation à des éléments verbaux et non verbaux de la communication et par analyse des éléments verbaux (ou de discours) produits en pareilles circonstances.

Entre les objectifs généraux le professeur visera les suivants:

1. initier au fonctionnement des rapports sociaux de travail dans une entreprise.
2. entraîner à la compréhension des documents écrits/oraux statuant les rapports du travail.
3. former à la rédaction de documents dans l'expérimentation FOS par l'Internet doit se mettre d'accord avec ses étudiants pour répondre le mieux à la question: qu'est-ce que les apprenants doivent connaître, savoir et surtout savoir faire pour mener à bien les activités de communication découvertes sur un site. Donc, ils devront être familiarisés en avance avec les différents volets parmi lesquels:
 - a) connaître les rapports dans le travail et la communication interne de l'entreprise.
 - b) maîtriser le discours c'est-à-dire savoir comment se débrouiller dans telle ou telle situation de communication: vocabulaire, constructions syntaxiques, aspects stratégiques, conventions de rigueur etc.
 - c) savoir comment fonctionne un certain type de négociation, comment se déroule un rendez-vous d'affaires
4. connaître le contenu des affaires de l'entreprise envisagée
5. comment se fera l'évaluation de ces activités de communication selon quels critères?

Le principal *objectif thématique* sera dicté aux étudiants et il constituera le cadre dans lequel le professeur insèrera les autres objectifs et les actes de parole. Dans notre cas l'objectif thématique sera: prendre connaissance des divers moyens de communication orale et écrite employés par une entreprise multinationale qui a son propre site et qui veut faire une promotion correcte en vue de son bon fonctionnement.

Quant aux *objectifs discursifs*³⁶² le professeur identifie les définitions et explique les différences entre les moyens écrits et oraux (il va annoncer les étudiants du film promotionnel qu'ils doivent écouter plusieurs fois).

Puisqu'on est mis dans une situation dans laquelle l'Internet devient un partenaire pour l'étudiant, les objectifs linguistiques seront identifiés ensemble avec les actes de parole. Donc, dans l'évaluation ou l'autoévaluation les étudiants seront invités d'identifier les types de phrase dans la communication dans l'entreprise (affirmative, interrogative, passive, impersonnelle).³⁶³

L'explication du professeur est nécessaire pour ces tâches: Quand et dans quel contexte on a exprimé l'obligation (l'interdiction, la permission etc.)?

D'habitude, nos étudiants sont de *Niveau B1+* qui correspond à un degré élevé du Niveau seuil, ils réussissent à comprendre et utiliser un nombre de descripteurs relatifs à la quantité d'information échangée. Ils sont capables de prendre des messages sur des demandes de renseignements ou expliquer une difficulté, apporter l'information concrète exigée dans un entretien, mais avec une précision limitée; donner son opinion sur un article, un exposé, une discussion etc. et répondre à des questions de détail complémentaires, ou les résume; mener à bien un entretien préparé en vérifiant et confirmant l'information, même s'il faut parfois faire

³⁶¹ Sophie Moirand, *Approche globale des textes écrits* en *Etudes de Linguistique Appliquée*, n. 23, 1976, p. 90.

³⁶² Carmen-Ştefania Stoean *Classe d'expérimentation en pédagogie du projet*, în *Dialogos – Sciences du langage et didactique des langues*, nr. 18/2008, Editura ASE Bucureşti.

³⁶³ D. Bailly, *Pour une application de la linguistique théorique à l'enseignement des langues*, en *Langage*, 39, 1975, p. 81-105.

répéter l'interlocuteur lorsque sa réponse est longue ou rapidement énoncée; décrire comment faire quelque chose et donner les instructions détaillées; échanger avec une certaine assurance une grande quantité d'informations factuelles sur des questions de son domaine. Donc, on peut entrer ensemble sur l'Internet à l'adresse <http://www.france-entreprise.fr/> où nous allons découvrir *l'annuaire des entreprises françaises sur l'Internet*.

Là-bas on a le choix entre *Alimentation et boissons*, *Antiquités* ou bien *Économie* (Affaires de commerce extérieur, Consulting, Courrier d'affaires, Emploi et ressources humaines, Renseignements économiques et enquêtes, Services, Services financiers...)

L'annuaire développe aux étudiants la compétence interculturelle et offre une vue d'ensemble sur les critères en fonction desquels les entreprises peuvent être classées. Grâce à ce site on peut voir la liste des plus grandes entreprises françaises, cotées en bourse et qui font parties de l'indice Stoxx50.

Le professeur présente l'histoire de l'entreprise *Lafarge* qui est présente aussi en Roumanie à Medgidia, département de Constanta. *Lafarge* est un groupe français de [matériaux de construction](#), leader mondial dans son secteur, suivi par [Holcim](#). Il est présent dans trois activités principales : [béton](#) et [granulats](#), [ciment](#), [plâtre](#), et dans 79 pays. Son chiffre d'affaires, en 2008, s'est élevé à 19,033 milliards d'euros, dont 57 % dans le ciment, 35 % dans le béton et les granulats et 8 % dans le plâtre. Le groupe emploie environ 84 000 personnes dans le monde sur 2 187 sites de production. La compagnie des Ciments Lafarge a développé des ciments spéciaux de renommée internationale. Lafarge est leader mondial des matériaux de construction.

C'est en [Ardèche](#), en [1833](#), que naît l'activité du cimentier Lafarge après la reprise, par son fondateur [Léon Pavin de Lafarge](#), d'une activité familiale lancée en [1749](#) dont l'usine exploite une carrière de pierre à chaux dans la montagne Saint-Victor dominant le [Rhône](#) entre [Le Teil](#) et [Viviers](#). Dès [1864](#), le site livre 11 000 tonnes de chaux pour le [Canal de Suez](#), c'est le premier chantier d'envergure internationale pour l'entreprise. En [1919](#), l'activité est transformée en société anonyme sous le nom de *Société anonyme des chaux et ciments de Lafarge et du Teil* et dès [1939](#), Lafarge devient le premier cimentier français et progressivement l'un des leaders mondiaux. En [1980](#), la fusion avec l'entreprise [belge](#) Coppée donne naissance au Groupe Lafarge Coppée et en [1997](#), elle acquiert le britannique [Redland](#) ce qui permet à Lafarge d'entrer dans le marché des [tuiles](#). Le [12 juillet 2001](#), l'acquisition du groupe britannique [Blue Circle Industries Plc](#) (BCI) permet à Lafarge de devenir le premier producteur mondial de ciment devant le Suisse [Holcim](#). Pour financer cet achat, Lafarge revend sous forme de LBO l'essentiel de sa branche de matériaux de spécialités, rebaptisée [Materis](#). Le [29 juin 2004](#), Lafarge décide de doubler la capacité de sa cimenterie de [Dujiangyan](#), en [Chine](#), pour la porter à 2,4 millions de tonnes, et signe un accord de partenariat avec Shui On Construction Materials Limited (SOCAM), cimentier chinois coté à [Hong-Kong](#). En [2007](#), Lafarge SA annonce le rachat de la division ciment du groupe égyptien [Orascom](#), [Orascom Cement](#) pour 8,8 milliards d'euros mais est condamné, la même année, avec la société [Vicat](#) pour entente illégale⁶ et abus de position dominante collective sur le marché de gros de l'approvisionnement de la Corse en ciment.

Le [2 juillet 2008](#): *Lafarge Couverture* devient [Monier](#) après la cession de l'activité Toiture à [PAI partners](#) et le [19 août 2008](#), dans le cadre du plan de nationalisation de l'industrie du ciment, du président [vénézuélien](#), [Hugo Chavez](#), Lafarge conclut un accord de cession de ses filiales vénézuéliennes.

Le [28 juillet 2009](#), dans le cadre du plan global de désinvestissements du Groupe, Lafarge annonce la cession de ses actifs Ciment et Granulats & Béton au [Chili](#) (Lafarge Chile SA et Immobiliaria San Patricio ainsi que la cimenterie de La Calera) au groupe [péruvien](#) [Brescia](#), pour une valeur de 555 millions de dollars US.

Le groupe, qui comprend plus de 1 240 sociétés détenues majoritairement et environ 230 sociétés détenues sous forme de participations, est très décentralisé. Il est organisé en trois branches:

- [ciments](#), la direction générale se trouve à [Saint-Cloud](#) ainsi que les services techniques France alors que les services techniques à l'international se trouvent à [L'Isle-d'Abeau](#).
- [granulats](#) et [bétons](#),
- [plâtres](#).

Chaque branche regroupe l'ensemble des unités de son domaine d'activité sur le plan mondial.

Les unités ont une compétence limitée à une zone géographique, généralement un pays, pour une activité donnée. Le siège du groupe, situé à [Paris](#), comprend la direction générale, le comité exécutif et l'ensemble des directions fonctionnelles.³⁶⁴

Si nous allons cliquer sur l'Entreprise Lafarge on peut découvrir tout le lexique nécessaire pour la présentation et la promotion d'une société: agenda, Cours de bourse, Groupe, Développement durable, Recherche et Innovation, Clients et Activités, Actionnaires et Investisseurs, Journalistes, Candidats etc.

Par exemple, dans les communiqués de l'année 2010 nous apprenons que *Lafarge* (leader mondial des matériaux de construction, qui occupe une position de premier plan dans chacune de ses activités: ciment, granulats & Béton et Plâtre), dépasse son objectif de réduction de ses émissions de CO₂ dans le monde. Pour tenir ses engagements, Lafarge investit des montants importants dans la durée: plus de 800 M€ auront été investis ces cinq dernières années dans la réduction de l'empreinte environnementale industrielle des cimenteries du Groupe.

Ethique et gouvernance offre aux étudiants la possibilité d'écouter les modes de gouvernance qui font partie intégrante des critères de développement durable. Chez Lafarge, la gouvernance est réglée par des principes éthiques forts.

Trois axes se dégagent:

- la réussite des collaborateurs: l'objectif de Lafarge est d'aider chacun à réussir.
- l'amélioration permanente de la performance: Lafarge veille à optimiser continuellement ses produits et services.
- une organisation «multilocale»: les activités de Lafarge sont locales, mais s'inscrivent dans une logique globale.

Ecouter cette présentation constitue un volet de compréhension orale très important dans la communication professionnelle, et peut être exploité comme un matériel complémentaire. Du point de vue économique, il faut insister après l'écoute du discours sur le terme *gouvernance* que les étudiants peuvent noter. *La gouvernance* d'entreprise est constituée de l'ensemble des mécanismes d'orientation, de contrôle et d'évaluation qu'elle met en place. De façon plus précise, ce terme peut également désigner des règles de fonctionnement du conseil de la surveillance.

On peut indiquer aussi *le glossaire* du site http://www.lafarge.fr/wps/portal/2_6Glossaire, où ils trouveront le lexique concernant les termes spécifiques à l'activité de l'entreprise (ajout cimentaire, bauxite, cellule photovoltaïque, cendres volantes, co-incinération) mais aussi des termes économiques pour le groupe multinational (Organisation Internationale de Travail (OIT), Programme des Nations Unies pour l'environnement PNUE).

Il serait néanmoins utile que l'exploitation de ce site avec le Groupe Lafarge soit complété par des exercices d'exploitation, de consolidation et d'évaluation regroupés dans une banque (base) de données électronique). Lorsqu'on procède à l'évaluation, en fait, nous mettons l'accent sur le processus qui se construit en spirale ouverte sous les yeux des étudiants et leur professeur, toujours actif et disponible pour ajuster, réajuster et reformuler les activités proposées.

L'apprenant est donc bien le point de départ que ce soir vers l'enseignant ou vers un autre apprenant: ainsi, il peut apprendre à communiquer avec le groupe en présentant pour le début le profil de Lafarge, ensuite sa stratégie et l'équipe dirigeante.

³⁶⁴ http://fr.wikipedia.org/wiki/Lafarge_SA.

Le professeur, à son tour, peut intervenir avec des questions ouvertes, sur l'avenir de son correspondant: Est-ce que tu aimerais travailler dans une multinationale de type Lafarge? Pourquoi?

Apprendre aux étudiants à utiliser le site Internet de manière efficace autant en classe que dans leur travail individuel c'est faire le premier pas vers leur autonomie. D'ailleurs, les Projets «Langues Vivantes» du Conseil de l'Europe ont inclus dans leurs orientations fondamentales l'exploration et l'exploitation du concept d'autonomie et les stratégies pédagogiques susceptibles de contribuer à son application dans les systèmes d'enseignement/apprentissage des langues européennes.

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SECTION: ECONOMICS AND BUSINESS ADMINISTRATION

SUB-SECTION: ECONOMICS

MODALITIES OF INCREASING THE COSTS EFFICIENCY IN RENAL DISEASE TREATMENTS

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" Presently, in Romania, the number of patients being treated of renal diseases is two times and a half less than the European average. In spite of all this, the main resources that Romania has to treat the renal diseases are used mainly for the treatment through hemodialysis, which is the most expensive treatment method. The present study intends to modify the proportions between the different renal treatment methods, in the sense of increasing the number of cheaper treatment methods (renal transplant, peritoneal dialysis) and decreasing the number of expensive treatment methods.

Keywords: patients, cost, treatment, renal transplant.

Cod JEL: E 21

1. Development models

a) The renal substitutive treatment in Romania as compared to the countries which report to the European Renal Registration

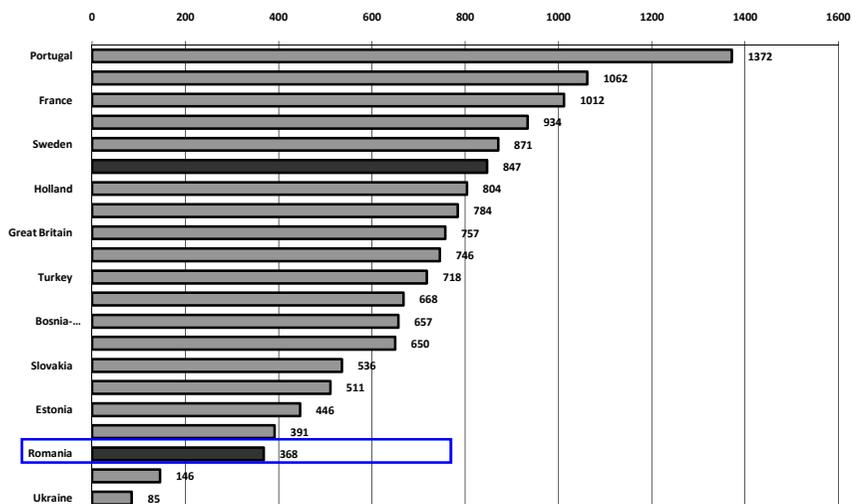


Figure 1. The prevalence of the patients treated through substitution methods against the renal diseases (patients treated to 1 million inhabitants) at 31st December 2007 in countries which report to the European Renal Registry³⁶⁵.

³⁶⁵ NDT Plus 2009 December; 2(6): 514–521.

a) The increase rate of the patients number

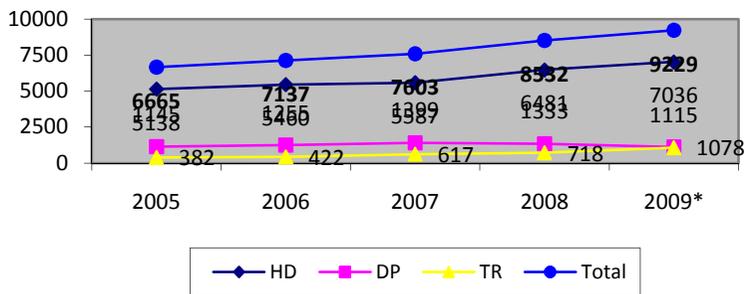


Figure 2. The dynamics of the number of patients treated through renal substitution methods in Romania between 2004-2009 (trimester 3)

Between 2005-2009, the average rate of increasing the number of patients was of 8% (Figure 5). Due to the economic conditions, an increase rate of around 5% is financially supportable between 2010-2014, with possible annual adjustments according to the available financing resources.

b) The report between the substitution methods of renal functions

The hemodialysis, the peritoneal dialysis and the renal transplant are the renal substitution methods to which one can resort complementarily according to:

1. the medical indications which are determined by the patients' pathological particularities, and also by their individual preferences;
2. the geographical, historical, cultural, religious and social particularities of each country which determine the population's and the doctors' attitude to each treatment methods;
3. the treatment costs for the system. As it results from **Figure 6**, the most advantageous economical method is the renal transplant, followed by the peritoneal dialysis and the hemodialysis.

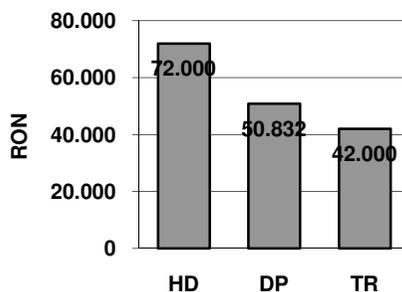


Figure 3. The costs of the hemodialysis (HD) treatment, the peritoneal dialysis (DP) treatment and the renal transplant (TR) treatment per patient a year, calculated according to the CNAS tariffs in 2009, and in case of the renal transplant are also included the expenses regarding the surgical intervention of treating the donator considered to be covered in 5 years.

4. the economic interests of the public or private dialysis providers determined by the returning conditions, which obtain profits from any of the methods.

As a result of the cumulated intervention of these factors, in Romania, the most used method is the hemodialysis (77% of the patients), followed by the peritoneal dialysis (12%) and the renal

transplant (11%). The tendency in the last 5 years is a preponderant increase of the renal transplant (+15%), followed by the hemodialysis (+8%) and the decrease of the peritoneal dialysis (-10% in the last 2 years). Consequently, **Romania's situation radically differs from the European one (Figure 7).**

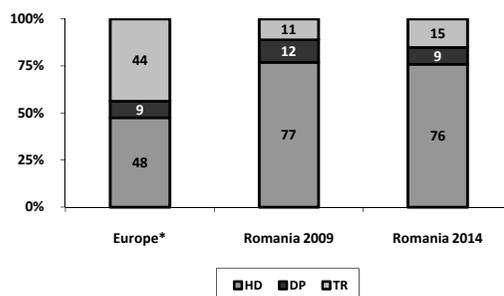


Figure 4. The utilization of the substitution methods of renal functions in Europe (European Renal Registry, 2007) and in Romania (2009 and the estimation for 2014)

c) Development models between 2010-2014

The modeling principles are:

1. The modeling duration was of 10 years;
2. A 5% increase of the total number of patients, starting from the number existent in 2009;
3. Maintaining the present indicators of patients: the gross indicator of mortality of 10%, transfer from the hemodialysis of 2% to the peritoneal dialysis and of 5% to the transplant, transfer from the peritoneal dialysis of 9% to the hemodialysis and 3% to the renal transplant, transfer from the renal transplant of 10% to the hemodialysis and of 5% to peritoneal dialysis.
4. Maintaining the present tariffs of the substitutive treatment methods: 72 thousands RON for the hemodialysis, 50.2 thousands RON for the peritoneal dialysis and 42 thousands RON for the renal transplant;
5. There were three models constructed:
 - a. **The "present - HD" model** based on continuing the tendencies in the last 5 years of using the substitutive treatment methods (annual increase of 5%, 1% for the hemodialysis and peritoneal dialysis, respectively a fixed number of transplants per year and respectively a renal transplant);
 - b. **The "predominant peritoneal dialysis – PD" model** in which the annual increase is of 5%, 20% and of 10% for the hemodialysis, peritoneal dialysis and renal transplant;
 - c. **The "predominant renal transplant – TR" model** in which the annual increase is of 5% and of 1% for the hemodialysis and peritoneal dialysis and the number of the financed renal transplants increased with 10% per year (**Figure 8, Figure 9**).

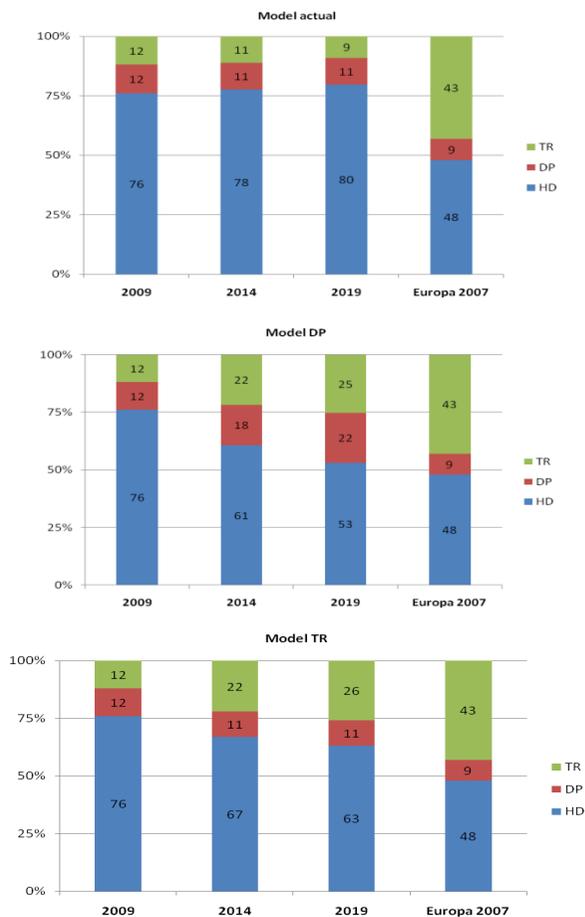


Figure 5. Comparison between the structures of the methods of renal substitutive treatment obtained in 2014, in accordance with the model chosen, reported to the one registered in Romania in 2009 and in Europe in 2007.

The data are given in percentage out of the total number of patients HD – hemodialysis, DP – peritoneal dialysis, TR –renal transplant.

In the **present model**, the hemodialysis is the predominant method (80% of the patients) at the expense of the decrease of the peritoneal dialysis from 12% to 9%, maintaining the renal transplant to an average of less than 10%. **The “peritoneal dialysis” model** increases four times the percentage of patients treated with peritoneal dialysis (22% in 2014 as compared to 12% in 2009), at the expense of the serious reduction of the hemodialysis (53% compared to 76%), permitting thus to increase the number of renal transplants from 12% to 25%. **The “renal transplant” model** reduces the number of hemodialysis (63 compared to 76%) and peritoneal dialysis (9% compared to 12%), but it helps to increase the renal transplant (26% compared to 12%). (Figure 8).

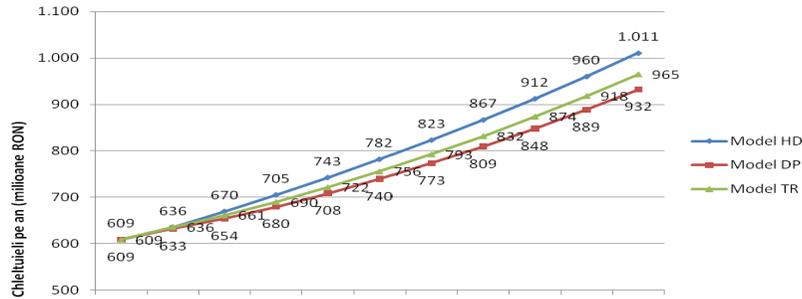


Figure 6. The costs estimation for the three models. HD – hemodialysis, DP –peritoneal dialysis, TR – renal transplant. The costs are calculated according to the tariffs of CNAS in 2009 and they are expressed in millions of lei.

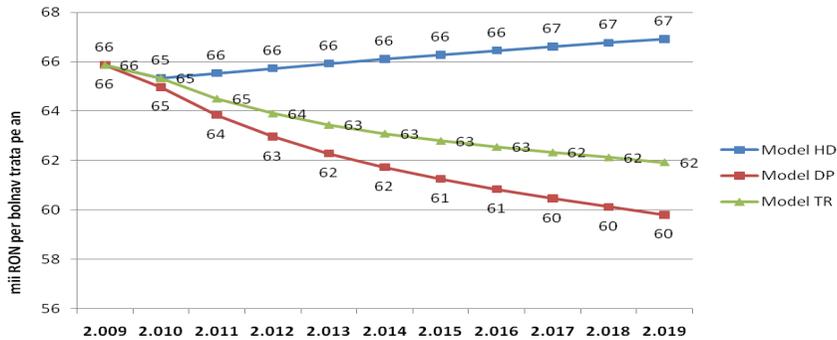


Figure 7. Comparison between the average expenses per year (thousands of RON) for a patient treated in the three models

The economic efficiency analysis shows the differences between the costs of the three models. The highest expenses are for the HD model and the lowest the DP model (Figure 10, Figure 11). As compared to the HD model, the expenses in 2019 would be lower with 18,700,000 Euro in the DP model, and with 10,800,000 Euro in the TR model. The yearly expenses for a patient treated would increase in the HD model, and would decrease with 10% in the DP model or with 8% in the TR model (Figure 10).

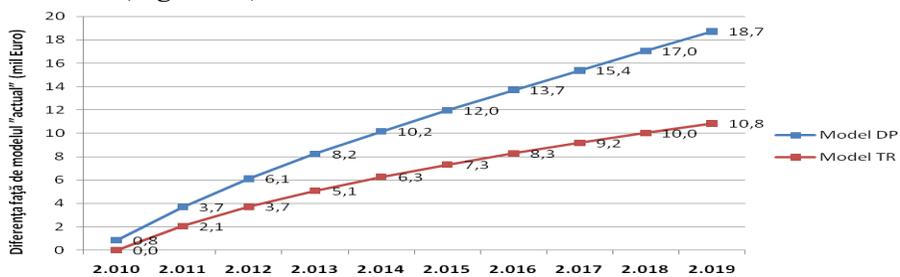


Figure 8. Differences in expenses (millions of Euros) between the "renal transplant" (TR) model, "peritoneal dialysis"(DP) model and the "present" model

b) The dynamics of the number of patients in the renal substitutive treatment

The dynamics of the prevalent patients at the end of the year is presented in Figure 12, and in Figure 13 we can observe the dynamics of the incident patients, in comparison with the two models.

The best program control of the CNAS would be achieved by monitoring the incident patients, and checking the entrance conditions in the program.

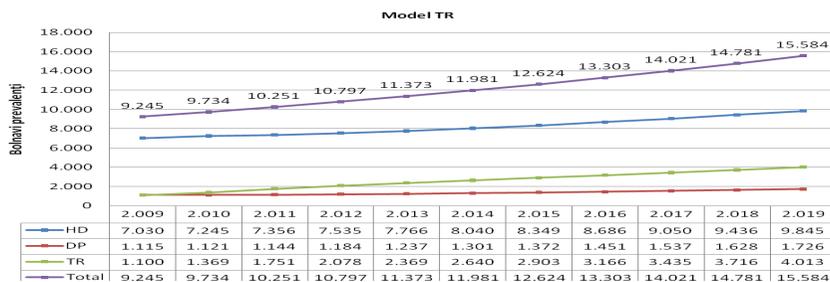


Figure 9. Dynamics of the patients prevalent in the two models

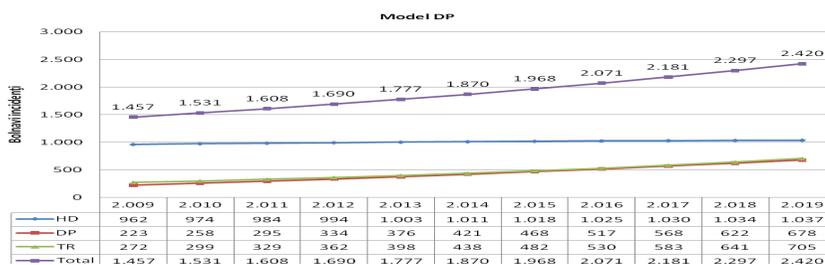
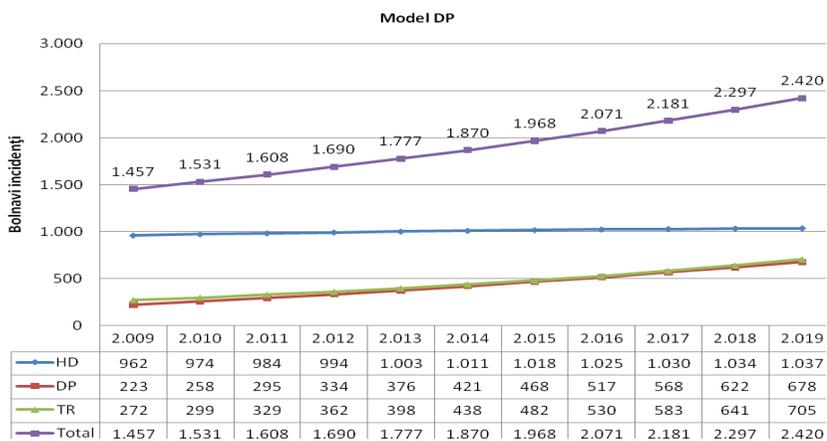


Figure 10. Dynamics of the patients in the two models

f) Measures for the modification of the present model

The treatment method is indicated by the doctor on the basis of various medical criteria and the accessibility of any other method, but the choice is made by the patient. The dialysis service providers may influence the process by increasing the facilities and the indirect pressures upon the personnel, according to the economic criteria of efficiency. At this time, the service package of hemodialysis solicited by the CNAS is the most complete and has the lowest tariff of all Europe, and the proportionally reduced financing of the peritoneal dialysis makes it less attractive from an economic point of view. On the other hand, the number of financed transplants is much too small, Romania holding the last position in Europe with 4 renal transplants to one million inhabitants, to an average of 35.

Consequently, in order to support the implementation of an efficiency model, in which the renal transplant could efficiently sustain the balance between the hemodialysis and the peritoneal dialysis, we need the following: Approving a large number of new transplants 10% higher in every of the following years; Setting up a Registry of the renal-transplanted patients, which can collaborate with the Romanian Renal Registry; Defining protocols of monitoring and treating the

transplanted patients; Defining common protocols with SMURD to ease the process of acquiring organs from the body donors (on average 4 deceases in traffic accidents per day in Romania!); Increasing the tariffs for peritoneal dialysis by at least 4000 RON.

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INTERNATIONAL SPECIALIZATION AND VERTICAL DIFFERENTIATION

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During the last decades, market segmentation and intra-industry trade have become increasingly relevant. The underlying hypothesis of our work is that distinct articles have heterogeneous potential for vertical differentiation, implying that different patterns of international specialization should be identifiable. We carry out an analysis on revealed comparative advantage (through the Lafay Index) in specific sectors of interest. Then we highlight the emergence of diverse degrees of product quality differentiation among sectors (through the Relative Quality Index). Results confirm our hypothesis. Indeed it appears that only certain goods, for which the pace of either creative or technological innovation (or both) is particularly fast, present a high degree of vertical differentiation and market segmentation. This allows countries to specialize in a particular product variety and gain market power position for that variety. These findings should be taken in due consideration when designing trade policies.

Keywords: international specialization, Lafay Index, Relative Quality Index, creative sectors

JEL code: F1, F59, D4, Z1

Introduction

European countries are facing increased economic competition, resulting both from the overall globalization dynamics and from the European integration process. These phenomena are often considered as threats. However, a better understanding of international trade patterns and specialization trajectories could contribute to properly assessing these dynamics, so that to prevent us from drawing hurried conclusions about the presumed competitive pressures that high income countries face from emerging economies.

The analysis of international specialization patterns is essential in order to examine the revealed comparative advantages of countries and, therefore, their competitive potential in particular markets. However, given the increasing importance of differences in products’ quality as a driver of countries’ success in the global market (Bernard and Jensen, 2001; Bernard et al., 2003), it could be ambiguous to only take into account measures of international specialization based on export and import values (Baldwin and Harrigan, 2007), without considering the qualitative characteristics of traded goods.

For “quality”, we intend not only the physical features of the product (such as materials or technology embedded), but all features, tangible and intangible, influencing consumers’ economic valuation (Aiginger, 2001; Borin and Lamieri, 2008). For this reason, it is possible to measure perceived quality through the price that the consumer is willing to pay (Stiglitz, 1987).

The most frequently adopted proxy of price in international trade studies is the Unit Value (UV) of trade flows, defined as the ratio between the value and the quantity of imports/exports of a given product (or group of products).

The UV is often used as a quality indicator, though this approach has some limits (Mannarino et al., 2008). Firstly, products with the same price but different physical weight might show different UV independently from their relative qualities; despite that, it is often possible to find product-specific correlations between weight and quality. Secondly, a higher UV may also depend on a lower productivity level of a country; however this can only be true in the short run, while it is reasonable to think that in the long period countries may continue to be internationally competitive with a high UV only if it is justified by higher quality characteristics. Lastly, a country gaining a market power position in a specific product could increase its UV even without improving the product quality.

In our analytical framework, we consider vertically differentiated products and consumers preferring higher quality varieties. These hypotheses allow for: a) market segmentation and intra-industry trade; b) advantages in terms of productivity, resulting in exports which have higher unit values (Baldwin and Harrigan, 2007).

Accordingly, we carry out our analysis first by examining which countries are internationally specialized in particular products of interest and then by investigating the revealed quality characteristics of the various products for different specialized countries.

International Specialization and Relative Quality Measures

We are interested in finding out which countries are specialized in given products. These have been selected with the aim of representing different macro-typologies of products, in order to be able to assess if a correlation exists between the possibility for a given product to be vertically differentiated (hence allowing for market segmentation and intra-industry trade) and significant difference in quality levels.

We carry out this analysis, adopting the Lafay Index (Lafay, 1992) as an index of international specialization and a Relative Quality Index as a measure of differences in quality levels.

We choose to adopt the Lafay Index, rather than other indices as popular as this one (such as Balassa, 1965), since an appropriate investigation on international specialization patterns has to take into account both exports and imports, if we consider the increasing weight of intra-industry trade and “international fragmentation of production”³⁶⁶ in the global context.

For a given country i and for any given product j , the Lafay Index takes the following form:

$$LFI_j^i = \left(\frac{x_j^i - m_j^i}{x_j^i + m_j^i} - \frac{\sum_{j=1}^N (x_j^i - m_j^i)}{\sum_{j=1}^N (x_j^i + m_j^i)} \right) \frac{x_j^i + m_j^i}{\sum_{j=1}^N (x_j^i + m_j^i)}$$

where x_j^i and m_j^i are respectively exports and imports of product j for country i towards and from the rest of the world, and where N is the number of products.

The Lafay Index considers the deviation of product j normalized trade balance from the overall normalized trade balance, weighted by the share of trade (imports plus exports) of product j on trade balance. Given this definition, the sum of Lafay Indices for all sectors of a given country must be zero.

The existence of a comparative advantage is revealed if the index assumes positive values, whereas negative values show de-specialization. The greater the absolute values, the higher the degree of specialization/de-specialization.

Different countries having the same Lafay Index for a given product could nevertheless be specialized in different varieties, that is in vertically differentiated typologies of that product.

³⁶⁶ The mechanism by which firms delocalise part of their production to foreign countries, thus generating trade flows of intermediate goods.

In order to add this information to our analysis, we introduce the Relative Quality Index, measured as:

$$RQ_j^i = \frac{UV_j^i - UV_j^W}{UV_j^W}$$

where UV_j^i is the unit value of product j exports for country i and UV_j^W is the average unit value of product j exports for the world. RQ_j^i takes positive values if the UV of the exported goods from country i to the world market is higher than that of the world.

Methodology and data

The underlying hypothesis of our work is that distinct items show heterogeneous potential for vertical differentiation, which permits producers to carry out strategies of price discrimination and market segmentation and hence, at an international level, allows countries to specialize in producing and trading qualitatively differentiated varieties of the same product.

This hypothesis implies that different patterns of international specialization should be identifiable. Some sectors should be coherent with the traditional international trade theories, which predict that specialized countries, enjoying higher productivity level, will trade low-price products. Other sectors should conflict with this conclusion, since, when a specific market is vertically differentiated, some specialized countries may have a comparative advantage in producing and trading low-quality and low-price varieties, while other countries may specialize in high-quality varieties. And that results in exports that have higher, not lower prices (Baldwin and Harrigan, 2007).

For that reason we use a thumb rule (qualitative, descriptive criteria) to select various articles (corresponding to the HS four-digit level codes³⁶⁷) which in our opinion correspond to products representative of sectors with diverse vertical differentiation potential.

We analyze data through the indices introduced in the preceding paragraph. For each chosen item (HS four-digit code), we identify international specialized countries, through the Lafay Index³⁶⁸. For these countries, we highlight the quality characteristics of their traded goods, by calculating the relative quality index³⁶⁹. Then we draw some conclusions about our hypothesis that particular sectors have a great vertical differentiation potential and we try to make some considerations about the possibility to define common characteristics of these sectors.

Since this paper represents just the first step of a more comprehensive work, we carry out the measurements only on a few items, taken as examples within their respective categories of products. We intend to further develop this analysis, in a more systematic and detailed way, in order to find more robust empirical results for our future work on this topic.

We then present graphics which show how, for various items, we find different forms of correlation between the Lafay Index and the Relative Quality Index.

³⁶⁷ As our source of data, we use the International Trade Statistics of the International Trade Center (UNCTAD/WTO), which classifies goods through the Harmonized Commodity Description and Coding System (2002), a six-digit code system, comprising approximately 5,300 article/product descriptions, arranged in 99 chapters, grouped in 21 sections.

³⁶⁸ In order to single out only countries that have an higher degree of specialization, we set a threshold for the Lafay Index equal to the average value of the LFI for each item.

³⁶⁹ Even though we have conducted a full analysis on all of the countries for both LFI and RQ, we use the resulting data only for countries which result specialized in each sector (countries above the LFI threshold).

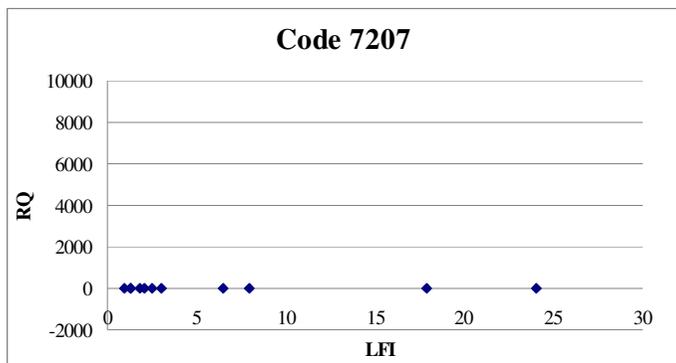


Fig. 1: Code 7207 - Semi- finished products of iron or non-alloy steel

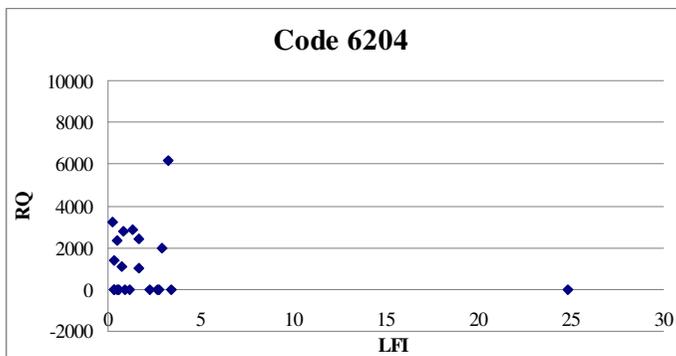


Fig. 2: Code 6204 - Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts
Note: Viet Nam, Bangladesh, Cambodia, Thailand and the former Yugoslav Republic of Macedonia are among the specialized countries. However we are not able to calculate the RQ because the data of their exports in quantities are not available

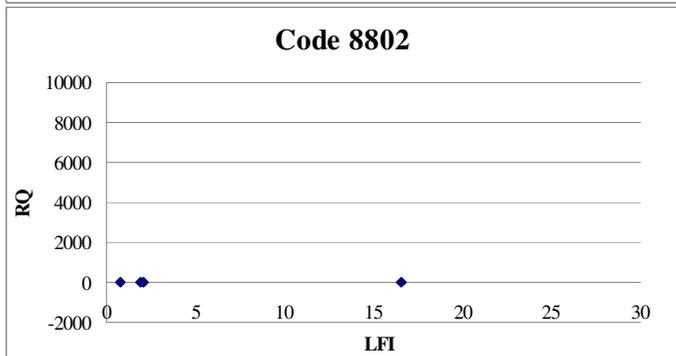


Fig. 3: Code 8802 - Aircraft and spacecraft
Note: USA, Canada and Saudi Arabia are among the specialized countries. However we are not able to calculate the RQ because the data of their exports in quantities are not available.

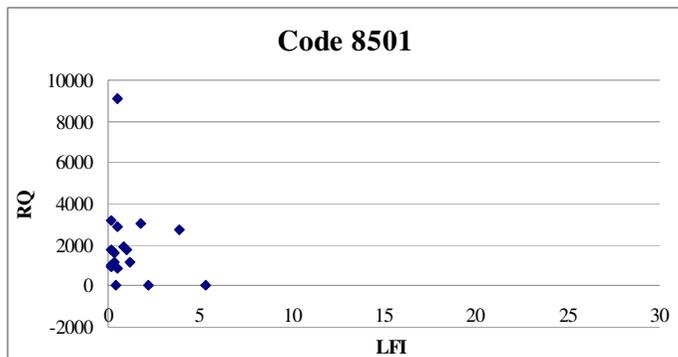


Fig. 4: Code 8501 - Electric motors and generators

Data analysis

Even though the analysis is conducted on a few items, we think that some interesting considerations could nevertheless be made about how different patterns of international specialization emerge from the analyzed sectors.

Figure 1 reveals the specialization pattern for item “Semi- finished products of iron or non-alloy steel”, which is representative of groups of products which are characterized by neither a high level of technological or scientific content nor by creativity and innovation skills of human capital. This item shows that all specialized countries, independently from the value of the LFI, have an homogeneous degree of quality. No country carries out a strategy based on quality differentiation and non-price competitiveness.

Figure 2 shows the specialization pattern for item consisting in women’s clothing, which is a typical “creative” sector³⁷⁰. This group of products exhibits a huge degree of heterogeneity with regard to the RQ, even for similar LFI. There are two particularly interesting cases: the outliers in the graphic are China, which has an extremely high level of LFI (24,83) but a negative RQ value (-0,59), and Italy, which (similarly to others specialized countries) presents a significantly lower LFI (3,23) but the highest level of RQ (6154,87). These evidences permit to infer that the specific characteristics of “creative goods” make them suitable for a high degree of market segmentation, which allows countries to specialize in particular product varieties. For that reason, countries which follow such a different specialization pattern may not be considered in direct competition.

Figure 3 highlights the specialization model of “Aircraft and spacecraft”. This kind of articles represents products for which scientific knowledge and technological skills, as well as a high availability of financial capital, are fundamental. This implies that, first of all, only seven countries result to be specialized (a LFI above the average value) and, secondly, the intrinsic tangible and intangible characteristics of the goods do not allow for qualitative heterogeneity.

Figure 4 points out that item “Electric motors and generators” does not show a marked degree of specialization, but presents a relevant level of RQ heterogeneity. This case represents those sectors in which different paces of technological progress and the possibility for some countries to produce with low factor costs lead to vertical differentiation. The role of a fast-paced technological innovation in international competitiveness is thoroughly analyzed for the Italian case by Furia (2008), who, accordingly to our findings, identifies a high correlation between export performance and the level of investments in R&D and in highly skilled human capital.

Conclusive remarks

The traditional international trade theory predicted that countries revealing a competitive advantage in a given sector should ship those goods at a competitive price. However data often contradict with this assertion. In fact, during the last decades, vertical differentiation, market segmentation and intra-industry trade have become increasingly relevant. In this respect, not only scientific and technological progress, but also creative innovation reveals its importance.

We have found that data are coherent with our hypothesis that intrinsic tangible and intangible characteristics of specific goods (for which creative or technological innovation permits vertical differentiation) make them suitable for a high degree of market segmentation, which allows countries to specialize in a particular product variety and gain market power position for that variety. For this reason, countries which follow such a different specialization pattern may not be considered in direct competition.

Such a shift in our understanding of international specialization should design trade policies, in a way to prevent us from drawing simplistic conclusions about the presumed competitive pressures

³⁷⁰ For the definition of “creative sector” we make reference to European Commission, 2006.

that high income countries face from emerging economies, even in the European integration context.

Since this paper represents the first step of a more comprehensive and ambitious work, our purpose is that of widening this framework, conducting the analysis in a more systematic and detailed way and developing specific analytical tools for a focus on “creative sectors”, in order to assess their potential for vertical differentiation and for guaranteeing a market power position.

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LABOUR MARKET FLEXIBILITY IN TERMS OF INTERNAL MIGRATION³⁷¹

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Modern economies have a high dynamics because of the rapid fluctuations of macroeconomic variables and parameters. Moreover, globalization emphasises the interdependencies among national economies, increasing their production capacities but, at the same time, making them more vulnerable to external perturbations. Shocks resulting from this turmoil can be absorbed depending on the degree of macromarket flexibility: goods market, labour market and money market. This flexibility becomes even more important for the member states of some optimal currency areas (OCA) because it considers both the mobility of production factors and the symmetry of business cycle transmission; i.e. the correlation of macroeconomic policies. The authors of this paper intend to analyse the situation of the internal mobility of workers as a basis for labour market flexibility.

Keywords: *labour flexibility, internal migration, theories of migration, determinants of migration, migration modelling.*

JEL Code: *J11, J31*

1. Theoretical Framework

Flexibility can be defined as the speed with which the labour market responds to any shock that the economy could face at any moment (Logos, 1994; Pissarides, 1997; Forstater, 2000). This implies a triple approach: **wage flexibility**, **worktime flexibility** and **worker mobility**. The scholarly literature (Scheremet, 2000; Laffargue, 2000; Hughes Hallett & Viegi, 2000; Dellas & Tavlas, 2002) has analyzed how flexibility differences on the labour market among regions and countries influence the shock absorption. A shock which initially has a symmetric effect in the whole European and Monetary Union (E.M.U.) will evolve in an asymmetric shock if a region adjusts faster than other.

In the employer's perspective the need for flexibility is perceived as *to ensure an adequate flow of personnel*, correlated with the technological process carried on, in terms of innovation as a main source of competitiveness. *The need for flexibility of the employee* is an expression of *his/her labour mobility on the labour market* in order to be able to fully assert his/her abilities, to optimize his/her choices between leisure and worktime, with the ultimate goal of maximizing his/her welfare.

Worker mobility represents an important issue to ensure the labour market flexibility and it is understood both as a shift of workers from one activity/profession to another, and as a spatial

³⁷¹ *This article is a result of the project „Doctoral Program and PhD Students in the Education Research and Innovation Triangle”. This project is co-funded by the European Social Fund through the Sectoral Operational Programme Human Resources Development 2007-2013, coordinated by the Academy of Economic Studies of Bucharest.*

mobility. Both approaches of worker mobility are directly connected with the migration phenomenon since the motivation of job search represents the main source of human migration. If we take into account the place of origin/destination, the delimitation between internal migration and external migration has interesting nuances in terms of international integration structures. Therefore, for the developed part of the European Union (particularly the Eurozone) the interstate migration plays the same role as the internal migration: streamlines the labour force flows, compensates deficits with surpluses for professions, specialisations and locations of labour demand and supply and, implicitly, influences the economic and social homogeneity of E.M.U. Instead for the new member states, especially for Romania and Bulgaria, the difference between internal migration flows and external ones is very important in terms of economic consequences. Internal migration affects the increase in mobility and, therefore, the labour force flexibility, whereas external migration causes loss of labour force and human capital to home countries (Ailenei, Cristescu, 2010). As a member state of the E.U., Romania committed to join the Economic and Monetary Union in the medium term, which requires structural adjustments, apart from the fulfilment of nominal convergence conditions. These adjustments should allow the flexibility and functional efficiency of macromarkets.

2. Theories of Migration

The complexity and diversity of contemporary migration requires different theoretical approaches, seemingly heterogeneous to form a unitary particular theory.

Thus, *the neoclassical theory* explains migration flows through the differences between the poor and the rich areas of a country or, of the world. Migration flows become the equilibrium mechanism of deficits and surpluses on the labour market. This implies a microeconomic approach of migration which emphasises the decision-making process by which the rational individual assesses the possible monetary gains, mediated by the probability of finding a job at the place of destination, compared with gains in the place of origin. But the individual also takes into account the relocation costs. Also, potential migrant estimates the benefits of movement towards different locations for a limited time.

The *new theory of migration* is related to the research made by Oded Stark and it brings two major changes to the previous theory: it pulls out the individual from its relative isolation and the wage difference stops playing the key role. The new view states that the migration decision belongs to the family and it is subordinated to the minimizing risk strategy thanks to the diversification of income sources. The solution takes account of the imperfect functioning of the institutions and minimizes risks to household income.

The *dual labour market* argues that international migration is the effect of labour demand unavoidably related to characteristics of developed economies. It assumes the existence of a dual labour market that includes a *primary sector* with stable jobs, good working conditions, generous benefits and the possibility of upward mobility and, a *secondary sector* with unqualified jobs, hard or dangerous working conditions and weak possibilities of increasing mobility. In this sense, immigrants become the labour force who can successfully fill shortages of workers in the secondary sector, without causing negative consequences of structural migration.

The *approach in terms of social capital* considers an old theme (that of networks) in a new perspective, its potential benefits being more a future burden. "Each act of migration alters the social context in which are taken future decisions in a typical way that makes additional relocations more probable" (Massey and others, 1993). If a net migration rate is also a net gain in human capital stock then the impact on economic growth will be positive (Friedberg & Hunt, 1995; Shioji, 2000).

3. The Determinants of Migration³⁷²

According to Van der Gaag & Wissen (2003), the different factors that determine the migration flow can be classified in four main categories: *gravity variables*, *economic variables*, *labour market variables* and *environmental variables*.

Gravity variables

The approach is specific to the gravity models of the spatial and regional economics (Reilly, 1931; Fujita & Thisse, 2003) and uses as variables the population size and distance. Empirical evidence of the positive effect of population size on internal migration is relevant and consistent with the gravity model (Adrienko & Guriev, 2004; Hanson & Spilimbergo, 1996; Larson & Mundlack, 1995). Population density may provide an alternative specification (Van der Gaag & Wissen, 2003); however, this measure turns often to be a push factor than an attractive determinant (Anjomani, 2002; Shen, 1999). Distance is considered a fundamental explanatory variable which proxies the migration costs (Greenwood, 1985, 1997; Greenwood and Hunt, 2003).

Economic variables

A high economic prosperity means also more activities, services and opportunities for people living in a certain area. Moreover, dynamic centres attract mostly young people, who are widely recognized to be highly mobile. The most representative (and common) economic variable is the *per capita gross domestic product* (GDP). Empirical literature provides strong and robust evidence of the impact of per capita income on internal migration (Greenwood, 1997). Other variables are used to measure the impact of the cost of living on internal migration. Basile and Causi (2005) include *the index price*, but its impact turns to be statistically not significant.

Labour market variables

Another variable that is often included as explanatory variable in migration analysis is *the unemployment rate*. In fact, contrary to the per capita income, the empirical literature suggests that the impact of unemployment on internal migration is not clear. Pissarides and Wadsworth (1987) find that in UK “at higher overall unemployment rates, migration propensities are reduced”. Juarez (2000) finds similar result for Spain and identifies a threshold level above which the push effect of unemployment is reduced. Hatton and Tani (2005) find that unemployment rate differentials did not affect the net interregional migration in the UK during the period 1982-2000. Finally, a meta-analysis of migration studies regarding the European countries conducted by Ederveen & Bardsley (2003) shows a weak reaction of net migration rates to differential in unemployment rates.

Environmental variables

The reason why people decide to move from one region to another one may be related not only to economic factors. The last group of variables that can affect internal migration flows is quite broad and is related with the quality of life. In this sense, these kinds of variables reflect all those factors that can affect the quality of life. All these factors concern *the public safety, social services, environmental quality, political and many other aspects*. Porel (1982) studied the relative importance of these factors versus the economic variables, finding empirical support both for the former and the latter.

4. Models of Internal Migration

Related to the theoretical support and selection process of the determinants there are so many models that analyze the migration flows.

Thus, *Sjaastad (1962)* developed a micro model where migration decision is modelled as an investment in human capital, heterogeneity among individuals being also emphasized. The migration decision in the interregional migration context is represented by the following expression:

³⁷² Ivan Etzo [2008] – *Internal Migration: a Review of the Literature* - ideas.repec.org.

$$NPVM_{i,j,0} = \sum_{t=1}^T \frac{B_j - B_i}{(1+r)^t} - \sum_{t=1}^T \frac{C_j - C_i}{(1+r)^t} \quad (1)$$

Where:

i denote the region of origin and j the destination region, B denotes the total benefits, C the total cost related to the respective region, r is the discount rate and T is the lifetime period. In this framework, each individual (person or family) decides to move to region j if the present value of the total benefits to move is higher than the present value of the cost of moving.

The benefits are represented by the income earned by the migrant in the two alternative places, which in turns is a function of the personal skill level.

Harris and Todaro (1970) introduce imperfections on the labour market in the context of internal migration from rural to urban areas. Unemployment rate and wage differentials between the rural and the urban sectors are the key elements of migration. The employment rate in the urban sector represents the probability to find a job and individuals maximise the expected utility function. Thus the individual, that is assumed to be risk neutral, decides to migrate from the rural to the urban sector if and only if:

$$\sum_{t=1}^T p_u(t) * \frac{w_u}{(1+r)^t} - c > \sum_{t=1}^T \frac{w_r}{(1+r)^t} \quad (2)$$

Where:

p_u is the employment rate in the urban sector, namely, the probability to earn the wage w_u , the term c denotes the migration costs and w_r is the wage in the rural sector.

Another way to evaluate internal migration flows includes some aggregate variables such as *population, GDP, unemployment rate* etc. The main reason is that, contrary to micro data, macro aggregate data are more accessible and often (especially for developing countries) the only data source available (Cushing and Poot, 2004). Indeed, the gravity model (Lowry, 1966; Lee, 1966), which is one of the first formal model of migration, remains the most common theoretical framework in empirical migration analysis (Greenwood & Hunt, 2003). The **modified gravity model** widely used in the empirical investigations on migration determinants takes the following form:

$$M_{ij} = \beta_0 + \beta_1 * D_{ij} + \beta_2 * P_i + \beta_3 * P_j + \beta_4 * Y_i + \beta_5 * P_j + \beta_6 * U_i + \beta_7 * U_j + \varepsilon_{ij} \quad (3)$$

Where:

M_{ij} indicates the migration flows from place i to place j , D refer to distance, P is the population size, Y is the income and U is the unemployment rate.

A further development in macro migration modelling is represented by **the systemic approach** (Alonso, 1978). In contrast with gravity models, systemic models take into account the overall geographical system and not only the characteristics of the origin and destination places. The systemic model presented by Alonso in the "Theory of Movement" (1978, 1986) is a generalization of the modified gravity model in (3). The Alonso's model takes the following form:

$$M_{ij} = v_i * D_i^{\alpha_i - 1} * w_j * C_j^{\beta_j - 1} * t_{ij} \quad (4)$$

Where:

M_{ij} is migration from origin i to destination j , D represents the opportunities of i and C represents the competition in j , a high degree of competition makes the destination j more attractive for all the system; α and β are the elasticity of response to D and C , respectively; v_i and w_i refers to

population size of the origin and destination place, respectively; t measures the ease of movement between i and j .

5. Database and Methodology

The authors have proposed to analyze the territorial mobility of workers in Romania using as proxy variable the internal migration. Thus, we have correlated *net migration balance* with some economic variables frequently used in literature: *the unemployment rate, average gross nominal monthly earnings and nominal GDP* (at NUTS 3 level). In order to accurately capture the correlation between the migration balance and the indicators mentioned above, we have used absolute deviations from the average for the explanatory variables:

$$\text{Dif}(x_i) = \frac{x_i - \bar{x}}{\bar{x}},$$

Where:

$\text{Dif}(x_i)$ – differential of x

x_i – value of x variable for each NUTS 3 level

\bar{x} – average level of x

In these circumstances we used an equation of regression of the following form:

$$BM_i = a \cdot DUR_i + b \cdot DW_i + c \cdot DGDP_i + \varepsilon_i \quad (5)$$

$i = 1, 2, \dots, 42$ NUTS 3

Where:

BM_i – the migration balance

DUR_i – unemployment rate differential

DW_i – wage differential

$DGDP$ – GDP differential

ε_i – estimation error

The authors have considered that the most important factors in migration decision should be: *wage differential and unemployment rate differential*, but they have also tested all combinations of the three regression factors mentioned above. Tests were conducted on a panel regression model that includes data at NUTS 3 level during 2004-2008 for the correlation between the migration balance, the unemployment rate and wages, and during 2004-2007 for the correlation including GDP. The results of our econometric tests are illustrated in table 1.

Table 1- Results of econometric tests for some regression models of migration flows

Variable	Model 1	Model 2	Model 3	Model 4
Unemployment rate differential	-0.153693	-0.192725	-0.187557	-
[t-stat]	-0.842040	-0.782695	-0.744431	
Wage differential	3.016787	3.012692	-	2.999817
[t-stat]	3.535704	2.672443		-0.175902
GDP differential	-	-0.045545	0.165773	-0.025464
[t-stat]		-0.314743	1.285522	2.640522
C	-0.012454	-0.014993	-0.014903	-0.015058
[t-stat]	-0.083054	-0.103476	-0.094200	-0.101674
R squared	0.224976	0.216874	0.092095	0.196475

As you can see the best results are achieved by model 1. Yet, even in this situation the strength of the correlation is small ($R^2=0.225$), which indicates **high spatial rigidity of the labour force in**

Romania. As for the other models the correlation level is even smaller (with negligible values in the 3rd model), but with the Durbin-Watson test indicating error autocorrelation.

6. Conclusions

Internal migration of workers represents a very important phenomenon to ensure the labour market flexibility. There are a lot of factors that influence migration, as there are also some obstacles. Testing some of the economic factors for Romania has revealed a strong rigidity of the labour market, even though wage differentials seem to motivate workers to change address. Barriers related to real estate market, family ties and social environment prevail regarding the mobility of workers in Romania. This means that *our labour market is still quite far from the functional model of the developed E.U.*

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UNEMPLOYMENT – A SOCIO-ECONOMICAL ISSUE ON THE LABOUR MARKET

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This article is a presentation of the imbalance between demand and offer on the labour market. The young represent the category most affected by unemployment. By means of workforce occupation policies the state intervenes so as to stimulate demand for new work places.

Key words: labour market, unemployment, unemployment rate, unemployment intensity.
JEL Code: J60

1. The Labour Market – The Economic Frame of Unemployment Manifestation

The labour market represents one of the most complex forms of existing markets in economy because the negotiated factor is work. This factor consists of an assembly of bio-psychological, demographic, educational-professional, and behaviour characteristics that clearly differentiates it from any other factor in the exchange relations from the other markets.

The labour market is by definition inelastic. This in the sense that neither does workforce demand modify to the same extent as the nominal salary does, i.e. really, nor does the workforce offer vary depending on a price-cost ratio. Some specialists explain this characteristic as demand and offer depend on many other factors besides the economical ones.

The labour market does not work like an ordinary (free) market, and because of legislative restrictions, conditions imposed by law - within the boundaries of which it functions. Moreover, the functioning of this market is influenced by the specific action of social partners (patrons, unions) and by the force ratio between them.

A. C. Pigou claims that when salaries decrease entrepreneurs can invest more contributing to the increase of work demand. He attributes the cause of permanent unemployment between the two world wars to the rigidity of salaries. The nature of the relation between the salary and workforce demand is essential to establish balance on the labour market under conditions of perfect competition and perfect mobility of workforce; this nature of the relation will be very simple, it will always act as a powerful tendency of the salary-demand ratio that would permanently present itself so as everyone is occupied³⁷³.

“The key problem of economic life – economist Lionel Stoleru notes – is the attempt to achieve at each step the correspondence between the balance level of goods and services, and the level of full occupation, but such a gauge can not be tolerated because one can not afford to joke with full occupation; no civilisation could bear for part of its members to find a regular job with an ordinary income, while another part is condemned to extreme poverty because it is not given any opportunity to earn a salary; this is not only an issue of economic balance, but one of justice, social balance and a political one as well.”³⁷⁴ Studying and evaluating the processes on the economic market as dimensions, structures, and tendencies are important in defining active occupation and social protection policies under their various aspects.

³⁷³ Pigou, A. C., *The Theory of Unemployment*, p.252, apud J.M.Keynes. *Teoria generală a folosirii mâinii de lucru, a dobânzii și a banilor*, Editura Științifică, București, 1970, p.288.

³⁷⁴ Stoleru Lionel, *L'équilibre et la croissance économique*, Dunod, Paris, 1969.

Contemporary labour market may be either in a balance situation (full occupation) or in that of imbalance, namely under-occupation or over-occupation. To understand the two imbalance phenomena terms like full occupation, voluntary or involuntary unemployment must be clarified first.

Most times, the contemporary *unemployment phenomena is approached and analysed as an "imbalance between workforce demand and workforce offer (demand lower than offer) an imbalance between the potential active human factor actually used, therefore a relatively active overpopulation"*³⁷⁵.

As a macroeconomic phenomenon, *unemployment stands for "a negative economic phenomenon characterized by the incapacity of a national economy to ensure jobs for all its citizens apt for work"*³⁷⁶.

This approach to unemployment is in fact a sequel of the analysis of demographic-economic issues on the one hand, and the financial-economic and investment ones on the other hand. Just that work resources (workforce offer) as well as work need (workforce demand) are filtered through the exigency and rules of unique remuneration and salary. That is why, irrespective of the approach angle and tackling of the subject, *unemployment is a disfunction of the national labour market*.

Unemployment exists and it is a fundamental problem of modern society, because when people are looking for a job they may offer their activity for a nominal salary that is lower and may lead to a reduction in price level. Because of unemployment, there are costs for a society and psychological effects for people who cannot find a job³⁷⁷.

Economists reserve the concept of unemployment for people who are *voluntarily* unemployed. That is to say, people are unemployed if they are actively seeking jobs but unable to find them, as opposed to people who have *voluntarily* opted out of the labor market to pursue activities like raising children, going to school, or traveling³⁷⁸.

Young persons, especially those who abandon school at an early date, continue to face many challenges in different stages of transition from work to training and the labour market.

Unemployment among the young most of times results in and mismatch between the outcomes of educational systems and the demands of the labour market. Those young who continually need to pace a nonlinear trajectory on entering the labour market are insufficiently taken into account, and they often end up being hired in very poor conditions. They especially do not pay enough attention to the needs of those young persons who, due to personal, social, cultural or economical reasons, are given less opportunities, and their participation in the social life is significantly restricted accordingly.

In recent decades most European economies have experienced significant changes in the population age structure which altered the relative position of young versus prime-age workers in the labour market. Over the period 1970-2000, the ratio of the youth population to the adult population increased in most countries during the 1970s and 1980s and then fell in the following decades. Average unemployment rates for young people also increased significantly, up to the late 1980s, and then slightly decreased in the following decades, while adults' unemployment varied only marginally. Over the same period European countries showed substantial changes in educational achievements: both the average number of years of education and the share of individuals with higher education increased significantly. Countries with traditionally low levels of education (at the start of the period) have

³⁷⁵ Bădulescu, Anca , *Ocuparea și șomajul: între abordări teoretice și realități contemporan*, Editura Universității din Oradea, 2006, p.13.

³⁷⁶ Olah ,Ghe ., *Macroeconomie*, Editura Treira, Oradea, 2003, p.60.

³⁷⁷ Dickens Edwin – *Unemployment. Encyclopedia of Social Problems*, 2008, SAGE Publications, 21.nov.2008

³⁷⁸Idem p.1.

been catching up, with the number of highly educated people growing in absolute and relative terms³⁷⁹

These patterns have stimulated extensive research and a fierce debate on the economic effects of changes in the youth share of the population and its relationship with the rise and the persistence of (youth) unemployment. The terms "baby boom" (and "baby bust") have been used in the literature to indicate the substantial increase (decrease) in the size of younger cohorts and other similar changes in the population age structure, while "generational crowding" has been often used to define the worsened economic conditions for the younger cohorts (OECD, 1986; Korenman and Neumark, 2000). Similarly, another strand of literature has tried to investigate the effects of the "education boom" and skill-biased technological progress on both unemployment and earnings (E.U.-IRS, 2002; Bertola et al., 2002; Brunello et al., 2000; Flinn, 1993)³⁸⁰.

There are two salient features of many writings on human capital in developing countries. First, a fraction of the educated workforce migrates to developed countries. Since educated workers are one of the scarcest resources in developing countries, it has been argued that the migration of educated workers is a "brain drain" for the developing countries (for a systematic review see Bhagwati and Wilson, 1989). Second, in a number of developing countries, a large fraction of the educated workforce is unemployed. For example, in their influential development economics textbook, Gillis et al. (1996) allude to the Sri Lankan experience as a striking example, noting that half of the country's new university graduates were unemployed in the 1970s. The phenomenon of educated unemployment in those developing countries contrasts sharply with the pattern of unemployment in developed countries³⁸¹.

The increase or decrease of occupation in one country or another does not identify with the decrease or accentuation of unemployment. To have a global picture close to reality we have to consider levels of variations in population occupation. Therefore the notion of unemployment must be correlated to indicators regarding the supply and flow of the active population, as well as unemployment duration and repartition.

The unemployment insurance protect employees against the unemployment risks. However, there is a problem regarding this matter : persons that receive unemployment benefits minimize their efforts of searching a job. There are proves that the level of the unemployment benefit has consequences on the number of the unemployed persons³⁸².

In their seminal work on unemployment insurance, Shavell and Weiss (1979) establish that, because of moral hazard, benefits must decrease throughout the unemployment spell, approaching zero in the limit. In an influential paper, HN, extend the analysis of Shavell and Weiss, increasing the number of policy instruments available to the government. Together with the sequence of benefits paid to the unemployed workers, they introduce the possibility of contingent wage taxes after reemployment. They show that in the optimal program the reemployment tax is increasing in the length of worker's previous unemployment spell. Other authors extend this model in several dimensions (e.g. Hopenhayn and Nicolini, 2002; Zhao, 2001; Pavoni, 2003). The literature on optimal unemployment insurance is relatively new, yet quite extended³⁸³.

2. Distinctive Aspects of Unemployment

³⁷⁹ Frederico Biagi, Claudio, Lucifora, *Demographic and education effects on uemployment in Europe, Labour Economics*, 2007, p. 2

³⁸⁰ idem

³⁸¹ C. Simon Fan, Oded Stark, *International migration and "educated unemployment", Journal of Development Economics*, nr. 83/2007, pp. 76-77

³⁸² Sebastien Menard, *Optimal Unemployment Insurance with Inseparable Optiona* (original title: *Asigurarea de șomaj optimă cu preferințe neseeparabile*), *Economics letters*, no. 93/2006, p. 267

³⁸³ Nicola Pavoni, *On optimal unemployment compensation*, *Journal of Monetary Economics*, no. 54/2007, p. 1615

Unemployment can be characterized by several aspects:

- *the level of unemployment* which is calculated varying on account of two indicators, namely: unemployment mass and unemployment rate.

Unemployment mass consists of the number of persons which, at a given moment, meet the conditions to be included in the category of the unemployed. In other words, it consists of the active, available population, respectively that unoccupied workforce.

Unemployment rate, as approximate measure of the phenomenon, is calculated as percentage of unemployment mass (the average number of jobless persons) and one of its reference parameters. Such parameters are: active population, active available population, workforce (working population plus unemployment), working population, occupied population as employees.

A huge literature in economics focuses on unemployment compensation as a social institution (e.g., Atkinson and Micklewright, 1991; Holmlund, 1998). These economic studies theorize and test the effects of the different institutional design of unemployment compensation on the level or duration of unemployment³⁸⁴.

- *Unemployment intensity* is another feature of the unemployment phenomenon. Depending on this one can distinguish: *total unemployment*, which supposes losing the job and full activity stoppage; *partial unemployment*, which consists in diminishing the activity of a person, especially by reducing the duration of working weekdays under the stipulations of the law in this respect, simultaneously with reduction of remuneration; *disguised unemployment* to be found especially in underdeveloped countries where many persons have an apparent activity and low productivity.

- Another element is *unemployment duration* or *period of unemployment* from the moment one lost their job to resuming working. There is no law-stipulated duration of unemployment duration, but in many countries there are regulations for the extent of the dole payment. This period tends to increase, growing up to 18-24 months.

- *Unemployment structure* or its different components represent another feature. This is formed by classifying the unemployed persons according to different criteria: level of qualification, field of activity, the socio-professional category they belong to, sex, age, age-groups, etc. as a result of studying unemployment in sex and age-group categories it was pointed out that women are more affected by unemployment than men, also, young individuals and adults over the age of 50 are more affected comparatively to the rest of the active population.

International statistics is using the following unemployment rates:

Global Standard Rate (BIM) which is calculated as a ratio between the number of jobless persons in BIM terms and total active population; it has the largest encompassing sphere being the most frequently used in international comparisons.

Standardized Global Rate (CEE) is the ratio between the number of jobless persons and the active civil population;

Standardized Global Rate (OECD) is determined as a ration between the number of jobless persons and total active population.

Partial Unemployment Rate refers to a certain category of workforce or to a certain geographic or administrative region, which is calculated as a ratio between the number of unemployed persons coming from that certain category and the active population in the same category.

Full (Compound) Rate of Unemployment and Visible Under-occupation is calculated as a ratio between working hours used inappropriately of the jobless and of those in visible under-occupation (persons that have a workplace but who involuntarily work part time) and total available time or utilized working hours.

³⁸⁴ Wonik Kims, *Enfranchisement and the welfare state: Institutional design of unemployment compensation*, The Journalul of Socio-Economics xxx, 2007, p. 3

With the aid of these indicators the two forms of unemployment in a country or another are determined, at a certain moment, along a period of time or another.

3. The Role of the State in Workforce Occupation

Evolution in recent years shows that the role of the state in the workforce issues, its occupation, solving work conflicts are changing.

The state, for instance, in some countries manifests the tendencies to intervene less as a partner in tripartite negotiating and more as an autonomous moderator in bilateral negotiations between patrons and unions. Most certainly, situations remain diverse in different countries, at least according to some reports and studies of the International Work Organisation (OIM). The state must not give up its role as national interests' guarantor, including with respect to the stimulation of creating new jobs, observing salary evolution (i.e. tempering via other numerous levers, excessive sector claims), and, what we find very important, promoting autonomous and bilateral negotiations between patrons and unions.³⁸⁵

Thomas J. Dohmen in *Regional Science and Urban Economics* propose the following stylized facts.:

- Job flows in the labor markets are immense.
- Most of the cross-country differences in unemployment rates can be ascribed to variations in long-term unemployment, and most of the rise in European unemployment can be attributed to an increase in the duration rather than to a higher inflow rate into unemployment.
- The outward shift of the Beveridge curve suggests that it has become harder to match workers and firms, possibly because workers are less prepared to move regions and spend less effort on search across regions.
- Aggregate rates of homeownership are positively correlated with unemployment.
- Private renters move relatively more than owners.
- High-skilled workers experience fewer and shorter spells of unemployment.
- Skilled workers migrate more.
- High-skilled workers also search more and prefer employed search.
- Regional migration is higher during economy-wide booms and is lower during recessions³⁸⁶.

Workforce Occupation Policies represents an ensemble of measures elaborated by the state to intervene on the labour market to stimulate demand of new jobs diminishing imbalances and malfunctioning on the labour market. *Passive workforce occupation policies* start at the level of occupation considered at a given moment and aim to find new solutions to hire the exceeding workforce (e.g. reducing work duration, diminishing retirement age, increasing mandatory schooling period, restricting immigrants, increasing jobs with daily working-hours and atypical ones). *Active occupation policies* imply measures, methods, procedures to increase the degree of occupation (e.g. stimulating investments, improving educational and professional orientation, stimulating mobility of active persons towards other jobs, encouraging scientific research, extending economical, social, and ecological activities).

Unemployment compensation programs are an important ingredient of social welfare policies in developed economies. These programs have been widely criticized because of the adverse effects they can have on worker's incentives to search for a new job³⁸⁷.

³⁸⁵ Dumitriu, Dan , *Forța de muncă în lume*, Editura Conphys, București, 1998.

³⁸⁶ Thomas J. Dohmen, *Housing, mobility, and unemployment*, *Regional Science and Urban Economics*, no. 35, 2005, pag. 307

³⁸⁷ Nicola, Pavoni, *On Optimal Unemployment compensation*, *Journal of Monetary Economics* no. 54/2007, p. 1612

Conclusions

Social equity and justice on the one hand, productivity, competition, economic growth, motivation, and investment in human resources, in the education and welfare of people on the other hand are the major pillars and resistance structures of an efficient transition with bearable and justly distributed costs, a transition beneficial to the entire population.³⁸⁸

The creation of new work places takes place in the same time with the growth of existing activities of the economy ; new work places are created especially in the industrial area; as much as the labour market becomes more flexible as much the job offer becomes more diverse, a reconsideration of the structure of the workers takes place and the capacity of small investors becomes bigger. Although the unemployment strongly influence the social protection policy³⁸⁹.

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³⁸⁸ Blaga, E., *Politici sociale de ocupare a forței de muncă*, Suport de curs, Universitatea din București, 2004, p.25.

³⁸⁹ Bradford, Scott, *Protecție și șomaj*, Jurnalul de economie internațională, 2005, p.258.

RESEARCH ON THE EVALUATION OF REGIONAL AND PUBLIC SERVICES DEVELOPMENT

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The current study presents the results of research on the disparities existent between the overall level of economic development and the level of development of basic public services at a regional level: public transport (railroad transport and road transport) and the endowment with drinking water installations, natural gas and sewerage systems, with a case study on the eight Romanian development regions. For evaluating the general level of economic development and public services at a regional level we have used a complex index, considering: GDP/capita and unemployment rate as indicators of overall economic development and density of public roads/square kilometer; density of railways per 1000 square kilometers; localities provided with natural gas; localities with drinking water installations; localities with public sewerage installations, as indicators of development of public services.

Keywords: local development, public services, regional disparities, regional development indicators

JEL code: O 11, O 18

Introduction

The globalization of the economy, the increasing phenomenon of delocalization of enterprises, the trend towards decentralization of public services, the growing autonomy of local communities are major aspects of the evolution of contemporary society.

Regional and national territorial development, the reduction of disparities in local development, the promotion of social and economic cohesion represent strategic objectives of regional development, both at the EU level, as well as at the level of each country.

Meeting these objectives involves, among many other aspects, giving a diagnosis, which should be as precise as possible, of the current stage of overall economic development and of the development of public services in particular.

1. Regional development and the role of public services

Local (regional) economic development is defined by increases in the capacity of the local (regional) economy to create wealth for the inhabitants of the respective region or locality³⁹⁰.

These increases can be obtained by maintaining or developing existing businesses, as well as by the appearance of new businesses, which use local natural resources and ensure the rise of employment in the region.

³⁹⁰ Kane M., Sand P., *Economic Development: What Works at the Local Level*, Washington D.C., National League of Cities, 1988, p.4

Thus, among the most important objectives comprised in economic development programs and strategies, we can mention³⁹¹: *the increase in the number of jobs at a regional level; the increase in the incomes of local budgets*, by rising revenues from local taxes and duties; in turn, the increase in revenues in the budget of the local administration will lead to the improvement of public services and infrastructure; *compensating for market shortcomings*.

The productivity of local businesses can be substantially increased if some weak points of the market are identified and counterbalanced by specific development programs. These weaknesses are: insufficient information supplied by the private market regarding the solutions for the improvement of business productivity; the lack of interest or insufficiency of funds of private enterprises for research and development, training and requalifying labor force, the development and modernization of infrastructure, the protection of the environment, etc. So as to meet these objectives, local authorities can promote different programs specific for the development of local economies, such as³⁹²: *programs for attracting and stimulating investments; business support strategies; new business development programs*.

Regional development represents a complex phenomenon, with impact on the entire economic, social, political and cultural life at the level of a region³⁹³. The relations between local development and public services are complex, of interdependence and mutual influence. Thus, all regional development programs can encourage and stimulate the development of public services. For instance, programs meant to attract and stimulate investments for the development and modernization of local infrastructure will have benefic effects on the improvement of public transport services, telecommunications, healthcare, etc. Moreover, business support strategies and new business development programs will contribute to the increase of local GDP, will create new jobs and on this basis will add to both the revenues of the population and those of the local budgets, by stimulating the demand for public services – customized services (culture, education, healthcare, etc.), as well as collective services (lighting, fire department, the police, etc.). On the other hand, the level of development and the quality of public services conditions to a great extent local development. The contribution of education in the forming and development of human resources is significant in this respect, as its quality influences local development in an essential manner. The following services are just as important for local development: healthcare, research and development, water supply, sewage and wastewater treatment, heating, public transport, the protection of the environment, etc.

2. Changes in the level of regional development and of public services in Romania in the 2000-2008 period

Meeting the objectives of territorial development and reduction of the disparities in local development involve, in the first stage, the evaluation (which should be as accurate as possible) of the current stage of overall development, and that regarding public services, of territorial units. So as to underline changes in the level of local development and that of public services in our country, we have analyzed the evolution of *a complex index* which took into consideration both aspects of *structural development*, and poignant demands related to *basic public services* which condition local development, namely: public transport, drinking water distribution, heating and sewerage. The model, inspired from the methodology used for basing resource allocation on regions so as to reduce disparities in their level of development³⁹⁴, uses two types of indicators: *economic development indicators* and *indicators for the development of public services*. The overall economic development indicators are: GDP/capita and the rate of unemployment,

³⁹¹ Bartik T.J., *Economic Development Strategies*, Upjohn Institute Staff Working Paper no. 93-33, Michigan, 1995

³⁹² Ionciă M. (coord.), *Strategii de dezvoltare a sectorului terțiar*, Ed. Uranus, București, 2004, p.71-74

³⁹³ Dincă D., *Servicii publice și dezvoltare locală*, Ed. Lumina Lex, București, 2008, p.92

³⁹⁴ Ministerul Integrării Europene (The Ministry of European Integration), *Planul Național de Dezvoltare 2004-2006 (The National Development Plan 2004-2006)*

whereas the indicators for the development of public services are: road density, railway density, the number of localities with natural gas facilities, localities endowed with drinking water installations, and the number of localities with sewerage systems.

So as to reflect the inequalities between regions, the indices at a regional level (except for the unemployment rate) have been calculated as rapport between the values at a regional level and the value at a national level. The index referring to the unemployment rate was computed as a rapport between the average at a national level and its value at a regional level, as the unemployment rate is a negative indicator of development, and the lower it is at a regional level compared to the national average, the more favorable the situation for the respective region. Each index obtained was multiplied by a weighting coefficient which expresses the importance of the respective criterion. According to this model, the Regional Development Index (I_r) was computed, by using the formula: $I_r = C^{PIB} * I_r^{PIB} + C^{RS} * I_r^{RS} + C^{DD} * I_r^{DD} + C^{DCF} * I_r^{DCF} + C^{GN} * I_r^{GN} + C^{AP} * I_r^{AP} + C^C * I_r^C$, where C^{PIB} , C^{RS} , C^{DD} , C^{DCF} , C^{GN} , C^{AP} , C^C represent, respectively, weighting coefficients for GDP/capita, the unemployment rate, the density of public roads, railroad density, the share of localities endowed with natural gas facilities, drinking water, sewerage systems; I_r^{PIB} , I_r^{RS} , I_r^{DD} , I_r^{DCF} , I_r^{GN} , I_r^{AP} , I_r^C the development index of the above-mentioned indicators for the region 'r'. In the computing of the indicators referring to *overall economic development*, the GDP/capita and the unemployment rate whose evolution is presented in Table 1 were taken into consideration.

Table 1: The evolution of economic development indicators

Region		2000				2008			
		GDP/capita (thousand RON)	I^{PIB}	Un-employment rate (%)	I^{RS}	GDP/capita* (thousand RON)	I^{PIB}	Un-employment rate (%)	I^{RS}
1	North-East	2.5	0.694	13.2	0.795	12.3	0.637	5.3	0.830
2	South-East	3.2	0.889	11.4	0.921	15.6	0.808	4.7	0.936
3	South Munt.	2.9	0.806	10.4	1.010	15.8	0.819	5.2	0.846
4	South-West	3.0	0.833	11.6	0.905	15.1	0.782	6.9	0.638
5	West	3.7	1.028	10.4	1.010	22.3	1.155	3.8	1.158
6	North-West	3.3	0.917	8.5	1.235	18.6	0.964	3.3	1.333
7	Center	3.8	1.056	10.3	1.019	19.6	1.016	5.2	0.846
8	Bucharest-Ilfov	7.4	2.056	5.8	1.810	43.0	2.228	1.6	2.750
9	Romania	3.6		10.5		19.3		4.4	

Source: Computed based on data from the *Romanian Statistic Yearbook*, INS, 2002, 2009

Note: * Year 2007

The maximum GDP/capita index, in 2000, as well as in 2008, was recorded in the Bucharest-Ilfov region, which is natural, if we consider the fact that this region hosts the capital of the country, the main administrative, commercial, banking, education, residential, tourism, business center of the country. The following positions were occupied in 2000 by the Center and Western regions, which, respectively, enjoy a solid endowment with production factors, and have valuable natural potential and better qualified human resources, with a more 'occidental' attitude towards work. In 2008, the same two regions recorded GDP/capita values higher than the national average; however, the hierarchy changed, as the Western region surpassed the Center region. The North-East region (including the counties: Bacău, Botoșani, Iași, Neamț, Suceava, Vaslui) was on the last position from the point of view of economic development, both in 2000 and in 2008. Moreover, regarding unemployment, the most difficult situation – both in 2000 and in 2008 – was recorded in the North-East region as well. Although it has valuable natural resources,

especially concerning potential in tourism, the region has not managed to use them efficiently. The lowest unemployment rate was recorded in the Bucharest-Ilfov region, where the labor supply is definitely superior to that registered in the other regions of the country. The disparities in the level of development of public transport services were highlighted by calculating the respective indices, presented in the table below:

Table 2: The evolution of indicators regarding the development of public transport

Region		2000				2008			
		Roads per 100 km ²	I ^{DD}	Railways per 1000 km ²	I ^{CF}	Roads per 100 km ²	I ^{DD}	Railways per 1000 km ²	I ^{CF}
1	North-East	36.2	1.100	40.9	0.885	36.6	1.067	43.9	0.971
2	South-East	29.6	0.900	37.2	0.805	30.7	0.895	48.9	1.082
3	South Muntenia	34.3	1.043	49.3	1.067	36.5	1.064	36.3	0.803
4	South-West Oltenia	34.8	1.058	34.3	0.742	36.5	1.064	33.8	0.748
5	West	31.8	0.967	62.8	1.359	32.1	0.936	59.1	1.308
6	North-West	33.9	1.030	48.2	1.043	35.4	1.032	48.8	1.080
7	Center	29.4	0.894	43.1	0.933	31.4	0.915	39.2	0.867
8	Bucharest-Ilfov	45.2	1.374	194.4	4.208	48.9	1.426	153.2	3.389
9	Romania	32.9		46.2		34.3		45.2	

Source: Computed based on data from the *Romanian Statistic Yearbook*, INS, 2002, 2009

In 2000, five regions – the first being the Bucharest-Ilfov region – benefited of a road density exceeding the national average, with corresponding indices higher than 1, and the following hierarchy: 1.374 for the Bucharest-Ilfov region, 1.100 the North-East region, 1.058 West Oltenia, 1.043 South Muntenia, and 1.030 for the North-Western region. Differences between these indices and the economic development indices are noticeable, which leads us to the hypothesis that the national road network also serves social purposes, connecting people and helping them to communicate. In 2008, the road density increased, but by very little, both on the entire country and divided by regions. Romania has an extremely disadvantageous situation from this point of view, with serious consequences on economic development and on the transportation needs of the population. Concerning territorial disparities, the same five regions as in the year 2000 recorded values higher than 1 for the indices of development of these services.

Regarding railroad density, the region Bucharest-Ilfov records a figure four times higher than the national average, Bucharest being the main railroad hub of the country. The second position in 2000 is occupied by the Western region, with an index of 1.359, followed by South Muntenia (1.067) and North-West (1.043). The worse situation, both in 2000 and in 2008, was recorded in the South-West Oltenia region (counties Dolj, Gorj, Mehedinți, Olt and Vâlcea). In 2008, railroad density per 1000 square kilometers, both on the entire country and in some regions, namely: South-Muntenia, South-West Oltenia, West, Center and Bucharest-Ilfov decreased, due to the decline recorded in our country in recent years concerning railroad transport, which was surpassed by other forms of transport (especially auto transport). In 2008, the second position in density of railways (after Bucharest-Ilfov) was occupied by the Western region, followed by South-East and North-West.

Services of *distribution of drinking water, natural gas and sewerage systems* play a major role in local development. Their evolution is shown in the following table.

Table 3: The evolution of indicators regarding the development of distribution services for drinking water, natural gas and sewerage systems

Region	2000						2008					
	% of localities with:			I ^{GN}	I ^{AP}	I ^{CAN}	% of localities* with:			I ^{GN}	I ^{AP}	I ^{CAN}
	Nat. gas	Water install.	Sew syst				Nat. gas	Water	Sew syst			
North-East	1.9	11.6	4.3	0.302	0.617	1.024	15.6	59.8	26.1	0.609	0.895	1.092
South-East	2.1	31.0	4.5	0.333	1.649	1.071	13.6	82.8	23.1	0.531	1.240	0.967
South	5.0	17.7	3.6	0.794	0.941	0.857	25.6	62.6	15.3	1.000	0.937	0.640
South-West	1.5	11.9	2.2	0.238	0.633	0.524	12.9	48.0	14.5	0.504	0.719	0.607
West	4.6	16.3	4.9	0.730	0.867	1.167	25.1	71.8	30.3	0.980	1.075	1.268
North-West	7.7	32.4	4.7	1.222	1.723	1.119	26.7	79.6	24.7	1.043	1.192	1.033
Center	22.7	15.4	4.9	3.603	0.819	1.167	57.7	70.0	34.8	2.254	1.048	1.456
Bucharest Ilfov	5.6	15.4	14.0	0.889	0.819	3.333	82.9	58.5	53.7	2.238	0.876	2.247
Romania	6.3	18.8	4.2				25.6	66.8	23.9			

Source: Computed based on data from the *Romanian Statistic Yearbook*, INS, 2002, 2009

Note: *Municipalities, towns, communes

Regarding endowment with *natural gas*, in 2000 the Central region was situated on the first position, with almost a quarter of localities endowed with natural gas, followed by the North-Western region, with an index higher than 1 – 1.222. In 2008, although we have taken into account only municipalities, towns and communes, their endowment with natural gas is still modest, except for the Central region (with almost 60% endowment with natural gas of municipalities, towns and communes, and Bucharest-Ilfov, with more than 80%).

The analysis of the existence of *drinking water installations* shows that in 2000 the greatest index is recorded by the North-Western region, with a share of localities having drinking water installations of over 30% (compared to Romania's 20% average). A positive situation is registered also in the South-Eastern regions (a 1.649 index). All the other regions, including the Bucharest-Ilfov region, are below the national average, thus showing a critical situation. In 2008, if we take into account only municipalities, towns and communes, the situation seems to be much more favorable. Only one region, South-Western Oltenia, has a share of under 50% of these types of localities endowed with drinking water installations. The largest share of municipalities, towns and communes endowed with drinking water installations in 2008 is held by the South-Eastern region (approx. 83%), followed by North-West (approx. 80%), while the lowest index was recorded in the region South-West Oltenia.

An extremely difficult situation is met in the *sewerage systems* field, the share of localities endowed with this type of installations varying from a maximum of 14% in the Bucharest-Ilfov region, to a minimum of 2.2% for the South-West Oltenia region, in 2000. Although in 2008, as in the case of drinking water and natural gas distribution services, the reporting methodology for the endowment with such services has changed, including only municipalities, towns and communes, the shares of localities with public sewerage installations remain modest, respectively a maximum of almost 54% for Bucharest-Ilfov and a minimum of 14.5% for South-West Oltenia.

So as to compute the complex index of economic development and that of public services, we granted a greater importance for the synthetical indicator GDP/capita, attributing a weighting coefficient of 0.5; for the unemployment rate – a share of 0.2; for road and railway density, natural gas endowment, drinking water and sewerage systems, 0.06 each. The results of these calculations are presented in the following table:

Table 4: The economic and public services development indices by regions (I_r)

	Region	2000	2008
1	North-East	0.742	0.763
2	South-East	0.914	0.874
3	South Muntenia	0.887	0.845
4	South-West Oltenia	0.789	0.737
5	West	1.021	1.143
6	North-West	1.074	1.071
7	Center	1.177	1.070
8	Bucharest-Ilfov	2.027	2.335

As expected, the Bucharest-Ilfov region recorded, both in 2000 and in 2008, the highest index of overall economic development and public services development. In 2000, the Central region was situated on the second position, registering above-average values for overall economic development indices and for indices referring to natural gas endowment and sewerage systems. Moreover, the North-Western region benefited in 2000 of an index with a value higher than 1, with values above the national average for all indicators, excepting the GDP/capita index. Also a region closer to the Occident, the Western region was on the third position in 2000, with above-average values for overall economic development indices, for railroad density and sewerage systems endowment. The last position was occupied in 2000 by the North-Eastern region, with a 0.742 index, due especially to the general level of economic development. In 2008, it 'loses' this position to the South-West Oltenia region, which recorded values below the national average for railroad density, natural gas endowment, drinking water installations and sewerage systems.

Conclusions

Meeting local economic development objectives, as well as those related to the reduction of disparities at a regional level, involves as a prerequisite the evaluation of the current level of development. In the evaluation of the current level of overall economic development and that of basic public services, the calculation of a complex index based on essential indicators for characterizing the regional level compared to the national average, evinces the existence of significant differences in the territorial profile. In the category 'expected results' we can note the fact that the Bucharest-Ilfov region is on the first position both as overall economic development level and regarding public services; the North-Eastern region is situated on the last position in 2000, and on the last but one in 2008; the Western, North-Western and Central regions record a level of economic development and development of public services above the national average. An unexpected occurrence is that the difference between the maximum and minimum values of the complex index of economic development and of public services has increased in 2008 (1.598) compared to 1.285 in 2000, instead of decreasing. This leads us to the conclusion that the actions of the 2000-2008 period regarding the aspects of development researched have not met their target, and much more effective measures for the reduction of the difference in regional development in our country are necessary in the future.

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STRESS AT THE WORK IN ROMANIAN BANKING SISTEM

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In a period when the banks are struggling to survive we can realize that stress management becomes a problem. Stress at work can bring real business problems, management and labor productivity can be seriously affected and the level of motivation and conflict between colleagues may weaken professionalism. One of the most important factors in reducing stress levels of employees is helping them maintain a healthy balance-service Life. To effectively manage stress we need to know the causes that led it, which are symptoms of stress, how to effectively manage time at work and which are the ways to reduce stress level. Long-term stress cause psychological, behavioral, physical effects for the employee and also the banks results would suffer.

Key words: stress, human resources, work, motivation

JEL codes: J240;J280

Literature Review

Work

Work is and has always been an active and decisive factor of production whereby all other factors of production are driven, combined and employed effectively. People with their abilities and skills, with their experience and acquired knowledge, are the producers of all economic goods.

Work Productivity

The productivity of the workforce is a decisive factor for a bank to be successful. Productivity, at its turn, depends on the quality of the workforce. In a dynamic and competitive world man is faced with all types of stress.

Human resource is complex, it cannot be weighed easily, and for it to be effective it requires constant efforts of support and development on the part of the company. The work force in the banking system is a priceless asset, it is crucial for the success, performance and competitiveness of a bank. The workforce in the banking system is very important in promoting the products and the services of a bank unit. In the banking system the only element that matters in the long run for the economic growth is the human resource. The advantage of competitiveness in the long run gives the quality of the workforce. Each strategy of development must start with the human resource and education. The profits of the Romanian banking system in 2009 dropped to 772, 3 million lei (a little less than 200 million Euros), as apposed to 4, 4 billion lei (1, 2 billion Euros) representing the profits of the banking system in 2008³⁹⁵. The drop in profits is due to a decrease in the economical activity which led to the closing down of many companies and to the provisioning by the banks of credit loss. Last year the number of employees in the banking system dropped by 3.724. In 2009 the number of employees in the central offices decreased by 256 employees respectively by 1.20% to 20.394 people. Romania currently has a solid banking system, which did not display weaknesses in its system during the financial crisis, but the fact that the banks are trying to maintain their profits renders us more aware that work related stress became a problem.

³⁹⁵ http://economie.hotnews.ro/stiri-finante_banci-6876971-sistemul-bancar-romanesc-2009-profituri-sub-200-mil-euro-retea-bancara-scadere-3700-angajati-mai-putin.htm

Work-related stress

The notion of *stress* was introduced to physiology in 1930 by Hans Selye, who defined it as being the organism's non-specific answer to pressure or request³⁹⁶. This notion refers not only to a theoretical issue but approaches a real and critical aspect of our lives. *The European Agency for Safety and Health at Work* defined it as follows: "work-related stress is experienced when the demands of the work environment exceed the employees' ability to cope with (or control) them."³⁹⁷ Work-related stress can be defined as the most harmful physical, psychical and behavioral response which emerges when the demands of the job do not match the resources, the abilities or the needs of the employee. Stress is not a disease; it is an intense and unpleasant state which in the long run can have negative effects on mental and physical health, on performances and productivity. Stress is not only the effect of negative events; it can be the result of daily tensions. The fact that we concentrate when we work can lead to improvement in performance and to work satisfaction, by achieving the established goals. Work-related stress can sometimes be considered a positive element and mistaken for a competition, but these two notions are not identical. Competition gives us energy and motivates us to improve our work. When a competition ends we feel relaxed and content. Stress is a state of tension which occurs when a person responds to the demands of the work environment, family and other external sources when these are generated by his/her internal needs, obligations and self-critique. This situation is convenient for neither the employees nor the company. Stress is both additive and cumulative. It cumulates in time to the point of a crisis outbreak when symptoms emerge. Untreated, the symptoms can lead to illness and even death. Stress causes considerable disorders at the level of productivity, creativity and competitiveness. Every one of us can be the victim of work-related stress, regardless of the field of activity or the size of the organization we work for. Stress is a psychological reaction to the inherent demands of the stress factors which has the potential of making a person feel anxious and tensioned, because he/she is not able to cope with these demands. Some employees consider stressful work conditions as being "a necessary evil". Still, the company has to cope with the pressure on the part of the employees and to ensure their health in order for it to remain productive and profitable within the conditions of the current economy. There is stress resulting from employees being overloaded or under loaded. A moderate quantity of stress stimulates the body, but going beyond the physical and emotional limits of stress coping, causes not only a drop in one's performances but also a drop in one's ability to communicate and collaborate. The number of poor decisions increases, whereas the willingness to assume and fix the mistakes decreases. Stress is a personal and subjective reaction to tension, depending on each person's perception of both the size of the problem he/she is facing and the personal ability to cope with it.

Stressful working conditions are currently associated with an increase in absenteeism, employees being late to work, and their intentions to leave work, all these having a negative effect on the company. Stress ranks second when it comes to frequently reported health problems at work, affecting 22% of the workers belonging to the 27 member states of the European Union. Research shows that stress is a factor prevalent in a ratio of 50% - 60% in all lost workdays. The report of the European Commission reveals that 70 % of the Romanians are faced with high work-related stress and that they work weekly more than 48 hours as established by European regulations. Stress at work can be related to age, sex, working field, and work status. The highest

³⁹⁶ Selye, H. *The Stress of Life*, New York, McGraw-Hill, 1956.

³⁹⁷ Factsheet 22: Work-related stress, European Agency for Safety and Health at Work; <http://osha.europa.eu/en/publications/factsheets/22/view>

levels of stress can be noticed among middle age workers, and the lowest among older and younger workers. Physical violence is most frequently reported by workers aged 25-39, while harassment and unwanted sexual attentions are reported by the younger employees. Women are more exposed to harassment than men, but the prevalence of physical violence is similar for both sexes. Among employees stress is dependent on the type of work contract. Workers with permanent work contract display the highest levels of stress.

Stress always stems from combining three key characteristics:

- the prevalence of stress factors;
- personal resources to cope with stress factors;
- types of reaction to stress

Stress can be caused by different stressors at both the workplace and outside. It can have different causes and manifestations.

Causes of stress

Among stress causes we can mention: health, fatigue, lack of personal organization, lack of control, deadlines, the fear of failure, insecurity at work, the feeling of not fitting in with the culture of organization, traffic, driving, money, the ageing process, unfinished things, unclear direction in profession or life, a disorganized environment at home or work, relationships. Each manager and employee must know the factors that lead to stress, how it can be identified and how it can be done away with.

There are stress factors that are equally felt by each employee. Interpersonal conflicts are a strong factor, especially for those strong tendencies to avoid it. The whole range of conflicts, starting from personality clash and ending with fights among groups, is likely to cause stress. Among the causes of stress rank to a larger or lesser extent the inner triggers of personality, which are found in our subconscious and which control our actions: hurry, please others, be perfect, strive yourself, and be strong. These triggers are conveyed by children's parents when they are young.

Another stress factor at work is the way in which individuals perceive the possible results of their professional activity. If the results are considered both uncertain and important, such as signing an important contract, drafting a crucial report, or merely the ability to "please the boss", enhance the chances for the onset of stress.

In the family- work conflict, the stress stems from a clash of roles- that of being a member of a family and that of being a member of an organization. The Romanian society undergoes changes that have a negative impact on professional and family life. Because the traditional roles in family and at work have changed, both men and women desire to build a career and at the same time to achieve their personal family goals. A rise in the level of expectations and the living costs make a lot of people work harder, despite the personal needs and responsibilities that they acknowledge and state. The imbalance between the professional and family life affects the employee, the family and the organization he/she works for. For many families time management has become a problem, particularly the aspects regarding the carrying out of shared family activities, dividing the time between work and family. Both men and women are influenced by the impact of the conflict between work and family. The consequences of this conflict manifest themselves at the level of the employee in the decrease of professional performance and the increase of physical and emotional health, and at the level of the organization by a decrease in productivity, the rise of absenteeism, and of the number of quitting people. The lack of effectiveness at the professional and personal level of the employees represents a major problem for human resource specialists and managers. They can develop and implement organizational practices whereby to create an optimum work environment for the employees, women and men, with considerable benefits for the bank.

Among the stress factors at work in the Romanian bank system we can mention:

- the style of leadership: a poor communication and lack of information within the company, the lack of clear-stated objectives, the lack of support on the part of the team of managers, employees not being involved in changes occurring at work;
- decision and control: a poor involvement in taking decisions, the lack of control over one's work;
- the role in the organization: the unclear status in the organization, contradictory objectives and priorities, a great level of responsibility at work;
- work schedule: inflexible work schedule, unplanned overtime work, shift work, excessive extra work, the unexpected overloading of work tasks.
- career: uncertain career evolution, frustrations in the development of the career, uncertain status and a lack of acknowledgement, the uncertainty of the job, insufficient training programs, changes in the job within the organization;
- the relationships at work: poor relationships with superiors, lack of communication, interpersonal conflicts, harassment, verbal aggressiveness, physical or social isolation;
- work tasks and pace: lack of control over the work pace, overloaded or under loaded work tasks, lack of a priority of activities;
- work performance: a decrease in work performance, lack of decision, irritability;
- workload;
- time;
- work intruding;
- telephone;
- flood of emails;
- the cult of performance;
- changes;
- the man being a stress factor for the man: clients, lack of politeness, daily aggressiveness, work atmosphere, harassment;
- deadline pressure can become extremely stressful, deadlines for projects done in collaboration with other people who did not fulfill their tasks on time can become a source of stress for the employer who though has fulfilled his/her tasks cannot hand in the work in time.
- Too many "bosses". When an employee has several superiors, each of whom asks him/her to do a series of reports or actions, some of these even overlapping or coming into contradiction, he/she becomes disoriented, being confused as to whom he/she should submit or what he/she should do.
- supervision by means of cameras. The "big brother" effect is extremely strong particularly in initial phase when employees become aware that their every move is being noticed and analyzed by means of cameras.

Personal resources to cope with stressors

Personal resources to cope with stress are represented by the cognitive, emotional and behavioral capacity of each individual to reduce, control, or tolerate internal and external demands which exceed the organism's automatic capacity for response. Most of the times, it stems from the self-evaluation of one's own resources to face the events considered to be negative or threatening. Individual factors such as self-esteem, assertiveness, optimism, or the feeling of self-sufficiency, are protection factors against stress. The European Working Conditions Surveys from 1991-2005 show that there is a continuous growth in the number of respondents who report that they work at least around 0.75% of the time at very high speed³⁹⁸

³⁹⁸ European Foundation for the Improvement of Living and Working Conditions
Fifteen years of working conditions in the EU: Charting the trends, Office for Official

Some people are acutely reactive to stress, other people can experience symptoms in time. Acute reaction can take different forms: panic, anxiety, increase in the pulse rate, sweat, dry mouth, or trembling. In the long run stress can cause: headaches, dizziness, seeing disorders, skin itch, pain in the back of the head and shoulders. Differences in individual characteristics such as personality and way of dealing with problems play an important part in the way we are influenced by stress factors- some are more influenced and some less. Personality can have a major importance stress sensation. It affects both the degree of perception of possible agents as being stressful and the type of ensuing reactions. Most people like to think that they are in control of what happens to them. They are more likely to face directly the stressors because they start with the premise their response can change something. Those who do not keep everything under control are more prone to adopt strategies meant to reduce anxiety which give results only in the short run.

Stress symptoms can be: physical symptoms, intellectual symptoms, emotional symptoms, behavioural changes.

The effects of stress at work can manifest behaviorally, physiologically as well as psychologically.

Behavioral effects materialize in ways of dealing with problems. In the short run, these could be: irritability, disorganization, poor work organization, alcohol, and tobacco and food abuse. In the long run, they could materialize in: drug abuse, intolerance towards other people, ineffective work and time organization, inability to take quick decisions, overweight/underweight.

Psychological effects involve first of all, emotional and cerebral processes. In the short run, they manifest themselves through poor memory, low self-esteem, and inability to concentrate; in the long run: depression, memory problems, poor tolerance, panic attacks, and anxiety.

Physiological effects in the short could be: sweat, cold and trembling hands, dry mouth, quick and superficial breath, red face, stomach ache, and in the long run: hypertension, allergies, headaches, heart attack.

Tendencies

Lately some changes have been registered in the structure of work time because of the information-based society, work time floods free time, there are no clear-cut borders due to e-mail and blackberry. The fact that employees can fulfill certain tasks from their homes; they can access electronic mail from work, from no matter where, extends professional stress over to free time.

The financial crisis which led to Wall Street crash left thousands of specialists in the banking system jobless, other thousands sharing the same fate. A research conducted on 1.200 top managers, shows that 65% of these people state to have managed in their careers by sacrificing their family lives. Building organizational programs intended to balance work and private life, have to bear in mind the following changes: there is a growth in the number of single parents, of divorces, of women who work, of couples wherein both partners have a career, of fathers involved in the upbringing of children.

In Europe, 28% of the employees experience a high level of stress at work. Stress at work leads to a growth in the risks of anxiety, depression or burnout. Working conditions that negatively affect the mental health of employees include negative management style, low social support, time pressure, repetitive tasks, interpersonal conflicts, insecurity of the job, lack of control and autonomy.

The most frequent problems of mental illness in European countries are anxiety and depression; it is estimated that by 2020 depression will be the main health problem among adults and children in developed countries.³⁹⁹

Legislation

The European Commission applied certain measures meant to guarantee the safety and health of workers. The frame directive (89/391) stipulates fundamental regulations in the field of work safety and health; the obligation on the part of employers to ensure safety and health at work, including references to effects of work-related stress. All member states have implemented this directive in their legislations and some have issued guides to prevent work-related stress. In conjunction with the approaches of the frame directive, in order to do away with or reduce stress employers have to:

- prevent stress risks at work;
- evaluate stress risks at work through identifying those demands and pressures of activity which might generate high and long-term levels of stress and through identifying the possibly affected employees.
- To adequately take measures to prevent stress induced harm.

Work-related stress can be avoided and efforts to reduce it can be highly profitable. Evaluating stress risks at work involves the same basic principles and processes such as evaluating the other risks at work. Including the employees and their representatives in the process of assessment is essential to their success; they have to be consulted in order to identify the causes of stress, the groups that are potential victims, and also the solutions that need to be adopted in order to help.

The stages of assessment of risks can be summarized as follows:

- identifying the risks;
- establishing the people who can be affected by stress and in what way they can be affected.
- assessing the risk through: identifying the measures that have already been sufficient and if they are not sufficient, establishing additional measures that can be adopted;
- reexamining these assessments at on a regular basis

Managers with a sound thinking have an attitude of collaboration between the employee and the manager in achieving the professional and personal benefits both for the company and the private lives of employees and managers. These managers are guided by three major objectives⁴⁰⁰:

- the clear information of the employees regarding the business priorities and encouraging the employees to establish personal priorities;
- acknowledging and supporting the employees for their roles and responsibilities at work and outside work;
- the permanent improvement of employees' performances and of the organization at the same time with reaching the personal objectives of the employers.

In order to create a healthy work environment banks have to direct their shares in favor of employees' health which will result in benefits for the company. A healthy organization is an organization with a low rate of illness, of disabilities of the workforce, with a low level of stress at work and a high level of productivity. A healthy organization acknowledges employees' rights, creates opportunities for career development and has an organizational culture that emphasizes the employee. The first step in establishing the level of pressure that would lead to an optimum productivity resides in a constructive dialogue between the managers and working teams.

³⁹⁹ Green Paper - Improving the mental health of the population: Towards a strategy on mental health for the European Union, 2005

⁴⁰⁰ Harvard Business Review on Work and Life Balance, 2000

Monitoring the communication in view of establishing the excess of conflict will allow the managers to be better equipped in order to make the necessary changes.

Prevention of work-related stress in Romanian banking system:

Stress can be fought against almost in every situation through a convenient combination of recreational exercises, physical exercises, a healthy diet, a better time-keeping and the improvement of social abilities. First of all we have to reduce the stressors; preventive measures for maintaining a healthy balance could be:

- identifying then changing the way in which we perceive the stressors;
- learning to say 'I can't, I don't know how to, I need help';
- being surrounded by optimistic people;
- laughing;
- ensuring a healthy diet: avoiding excess of sugar, fats, salt, caffeine and alcohol;
- putting a greater emphasis on rest;
- exercising;
- respecting breaks. A short walk, a conversation with a fellow worker on topics other than work or a simple relaxation technique;

Preventing stress at work is one of the main aspects of the fundamental objective of International Labor Organization in promoting as many opportunities as possible for men and women to get a decent and productive job in conditions of freedom, equity, safety and human dignity;

Ways of managing stress in the banking system:

- information regarding the sources of stress;
- becoming aware of reactions to stress;
- developing abilities and behaviors of stress management: developing assertiveness, a positive communication with other people; identifying and sorting out conflicts when they emerge, learning the methods to sort out problems and taking decisions, learning relaxation techniques;
- establishing and maintaining an adequate social support;
- developing a healthy lifestyle: keeping a normal weight, exercising on a regular basis, giving up on alcohol and tobacco;
- boosting the self-esteem: establishing priorities and limits, taking part in activities that grow one's self-esteem, establishing realistic goals;
- time management.

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13. Take Back Your Time Day <http://www.timeday.org>
14. Job Stress Network <http://www.workhealth.org>

EUROPEAN LABOUR PRODUCTIVITY AND CORPORATE E-LEARNING ACTIVITIES: AN EMPIRICAL ANALYSIS

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Abstract

The purpose of this analysis is to test the hypothesis which growth in workers' competency level is affected by educational, training and workplace features. We focused above all on the corporate e-learning activities and labour productivity, in order to identify differences between European countries. Our findings showed some statistical significances related to six variables concerning a macro view of knowledge and innovation in the workplace, whereby we highlighted the comparison of mutual positions of European countries on the basis of a potential component of investments in human capital which is e-learning. According to statistical significativity we specifically noted that most Northern European countries have a comparative advantage in terms of labour productivity and direct investments than those in the south.

Keywords: corporate e-learning, European labour productivity, principal component analysis.

JEL code: J24.

1. Introduction

It is well-known that the composition of the EU and that of the euro area have changed tremendously over the recent years, with the relative proportion of larger countries shrinking. Among the 15 countries the euro area comprised in 2008, three of them were large countries (Germany, France and Italy), one of middle size (Spain) and the remaining 11 were of small or very small dimension and this remains true whether size is considered in demographic or in economic term (Laurent and Le Cacheux, 2006). It is also common knowledge since Olson's (1965) seminal work that, when collective action is needed in whole group's interest, the decision making process becomes all the more arduous as the group is bigger and more heterogeneous, especially sidewise. The smaller countries will usually tend to make advantage of their small size sometimes also in adopting opportunistic and free rider strategies. Those trends are getting even stronger within the current EU and euro area's institutional framework, because of such decision-making process rules as unanimity and the thresholds adopted for qualified majority voting, or the "open method of coordination" whose different variants - more especially those on employment policy, social protection and even more importantly, those on the implementation of the reformed "Lisbon Strategy" - encourage competition between member states and tend to make collective decision-making difficult, if not impossible, also in the field of labour politics and investments in human capital resources such as education & training activities (Welsh E., *et al.*, 2003; Black S. and Lynch L., 2004; Daelen M., *et al.*, 2005).

2. Methodology and analysis

We performed a quantitative analysis reckoning with several variables related to 2008 for EU member countries and their aggregates. The variables considered are: GDP *per capita* in PPS, corporate e-learning applications for training and education of employees, labour productivity per person employed, total investments as percentage of GDP, business investments as percentage of

GDP, direct investments flows as percentage of GDP. The first is a descriptive analysis and in table 1 we reported the results of this preliminary stage:

Variables	Minimum	Maximum	Mean	Variance	Skewness	Kurtosis
GDP	41,30	276,40	102,8029	1939,428	1,940	6,558
Corporate e-learning	13,00	54,00	28,7576	109,002	0,639	-0,263
Labour productivity	37,20	175,80	95,0886	869,469	0,430	0,707
Total investments	16,30	33,40	22,9371	16,613	0,966	0,418
Direct investments	-48,50	261,20	9,9647	2074,273	5,333	30,467
Business investments	13,80	27,70	19,6125	11,599	0,726	0,022

Table 1: descriptives statistics (source: our elaboration on Eurostat data, 2010).

Considering the year 2008, the first variable investigated is the GDP *per capita* in PPS⁴⁰¹. This variable was analyzed for European countries and for its qualified aggregate EU-27, EU-25, EU-15, Euro Area and other countries. The GDP has a minimum value of 41.30 while the maximum level is 276.40. This shows a high variability between countries, which is confirmed by the index variance of GDP. In this case, 41.30 is referred to the value of GDP in Bulgaria together with the Czech Republic, Estonia, Greece, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Slovenia, Romania, Slovakia, Turkey and Croatia. Turkey has a GDP not compliant with the European Union average. Moreover, the value of kurtosis gives an idea about its very high amount and therefore with a greater distribution of countries on tail areas of normal distribution which is confirmed by the index of symmetry which restrains an asymmetric outcome compared to normality. These conclusions can be deduced similarly respect to the variable of direct investments as a percentage of GDP since its minimum value is negative at -48.50 reached by Iceland and its maximum level is reported by Luxembourg at 261.20. This dispersion of the data shows a high variability with asymmetry and kurtosis somewhat distorted compared to normal distributions. Instead, variables such as corporate e-learning applications, labour productivity, total investments and business investments provide values quite normal with a range of potentially more manageable. Before addressing a regression analysis on the phenomenon under observation, we calculated a matrix correlation (table 2) to emphasize the major variable correlations between variables:

Variables	GDP	Corporate e-learning	Labour productivity	Total investments	Direct investments	Business investments
GDP	1,000	-0,201	0,909*	-0,440	0,776	-0,435
Corporate e-learning	-0,201	1,000	-0,182	0,253	-0,090	0,239
Labour productivity	0,909	-0,182	1,000	-0,575	0,565	-0,525
Total investments	-0,440	0,253	-0,575	1,000	-0,182	0,954*
Direct investments	0,776	-0,090	0,565	-0,182	1,000	-0,207

⁴⁰¹ This indicator has been rescaled, i.e. data are expressed in relation to EU-27 = 100. The volume index of GDP *per capita* in Purchasing Power Standards (PPS) is expressed in relation to the European Union (EU-27) average set to equal 100. If the index of a country is higher than 100, this country's level of GDP per head is higher than the EU average and vice versa.

Variables	GDP	Corporate e-learning	Labour productivity	Total investments	Direct investments	Business investments
GDP	1,000	-0,201	0,909*	-0,440	0,776	-0,435
Corporate e-learning	-0,201	1,000	-0,182	0,253	-0,090	0,239
Labour productivity	0,909	-0,182	1,000	-0,575	0,565	-0,525
Total investments	-0,440	0,253	-0,575	1,000	-0,182	0,954*
Direct investments	0,776	-0,090	0,565	-0,182	1,000	-0,207
Business investments	-0,435	0,239	-0,525	0,954	-0,207	1,000

Table 2: correlation matrix (source: our elaboration on Eurostat data, 2010).

In table 2 we pointed out with an asterisk the two most significant correlations which are represented by the following: the GDP compared to labour productivity and total investments compared to business investments. In fact, these latter variables demonstrate an almost perfect correlation between them, showing an excellent direct relationship. A less significant correlation, but still positive, is also between GDP and direct investments. The other variables have converged to correlations rather insignificant and even some kind of relations are negative. We noted that labour productivity is negatively related to total investments, business investments and corporate e-learning activities: this indicates a discrepancy between the variables under study⁴⁰² bringing back a reverse relation because when a variable grows, the other reacts in the opposite way. Once the correlation analysis, we moved to that of regression⁴⁰³. The following table reports the regressions analyzed and their results:

Variables: dependent – independent	r	R square	Coefficient β	T
Corporate e-learning – GDP	0,102	0,01	-0,024	-0,564
Labour productivity – GDP	0,924	0,853	0,605	13,641
Business investments – Total investments	0,96	0,922	0,79	18,817
Corporate e-learning – Business investments	0,582	0,338	1,099	4,107
Corporate e-learning – Labour productivity	0,074	0,005	-0,031	-0,426

Table 3: model summary (source: our elaboration on Eurostat data, 2010).

This inspection confirms the previous investigation conducted with the correlation. In fact, for some variables we have an excellent goodness of fit of theoretical data to those observed, for other variables it occurs to a lesser extent. The following highlights the regressions individually identified from best fit, indicating the dependent variable at first and then the independent one:

1) Labour productivity – GDP: in this regression analysis, the results show a strong direct relationship between the two variables. This indicates that when GDP rises, the labour productivity increases; so those countries with a higher GDP have even an increased general economic activity. The results confirm an excellent response to the goodness of fit and

⁴⁰² Labour productivity with total investments, labour productivity with business investments and labour productivity with corporate e-learning activities.

⁴⁰³ Note that the regression coefficient values and the correlation coefficient values overlap, as the constant $y=bx$ has been omitted from the model.

significativity of regression coefficient, as the test on the hypotheses⁴⁰⁴ stands on a large enough value being equal to 13.641.

2) Business investments – Total investments: this analysis also confirms a good direct relationship between the two variables and whereas total investment increases, there is a proportional raise in business investment. Even in this case, countries with greater investments mainly gear the same on business investments⁴⁰⁵. The results of test of the regression coefficient confirm the significance of analysis reaching a value exceeding 18.

3) Corporate e-learning activities – GDP: we obtained a relationship quite zero which would indicate a relative neutrality of the variable GDP compared to the one referring the activities in corporate e-learning. In fact, the increase of GDP in European countries do not get more investment in corporate e-learning. It would seem that the use of e-learning systems in education & training firms activities is mainly influenced by other socio-economic and cultural features; verifications of the analysis also confirmed the meaningless of the parameter studied.

4) Corporate e-learning activities – Business investments: this study shows a good direct relationship between the two variables. The results are established at a mean values level and the test of verification of the regression coefficient is significant. It follows that corporate e-learning activities are influenced more by business investments and then countries which largely invest in this regard will also use a part of them in corporate e-learning training systems. So e-learning applications are also affected indirectly by GDP, as the same business investments are greater in those European countries with a higher GDP.

5) Corporate e-learning activities – Labour productivity: this elaboration is inconclusive at the level of statistical tests as increasing in labour productivity, investments in corporate e-learning systems appear inconsistent. Verification of the regression coefficient explains the irrelevance of the analysis reaching a low value close to zero. This result may appear confusing and it will require an our future study.

Once regression analysis is carried out, we moved to principal component analysis. Considering the six variables presented above, we calculated eigenvalues in order to call attention to the variability:

Component	Initial eigenvalues			Extraction sums of squared loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3,343	55,716	55,716	3,343	55,716	55,716
2	1,323	22,057	77,773	1,323	22,057	77,773
3	,891	14,846	92,619	-	-	-
4	,359	5,979	98,598	-	-	-
5	,055	,919	99,517	-	-	-
6	,029	,483	100,000	-	-	-

Table 4: total variance explained (source: our elaboration on Eurostat data, 2010).

The table 4 reveals that the first two eigenvalues explain a percentage of 77.7 about the referring distribution, and considering a third eigenvalue, we reach a percentage of 92.62 about variability explained. It can be inferred that the first two eigenvalues are sufficient to expound the variability

⁴⁰⁴ The test statistics (T-statistics), which represents the model testing hypothesis, is not significant for values ranging from -2 to +2.

⁴⁰⁵ The values referred to “total investment” and “business investment” represent percentages of GDP and, hence, are influenced by GDP of each countries.

of our study as the 77.77 per cent of variability described is still a good result analysis. In order to interpret the outcomes obtained from principal components is crucial to dissect the matrix of correlations between the components themselves and the variables which contributed to their setting up. Below are given these correlations:

Variables	Component	
	1	2
GDP	,884	,419
Corporate e-learning	-,335	,293
Labour productivity	,894	,214
Total investments	-,789	,560
Direct investments	,651	,628
Business investments	-,777	,555

Tabel 5: component matrix (source: our elaboration on Eurostat data, 2010).

Table 5 sets a focal point on the importance of variables than the first two principal components. The first principal component shows up a high interest in relation to the variables GDP and labour productivity, which can be explicated as a factor connected to the productivity of the European countries. The second main component has, on the whole, quite low values with more relevance to direct investments as percentage of GDP. We synthesized the first component in “labour productivity” (component 1) and the second one in “direct investments” (component 2). Below is a chart summarizing the analysis with two main components representing the reference coordinates and the position of European countries compared to the two main components. Furthermore, these countries were divided into four clusters calculated by the method of Euclidean distance between countries:

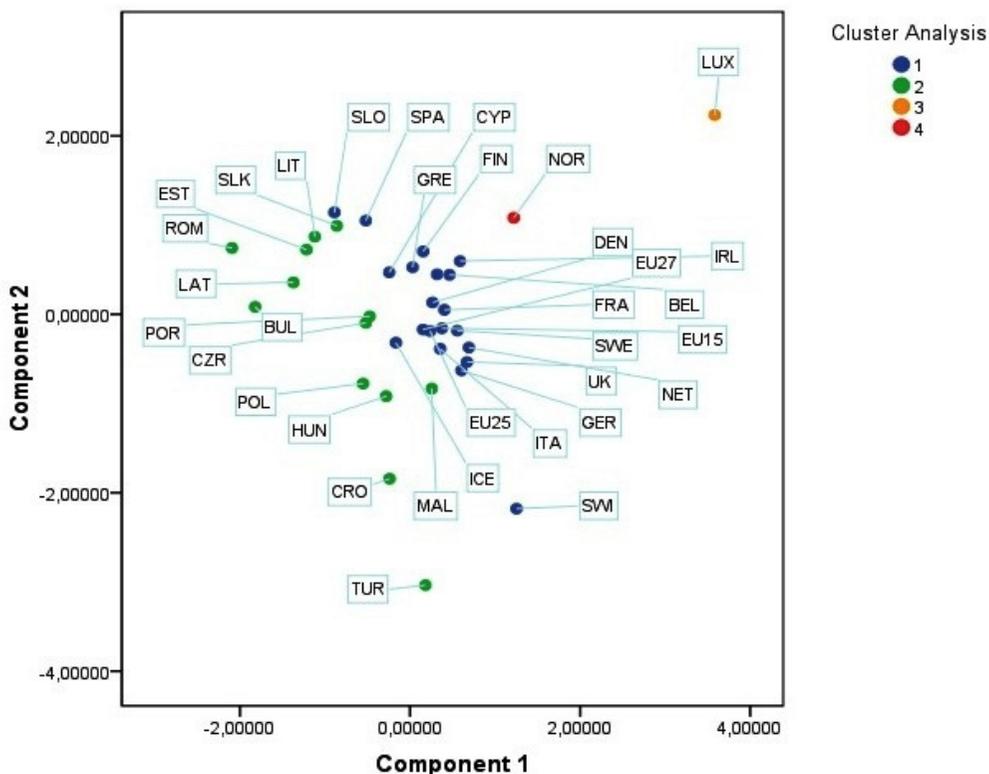


Figure 11: PCA and cluster analysis (source: our elaboration on Eurostat data, 2010).

From figure 1 we gather a number of considerations. The first principal component (labour productivity) shows a range of variation ranging from -2 to +4. While the second principal component (direct investments) has a range of variation ranging from -4 to +2. The first cluster is composed of a single European country that is the case of Luxembourg. This country ranks at the top and right of the figure 1 showing the overall higher rate of labour productivity and investments compared to other European countries. A second cluster is represented by Norway, even though it seems close to the remaining clusters, it still remains at a high level of productivity and investments. The third cluster is represented by most of European countries, which in this case show a positive productivity and investments lower than Norway and Luxembourg. The countries in this cluster are: Slovenia, Spain, Ireland, Italy, France, Finland, Ireland, Belgium, Denmark, Sweden, United Kingdom, the Netherlands, Germany and Switzerland. The latter (Switzerland), although it has a positive labour productivity, holds negative investments. The fourth cluster concerns the European countries which present a negative productivity and investments. The last cluster pertains countries such as: Slovakia, Estonia, Lithuania, Romania, Latvia, Portugal, Austria, Czech Republic, Bulgaria, Poland, Hungary, Malta, Turkey and Croatia. Turkey, in particular, contains the lowest values among European countries with negative investments and output null and void.

3. Concluding remarks

The objective of our study was to analyze the different European countries based on the six variables taken into account. The variable GDP *per capita* in PPS has affected especially the countries distinguishing from each other. For example, Luxembourg has the highest GDP *per capita*, followed by Norway. These two countries appear to have a labour productivity and direct investments higher than others. But fundamentally the most significant cluster is certainly the

third, namely the one where we find countries such as Italy, France and Germany, which are in a situation similar to the average of the EU in terms of labour productivity and direct investments, but in a possible future scenario will certainly reach higher levels, in spite of the current global crisis. Indeed, considering the wider time span 2003-2007 (Bucciarelli, Giulioni, Muratore, *et al.*, 2008) it is emerged a larger growth of GDP and investments for these three countries. In conclusion, all the European countries go through a phase of stable productivity of the work which needs to be reinforced by processes of research & development and of innovation. It is a sort of best practice the unsatisfactory result found for the variable corporate e-learning, which shows for many EU countries a meagre tendency to new technologies of the latest corporate training. If there were a more implementation of education and training there would be a better development of labour productivity (Becker G. S. and Murphy K. M. 1992; Acemoglu D. and Zilibotti, 2001; Daelen M., *et al.*, 2005).

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REDUCING POVERTY AS A DRIVER OF DEVELOPMENT

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It is ten years after Lisbon and in the year dedicated to poverty alleviation that this paper is written in order to investigate the implications of the decisions regarding poverty reduction taken by the EU. We present a simple comparison of the "risks of poverty" in European countries in 2000 and 2008, before and after transfers, and our finding is a positive effect of the policies towards poverty alleviation, even if the risk of poverty is increasing. By studying the correlation between percentage of people that fall below the poverty line and GDP per capita, we do not observe a whole diverse situation in Europe, with only few minor differences between rich and poor countries. We also discuss the importance of alternative approaches in estimating poverty, by means of a multidimensional method which considers a multitude of aspects in the quality of life.

Keywords: poverty, risk of poverty, GDP, European Integration, Globalization.

JEL code: I3, P3

1. Introduction

"Solidarity is one of the guiding principles of the European Union, meaning that all citizens should be able to share in the benefits of prosperous times, while also sharing the burden of times of difficulty."⁴⁰⁶

The European Council, held in Lisbon in March 2000, identified the fight against poverty and social inclusion as one of the key commitments of the European Union and its Member States.

To this end, the European Council has designated 2010 as "the European Year⁴⁰⁷ for Combating Poverty and Social Exclusion⁴⁰⁸", in order to give voice to the concerns of people who have to live with poverty and social exclusion, and promote discussion on these issues. The international economic and financial crisis that revealed major impact from 2008 is having and will have long-run consequences for growth and employment in the EU. The most vulnerable part of our society will suffer most from these effects. In this work we want to integrate the issues of average

⁴⁰⁶ Eurobarometer survey on poverty and social exclusion, 2009.

⁴⁰⁷ Since 1983, every year was defined, by the European Council, as a "European Year" with the aim to inform the citizens of Europe and to pay attention to social themes, in order to change mentalities and behavior of citizens.

⁴⁰⁸ Decision n° 1098/2008/EC of the European Parliament and of the Council of 22 October 2008 on the European Year for Combating Poverty and Social Exclusion (2010).

income and public purposes, in order to analyze them more thoroughly. Indeed, both of them relate to and explain a problem that afflicts significant shares of population of European countries, as well as the rest of the world: the problem of poverty.

2. Measuring poverty

In order to assess the effectiveness of a policy, it is necessary to observe changes in the level of poverty over time: this means that poverty must be, in some way, measured. According to Sen (1976), the measurement of poverty consists in solving two distinct problems: the identification and the aggregation. In the economic literature the first problem has been solved by using income as a proxy. In fact, in 1905, Lorentz introduced the Lorentz curve to describe as income might be compared in terms of inequality. By using income, in 1880 Charles Booth introduced the notion of poverty line in order to distinguish people living in London from those in poverty and in comfort. This threshold was defined in 1891 by Rowntree in terms of a minimum level of income that was necessary to access to the basic needs. During the last century, studies on measures of poverty have followed essentially two different approaches: the construction of an indicator and the ordering of distribution. Nevertheless in both path, income or consumption expenditures were considered as the only variable representing the welfare level of an individual. The first approach has produced several indices (Clark, Hemming and Ulph, 1981), which are essentially based on dividing the population into two subgroups depending on whether the income is below or above a threshold value. However, the second one has dealt mainly with ordering and distribution of income and, in order to eliminate a degree of subjectivity, several postulates were introduced (Sen, 1976; Tsui 2002; Bourguignon and Chakravarty, 2003). There are two main ways of setting poverty lines absolute⁴⁰⁹ or relative⁴¹⁰, subjective⁴¹¹ or public standards⁴¹². In 1995, at the World Summit on Social Development in Copenhagen⁴¹³ scientists have defined extreme poverty as: “[...] a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information”. In 2004, the European Council⁴¹⁴ presented a relative definition of poverty “[...] Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalized from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted”. We observe that, while extreme poverty affects only certain groups within the EU, the most widespread form of poverty within the EU tends to be relative poverty, both in monetary and non-monetary terms. The characteristics of relative poverty can vary between genders, age groups, household types, etc. In this light, a genuine poverty measure should depend on an income indicator as well as on non-income indicators.

3. The risk of poverty: evidence from data

One particularly interesting aspect of the quantitative distribution of income is the one concerning the living conditions of the poorest people. The analysis of poverty pays attention to the size and characteristics of the left tail of the distribution, while ignoring other aspects.

⁴⁰⁹ The absolute standard (basic needs approach) is usually used to define poverty in developing economies by World Bank and Onu.

⁴¹⁰ According to this criterion, poverty state is defined in relation to the community standard life average, so, to be poor means having less than other.

⁴¹¹ In the subjective standard, individuals or families are poor if they declare themselves to be poor.

⁴¹² The public standard requires that the maximum level of income is set by exogenous measures of public welfare assistance

⁴¹³ A/CONF.166/9 - Final Report of the World Summit for Social Development- Copenhagen, 1995.

⁴¹⁴ European Commission, Joint report on social inclusion, 2004.

Our analysis starts considering the “risk of poverty” in UE in two different years: before (2000) and after (2008) the implementations of Lisbon strategies, in order to collect some evidence about the effectiveness of these strategies. In particular we calculate the percentage variation of this indicator. Then we analyze the correlation between income level and percentage of population which falls below the poverty line (computed relative to the country).

The EU is a relatively rich and prosperous part of the world, with an average GDP per capita of \$32.600 and a rate of unemployment of 9,2%, compared to U.S. \$ 46.400 and \$ 32.600 for Japan, with respectively 9,3% and 5,6% of unemployment rates (2009, CIA, The World Factbook). Nevertheless, it is estimated that around 80 million Europeans (19 million of whom are children, the gender gap is approximately two percentage points) live at risk of poverty⁴¹⁵, which is about 17% of the population⁴¹⁶. Nevertheless in the economic analysis we are interested in knowing how income is distributed among people. In Europe the average Gini coefficient is lower (31, 2006) than the other two examples above (45 for U.S., 2007, and 38,1 for Japan, 2002, CIA), but it takes different values in different countries.

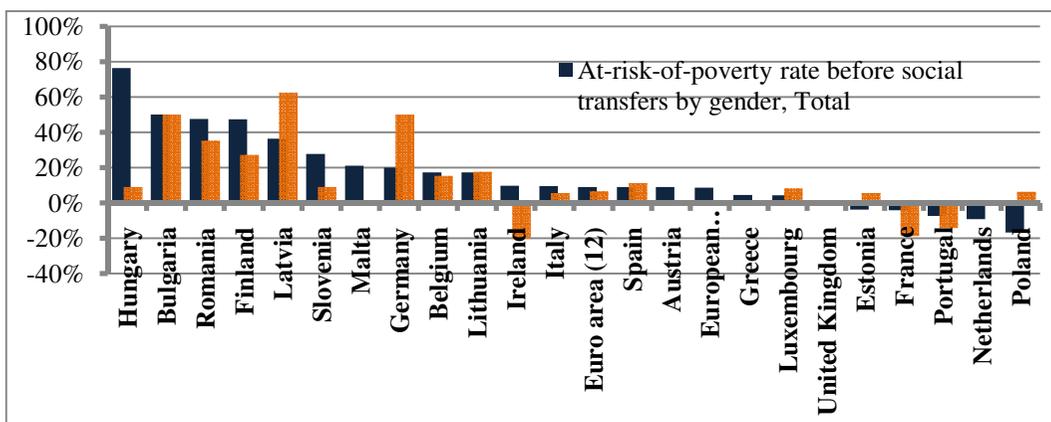
In some Eastern European countries the Eurostat index “Inequality of Income Distribution⁴¹⁷” is almost double compared to Western countries. In this first group of States, characterized by low income, high inequality means a higher risk to fall in poverty. Several studies on the relationship between globalization and changes in the indices of poverty (Sala-i-Martin, 2002) showed an increase in poverty levels, because of growing inequality in different countries. There are in fact vulnerable groups, which already constitute the poorest part of population, that cannot benefit from the improvements in levels of economy, such as taking advantage from larger international exchange relationships or exploiting human capital to achieve better social and economic position. By and large, the process of globalization has reduced absolute poverty levels in the world, in a complex relationship, that led in some cases to greater concentration of income and wealth. This relationship is however complex and intricate, since these two phenomena have been evolving in recent years. This paper underlines the role played by poverty on future possibilities for community development, joint and harmonious. Using Eurostat data we highlight the increase in the level of risk of poverty that is evident in many member countries, especially in calculating the pre-transfer. This refers in particular to Eastern European nations like Hungary, Bulgaria, Romania, and northern countries like Sweden and Finland, which have increased their chance of falling in poverty from a rate of 40% to over 70%. On the other hand, the number of countries with a decreasing level of this index during the same period were few and with low values. Concerning the importance of EU and national policies for integration and growth, it is necessary to examine the data after transfer, to assess the effectiveness of at least national relevance, which is also the remit of national decision-makers. Countries with high levels of increase in the first indicator, Sweden and Finland, but also Denmark, Ireland, Hungary and Austria, reach more than 50% decrease in risk of poverty before and after the transfers, bringing the indicator "At-risk-of- Poverty rate after social transfers" well below the European average, which for the year 2008 was around 17%.

⁴¹⁵The ‘at risk of poverty’ indicator identifies households or people who fall below a certain income threshold, the EU sets this cut-off at 60% of the median income.

⁴¹⁶European Commission, Joint Report on Social Protection and Social Inclusion 2008.

⁴¹⁷Eurostat defines the “Inequality of income distribution” as the ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile).

Fig. 1 - Change (%) of indicators at risk of poverty before and after the transfers in 2000 and 2008



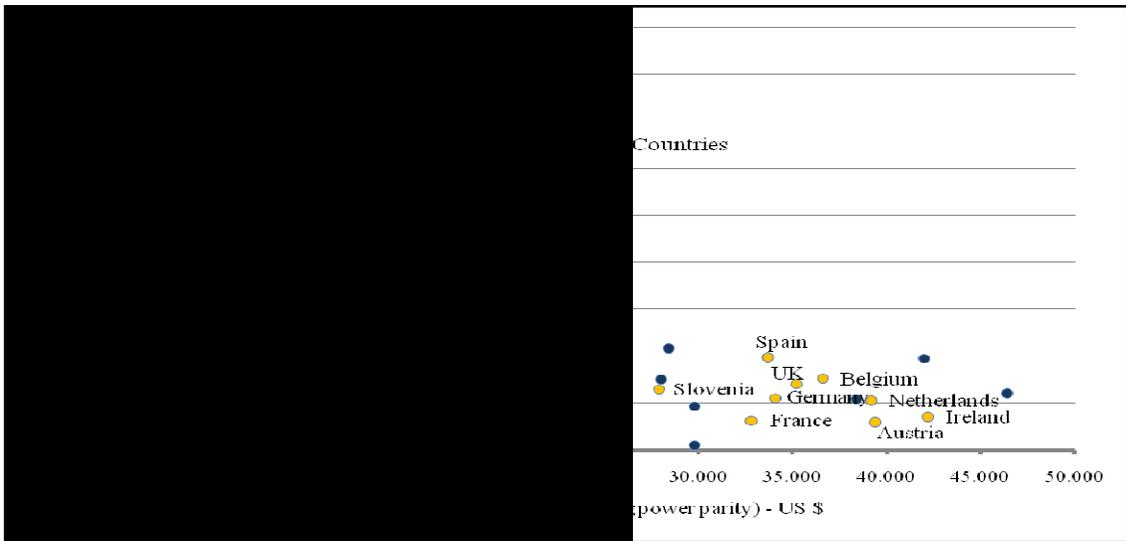
The level of risk increases for women, on average 1 to 3 percentage points, and decreases with improvements in education, especially in Eastern countries such as Romania and Bulgaria, where people with primary education had about 40% of risk of falling below the national poverty line; however, this is reduced to less than 5% for those countries showing a higher level of human capital. Differences persist among social groups within States, which, as already discussed in Lisbon, are a disturbing factor to the growth process, as they form areas of marked differences between single countries, both in terms of wealth and labor productivity, which affects the mutual relations of exchange and cooperation. As it is clear from the data, the role of education in Europe is essential, also due to the approach taken in the strategies that should improve the socio-economic background in the EU, directed to invest into the knowledge economy and human capital formation and establishing a solid foundation for long-run development.

Finally, it is important to consider the “poverty risk” for particular social groups, the children and the elder, which in most member States support a higher than average risk of poverty, markedly in Eastern countries (Eurostat 2010).

In the following chart, we observe the location of many worldwide countries arranged according to the variable “Population below poverty line”⁴¹⁸, compared with the level of GDP per capita (in purchasing power parity, US \$). The EU member states are located mostly in the richest segment, in many cases marking minimum levels of population in poverty (less than 15%). Moreover, several Eastern European countries are characterized by median income levels between \$ 11.500 (Romania) and \$ 21.200 (Slovakia), but they share similar levels in poverty rates with other richer countries (with minimum levels for Lithuania and Estonia to around 5%, less than some richer countries, and maximum for Romania, 25%) (CIA, The World Factbook).

⁴¹⁸ National estimates of percentage of the population falling below the poverty line are based on surveys of sub-groups, with the results weighted by the number of people in each group, definitions of poverty vary considerably among nations. (CIA)

Fig. 2 - Graph of Population below poverty line vs. GDP per capita PPP (US \$) of the corresponding country (recent years available)



4. Conclusive remarks

The measurement of poverty, and more generally of social problems, is one of the liveliest topics in economic statistics, as evidenced by the commitment made by Eurostat and the European Commission. However, as mentioned earlier, the estimation of poverty involves complex methodological choices, sometimes fragile, and too conventional. These observations must be considered when interpreting the data and building on them intervention policies.

Data show that, generally, at high levels of GDP per capita correspond a low poverty risk, but this is not true for each country. Some consideration must be given to the positive variation of the poverty risk in 2000 and 2008: firstly, we observed a positive effect of social policies brought by the EU, in agreement with the member States. Secondly, also because of global economic slowdown, there is still a high percentage of people at risk of being in poverty, or to remain marginalized from different aspects of social life.

Many economists (Sen, 1976; Tsui 2002; Bourguignon and Chakravarty, 2003) do not consider the average income level, as well as its distribution, an appropriate method to estimate the poverty. They study poverty as a multidimensional phenomenon which takes into account not only the monetary factor but also non monetary factors (as health, educational, life expectancy...). In this way, the unidimensional threshold is substituted by a multidimensional one that allows to define as poor people that have an adequate income but do not have access to some of the so-called “basic needs”. Appropriate social policies should therefore consider a variety of aspects of social and economic life, especially in the EU, where in addition to integration between countries, it is necessary to achieve cohesion and equal conditions of life among all EU citizens.

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TRENDS REGARDING THE DEVELOPMENT OF THE COMMERCIAL ACTIVITY IN ROMANIA

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World economy is experiencing some important transformations, mainly due to the rapid evolution of the informational and communication technologies. In the last years, new technologies flooded the production processes. They have allowed the improvement of the processing and use of the economic information and the general acceleration of the economic flows.

The technical progress interferes with the economic activity through the re-engineering of the production lines, the revolution in the field of building materials and store, shopping center, malls and industrial hall building, the considerably shorter time period these are being built and they become available for the commercial activity, the revolution in the field of supply, merchandise storage and manipulation, the appearance of different types of intelligent machineries and equipment, merchandise storage software improving the way the client is served at the counter. The industrial revolution determines a reorganization of the economic activity, a resetting of the trade economic activity by directing the trader towards the client using new commercial techniques and strategies.

Key words: technology, technological revolution, technical progress, development, production, trade, improvement of the trade activity.

COD JEL: E21, E22

Conceptual aspects regarding trade

The notion of commerce has a complex contain, determining a economic function that consists of buying raw materials or products to sell them in the same physic stadium, but in conditions convenient for the buyers. The same notion, defines the profession of a group of economic agents, who take action on the market determining the trade acts.⁴¹⁹

Commerce, through its functions and through the nature of the activities developed, represents the main component in the system of the national economy, and represents that economic activity of mediation of the economic goods trade, through commercial specialized enterprises, both inside the borders of a country and in relation to other countries. The economic category of commerce has a very complex contain and plays an important role on both social and economic plan. On social plan it has a strong psychological loading, through promoting commercial ethics, forming the taste and the education of the clients, studying the consumer's behavior in taking buying decision⁴²⁰.

Also trade represents a point of contact between citizens and the local community, through which pass the most recent information, in terms of life styles, cultural schemes and common activities⁴²¹.

Commerce, as a branch of an economy, is assimilated to the goods way, activity that appears between production and consumption, with the mention that the circulation of goods has several

⁴¹⁹ Dumitru Patriche (coord), Ion Stănescu, Mihai Grigorescu, Mihai Felea, *Bazele Comerțului*, Editura Economică, București, 1999.

⁴²⁰ Lefter Chirică, *Comerț și economie comercială*, Editura Economică, București, 2009.

⁴²¹ Carmen Eugenia Costea, Andreea Simona Săseanu, *Economia Comerțului Intern și Internațional*, Editura Uranus, București, 2009.

productive aspects, as a result of the activities which represent an extend of the production process, such as: manipulation, transport, storing, portioning, stowage, etc., operations that increase the value of goods⁴²².

Modern contemporaneous economy is characterized through a high rhythm of development, in which commerce is in the center of all economic activities. Development is lengthened to commerce, market relations, thing that led to a globalization of market and to a harmonization of the interests of participants. In a global approach, the economic category of commerce includes interior and exterior trade, with their main components: import, export, re-export and transit activities⁴²³.

The influence of the technology of information and of communication over commercial activity

World economy passes through a period with strong transformations, mainly generated by the fast evolution of informatics technologies and by communications. Electronic commerce becomes fast a spectacular component of globalization; the expansion of electronic transactions could represent an major opportunity for commerce and development⁴²⁴. This process can be the source of an important number of success histories through which developing countries and their enterprises can reach new levels of international competitiveness and participate actively at the global informational economy. The international community must support developing countries and their efforts for a better understanding and knowledge of the various aspects of electronic commerce, technical, legislative, social and cultural aspect. The phenomenon electronic commerce prefigures to stay an important field on the international agenda for a long period of time, because of the deep macroeconomic and social implications that begin to be better understood. The nowadays performers of commerce turn their attention to developing the dimensions of electronic commerce⁴²⁵.

In order to evaluate the potential impact of electronic trade over economic and social development of developing countries will be studied aspects regarding the size, the purpose and the growing speed of the electronic commerce, the tendency of this type of commerce and the way in which this affects the economic activity⁴²⁶.

The main implications of electronic commerce are⁴²⁷, the following:

- It allows the increase of connectivity in economy. The possibility to connect to the Internet permits communication and doing transactions from all around the world at any time.
- It allows the opening of the commerce. In the opened electronic commerce as the Internet support which he develops on, consumer is as well involved, he has a new role, being a partner in creating products.
- It changes the relative importance of time through accelerating the production cycles, through offering organizations possibilities to collaborate to product and sell and the consumer to develop its transactions in a short period of time.
- It transforms the market changing the way of business development. This kind of traditional intermediary are replaced, there appear new products, new markets, lengths between business partners. The work organization is changed, through the apparition of some new knowledge distribution canals, interactivity between people is opened at their workplace, it appears the need of more flexibility and adaptability.

⁴²² Lefter Chirică, *op.cit*, pp.13.

⁴²³ Lefter Chirică, *op.cit*, pp.18-19.

⁴²⁴ Ion Gh. Roșca, Cristina Mihaela Bucur, Carmen Timofte Stanciu, Octavian Paiu, Mirela Vișean, Comerțul Electronic, Concepte, Tehnologii și Aplicații, Editura Economică, București, 2004.

⁴²⁵ Idem ,pp50.

⁴²⁶ Idem pp.50.

⁴²⁷ Idem pp.50

Even though at present electronic commerce continues to face with the limits of implementation methodologies in the economies of some countries, its role and impact over the economic activity stays a major reality⁴²⁸.

A result of the Internet commerce consists of costs reduction and research, diminishing the distance between seller and buyer, developing individual profiles for buyers. This desiderate will come true in a climate of trust between buyers and sellers that is based on assuring the security of confidential data. Electronic commerce and other communication technologies decrease the importance of time as a factor that determines the structure of the economic and social activity. Time is saved, you can buy more efficient and the buyer does not interrupt his activity at the workplace.

The reason why business-to-business commerce has raised is because of the special impact that it had upon associated costs to the inventory, sales execution, product procurement, distribution costs, and lengths with the banks.

Another source of the efficiency of the electronic commerce is the opportunity for the “limit borders” of new entrances, business models, technology changes, which separate an industry from another⁴²⁹.

The advantages that come from a business on the internet are: significant decrease of distribution costs and sales administration costs, improvement of the services offered to the clients and the automating of orders and permanent up-dating information about products, eliminating errors, the speed of information. For business people there are a series of opportunities in electronic commerce: they can create their own firms can give information about themselves on the internet page, they can exploit Internet as a different distribution canal, they can build a new business centered only on global network, can establish new business contacts.

The evolution of industrial developed societies is determined by several aspects⁴³⁰. An aspect would be the acceleration of the development rate in technological areas who have determined fast changes in products and processes. A second aspect would be the speed of global commerce, thing that gives individual companies a much more flexible market, but also much more unsecure to compete on it. A third aspect is the frequent fluctuation in lifestyles and the consumers preferences owned to the communication means and international travels, etc. Another aspect is represented by the new values, ambitions and attitudes towards work, that come from the desire of employees to participate at solving problems and elaborating organizational decisions.

If we look towards computer development in the last 30-40 years, we can see the accelerate change of the world⁴³¹.

From its first operation, in 1920, computer has reached only in 1964 the commercial feasibility and success. In a similar way, the transistor needed decades to be incorporated in commercial products, like audio means, navigation instruments or computers. The silicon microchip integrated circuits have followed the same transformation through a shorter process, from innovation to commercial use. In the last three decades, the changing rates became shorter and faster transformations of technical progress in commercial products⁴³².

⁴²⁸ Ion Gh. Roșca, Cristina Mihaela Bucur, Carmen Timofte Stanciu, Octavian Paiu, Mirela Vișean, *Comerțul Electronic, Concepte, Tehnologii și Aplicații*, Editura Economică, București, 2004.

⁴²⁹ Ion Gh. Roșca, Cristina Mihaela Bucur, Carmen Timofte Stanciu, Octavian Paiu, Mirela Vișean, *Comerțul Electronic, Concepte, Tehnologii și Aplicații*, Editura Economică, București, 2004

⁴³⁰ Claudiu Emil Ionescu, GH.Gh.Ionescu, Design și management, Editura Universității de Vest, Timișoara, 2006.

⁴³¹ Idem, pp.48.

⁴³² Idem, pp49.

Progress in organizational culture of the manager. Technological change

Success companies use *integrated design management*, as a mean to assure that all the products, communications and services of the organization use to the business in general⁴³³.

Acceleration rates of changing have asked an organization and improved process to grow the adapting capacity of the companies to the new conditions. In order to accomplish this, there are three business strategies⁴³⁴:

The first one refers to the total understanding regarding market development before design development. Another strategy refers to the concentration on commercial transformation and viable of ideas, innovation on commercial success products. Another aspect supposes the design of an organization well integrated to support the development of the product in an environment of changing conditions, with product systems or cascade development form a product to the next one.

The term of design and especially “fabrication design” implies aspects⁴³⁵ as:

Basic characteristic of the system (lot, flux line, etc.)

Available processes (e.g.: smelting, turning, etc.)

Storage capacity and goods manipulation

The attitudes and qualifications of the workforce

The level of usage of processes and machines

Quality standard and control procedures

Materials used and detail storage

Retail market evolution under the impact of technical progress

Recipes of a store implementation, aspect of technical progress

Technological revolution is surprised in all commerce forms, either en detail or en gross sales.

Technical progress involves in economic activity through introducing new technology in the production lines, revolution in the field of construction materials and stores building, commercial centers, malls and industrial sites, period of time considerable smaller where they built and become more available for the commercial activity , revolution in the field of goods supply, storage and manipulation, the invention of new types of machines and intelligent equipment, inventory software with spectacular effects upon the development speed, reorganizing, reallocation of the economic activity of commerce, methods who shorten the time of implementation of a store.

The passing from traditional commerce to the modern commerce is another effect of technical progress, because of the production at industrial scale, of the possibilities to group thousands of goods assortments on areas of thousands of square meters, sophisticated machines and qualified staff and intense prepared to monitor and assure the good development of the technological flux. An effect of technical progress is the evolution of retail market, which in Romania has reached to consist of a total number of 1192 stores in 261 towns (at 31 September 2009), towards 582 stores opened in 103 towns, in 15 November 2006.⁴³⁶

The tendency on the national retail is of growing, thing revealed by the market quota of 37.50 % that hold the first 25 de retailers in Romania, comparatively to percentages as 90% in Finland, Sweden - 82%, Slovenia - 82%, Ireland - 81%, Estonia - 79%, Austria - 79%, Germany and

⁴³³ Idem, pp56.

⁴³⁴ Idem pp.57.

⁴³⁵ Idem pp172.

France - each 70%⁴³⁷, market quotas that are hold by the first 5 retailers in the enumerated countries.

The strategies used by the multinational companies from the modern commerce, regarding supplying and selling the goods, goods on the shelf, the way of supplying the shells with goods for an efficient buying, the introduction of computerized equipments and of high technology for manipulating and the transport of the goods inside the stores which replace more and more staff, the high technologies and software used for the goods inventory, to monitor the activity, have contributed to the birth of some types of new stores, standardized, unitary conceived at the level of the entire market area where they develop their activity: hypermarket, supermarket, minimarket.

The high technology introduced into building process, development and innovations from the field of building materials determine the possibility to realize buildings of diverse structures, in very short periods of time.

The same standardized form of organization is met in all the departments of such a selling point, the structure of stores, the organization of the product department, equipment with commercial furniture, equipment used, human resource departments regarding qualified personnel through standardized programs specially conceived for this types of stores, performing logistic systems which corroborated determine the easiness of implementation this stores format: some locations are equipped with electronic labels on the shelf, that assure firstly the competitiveness of the prices and secondly the lack of differences between the price on the shelf and the one that you get when you pay.

*Platform for fruits and vegetable*⁴³⁸, is a new modern logistic system.

The implementation of a concept performing through which this type of platform becomes the unique costumer of the supplier, and for the store one of the most important suppliers. The main difference towards the regular system consists of the fact that the demand activity is centralized, receiving and delivery towards the platform (the transfer of ownership and quantitative and qualitative checks are done on the platform).

The main advantages of this type of platform are the following :

- administrative work reduction (shortage of time for orders, operations, checking documents several times);
- improvement of the parameters length to stocks (rotation, stock zero);
- the reduction of losts in shops through improvement the quality of the products received;
- qualitative and quantitative reception at the level of articles is made on the platform;
- reducing the time necessary for reception in stores and increasing the time destined to selling;
- reducing the minimum quantity ordered by the store.

Through the implementation of this platform are aimed some objectives:

- checking and improvement of the quality and refreshment of the products;
- the homogeneity of the quality and refreshment of the products between stores;
- reducing the stock zero;
- reducing the minimum order;
- obtaining smaller prices for shopping because of buying a big volume and because of the existence of a single point of delivery for the supplier;
- the possibility to make speculative shopping and store them temporary in better temperature conditions;
- reducing the time necessary to the reception et the stores and the concentration of the staff on selling;

⁴³⁷ „Fabrica de bani” magazine, article” ‘Când devenim ostaticii unei piețe libere?’’07.02.2008.

⁴³⁸ www.metro.ro

- reducing the number of sales to stores;
- reducing the losses in stores through verifying and improvement the quality of the products;
- reducing the administrative costs.

Conclusions

- business-to-business commerce has raised because of the special impact that it had upon costs associated to inventory, sales execution, products procurement, distribution costs, lengths with banks;
- success companies use the *management of integrated design*, as a way to make sure that all their products, communications and services of the organizations the business generally speaking;
- growing the number of stores as a result of the technical progress, has determined the apparition of some new standardized stores, unitary conceived for all their branches.

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ECONOMIC CRISIS IN ROMANIA

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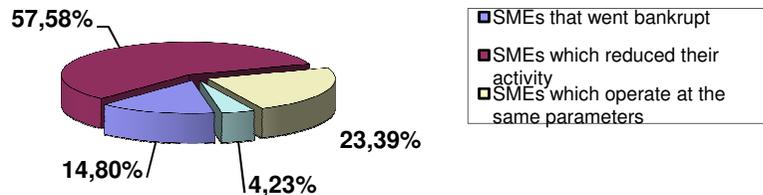
The world economic crisis which started in 2008 was felt, as is normal, in Romania. Most of the experts consider it is a major international economic crisis, with multiple negative effects on world economies. In this context, highlighting the impact of domestic and international economic recession on SME activity in Romania is of particular importance. The present paper analyze the perception of Romanian entrepreneurs regarding crisis, providing an interesting insight in the future of Romania's economy.

Key words: economic crisis, Romania, SMEs, entrepreneurs

JEL classification: D8, L2, M1

1. Introduction

Considering the current situation of Romanian SMEs, it can be drawn the conclusion that a significant part of small and medium Romanian enterprises deal with special problems. Like in other countries in the world, they have hardly dealt with the economic crisis until now, which can be explained by the fact that SMEs are generally more vulnerable at contextual turbulences than big companies.



**Figure 1 Dynamics of the activity of SMEs during the period
October 2008 - March 2009**

The analysis of **companies by regional localization**, shows that the economic agents in the North West region have the highest share of companies that went bankrupt (19.02%), those situated in the Centre register an increased share of SMEs that diminished their activity (72,63%), companies in the North East register a superior percentage of organizations functioning at the same parameters (27.84%), and the enterprises in Bucharest are pointed out by the large number of economic units that developed during the October 2008 - March 2009 (8.07%).

Table 1 Dynamics of the activity of SMEs based on the development regions they belong to

No.	Dynamics of the activity of companies during the period October 2008 - March 2009	SMEs grouped by development regions:							
		North East	South East	South	South West	West	North West	Centre	Bucharest
1.	SMEs that went bankrupt	15.68%	16.73%	18.64%	9.51%	17.45%	19.02%	17.89%	12.40%
2.	SMEs that reduced their activity	54.88%	51.84%	53.64%	65.12%	62.98%	58.36%	72.63%	53.57%
3.	SMEs operating at the same parameters	27.84%	23.67%	24.55%	21.71%	18.72%	19.67%	9.47%	25.96%
4.	SMEs that intensified their activity	1.60%	7.76%	3.18%	3.66%	0.85%	2.95%	0.00%	8.07%

The classification of **SMEs by size categories** (table 2) shows the following:

- bankrupts are registered inversely proportional to the size of the companies, and the percentage of SMEs that restricted their activities increases simultaneously with the increase of their size. Somehow surprising at first sight, this situation is explained by the fact that, usually, the increase in the size of the organization leads to the diminution of its vulnerability to nefarious contextual evolutions, as well as to the reduction of flexibility, of its capacity to quickly adapt to the changes of the business environment;
- small enterprises hold an increased weight of companies that developed their activities (5.03%) and register an inferior percentage of units functioning at the same level (21.50%).

Table 2 Differentiation of the activity dynamics of companies by their size

No.	Dynamics of the activity of enterprises during the period October 2008 - March 2009	Size of companies		
		Micro-enterprises	Small enterprises	Medium enterprises
1.	SMEs that went bankrupt	15.15%	14.87%	12.75%
2.	SMEs that reduced their activity	55.98%	58.61%	63.19%
3.	SMEs operating at the same parameters	24.63%	21.50%	22.03%
4.	SMEs that intensified their activity	4.24%	5.03%	2.03%

The analysis of **economic agents by their field of activity** highlights the following important aspects: SMEs in the tourism sector hold the highest share of companies that restricted their activity (72.31%); organizations in the industrial sector register an increased share of enterprises that went bankrupt (17.71%); companies in the transport sector register a higher percentage of entities functioning at the same parameters (28.82%), and enterprises in the services sector contain more economic agents that developed their activities (7.01%).

Table 3 Dynamics of the activity of SMEs by activity sectors

No.	Dynamics of the activity of SMEs	SMEs by activity sectors					
		Industry	Constructions	Trade	Tourism	Transports	Services
1.	SMEs that went bankrupt	17.71%	10.15%	14.96%	15.38%	11.18%	15.04%
2.	SMEs that reduced their activity	58.47%	60.60%	58.23%	72.31%	54.12%	54.16%
3.	SMEs operating at the same parameters	20.61%	24.78%	23.81%	9.23%	28.82%	23.80%
4.	SMEs that intensified their activity	3.21%	4.48%	3.01%	3.08%	5.88%	7.01%

2. Psychological impact of economic crisis on entrepreneurs

Taking into consideration the fact that the psychological dimension of the crisis has a major impact on the performance of economic activities, it is important to have a view on the extent to which Romanian entrepreneurs are psychologically influenced by the recent drastic recession. The research showed that **42.92% of entrepreneurs are threatened by the crisis to a medium extent, 27.26% of them are affected to a small extent, 24.22% of businessmen feel the economic decline to a large extent, and 5.60% of persons are not afraid.** See figure 2.

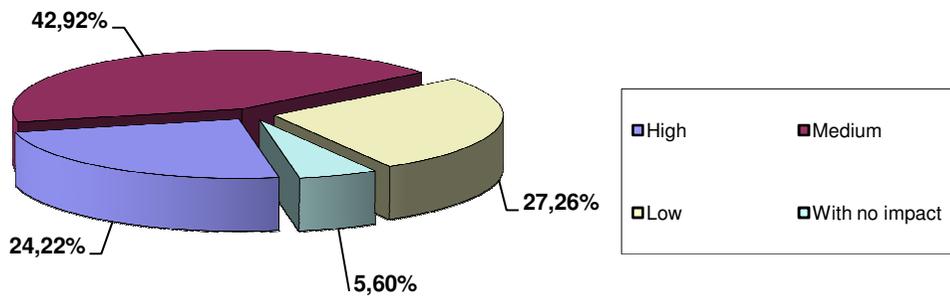


Figure 2. Psychological impact of the economic crisis on entrepreneurs

Analyzing the psychological dimension of the crisis by the regional localization of **SMEs**, we mainly notice the following:

- the largest number of entrepreneurs that feel threatened by the recession to a large extent is registered at companies in the Centre region (47.37%);
- enterprises in the North West hold the highest percentage of businessmen not affected by the crisis (8.65%) and afraid of the recession to a medium extent (50.96%);
- economic agents in the South West region include more persons on which the impact of the crisis is reduced (31.98%). See additional information in table 4.

Table 4 Psychological impact of the economic crisis on entrepreneurs by development regions the SMEs belong to

No.	Psychological impact of the crisis on entrepreneurs	SMEs grouped by development regions:							
		North East	South East	South	South West	West	North West	Centre	Bucharest
1.	High	26.09%	27.27%	27.42%	20.24%	24.32%	15.38%	47.37%	23.36%
2.	Medium	45.11%	41.56%	48.39%	42.91%	41.89%	50.96%	31.58%	39.75%
3.	Low	23.91%	27.27%	19.35%	31.98%	27.03%	25.00%	17.54%	30.33%
4.	No impact	4.89%	3.90%	4.84%	4.86%	6.76%	8.65%	3.51%	6.56%

Taking into consideration the **size of companies**, it is mainly noticed that:

- medium enterprises hold the highest share of decision factors that do not feel affected by recession (5.74%);
- the frequency at which entrepreneurs are affected by the crisis on average gets higher proportionally to the size of enterprises;
- micro-companies register the highest percentages as regards businessmen that see the economic crisis as a major impediment (25.30%) and those that are psychologically affected to a small extent (28.92%).

Table 5 Psychological impact of the economic crisis on entrepreneurs by the size of SMEs

No.	Psychological impact of the crisis on entrepreneurs	Size of companies		
		Micro-enterprises	Small enterprises	Medium enterprises
1.	High	25.30%	22.86%	22.95%
2.	Medium	40.10%	46.29%	46.72%
3.	Low	28.92%	25.43%	24.59%
4.	No impact	5.68%	5.43%	5.74%

As it can also be seen in table 6, the classification of SMEs by the **field of activity** mainly highlights that:

- SMEs in the tourism sector have an increased percentage of entrepreneurs that are a little poor-spirited by the crisis (40%) and a lower weight of persons affected by the economic recession to a medium extent (32%) and not at all affected (4%);
- companies operating in the industry sector have higher shares of entrepreneurs that feel the economic recession more intensely (26.98%);
- enterprises in the transport sector register the highest percentage of companies within which businessmen feel threatened to a medium extent (49.12%);
- organizations in the services sector register an increased number of persons who are not at all psychologically influenced by the economic decline (6.70%).

Table 6 Influence of economic crisis on entrepreneurs by the activity sectors of SMEs

No.	Psychological impact of the crisis on entrepreneurs	SMEs by activity sectors					
		Industry	Constructions	Trade	Tourism	Transports	Services
1.	High	26.98%	25.23%	24.45%	24.00%	19.30%	23.66%
2.	Medium	44.19%	48.60%	41.08%	32.00%	49.12%	41.96%
3.	Low	24.19%	21.50%	28.61%	40.00%	26.32%	27.68%
4.	No impact	4.65%	4.67%	5.87%	4.00%	5.26%	6.70%

The analysis of the way in which the crisis is affectively perceived, by the performances obtained by SMEs in 2008 as compared to 2007 (table 7), shows the fact that the entrepreneurs with superior results feel the severe economic decrease to a smaller extent as compared to those with inferior and identical performances, which can be explained by the safety due to a better financial situation.

Table 7 Differentiation of the influence of economic crisis on entrepreneurs by performances obtained in 2008 as compared to 2007

No.	Psychological impact of the crisis on entrepreneurs	Performances of the company in 2008 as compared to 2007		
		Superior	Identical	Inferior
1.	High	20.95%	21.25%	39.36%
2.	Medium	44.49%	43.60%	38.30%
3.	Low	28.94%	27.79%	20.21%
4.	No impact	5.62%	7.36%	2.13%

3. Entrepreneurs' opinions regarding the peak of the crisis

As it is already known, national and world economic evolutions have a cyclic character, the increase/expansion periods alternating at various time periods with stagnation, recession and sometimes even crisis periods. Economic crises often evaluate in "U" shape, which means that after a decrease it takes a certain period until the economic increase begins. As regards the current economic crisis, there are many opinions of specialists regarding its peak, internally as well as internationally. Taking into consideration the entrepreneurs' opinions regarding the crisis peak in Romania, the situation is as follows: 58.40% of businessmen estimate that the maximum level of the crisis will be reached in 2009, 34.09% of the researched persons believe that the peak will be in 2010, and 3.85% of them forecast a maximum point in 2011. Detailing the opinions by quarters shows that 24.70% of entrepreneurs forecast that the highest intensity of the crisis will be in the 3rd quarter of 2009, 21.25% of the persons believe that the recession peak will be in the 4th quarter of 2009, 16.40% of businessmen anticipate a maximum level in the 1st quarter of 2010, and 11.17% of the researched persons consider that the peak will be reached in the 2nd quarter of 2010.

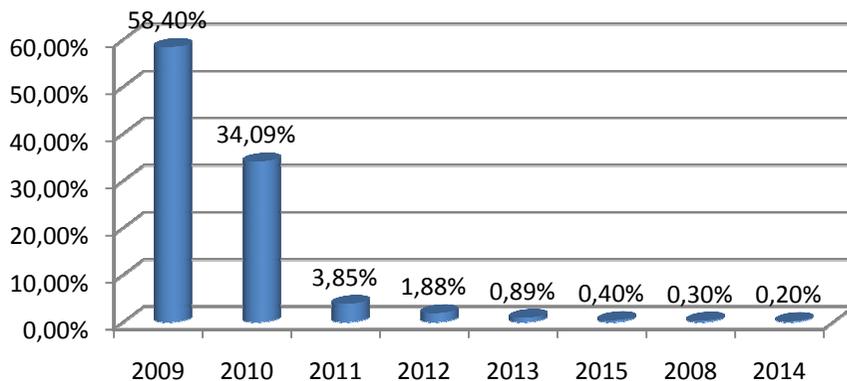


Figure 3 Entrepreneurs' opinions regarding the peak year of the crisis

The examination of **companies by regional localization** shows the following:

- SMEs in Bucharest register the highest number of persons believing that the crisis peak in our country will be in 2009 (67.23%);
- enterprises in the South area register the highest percentage of entrepreneurs believing that the peak will be in 2010 (45.61%) and the lowest percentage of those who forecast the peak for 2009 (49.12%);
- entrepreneurs in the West more frequently indicated year 2011 (8.82%), and those in the North West more often estimated that the maximum level of the decline will be after 2011 (7.53%).Details can be seen in table 8.

Table 8 Differentiation of entrepreneurs' opinions regarding the year when the crisis will reach its peak, by the development regions the SMEs belong to

No.	Year when the crisis will reach its peak	SMEs grouped by development regions:							
		North East	South East	South	South West	West	North West	Centre	Bucharest
1.	2009	57,71%	51,32%	49,12%	54,44%	61,76%	56,99%	54,55%	67,23%
2.	2010	39,43%	39,47%	45,61%	34,27%	27,94%	26,88%	41,82%	28,15%
3.	2011	1,71%	2,63%	3,51%	4,84%	8,82%	8,60%	1,82%	2,10%
4.	Other period	1,14%	6,58%	1,75%	6,45%	1,47%	7,53%	1,82%	2,52%

5. Conclusions

- During the period October 2008 - March 2009 more than half of the SMEs (57.58%) reduced their activity, 23.39% of the companies operate at the same parameters, 14.80% of the companies went bankrupt and 4.23% of economic agents intensified their activity
- Enterprises that went bankrupt register higher percentages within SMEs younger than 5 years (15.85%), companies in the North West region (19.02%), micro-enterprises (15.15%), limited liability companies (15.20%) and companies in the industry sector (17.71%)
- The shares of the enterprises that intensified their activity are higher within SMEs of 5-10 years (5.64%), economic agents in Bucharest (8.07%), medium companies (5.03%), limited liability companies (4.44%) and services companies (7.01%)

- 42.92% of entrepreneurs feel threatened by the economic crisis to a medium extent, 27.26% of them are affected to a small extent, 24.22% of the researched persons are affected to a large extent, and 5.60% of businessmen are not afraid of the recent severe recession

- Percentages related to entrepreneurs affected by the economic crisis to a large extent are higher within younger companies (27.27%), companies in the Centre region (47.37%), micro-enterprises (25.30%), joint stock companies (29.55%), SMEs activating in industry (26.98%), organizations with inferior performances in 2008 (39.36%) and female persons (25.23%)

58.40% of entrepreneurs estimate that the maximum level of the crisis will be reached in 2009, 34.09% of the researched persons anticipate that the peak will be in 2010, and 3.85% of them forecast a peak in 2011

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THE AGEING OF THE POPULATION OF ROMANIA IN THE EUROPEAN CONTEXT

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Demographic ageing appeared in the modern society and designates an important increase in the elderly population segment in the total of the senior population and has implications for all sections of the society. The main cause of this phenomenon is transition from the traditional system of population's reproduction, with high birth rates, to modern regime, with both low birth rates and mortality. On long term, these new demographic tendencies will affect both the educational system, in the sense of reducing the number of pupils and students, as well as the expansion of the demand for health services and social protection.

Keywords: ageing population, natality, demographic tendencies, life expectancy.

Jel classification: E24 - Employment; Unemployment; Wages; Intergenerational Income Distribution; Aggregate Human Capital

Demographic ageing appeared in the modern society and designates an important increase in the elderly population segment in the total of the senior population and has implications for all sections of the society. This process emerged in Western Europe in the 19th century in France to be more exact. Gradually, it spread in the majority of the developed countries from an economic and social point of view and continues even today.

The main cause of this phenomenon is the transition from the traditional system of population's reproduction, with high birth rates, to the modern regime, with both low birth rates and mortality. So fertility (the average number of born children per woman during the procreation period) is in a constant decrease, while life expectancy is increasing slowly but continuously. It is obvious the fact that under these circumstances, the main outcome of this development is the increasing weight of the elderly population. If the diminution of the fertility and natality narrows the base of the demographic pyramid, the extension of life expectancy "thickens" the top of the pyramid.⁴³⁹

Romania's population is in a constant decline, being affected by the phenomenon of ageing, a phenomenon which occurs in most EU member states. Since 1990 the population segment aged up to 14 years declined simultaneously with the expansion of the segment older than 65 years old. For the first time in the last 40 years, in the year of 2002 - 2003 the percentage of senior people (over 60 years old) reached the same value that was recorded by the 14 years old segment, approximately 18%. The number of births decreases continuously, thing which began to be reflected also in the decline of the population from category between 15 and 19 years old.

⁴³⁹ Razvan Dinica, Imbatranirea demografica in Romania contemporana prezent si perspective, Analele universitatii Dunarea de jos. "Demographic ageing in contemporary Romania, present and perspectives".

Table 1. Birth rate in Romania

Live – born on gender, macro regions, regions of development and counties																			
Development macro regions and counties	Years																		
	Year 1990	Year 1991	Year 1992	Year 1993	Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008
	UM: Number of persons																		
	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person	Number of person
Total	31474 6	27527 5	26039 3	24999 4	24673 6	23664 0	23134 8	23689 1	23729 7	23460 0	23452 1	22036 8	21052 9	21245 9	21626 1	22102 0	21948 3	21472 8	22190 0

Source: <https://statistici.insse.ro/shop/>

New social and economic realities have contributed to the decrease and then continuation of a low natality level. All civilized countries face an accelerated diminution of the birth rate and fertility, and Romania confronts itself in this area with the same problems as the developed countries from the West and the East.

The downturn of the standard of living, the unemployment, uncertainty and stress are factors specific to the transition period. Also, recent developments of the natality are not foreign from a different perception of the existence which comes to be characterized by individualism and the consumption society, representing at the same time, a component of a broader process of demographic and psycho-social change that is known as “the second demographic transition”.⁴⁴⁰ From 2.2 children per woman in 1989, a value slightly higher than the one required for a simple replacement of generations, the total fertility index dropped to just 1.3 children per woman in 1995 and in the following years maintained itself with slight variations at this level. In other words, the fertility pattern of the last 10 years shows a decrease of approximately "one child per woman" in comparison with the last decades of the communist period.⁴⁴¹

We believe that among the decline agents that influence the downturn of the birth rate are:

- the emergence of modern contraceptive;
- women's emancipation and the increasing of its participation at economic activities outside the household;
- the increase of the duration and of the level of education;
- the weakening of the cultural norms' influence;
- increasing social mobility;
- high cost in raising a child;

Table 2. Mortality rate in Romania

Mortality rate on environments, macro regions, regions of development and counties																			
Development macro regions and counties	Years																		
	Year 1990	Year 1991	Year 1992	Year 1993	Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008
	UM: Born dead per 1000 live born and dead																		
	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead	Born dead per 1000 live born and dead
Total	7	6,9	6,5	6,3	6,5	6,2	6,1	6,2	6,3	6,2	5,9	5,8	6,2	6	6	5,7	5,2	4,7	4,5

Source: <https://statistici.insse.ro/shop/>

As can be seen from the above chart, the mortality rate registered during 1990 - 2008 a downward trend. In the developed countries, measuring mortality rate represents an important indicator of the growth and care in hospitals and not only. Florence Nightingale⁴⁴² identified for

⁴⁴⁰ http://www.euractiv.ro/uniunea-europeana/articlesdisplayArticle/articleID_8263/Incotro.html

⁴⁴¹ http://www.euractiv.ro/uniunea-europeana/articlesdisplayArticle/articleID_8263/Incotro.html

⁴⁴² <http://medicaacademica.com/2010/01>

the first time ever in 1860, the importance of measuring mortality rate. These rates are monitored in many clinics and are used especially to improve care services. In this context we can affirm that Romanian hospitals also registered evolutions of this indicator, but not as remarkable as in the developed countries.

Table 3. The natural population increase in Romania

The rate of natural population increase on environments, macro regions, regions of development and counties																			
Develop ment macro regions and counties	Years																		
	Year 1990	Year 1991	Year 1992	Year 1993	Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008
	UM: Natural increase per 1000 inhabitants																		
	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants	Natural increase per 1000 inhabitants
Total	3	1	-0,2	-0,6	-0,8	-1,6	-2,5	-1,9	-1,5	-1,4	-0,9	-1,8	-2,7	-2,5	-1,9	-1,9	-1,8	-1,7	-1,5

Source: <https://statistici.insse.ro/shop/>

After analyzing the natality and mortality rate we can be observed that the natural population increase in Romania starting with 1991 registered negative results and generally keeping a diminution rhythm.

Throughout history, Romania has recorded among the greatest oscillations in respect to the birth rate and mortality. Hereby in 1869 Romania had 8.9 million inhabitants, in 1900 were 11.1 million people, in 1930 were 14.3 million living in Romania and in 1989 23.3 million citizens. In the matter of the birth rate there were 40 persons per a thousand inhabitants in 1920, while mortality registered exorbitant values of 20 per a thousand inhabitants. Children between the ages of 0 and 5 years old represented for quite some time, half from the deceases' total.⁴⁴³

Starting with the year of 1990, birth rate in Romania was overran by the mortality rate, the country's population descending the registered maximum of approximately 23,2 millions of persons to less than 21,5 at the end of 2008.

Table 4. The number of immigrants from Romania

Emigrants on gender																			
Gender	Years																		
	Year 1990	Year 1991	Year 1992	Year 1993	Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008
	UM: Number of persons																		
	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons
Total	96929	44160	31152	18446	17146	25675	21526	19945	17536	12594	14753	9921	8154	10673	13082	10938	14197	8830	8739

Source: <https://statistici.insse.ro/shop/>

Another worrying aspect regarding labours' emigration from Romania is the departure of people with ages between 18 and 50 years old along with their families and minor children of these ones. The loss of the labour force in this manner doubles, because young resources of our country are used by the foreign countries in which the people emigrate.

If we add up the number of emigrants between the years 1990 – 2008 and relate it to number of the total population from Romania we can observe that over 18 percent of the total population have emigrated and this on in a proportion of 90% were part of the active persons category from the labour market with ages between 18 and 45 years old.

⁴⁴³ www.countrystudies.us/romania/36.html

Table 5. The active population in Romania based on age groups and environments

The active population based on age groups and environments														
Age group s	Periods' classification													
	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008	3rd Trim. Year 2009
	UM: Number of persons													
	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons	Number of persons
Total	1142109 2	1147151 1	1128409 4	1127993 5	1128312 6	1115108 0	1007945 0	991426 3	995714 4	985103 4	1004163 9	999426 8	994466 8	1022605 3
Total 15 - 19 years	550370	502724	458572	419295	405319	376318	343156	275367	322559	261338	251368	215070	190821	223823
Total 20 - 24 years	1200926	1170244	1125458	1100544	1071859	1046620	985029	885936	917573	807404	763494	76318	762588	799675
Total 55 - 99 years	1585116	1581405	1436831	1321375	1288009	1277067	1259954	129063 2	139335 2	135870 0	1366315	132848 7	126008 6	1232740
Total 30 - 34 years	1086066	1119749	1280573	1464106	1613060	1668900	1687533	152971 8	138685 4	137119 7	1386974	137970 0	140818 8	1488252
Total 35 - 44 years	1375540	1313653	1201635	1157690	1122997	1030229	1013395	117263 1	134797 7	145934 5	1553847	160208 6	147559 1	1422888 5
Total 40 - 49 years	1426297	1446401	1437623	1417847	1355618	1338145	1209377	114808 4	106094 3	101510 2	1020071	996830	116510 2	1367240
Total 55 - 49 years	1204974	1260852	1288154	1275230	1283321	1293529	1268204	124948 7	124450 6	120540 8	1213630	115430 1	106042 8	1015158
Total 50 - 54 years	829599	841703	824697	897265	937745	958535	910206	970405	993219	101745 5	1060532	105927 0	107218 4	1080325
Total 55 - 59 years	733069	708860	667245	628699	589026	568808	471860	487042	514668	586011	655168	682122	738608	778115
Total 60 - 64 years	542699	584076	570390	555839	559843	527501	367299	351493	30676	305532	316152	303558	323770	355979
Total 65 - 69 years	430976	442579	450018	467123	462572	458561	326878	312733	274998	269818	263660	292509	263899	252987
Total 70 - 74 years	282318	309844	324094	330682	332398	331197	236559	240736	194219	193723	190211	219048	223404	208874

Source: <https://statistici.insse.ro/shop/>

Romania must face a new challenge that is not going to be easy to manage in the future, a challenge generated by the ageing population. At the moment there are about four people with the age that can give him/her the status of a working person on the labour market for each person over 65 years. Keeping the same growth rhythm of the birth rate and life expectancy, in the year 2060 there is going to be only two working people with active age for each pensioner.

The dependence degree of the elderly population, calculated by relating the age category that exceeds the age of 65 years to the active population, will grow in Romania from 21.3% to 65.3% in 2060.

Table 6. The active population's evolution related to the total population during 2000 – 2008

	Total population (1000)		Active population (1000)		Activity rate (%)	
	2000	2008	2000	2008	2000	2008
EU-27	319.597.60	330.375.20	222.049.10	238.523.20	68.60	70.90
EA-16	207.387.20	215.171.60	141.005.70	156.078.70	67.60	71.50
BE	6.719.20	7.073.30	4.394.70	4.779.10	65.10	67.10
BG	5.491.20	5.169.40	3.355.40	560.40	60.70	67.80
CZ	7.116.10	3.590.80	5.126.10	5.232.50	71.30	69.70
DK	3.532.30	54.066.00	2.835.70	2.951.80	80.00	80.80
DE	55.062.00	907.40	39603.40	42.020.90	71.10	76.50
EE	916.00	3.040.80	656.50	695.00	70.20	74.00
IE	2.546.20	7.231.90	1.768.70	2.235.00	68.20	72.00
EL	7.078.30	31.251.80	4.605.50	4.937.40	63.80	67.10
ES	27.373.30	39.676.80	17.485.70	22.848.40	65.40	72.60
FR	37.430.10	39.181.80	25.716.40	28.234.00	68.70	70.40
IT	38.642.10	523.80	23.464.80	25.606.40	60.10	63.90
HU	6.764.40	6.794.20	4.090.10	4.208.70	60.10	61.50
RO	15.230.80	15.042.30	11.474.10	9.944.60	68.40	62.90

Source: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-30-09-149-EN-C/EN/KS-30-09-149-EN-C-EN.PDF

Table 7. The average exit age from the labour market

g e o / t i m e	2 0 0 1	2 0 0 2	2 0 0 3	2 0 0 4	2 0 0 5	2 0 0 6	2 0 0 7	2 0 0 8
European Union	60.3	60.8	61.4	60.9 ^e	60.9 ^e	61.0 ^e	61.2 ^e	61.4 ^e
EU (27 countries)	59.9	60.1	61.0	60.5 ^e	61.0 ^e	61.2 ^e	61.2 ^e	61.4 ^e
EU (25 countries)	59.9	60.4	61.0	60.5 ^e	60.9 ^e	61.0 ^e	61.2 ^e	61.3 ^e
EU (15 countries)	60.3	60.8	61.4	60.9 ^e	61.1 ^e	61.3 ^e	61.5 ^e	61.5 ^e
Belgium	56.8	58.5	58.7	59.4	60.6	:	61.6	:
Bulgaria	:	58.7	58.7	60.7	60.2	64.1	:	:
Czech Republic	58.9	60.2	60.1	60.0	60.6	60.4	60.7	60.6
Denmark	61.6	60.9	62.2	62.1	61.0	61.9	60.6	61.3
Germany	60.6	60.7	61.6	61.3	:	61.9	62.0	61.7
Hungary	57.6	59.1	61.6	60.5	59.8	:	:	:
Malta	57.6	58.2	58.8	58.0	58.8	58.5	:	59.8
Netherlands	60.9	62.2	60.5	61.1	61.5	62.1	63.9	63.2
Austria	59.2	59.3	58.8	:	59.9 ^b	61.0	60.9	:
Poland	56.6	56.9	57.9	57.7	59.5	:	59.3	:
Portugal	61.9	63.0	62.1	62.2	63.1	:	62.6	:
Romania	59.8	:	62.7	59.5	63.0	64.3	:	:
Slovenia	:	56.6	56.2	:	58.5	59.8	:	:
Sweden	62.1	63.3	63.1	62.8	63.6 ^d	63.6	63.9	63.8
United Kingdom	62.0	62.3	63.0	62.1	62.6	63.2	62.6	63.1

:=Not available; e=Estimated value; b=Break in series;

Source:<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsd420>

The average exit age from the labour market in Romania, registered a continuous increase reaching from 59, 8 to 64, 3. In this context, Romania recorded the highest values of the average exit age from the labour market, a value of 64, 3 while the medium at European Union level in 2008 was of 61,4. In the current economic crisis and considering the continuous ageing of the population, we believe that in Romania this will go on registering an increase until the age of 65 years old.

Conclusions:

On long term, these new demographic tendencies will affect both the educational system, in the sense of reducing the number of pupils and students, as well as the expansion of the demand for health services and social protection. The ageing process of the population will exert a negative influence on the entire economy, as the number of inactive people would unbalance even further the economic situation, in the way of burdening the social insurances system. The South and the South - West regions confront themselves with an accentuated phenomenon of population's ageing, recording the highest share of people over 65 years, in the total of the population (16.5% and 16.2%), waiting for an amplification of this trend. The highest share of the young population segment is recorded in the North – East Region (18.3% in 2005, slightly declining from the 20.5% percentage in 2002) and the lowest share is in the West Region (14.9% in 2005 versus

17% in 2002) and in the Bucharest – Ilfov Region (11.7%). On July 1, 2005, at a national level there were 94.6 seniors per 100 young people. The South, Southwest, West and Bucharest-Ilfov regions registered a higher rate than the national average one, and in the South and Bucharest-Ilfov, the number of elderly people exceeds the one of the young.⁴⁴⁴

Also, the data presented by the European statistics office indicate an ageing of the population, particularly generated by the reduction of the fertility and the increase of life expectancy. This process will affect all EU states, meaning that the share of the population over 65 years in Romania will increase from 14.9% from the beginning of this year to 35% in 2060.

Throughout the European Union, between the 1st of January 2008 and 2035, the population is expected to grow by 5.1%, from 495 million people to 521 million people, but by 2060 the upward trend will reverse, so the population will decline to 506 million people.

After the year 2015, mortality rate in the European Union's and implicitly in Romania too, will exceed the birth rate, the only factor that will contribute to the increase of the population being migration.

If this downfall rhythm of the natality will maintain itself in the EU, the ageing phenomenon of the population will accentuate. People over 65 years will represent 30% of the total population in 2060 compared to 17.1% today, while the share of population over 80 years old will increase from 4.4% to 12.1% during the same period of time.⁴⁴⁵

The study reached five major conclusions:

1. immigration in order to replace workforce cannot prevent the ageing of the population and its consequences.

2. national policies can slow the fertility decline in favourable circumstances.

3. only one type of political intervention will not necessarily slow down the decline of the fertility. 4. the thing that works in one country might not work in another. The social, economic and political contexts influence the impact of the policies. Therefore, policies are not directed toward it, but that have as a target improvements in broader terms, may have beneficial effects on fertility.

5. policies referring to population have a slower effect and therefore may be less politically attractive⁴⁴⁶.

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INTERNATIONALIZATION AND INNOVATION: THE CHALLENGES FOR EUROPE IN A CHANGING WORLD

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A large part of the economic literature is unanimous in believing technological progress and openness to foreign trade are key variables to trigger the processes of stable and persistent economic growth. An in-depth analysis of these factors, thus, becomes necessary both to meet the challenges of the international market, and to strengthen the European integration process.

This paper aims to provide an empirical analysis of the interaction between foreign trade and technological progress by performing a multidimensional scaling. This technique is used to produce a graphical representation of the 27 EU member states, in accordance to the degree of similarity or dissimilarity between them.

The indicators used, and the indexes calculated, reflect the different degree of internationalization of each country's economy, the regulation of trade flows, investment in specific R&D and technological progress.

Keywords: International trade, integration, technological progress

JEL code: F1, F4, O1

1. Introduction

Arguably, investment in research and development – either of public or private nature - is the main engine of innovation and progress in technology and one of the crucial sources of sustainable and stable growth over the long term.

Throughout history, economic growth has unfolded in a number of progressive stages, marked by dramatic improvements in technology, which have allowed direct increases in labour productivity and ensured growth and greater prosperity for larger and larger shares of population.

Technological progress has been included in major studies in the field of economic growth, both within the neoclassical approach (Solow 1956) and the more recent endogenous growth theory (Lucas 1988; Romer 1990), that best explained the processes of technical change and growth by using the proper economic tools of analysis. As this literature predicts, improvements in technology available to workers are able to generate prolonged economic growth, especially when technologically advanced means are used by a highly skilled labour force.

Of course, the developmental stage of the economy makes the process of investment in research and innovation non-homogeneous, which may consequently impact on growth rates with different outcomes. This means that special conditions must exist for which the productive investments above mentioned have the desired effects.

In the context of economic growth a significant role is played by exports, which positively affect the long-run rate of growth through a variety of channels. By building and

strengthening relationships with foreign partners, countries may gain comparative advantages, have incentives to specialize in larger markets, exploit appropriate economies of scale, and absorb technology and knowledge from abroad.

In this connection, Grossman and Helpman (1991) analyse the positive effect of openness to foreign trade, not only as being induced by the exchange of technologies and ideas (Chuang 1998), but also as resulting from effect of increased competition in wider markets, with the need to invest in research and development in order to retain competitive advantages and improve efficiency.

In addition, companies that decide to participate in international trade are those that may gain productivity advantages through constructive processes, such as learning-by-exporting (Goldberg & Pavnik 2007). Other studies (Young 1991) focus on the role played by learning-by-doing, which results from specialization and optimization of production. Human capital has also come into prominence as a major source of market integration (Chuang 2000; Frantzen 2000; Wang 2007).

An important channel for the exchange and circulation of knowledge is, therefore, represented by international trade. In this context a central role is played by information and communication technologies in a twofold manner: on the one hand, they have enabled the expansion of economic relations, on the other they represent a growing share of global trade. There is, indeed, a reciprocal relationship: exchanges allow the acquisition of more knowledge, and this favours in turn the process of import-export. In this light, exports of ICTs represent an indicator of technological progress, for only countries that have continuously committed resources to R&D over the years can compete in a difficult and evolving market and be successful in this sector. The U.S. are an enlightening example, being net exporters only in the most technologically advanced sectors.

This notwithstanding, economically backward countries have the opportunity to receive knowledge and technologies through transnational exchanges, without incurring the initial cost of developing innovations.

2. Methodology and results

Multidimensional scaling (MDS) is a useful tool through which it is possible to produce a graphical representation of a pattern of objects, in this case the 27 EU member countries, based on the degree of similarity/dissimilarity between them.

The goal is to provide a representative map that best approximates the distances observed between countries, concerning international market openness, barriers to foreign trade, investment in specific research and support to technological progress.

This statistical method attempts to build a configuration of the various entities, merged in a small number of dimensions. This is done by defining relations between countries in terms of proximity/distance with respect to the indicators considered. The resulting positioning map has the property to partition the countries into homogeneous groups, so as that the degree of association between two countries is maximal if they belong to the same group and minimal otherwise.

We considered a matrix of 27 countries and 9 indicators, representing 3 distinct sets of variables: openness to international trade, trade barriers and investment in R&D and human capital (Tab. 3). The model's goodness of fit was assessed via the RSQ⁴⁴⁷ (0,95) and the S-Stress⁴⁴⁸ (0,10). The two-dimensional model was judged to be acceptable according to the values of the Kruskal's Stress index, reported in Table 1. Further investigation provided additional basis for choosing a two-dimensional solution: the "elbow" rule suggests to choose the number of dimensions in

⁴⁴⁷ RSQ indicates the proportion of variability explained by the corresponding dissimilarity distances.

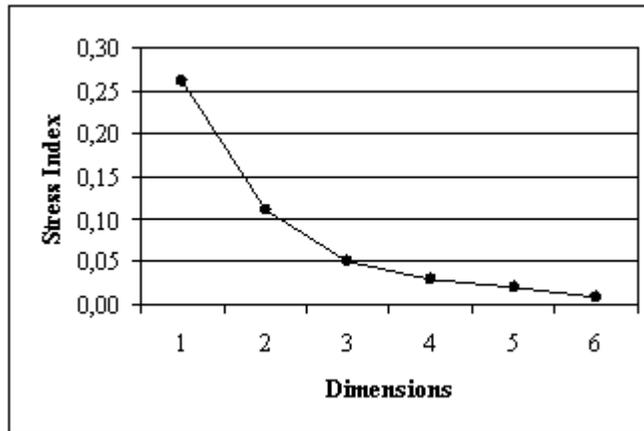
⁴⁴⁸ As general rule, results are found to be robust when the size k achieves an S-stress value lower than 0,15.

correspondence to where the diagram yields an “elbow”, beyond which the broken line flattens (Fig. 1).

Tab. 1 – Stress index and map configuration

Dimensions	Stress Index
1	0,26
2	0,11
3	0,05
4	0,03
5	0,02
6	0,01

Fig. 1 – Scree plot



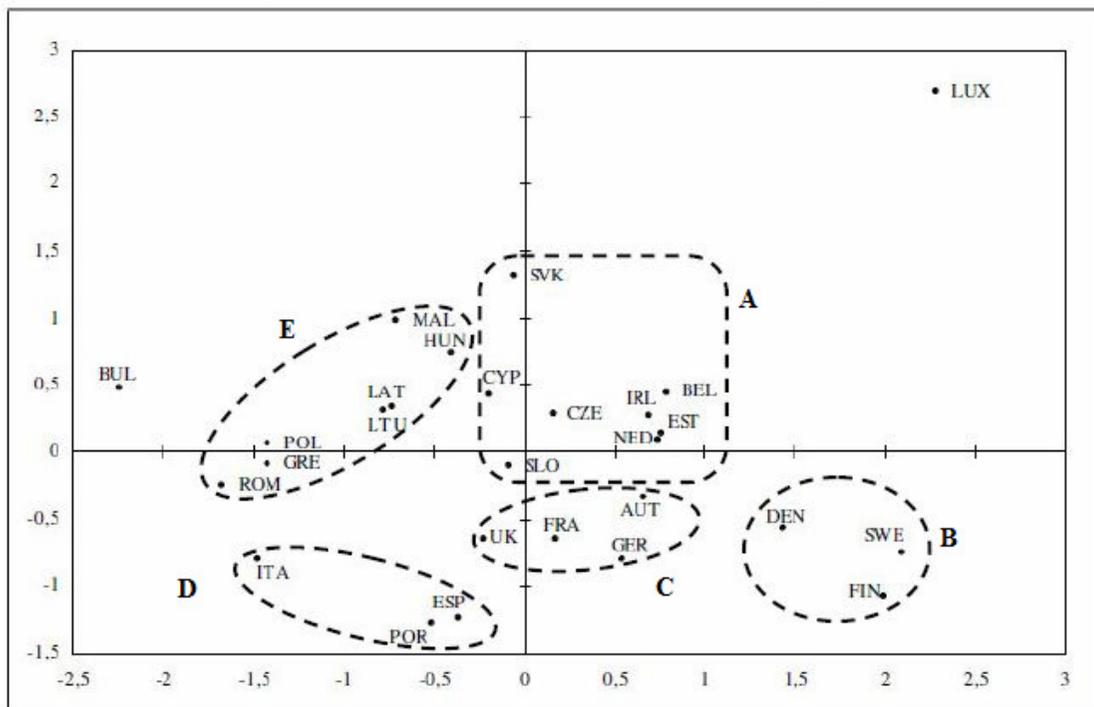
Tab. 2 – Correlations between variables and dimensions

Variables	Dimension 1	Dimension 2
Human resources in science and technology as a share of labour force	0,76	0,01
Research and development expenditure (% of GDP)	0,77	-0,46
Share of government budget appropriations or outlays on R&D	0,46	-0,66
Exports of goods and services (% of GDP)	0,46	0,86
Imports of goods and services (% of GDP)	0,25	0,90
Foreign Direct Investment (FDI) intensity	0,40	0,65
Burden of custom procedures (Rating scale 0-7)	0,90	0,01
Prevalence of foreign ownership (Rating scale 0-7)	0,72	0,24
Prevalence of trade barriers (Rating scale 0-7)	0,81	0,23

The correlations between dimensions and variables (Tab. 2) were useful for naming the axes. The resulting two-dimensional image is shown in Fig. 2. The horizontal axis represents the variables concerning technological progress and trade restrictions, the vertical one the variables related to trade flows. At the bottom of the chart are the Scandinavian cluster (B), which shows high technological values but low volumes of import and export; the grouping of central Europe (C), with levels of technology and trade close to the average values of the sample; and the cluster of Southern Europe (D), which is low on the measures of trade volumes, investment in R&D and human resources in R&D. The two clusters at the top of the chart constitute the best compromise

for the observed variables. Cluster A consists of countries which score fairly in terms of investments in the research field and highly in terms of technological progress and trade flows. The last grouping, cluster E, is made up of mainly Eastern countries which have achieved good positions in the recent past, thanks to grants and funding from EU and domestic investment.

Fig. 2 – Cluster of countries in a two-dimensional space



3. Conclusive remarks

The analysis has shown the relationships between investments in R&D and openness to international trade in the EU member states. The arguments presented above suggest that, under proper conditions, these variables are crucial to secure growth and prosperity of countries.

Among the countries that have most benefited from integration are Eastern European countries, that are rapidly approaching Southern Europe. The economic growth these countries are nowadays experiencing is in turn a useful vehicle for further integration, which is helping fill in the gap between European countries and release the brakes for future joint development.

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THE LISBON STRATEGY: AN EMPIRICAL ANALYSIS

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This paper investigates the European economic integration within the frame work of the 2000 Lisbon Council with the aim of studying the dynamics affecting the social and economic life of European Countries. Such a descriptive investigation focuses on certain significant variables of the new theories highlighting the importance of technological innovation and human capital. To this end the multivariate statistic technique of Principal Component Analysis has been applied in order to classify Countries with regard to the investigated phenomenon.

Keywords: Knowledge Economics, European Integration, Human Capital, Principal Component Analysis (PCA).

JEL codes: F40, I20, O10

1. Introduction.

Globalization and the challenges of the new knowledge-based economics mark a watershed in the history of the European Union. The subsequent changes affected all sides of common life and have modified European economy, also because of the recent enlargement. Therefore the Union should perceive and efficiently pattern such changes so to promote the best integration of the member States. To this end a shared strategic target and a common program shall necessarily be set among European Countries, allowing the creation of the infrastructures needed for the best knowledge production, spread of innovation and a broader cooperation, so to initiate the due reforms for an integrated social and economic development of all the Countries. By means of the multivariate statistic technique of Principal Component Analysis (PCA), this preparatory analysis describes the current conditions of the production and social structure of the EU-27 Countries further to the 2000 Lisbon Council directives. The key principles of such a strategy have been here retraced also with reference to the literature highlighting the impact of technological and knowledge processes on economic development (par.2). In the second part of this paper the principal components analysis is introduced in order to show the Countries' performances with regard to the reference phenomenon (par.3). Lastly, the main results of the analysis are shortly summarized (par.4).

2. The new challenges of the EU.

The European integration has led - and still leads today - to fundamental changes both in the production structure and in the way of conceiving the production process. This is clearly a direct and inescapable consequence of the development and the rapid spread of globalization and internationalization starting from the late '80s and the early '90s, as never before in human history. Therefore it is important to focus the attention on the processes of space concentration of Research and Development and innovating activities, as well as on the production and spreading of knowledge processes among and inside each Country. This is why there is a broad literature

strongly supporting the idea that the mechanisms for the production and spreading of knowledge play an important role in affecting the economic development⁴⁴⁹. The technological process, strictly connected to knowledge processes, thus becomes a key element in understanding the micro and macro fundamentals of economic growth, of industrial structures development and of the concentration of economic activities in the European Countries. Consequently, knowledge economics aims at studying knowledge as an economic good, applied by virtue of the properties of such an atypical resource which also regulate its production, spread and reproduction. Apart from historic economists such as Smith, Marx and Schumpeter, who in a way have investigated knowledge, there are many significant writers who contributed to the development of knowledge economics, among others (Hayek, 1945; Arrow, 1962; Simon, 1982; Machlup, 1984; Foray, 2000). The idea of knowledge from an economic point of view has been changing year after year; indeed from complementary (exogenous) resource of the economic growth it turned into a basic and endogenous input of the economy itself (Solow, 1956; Romer, 1990). So, a knowledge-based economics can be defined as such only if knowledge itself is produced, distributed and innovated within institutions and social structures. It is necessary to underline that, in order to foster development in a competitive socio-economic environment there shall be adequate institutions supporting the promotion of innovative actions. Furthermore, it is necessary to encourage the training of innovation-oriented professionals with the right mix of basic and advanced skills, supporting lastly the most dynamics and competitive economic parties. The economic reforms agenda set out in the 200 Lisbon strategy is of the utmost importance in this sense. It has been clearly stated the target of making European Union the most competitive and dynamic knowledge economy before 2010, and for the first time knowledge has been detected as a pillar issue, despite the strategy opens onto all fields of the economic policy⁴⁵⁰.

3. Dataset and method of analysis.

This paragraph introduces the analysis of the data which, by means of the multivariate statistic technique of Principal Component Analysis, it is possible to lead a preparatory and descriptive investigation of the studied phenomenon⁴⁵¹. Regarding the reference dataset (dataset World Bank, 2007), the following EU-27 variables have been chosen EU-27: GDP per capita (GDP); Foreign direct investment, net outflows (FDI_{no}); Foreign direct investment, net inflows (FDI_{ni}); ICT expenditures (ICT_{exp}); Internet users (Int_{users}); telecommunication revenues (Telecom); ICT goods (ICT exports – ICT imports); School enrollment tertiary (Education); Patent applications (Patent); Labor force with III education (Ad_{labor}); R&D expenditures (RD_{exp}); Percentage of enterprises using e-learning applications for training and education of employees (e_{learning})⁴⁵². These variables have been chosen on the basis of the ideas stated and shared by a broad theoretical and empirical literature (Becker, 1964; Krugman, 1991; Kessels, 2001; Mason, 2005; Mattoscio *et* Colantonio, 2006) and according to the issues this paper aims at examining. The results of such an analysis are referred to hereafter (Tab.1). The main contribution of the three first components is thought to be enough to explain 74% of the total information⁴⁵³.

449 It is commonly thought that stimulating knowledge processes through technological change and human capital, both factors affecting productivity, generates virtuosities.

450 The strategic targets of the Lisbon Council are listed below: innovation and entrepreneurship; welfare reform and social inclusion; human capital and labor retraining; equality of opportunities for women employment; labor and products market liberalization; sustainable development.

451 For a thorough understanding of such a technique see Vitali (1991) and Fabbris (1997).

452 The source for e-learning applications is Eurostat (2007).

453 This study has been performed using the heuristic criterion of global variance, although the same results have been obtained with the two other criteria (screen plot and Kaiser's decision rule).

Table 6- principal components; 12 components retained

Component	Eigenvalue	Proportion	Cumulative
1	3.832315	31.93596	31.93596
2	3.247632	27.06360	58.99956
3	1.680528	14.00440	73.00396
4	1.148609	9.571742	82.5757
5	0.665355	5.544624	88.12033
6	0.443592	3.696603	91.81693
7	0.350664	2.922202	94.73913
8	0.246862	2.057187	96.79632
9	0.165956	1.382967	98.17928
10	0.147640	1.230330	99.40961
11	0.068685	0.572377	99.98199
12	0.002161	0.018009	100.0000

Source: our elaboration

The next table (Tab.2) highlights the variables with the greatest impact on each principal components. The first one is mainly affected by purely economic variables thus it can be explained in the sense of openness to international market. The second one, on the contrary, can be interpreted as the contribution of technology to economic development. Lastly, the third one could stand for a synthetic index of the level of human capital.

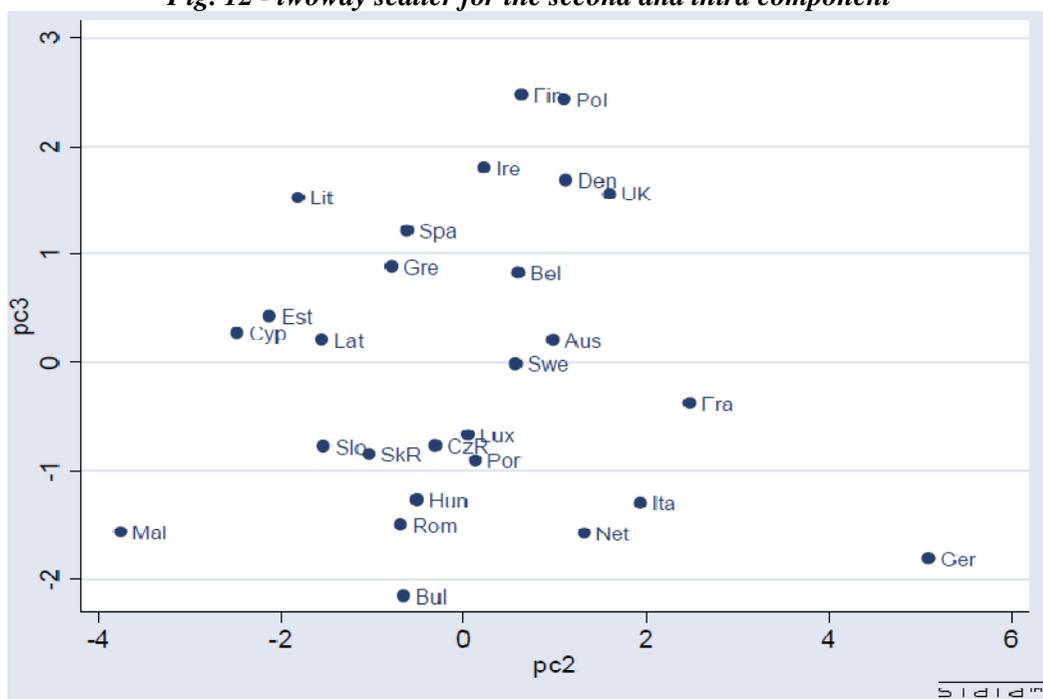
Table 7 - Scoring coefficients

Variables	pc1	pc2	pc3
gdp	0.904	-0.297	0.059
fdino	0.557	-0.780	-0.110
fdini	0.523	-0.805	-0.117
ictexp	0.154	0.521	-0.691
intusers	0.835	0.220	0.168
ictgoods	-0.819	-0.044	-0.187
education	-0.252	-0.312	0.314
telecom	-0.072	0.785	0.234
patent	0.619	0.616	0.038
adlabor	0.329	0.045	0.648
rdexp	0.526	0.689	0.121
elearning	-0.448	-0.095	0.721

Source: our elaboration

In order to achieve a global assessment of the socio-economic development of European Countries, and specifically of the dynamics of technological innovation (consequent to a raise in knowledge processes) and of capital, the classification resulting from the analysis and drawn according to the second and third components are also shown. The scores of the principal components referring to the studied Countries have been marked on a bi-dimensional scatterplot for a greater information visibility and so to point out their distribution with reference to the information given by the two components.

Fig. 12 - twoway scatter for the second and third component



Source: our elaboration

4. Conclusions.

As far as knowledge and human capital investments (and the subsequent development of technological innovation) are concerned, this analysis has given the following results: first, Finland, Poland and Ireland represent a greater investment in human capital. Second, the trend of Deutschland, followed by France, Italy and Holland, due to a better level of technological skills. Third, Denmark and the United Kingdom have the best balance among the components. Lastly, a group of Countries (Greece, Spain, Lithuania, Cyprus, Latvia and Estonia) shows a negative result in terms of technological development. The remaining Countries studied have a negative outcome for both components.

It is worth to underline that this analysis is only a first step in such an investigation and shall not be considered as exhaustive in order to thoroughly understand the reference dynamics, it can simply be useful for further and more detailed investigation.

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Tale 3 – Reference dataset

	GDP per capita (PPP)	FDI net outflows (% GDP)	FDI net inflows (% GDP)	ICT expenditures (% GDP)	Internet users (% population)	Tele communication revenues (% GDP)	ICT goods (Export-Import)	School enrollment tertiary (%)	Patent applications residents (1000 population)	Labor force with III education (% of total)	R&D expenditures (% GDP)	E-learning applications (% firms)
Austria	37370,24	0,098	0,0823	0,0557	0,68	0,0211	-0,019	0,51	0,27	0,18	0,0246	0,26
Belgium	34935,12	0,2137	0,1595	0,0579	0,66	0,0297	-0,0106	0,62	0,04	0,36	0,0185	0,24
Bulgaria	11221,93	0,0069	0,2269	0,0774	0,31	0,0594	-0,0419	0,5	0,03	0,24	0,0048	0,16
Cyprus	24788,88	0,0574	0,1053	0,012	0,42	0,0335	0,0663	0,36	0,00	0,36	0,0042	0,43
Czech Republic	24000,52	0,0094	0,0534	0,0713	0,49	0,0373	-0,0081	0,35	0,07	0,14	0,0154	0,38
Denmark	36129,72	0,0642	0,0381	0,0584	0,81	0,0262	-0,0478	0,8	0,30	0,33	0,0244	0,28
Estonia	20360,82	0,075	0,1282	0,014	0,64	0,0485	0,0311	0,65	0,03	0,34	0,0115	0,39
Finland	34526,25	0,00291	0,0473	0,0515	0,79	0,025	0,0449	0,94	0,34	0,35	0,0343	0,37
France	3674,48	0,0877	0,0616	0,0568	0,50	0,024	-0,0187	0,36	0,23	0,29	0,0212	0,17
Germany	34401,26	0,0546	0,0155	0,062	0,72	0,0263	-0,027	0,6	0,58	0,24	0,0252	0,17
Greece	28317,35	0,0168	0,0063	0,054	0,33	0,0369	-0,0267	0,91	0,07	0,26	0,005	0,45
Hungary	18798,9	0,491	0,2683	0,0592	0,52	0,0417	0,0627	0,69	0,07	0,21	0,01	0,16
Ireland	44613,33	0,085	0,1007	0,059	0,57	0,0239	-0,0169	0,61	0,20	0,42	0,0131	0,37
Italy	30352,61	0,0438	0,0191	0,0581	0,54	0,0319	-0,0332	0,68	0,16	0,16	0,014	0,15
Latvia	17341,71	0,0116	0,00781	0,011	0,55	0,0396	-0,0346	0,71	0,05	0,24	0,0069	0,34
Lithuania	17829,56	0,0156	0,0519	0,011	0,49	0,0303	-0,0157	0,76	0,02	0,32	0,008	0,5
Luxembourg	79485,46	5,1377	3,8035	0,024	0,76	0,0136	0,0003	0,1	0,03	0,29	0,0015	0,2
Malta	23080	0	0,13	0,011	0,45	0,05	0,19	0,31	0,02	0,17	0,01	0,48
Netherlands	38694,15	0,0349	0,1614	0,066	0,84	0,029	-0,0087	0,6	0,09	0,03	0,0169	0,13
Norway	53432,49	0,0322	0,0098	0,0443	0,85	0,0137	-0,0788	0,76	0,26	0,34	0,0149	0,34
Poland	16088,9	0,0117	0,054	0,0593	0,44	0,0374	-0,0396	0,67	0,06	0,22	0,0056	0,26
Portugal	22764,63	0,0245	0,0248	0,0568	0,40	0,0446	-0,0033	0,56	0,02	0,14	0,0083	0,25
Romania	12369,31	0,0017	0,0572	0,0526	0,24	0,0348	-0,045	0,38	0,04	0,13	0,0046	0,42
Slovak Republic	20075,72	0,0054	0,0449	0,0602	0,43	0,0338	0,0292	0,51	0,04	0,15	0,0049	0,48
Slovenia	26753,34	0,0334	0,0314	0,0465	0,53	0,0319	-0,0228	0,86	0,16	0,22	0,0163	0,47
Spain	31559,52	0,0983	0,0418	0,0549	0,52	0,0421	-0,0394	0,69	0,07	0,32	0,0121	0,3
Sweden	36712,05	0,0817	0,027	0,0637	0,80	0,0274	-0,0098	0,75	0,28	0,32	0,0382	0,27
United Kingdom	35129,78	0,0994	0,0713	0,0674	0,72	0,0365	0,0691	0,59	0,29	0,32	0,018	0,25

Source: World Bank (2007) and Eurostat (3007)

IMMANUEL WALLERSTEIN'S WORLD SYSTEM THEORY

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World-systems analysis is not a theory, but an approach to social analysis and social change developed, among others by the Immanuel Wallerstein. Professor Wallerstein writes in three domains of world-systems analysis: the historical development of the modern world-system; the contemporary crisis of the capitalist world-economy; the structures of knowledge. The American analyst rejects the notion of a "Third World", claiming there is only one world connected by a complex network of economic exchange relationship. Our world system is characterized by mechanisms which bring about a redistribution of resources from the periphery to the core. His analytical approach has made a significant impact and established an institutional base devoted to the general approach.

World system, core, semi-periphery, periphery, external regions

World-system theory is a macro sociological perspective that seeks to explain the dynamics of the “capitalist world economy” as a “total social system”.

World-system theory is both a political and an intellectual endeavor. It simultaneously falls into the fields of historical sociology and economic history. In addition, because of its emphasis on development and unequal opportunities across nations, it has been embraced by development theorists and practitioners.

Immanuel Wallerstein's name is associated with this approach. He first published the paper *The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis*, in 1974. Then, his most important work - *The Modern World System I: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* appeared in three volumes in 1974, 1980, and 1989. This is his landmark contribution to sociological and historical thought and spawned debates lasting three decades over the best way to interpret history, society, and economy in global perspective.

His work is methodologically somewhere in between Marx and Weber, both of whom were important inspirations for his own work.

The time when Wallerstein's work appeared development, modernization theory, was under attack from many fronts. He himself attacked it and tried to create an alternative explanation. He aimed at achieving a clear conceptual break with theories of ‘modernization’ and thus providing a new theoretical paradigm to guide the investigations of the emergence and development of capitalism, industrialism, and national states.

Criticisms to modernization include

- the reification of the nation-state as the sole unit of analysis,
- assumption that all countries can follow only a single path of evolutionary development,
- disregard of the world-historical development of transnational structures that constrain local and national development,
- explaining in terms of a-historical ideal types of “tradition” versus “modernity”, which are elaborated and applied to national cases.

In his *Modern World-System*, Wallerstein mainly draws on three intellectual influences. There is Karl Marx, from whom took over the dichotomy between capital and labor, the staged view of world economic development through stages such as feudalism and capitalism, belief in the accumulation of capital, dialectics and more. Then there is the French historian Fernand Braudel, who had described the development and political implications of extensive networks of economic

exchange in the European world between 1400 and 1800. And also there is the dependency theory, most obviously its concepts of "core" and "periphery"; and — presumably — the practical experience and impressions gained from his own work regarding post-colonial Africa.

From Marx, Wallerstein learned that (1) the fundamental reality of social conflict among materially based human groups, (2) the concern with a relevant totality, (3) the transitory nature of social forms and theories about them, (4) the centrality of the accumulation process and competitive class struggles that result from it, (5) a dialectical sense of motion through conflict and contradiction.

World-system theory owes to the *Annales School*, whose major representative is Fernand Braudel, its historical approach. Wallerstein got from Braudel's his insistence on the long term (*la longue durée*). He also learned to focus on geo-ecological regions as units of analysis, attention to rural history, and reliance on empirical materials from Braudel. The impact of the *Annales* is at the general methodological level.

World-system theory is in many ways an adaptation of dependency theory. Wallerstein draws heavily from dependency theory, a neo-Marxist explanation of development processes, popular in the developing world. Dependency theory focuses on understanding the "periphery" by looking at core-periphery relations, and it has flourished in peripheral regions like Latin America. It is from a dependency theory perspective that many contemporary critiques to global capitalism come from.

Other important influences in Wallerstein's work, still present in contemporary world system research, are Karl Polanyi and Joseph Schumpeter. From the latter comes world system interest in business cycles, and from the former, the notion of three basic modes of economic organization: reciprocal, redistributive, and market modes. These are analogous to Wallerstein's concepts of mini-systems, world-empires, and world-economies.

Historically speaking, the modern world system, essentially capitalist in nature, followed the crisis of the feudal system and helps explain the rise of Western Europe to world supremacy between 1450 and 1670.

Before the sixteenth century, when Western Europe embarked on a path of capitalist development, "feudalism" dominated West European society. Between 1150 and 1300, both population as well as commerce expanded within the confines of the feudal system. However, from 1300 to 1450, this expansion ceased, creating a severe economic crisis. According to Wallerstein, the feudal crisis was probably precipitated by the interaction of the following factors: fall or stagnation of the agricultural production, the reaching of the peak level of the economic cycle of the feudal economy; a change of climate conditions which brought low agricultural productivity and epidemics within the population.

In response to the feudal crisis, by the late fifteenth and early sixteenth centuries, the world economic system emerged. The new capitalist world system was based on an international division of labor that determined relationships between different regions as well as the types of labor conditions within each region.

For Wallerstein, "a world-system is a social system, one that has boundaries, structures, member groups, rules of legitimation, and coherence. Its life is made up of the conflicting forces which hold it together by tension and tear it apart as each group seeks eternally to remold it to its advantage. It has the characteristics of an organism, in that it has a lifespan over which its characteristics change in some respects and remain stable in others...

Life within it is largely self-contained, and the dynamics of its development are largely internal". A world-system is what Wallerstein terms a "world economy", integrated through the market rather than a political center, in which two or more regions are interdependent with respect to necessities like food, fuel, and protection, and two or more polities compete for domination without the emergence of one single center forever.

His world-systems theory provided a model for understanding both change in the global system and the relationship between its parts. He was among the first to suggest that we depart from the relatively newly developed unit of the nation-state and to study global interaction instead. In his own first definition, Wallerstein said that a world-system is a "multicultural territorial division of labor in which the production and exchange of basic goods and raw materials is necessary for the everyday life of its inhabitants."

This division of labor refers to the forces and relations of production of the world economy as a whole. Wallerstein proposes four different categories, core, semi-periphery, periphery, and external, into which all regions of the world can be placed. Of them four, two are of the uttermost importance: core and periphery. These are geographically and culturally different, one focusing on labor-intensive, and the other on capital-intensive production. The core-periphery relationship is structural. Semi-peripheral states acts as a buffer zone between core and periphery, and has a mix of the kinds of activities and institutions that exist on them.

The core regions benefited the most from the capitalist world economy. For the period under discussion, much of northwestern Europe (England, France, and Holland) developed as the first core region. Politically, the states within this part of Europe developed strong central governments, extensive bureaucracies, and large mercenary armies. This permitted the local bourgeoisie to obtain control over international commerce and extract capital surpluses from this trade for their own benefit. As the rural population expanded, the small but increasing number of landless wage earners provided labor for farms and manufacturing activities. The switch from feudal obligations to money rents in the aftermath of the feudal crisis encouraged the rise of independent or yeoman farmers but squeezed out many other peasants off the land. These impoverished peasants often moved to the cities, providing cheap labor essential for the growth in urban manufacturing. Agricultural productivity increased with the growing predominance of the commercially-oriented independent farmer, the rise of pastoralism, and improved farm technology.

On the other end of the scale lay *the peripheral zones*. These areas lacked strong central governments or were controlled by other states, exported raw materials to the core, and relied on coercive labor practices. The core expropriated much of the capital surplus generated by the periphery through unequal trade relations. Two areas, Eastern Europe (especially Poland) and Latin America exhibited characteristics of peripheral regions. In Poland, kings lost power to the nobility as the region became a prime exporter of wheat to the rest of Europe. To gain sufficient cheap and easily controlled labor, landlords forced rural workers into a "second serfdom" on their commercial estates. In Latin America, the Spanish and Portuguese conquests destroyed indigenous authority structures and replaced them with weak bureaucracies under the control of these European states. Powerful local landlords of Hispanic origin became aristocratic capitalist farmers. Enslavement of the native populations, the importation of African slaves, and the coercive labor practices such as the *encomienda* and forced mine labor made possible the export of cheap raw materials to Europe. Labor systems in both peripheral areas differed from earlier forms in medieval Europe in that they were established to produce goods for a capitalist world economy and not merely for internal consumption. Furthermore, the aristocracy both in Eastern Europe and Latin America grew wealthy from their relationship with the world economy and could draw on the strength of a central core region to maintain control.

Between the two extremes lie *the semi-peripheries*. These areas represented either core regions in decline or peripheries attempting to improve their relative position in the world economic system. They often also served as buffers between the core and the peripheries. As such, semi-peripheries exhibited tensions between the central government and a strong local landed class. Good examples of declining cores that became semi-peripheries during the period under study are Portugal and Spain. Other semi-peripheries at this time were Italy, southern Germany, and southern France. Economically, these regions retained limited but declining access to

international banking and the production of high-cost high-quality manufactured goods. Unlike the core, however, they failed to predominate in international trade and thus did not benefit to the same extent as the core. With a weak capitalist rural economy, landlords in semi-peripheries resorted to sharecropping. This lessened the risk of crop failure for landowners, and made it possible at the same time to enjoy profits from the land as well as the prestige that went with landownership.

According to Wallerstein, the semi-peripheries were exploited by the core but, as in the case of the American empires of Spain and Portugal, often were exploiters of peripheries themselves. Spain, for example, imported silver and gold from its American colonies, obtained largely through coercive labor practices, but most of this specie went to paying for manufactured goods from core countries such as England and France rather than encouraging the formation of a domestic manufacturing sector.

These areas maintained their own economic systems and, for the most part, managed to remain outside the modern world economy. Russia fits this case well. Unlike Poland, Russia's wheat served primarily to supply its internal market. It traded with Asia as well as Europe; internal commerce remained more important than trade with outside regions. Also, the considerable power of the Russian state helped regulate the economy and limited foreign commercial influence.

Dependency theorists first articulated a relationship of "unequal exchange" in which the rich nations of the world enforced trade relationships with the poor, in which the former extracted surpluses from the latter.

Among the most important structures of the current world-system is a power hierarchy between core and periphery, in which powerful and wealthy "core" societies dominate and exploit weak and poor "peripheral" societies.

Technology is a central factor in the positioning of a region in the core or the periphery. Advanced or developed countries are the core, and the less developed are in the periphery. Peripheral countries are structurally constrained to experience a kind of development that reproduces their subordinate status. The differential strength of the multiple states within the system is crucial to maintain the system as a whole, because strong states reinforce and increase the differential flow of surplus to the core zone. This is what Wallerstein called *unequal exchange*, the systematic transfer of surplus from semi-proletarian sectors in the periphery to the high-technology, industrialized core. This leads to a process of capital accumulation at a global scale, and necessarily involves the appropriation and transformation of peripheral surplus.

On the political side of the world-system a few concepts deem highlighting. For Wallerstein, nation-states are variables, elements within the system. States are used by class forces to pursue their interest, in the case of core countries. Imperialism refers to the domination of weak peripheral regions by strong core states. Hegemony refers to the existence of one core state temporarily outstripping the rest. Hegemonic powers maintain a stable balance of power and enforce free trade as long as it is to their advantage. However, hegemony is temporary due to class struggles and the diffusion of technical advantages. Finally, there is a global class struggle.

The current world-economy is characterized by regular cyclical rhythms, which provide the basis of Wallerstein's periodization of modern history. After our current stage, Wallerstein envisions the emergence of a socialist world-government, which is the only-alternative world-system that could maintain a high level of productivity and change the distribution, by integrating the levels of political and economic decision-making.

As a conclusion, it is relevant to notice what Wallerstein said in an interview on his book *European Universalism*, in March 2008,: "Rather, we have lived in a "world-system" since the beginning of the époque called modernity in the 16th century when the capitalist economy was born in an embryonic form in a small part of the world, Europe. The world is thus a unit of analysis vaster than the state. The capitalist system has gradually succeeded, by its internal

processes, in extending itself to the totality of the world. You can in fact see that, since the end of the 19th century, the whole world has been governed by this capitalist system, to this day. Studying this world-system, in my opinion, makes it possible to enrich the approach of social sciences, by considering states as elements constituting themselves within this system. But they are not the only elements of the system, in which races, classes, nations, households, etc. also exist. All are institutions within this capitalist world-economy. Above all, this concept allows me to show that, like any structure, it has gone through various phases: initially its emergence and establishment, then its development, finally the moment of its structural crisis, before that of its disappearance. I think that we are currently living this moment of structural crisis, and, while I won't venture to guess a precise date or time, we shall witness (perhaps twenty-five to fifty years from now) its disappearance – or rather its replacement by another thing. One cannot say by what, for the time being, but the process is inexorably moving.”

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L'EUROPE SAINT-SIMONIENNE

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Many people have been preoccupied with Europe ever since the beginnings of time. Their ideas can be traced back as far as ancient mythology, as attempts to explain the world. But as of the 18th century, they looked at it differently, as an organized, unified, political institution. Numerous essays have influenced the history of the “European” idea, among them the work of Saint-Simon who, in 1814, thought of a European Parliament governing the national parliaments. In his essay on reorganizing the European society he brought forth ideas such as Europe rebuilt as a confederation, the establishment of a “general parliament” responsible for making decisions concerning the common interests of the whole European society. He strongly believed that putting the great political issues to the test is the aim of all contemporary efforts. If the previous century’s philosophy was revolutionary, the 19th’s century’s philosophy had to be organizing.

Keywords: Industrialization, modernization, social engineering, European Parliament

Claude Henri de Rouvroy, compte de Saint-Simon est sans doute une figure remarquable de la sociologie. Tout de même, le titre de père de la sociologie est souvent attribué à son compatriote, Auguste Comte, qui a lancé le terme « sociologie » dans son ouvrage *Cours de philosophie positive* (1830-1842). Mais au niveau des idées, c’est bien Saint-Simon qui est la première et la plus riche source d’inspiration pour la sociologie. Comte a été son ami et plusieurs fois co-auteur pour quelques publications.

Chez Saint-Simon on retrouve les grains de tous les courants de la pensée du dix-neuvième siècle. Les idées du socialisme à venir se trouvent dans ses ouvrages au début de leur carrière. Le socialisme qu’il représente est souvent appelé socialisme étique ou utopique. Il cherche à établir des sociétés co-opératives modèle. Il est mort vingt-trois ans avant la publication du Manifeste du Parti communiste par Marx et Engels.

Après sa mort, ses disciples (parmi eux Prosper Enfantin) on continué à développer ses idées. Leurs principes étaient de plus en plus communistes (l’abolition de la propriété privée ou la collectivisation de la société) et mélangeaient aussi les idées religieuses de Saint-Simon. Mais leur succès n’a pas duré et le Saint-simonisme comme doctrine politique et religieuse a échoué. Saint-Simon a introduit le concept de l’industrialisation et il a écrit sur le développement social et la différenciation. Il a écrit sur le rôle des classes tout au long de l’histoire et a analysé comment les élites doivent s’adapter au développement social.

Dès les années 1820, Saint-Simon voit dans le début de l’industrialisation le moteur du progrès social. Saint-Simon était à la recherche d’un nouveau système social qu’il a appelé système industriel, opposé au système féodal et militaire précédant. La nouvelle société serait égalitariste avec la division du travail à remplacer les divisions sociales.

Pragmatique, il prône un mode de gouvernement contrôlé par un conseil formé de savants, d’artistes, d’artisans et de chefs d’entreprise et dominé par l’économie qu’il convient de planifier pour créer des richesses et faire progresser le niveau de vie. Il appartient aux capitalistes d’œuvrer à l’élévation matérielle et morale du prolétariat.

Ça se passait au moment où les pays de l’Europe de Ouest démarraient le processus de modernisation. C’était la période où les fabriques devenaient la nouvelle institution dominante dans certaines communautés locales en expansion. La place de travail et l’habitation étaient séparés et les villes avec leur banlieues devenaient réalité quotidienne pour une génération qui avait vécu dans une communauté villageoise. La classe née par la naissance du capital vivait une

bonne vie, mais la grande majorité de la population n'étaient capables de garder un standard raisonnable que pendant leurs meilleures années de travail.

En dépit de ses qualités destructives, la Révolution française serait le précédent d'une période de créativité scientifique. Dans cette nouvelle ordre, la société serait gouvernée par un groupe hiérarchique de technocrates connu comme le Conseil de Newton qui aurait un pouvoir international.

Précisément, une telle volonté de rationalisation du pouvoir, basée sur la prédominance de l'activité économique, est un précepte que l'on retrouve tout particulièrement dans le socialisme saint-simonien. La réflexion de Saint-Simon sur le rôle des dirigeants, sur l'organisation de la société, et sur la place accordée aux « masses » dans celle-ci.

Le monde est, selon Saint-Simon, entré dans une nouvelle phase historique, caractérisée par l'industrialisation. Saint-Simon considère en effet que la production et l'organisation du travail sont les buts ultimes de la société « moderne », qu'il observe au XVIII^e siècle.

Sur ce plan, le socialisme est encore une fois plutôt proche du libéralisme, à tel point que Saint-Simon prendra soin de se distinguer des théories libérales par l'invention du terme « industrialisme ».

L'industrialisme de Saint-Simon combine pourtant idées socialistes (par exemple, il veut organiser le travail afin d'assurer l'amélioration de l'existence des plus défavorisés), et idées libérales (ainsi, l'organisation économique doit absolument être distincte et indépendante de l'organisation politique).

Ce qu'il veut en réalité, c'est que l'industrie s'organise par elle-même, à l'abri des interventions nécessairement maladroites des pouvoirs établis. Et le moment viendra où l'administration des choses pourra remplacer entièrement le gouvernement des personnes. Pour préparer ce moment, dit Saint-Simon, il faut confier le pouvoir politique aux industriels. Dans la thèse du remplacement du gouvernement des personnes par l'administration des choses, on retrouve l'idée du dépérissement de l'Etat.

Cette vision du monde, et du rôle collectif exigé de la part des individus, aboutit logiquement à considérer la société comme un laboratoire permanent de recherches et d'expérimentations visant à diriger les populations dans le sens désiré.

C'est dans ce contexte que s'est développé ce que l'on appelle l'ingénierie sociale, c'est-à-dire un ensemble de domaines et de disciplines permettant l'analyse et le développement de techniques cherchant, au mieux, à prévoir les actions et réactions des individus, au pire, à influencer directement ces derniers, et à modifier leur comportement.

La vision saint-simonienne de l'organisation sociale, politique et économique, tout comme l'ingénierie sociale qui lui correspond, aboutit à la subordination des individus à un processus déterminé par la Science et l'Industrie, processus dans lequel l'Etat (républicain) ne peut pas, à terme, être le principal élément organisateur de la société.

Le syncrétisme idéologique se poursuit donc, non seulement en matière économique, mais également dans la nécessité de domestiquer le pouvoir politique, finalement considéré comme un « trouble-fête ». Henri Denis précise même que pour Saint-Simon, le problème social sera résolu lorsque les techniciens de l'économie capitaliste recevront le pouvoir.

L'ouvrage qu'il a écrit en 1814 avec Augustin Thierry - *De la réorganisation de la société européenne, ou de la nécessité et des moyens de rassembler les peuples de l'Europe en un seul corps politique, en conservant à chacun son indépendance nationale* - contient ses idées pour une Europe fédérale dominée par des idées françaises de rationalité révolutionnaire et des idées anglaises d'organisation industrielle. Il n'a par compris que le succès industriel anglais était dû aux idées de liberté économique et sociale qui étaient directement opposées aux idées révolutionnaires françaises.

Et dès années 1814-1815, Saint-Simon montre non seulement de l'audace politique, mais en plus du courage personnel : que ce soit en 1814, pendant l'occupation des troupes alliées dans Paris,

ou en 1815 pendant les Cent Jours ou après Waterloo, quand il proclame que l'union de la France, de l'Angleterre et de l'Allemagne est nécessaire, et que c'est la seule voie pour le développement et la paix en Europe.

« Vouloir que l'Europe soit en paix par les traités et les congrès, c'est vouloir qu'un corps social subsiste par des conventions et des accords ; des deux côtés, il faut une force coactive qui unisse les volontés, concerte les mouvements, rende les intérêts communs et les engagements solides. » Avant le Congrès de Vienne il a publié *De la réorganisation de la société européenne* où il a théorisé une Europe unie sous la forme d'une confédération comme le premier pas vers une association universelle.

En 1814, on était en plein Congrès de Vienne, les souverains d'Europe essayaient de trouver la recette miracle pour éviter le retour des guerres atroces que l'Europe avait connues sous Napoléon. Et Saint-Simon présente une idée neuve, osée : réconcilier Français et Anglais pour créer, autour de la France et de l'Angleterre, une Europe stable et économiquement forte grâce au libre-échange. L'Allemagne devra suivre dès qu'elle aura trouvé son unité.

Un beau projet, mais que le Congrès n'accepta pas, lui préférant l'équilibre des grandes puissances, le fameux concert européen. On aurait peut-être évité trois guerres sanglantes. Cent cinquante ans plus tard, on bâtit l'Europe autour de la réconciliation franco-allemande.

Le concept à la mode de « réseau » fut utilisé, dans son sens moderne, pour la première fois, par Saint-Simon entre 1800 et 1820. Les ingénieurs et industrialistes saint-simoniens érigèrent le principe de l'« organisation - réseau » en véritable religion. Des réseaux de communication auraient dû faciliter le développement de ce nouveau système par la libre circulation des idées et des richesses.

Ainsi chez Saint-Simon, le réseau est un concept avec lequel est pensé le changement social. Il y a une volonté revendiquée d'un changement de société. Le concept de réseau permet de déceler l'endroit le plus propice où faire porter l'action politique dans un système social pour obtenir la plus grande efficacité de changement. L'invention même du concept de réseau par Saint-Simon a précisément pour but la transformation sociale au profit des industriels ; faire ce que la Révolution française n'a pas achevé de faire.

Dans un deuxième temps, les saint-simoniens vont dégrader le concept en objet. Ainsi les réseaux de communications considérés par Saint-Simon comme un moyen de transformation sociale et politique permettant la valorisation du territoire, devient chez ses héritiers le but premier ayant pour effet le changement social et politique. De moyen, les réseaux techniques sont devenus une fin. Pour les héritiers de Saint-Simon, les réseaux de communications sont intrinsèquement producteurs de rapports sociaux et font donc nécessairement évoluer la société vers l'utopie saint-simonienne, l'Association Universelle.

Beaucoup d'industrialistes, de banquiers et d'ingénieurs ont été influencé par Saint-Simon et ont eu des contributions significatives au développement des réseaux des voies ferrées, des compagnies de l'eau, de télécommunications.

Les services publics sous la forme des réseaux étaient une condition importante pour la création des richesses mais aussi pour la cohésion sociale et territoriale. Au 19^e siècle, la révolution industrielle paraît à mettre en danger la cohésion interne de la société.

Le texte, *De la réorganisation de la société européenne*, destiné aux Parlements de France et d'Angleterre (1814), propose ce que l'on appellerait aujourd'hui un « axe » franco-britannique, sous la forme d'une confédération appelée à s'élargir à d'autres régimes parlementaires, avec, pour coiffer le tout, un Parlement européen servant de moteur à une unification du Vieux Continent.

Ce Parlement serait construit sur le modèle britannique, avec une Chambre des Communes réunissant les représentants des associations locales, et une Chambre des Lords ayant des membres nommés par un Monarque européen.

Fervent admirateur de l'Angleterre politique et industrielle, Saint-Simon prône le modèle anglais pour son Europe future. Il propose donc:

- une Chambre des députés du Parlement européen, pour légiférer en matière d'intérêts particuliers, bâtie sur le modèle de la chambre des Communes ;
- un Roi de l'Europe (par exemple le roi d'Angleterre) et son Premier ministre électif, pour exercer les pouvoirs d'intérêt général, comme les infrastructures, l'éducation, les impôts communs ;
- une Chambre des Pairs européens, pour régler les conflits et les abus - et éviter de glisser soit vers le despotisme, soit vers l'Etat populaire.

Le Parlement qu'il place au sommet de son édifice a 240 membres : « L'Europe aurait la meilleure organisation possible si toutes les nations qu'elle renferme, étant gouvernées chacune par un parlement, reconnaissaient la suprématie d'un parlement général placé au-dessus de tous les gouvernements nationaux et investi du pouvoir de juger leurs différends ».

L'utopie de l'« Association universelle sous le point de vue de l'industrie », l'exploitation du globe terrestre par les « hommes associés », travaillant, sous une impulsion commune, à l'accomplissement d'un but commun. La planète doit être « administrée » par les industriels comme une « grande société d'industrie » et non plus « gouvernée » par un État tutélaire. Cet axiome fonde le « savoir positif » sur la gestion des hommes qui doit aider à enrayer la crise du « savoir négatif » des Lumières et de ses dérivés révolutionnaires. Légitime lorsqu'il s'agissait de saper l'ordre ancien, l'attitude critique est devenue contre-productive pour créer un nouvel ordre social et assurer le « passage du système féodal et théologique au système industriel et scientifique ». Dans cette doctrine gestionnaire de sortie de crise, les « réseaux spirituels » ou de crédit et les « réseaux matériels » ou de communication ont une fonction organisatrice de ce grand corps qu'est l'organisme social.

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INTERNATIONAL TOURISM MARKET – THE REAL FORM OF EXISTENCE FOR EXCHANGE RELATIONS

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Abstract: In a limited way of approaching the term “market” is defined as a certain geographic place, a physical point where, at certain hours and certain days, buyers and sellers meet in order to buy and sell goods. For example, tourism has become one of the major international trade categories. Over time, an increasing number of destinations have opened up and invested in tourism development, turning modern tourism into a key driver for social-economic progress, through the creation of jobs and enterprises, infrastructure development, and the export income earned.

Key words: Services, market, services market, international tourism, commercial services, goods and services.

JEL Classification: L8, L83

1. Service market – a key to economic development, well-being and social prosperity

The large majority of people think that the term “market” appoints to agro alimentary places where peasants sell their products directly to customers. In other words, the market represents a certain geographic position, a physical point where, at certain hours and certain days, buyers and sellers meet in order to buy and sell goods. Considering the market as a material, concrete place is a limited way of approaching this term.

At present, the world “market” has more meanings even if it originally comes from the reason of those points of sell, which can be found today in certain places.

Nowadays, in developed economies, only a small part of selling and buying activities are carried out in concrete markets, the majority of them being achieved through retail and wholesale, import-export firms, salesmen, agencies of large companies. In such cases, the word “market” does not mean anymore a point that can be geographically and physically located, but the universality of relations that take place between the representatives of approaching the term “market”. If today specialists speak about market analysis, market making, labour market, capital market, oil, copper, cereal market, consumer goods and services market, the physical points of sell for products are no longer taken into consideration, but there is a desire for observing a higher or lower buying trend relating to a higher supply.

In conclusion, we can say that nowadays the term “market”, in its abstract sense, refers to general economic relations established between producers that provide production conditions within the market economy and consumers representing human necessity bearers, associated with people’s capacity of buying offered goods which are suitable for them, relations with frontiers not necessarily defined only through geographic area or conventional product classifications.

Selling and buying actions, pointed out through market economic relations, together with processes linked with the structure of demand and supply objectives, are in connection with the space and time they are taking place.

These entire functions specific to the market make possible the optimum exchange of different products, achieving in this way the main role of the market. But it is utopian to state the fact that markets are able to mediate these functions and role in an ideal way. Extreme situations, periods of under and over-production of major technical discoveries demonstrate the fact that markets are no longer able to automatically fulfill the role of economic stability regulator. But beside these limit situations political economy reached the conclusion that even in the so called "normal periods" the stability on certain markets can not be defined as being optimum. That is why today it goes without saying that the state has to interfere in several markets more or less intensively. This interference is obvious generally on the agricultural market, in mining, in the credit system and transport.

Sawn in the light of goods nature that represents the objective of commercial transactions, the goods market under the form of flows has as object both physical/substantial products and non-substantial products. Services as a socio-economic domain is one of those that offer invisible, abstract products which can be defined quantitatively only part and indirectly. However, just like the other useful economic goods producing activities, services had formed in time a personal market for the "products" they provide defined through factors with specific manifestation and determined by geographic, socio-economic and politic nature.

Sawn in the light of contemporary sense of the word market, the service market represents the economic sphere of interface between the interests of service suppliers materialized into service production and the interests of service buyers materialized into consumption. And as in case of services supply and consumption happen at the same place, the interference is going to be transformed in superposition in time and space of these to factors through service consumption.

But even if the service market is alike through its functions and role to other existing form of the market in general, however there are several particularities that distinguish it from the others, referring to quantitative or qualitative aspects:

- a) service market does not include in all the sphere of services because there are non-good services of noncommercial service formed of public and private services firm of public and private services that are not marketable and free of charge services provided by people to themselves;
- b) the difficulty is measuring the dimension and dynamic of service market comparatively with possibilities in this field regarding substantial product market comparatively with possibilities in this field regarding substantial product market.

Consequently, in order to determine supply, demand and the volume of transactions on the service market we must appeal to a succession of indicators. For example, in order to evaluate the tourism market as a representative subsystem of service market we have to use a subsystem of indicators regarding tourism resources both through the occupation point of view (the number of cultural-historical moments, average annual value of fixed and circulating funds, production capacity in tourism, working time) and through the consumption point of view (labor expenses, rent, total expenses, expenses generated by arranging and maintaining tourist objectives). We must also use the subsystem of indicators regarding the economic and social effects of tourism activities (net revenue, earnings from offering tourist services, contribution to national income and growth of the social labor productivity) ;

- c) The particular meaning of qualitative elements in estimating the position of a producer of country on the service market. For example, in comparative evaluation of tourist services regarding accommodation provided by several types of tourist structures, a special position are going to have qualitative criteria, meaning: convenience, safety, hygiene,

conditions for developing social relations, the diversity and quality of complementary food services, the fervency and quality of cultural artistic and recreation services;

- d) The particular way of competition expressed on the service market, which presents the following aspects:
- if in case of physical product market competition is firstly materialized in price, value being determined by subjective needs of each individual and the rarity of a certain product, in case of service market the rarity of the service does not have a significant role in price determination and accordingly not within competition because services are not homogenous and can not be compared. Therefore, competition by price is more varied, price estimation being related to several qualitative, physiological aspects often influenced by personal relation between service provider and customer. Consequently, taking into consideration the permanent differences among services regarding their quality prices used by different firms are various, but their fairness in accordance with production overheads is neither proved nor invalidated;
 - the greater frequency of monopoly and oligopoly situations determined by considerable entering and output costs form the service market, by objective economic difficulties regarding free entrance in the branch and capital free circulation;
 - each service enterpriser has a variety of means able to distinguish him from his competitors, first of all through quality even if it is not always entirely perceived by customers, and secondly through ambience from the firm and the personal relation maintained by the service provider with his clients, also having in mind geographical placement that very often represents the main criterion in service choosing;
 - in case of service market, transparency is limited by the immaterial feather of services, the reality that prevent competitors to know the secrets of superior technologies of producing and organizing their services or to understand the object of the dumping policy. At the same time, service consumers are not able to compare rigorously the price-quality relation for every service on the market because of time restrictions.

2. International tourism challenged by deteriorating world economy.

Though not immune to the economic woes, tourism has so far resisted the economic downturn better than other sectors, such as construction, real estate and car manufacturing.

International tourist arrivals reached 992 million, in 2008 up from 904 million in 2007, in representing a growth of 2%. This overall growth builds on the strong results of the first part of the year, before the collapse of the financial markets and the subsequent recession. The second half of the year showed an abrupt shift in trend, with international arrivals flat or showing negative growth in each of the last six months of 2008. Overall, the 5% between January and June gave way to a 1% decline in the second half of the year.

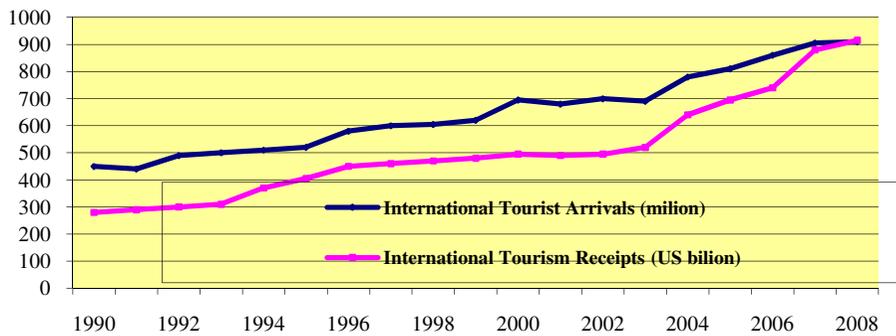
a. International tourist arrivals and international tourism receipts.

All regions had positive growth except Europe, which suffered stagnation in arrivals (+0.3%). The best performance was seen in the Middle East, where international arrivals reached 55 million, a rise of 18% over the previous year. Africa grew at half the rate of the previous year, but still registered an above-average growth of 4%. The Americas grew 3%, boosted by the strong performance of Central and South American destinations and the strength of traffic to the USA in the first half of the year. Asia and the Pacific saw a significant slowdown in arrivals as compared to its previous bumper year, growing just over 1% in 2008.

International tourism receipts rose by 1.7% in real terms in 2008 to US\$ 944 billion (642 billion euro). Receipts from international passenger transport are estimated at US\$ 183 billion, bringing the total international tourism receipts including international passenger transport (i.e. visitor exports) to over US\$ 1.1 trillion, corresponding to US\$ 3 billion a day. This represents around 30% of the worldwide volume service exports and 6% of overall exports of goods and services.

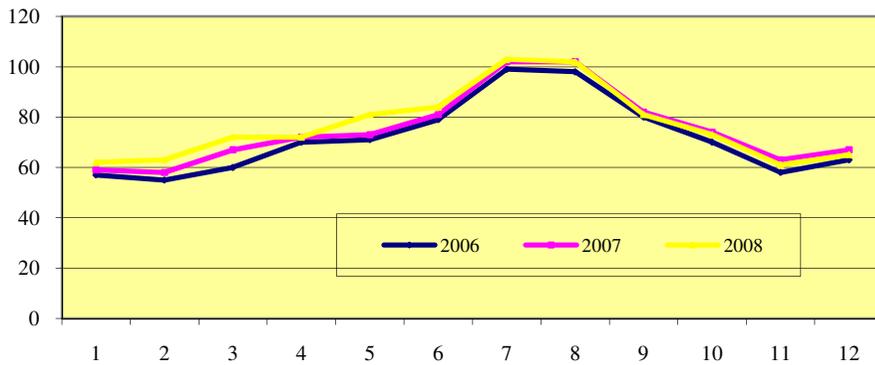
Tab. 1

Inbound Tourism, 1990-2008



Tab. 2

Inbound Tourism by month (million)



Tab. 3 International tourist arrivals

	International Tourist Arrivals (million)							Market share (&)	Change (%)		Average annual growth (%)
	1990	1995	2000	2005	2006	2007	2008		2008*	07/06	
World	438	534	684	804	853	904	922	100	6.1	2.0	3.8
Europe	265.0	309.5	392.6	441.8	468.4	487.9	489.4	53.1	4.1	0.3	2.8
Asia and the Pacific	55.8	82.0	110.1	153.6	166.0	182.0	184.1	20.0	9.6	1.2	6.6
America	92.8	109.0	128.2	133.3	135.8	142.9	147.0	15.9	5.2	2.9	1.7
Africa	15.1	20.0	27.9	37.3	41.5	45.0	46.7	5.1	8.4	3.7	6.7
Middle East	9.6	13.7	24.9	37.9	40.9	46.6	55.1	6.0	14.0	18.1	10.5

Source: World Tourism Organization (UNWTO) © (Data as collected by UNWTO, 2009)

Tab. 4 International tourism receipts

	Change local currencies, constant prices (%)			Share (%)	US\$			Euro		
					Receipts			Receipts		
					(billion)		per arrival	(billion)		per arrival
	06/05	07/06	08/07	2008	2007	2008	2008	2007	2008	2008
World	5.3	5.4	1.7	100	858	944	1,020	626	642	700
Europe	4.2	2.7	-1.1	50.2	435.2	437.7	970	317.5	322.1	660
Asia and the Pacific	11.1	9.8	2.7	21.8	186.8	206.0	1,120	136.3	140.1	760
America	2.1	6.3	5.0	19.9	171.3	188.4	1,280	125.0	128.1	870
Africa	11.5	9.1	-1.0	3.2	29.1	30.6	650	21.2	20.8	440
Middle East	3.0	9.0	17.3	4.8	35.0	45.6	830	25.5	31.0	560

Source: World Tourism Organization (UNWTO) ©

(Data as collected by UNWTO. 2009)

For destination countries, receipts from international tourism count as exports and cover transactions generated by same-day as well as overnight visitors. However, these do not include receipts from international passenger transport contracted from companies outside the travelers' countries of residence, which are reported in a separate category, 'International Passenger Transport'. Although the availability of comparable international data is somewhat limited the export value of international passenger transport has in recent years been estimated at around 16% of the combined receipts from international tourism and passenger transport, corresponding in 2008 to some US\$ 183 billion against US\$ 164 billion 2007.

This takes total receipts from international tourism, including international passenger transport, to US\$ 1.1 trillion in 2008. In other words, international tourism contributes over US\$ 3 billion a day to the world economy.

Visitor expenditure on accommodation, food and drink, local transport, entertainment, shopping, is an important pillar of the economies of many destinations, creating much needed employment and opportunities for development. More than 8- countries earned over US\$ 1 billion from international tourism in 2008.

In real terms, i.e. adjusted for exchange rate fluctuations and inflation, growth in international tourism receipts corresponded to 1.7% only slightly lower than the growth in international tourist arrivals. After the substantial growth in 2006 and 2007 – of over 5% in both years – this represents a considerable slowdown.

All regions shared in the increase in tourism receipts in absolute values. In real terms growth was in all regions much weaker in 2008 than the before with the exception of the Middle East, which registered a double-digit growth of 17%. Asia and the Pacific grew by 2.7% (compared to +9.8% in 2007) and the Americas increased by 5.0%, slightly less than 2007's 6.3%. Both Europe and Africa (-1% each), however, suffered negative growth in receipts in real terms.

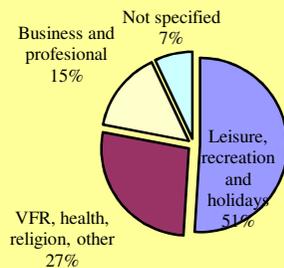
b. Motivations of visit and means of transport.

Travel for leisure, recreation and holidays accounted for half of all international tourist arrivals (51% of a total of 467 million arrivals, in 2008). Some 15% of international tourists reported traveling for business and professional purposes and another 27% traveled for other reason, such

as visiting friends and relatives (VFR), religious reasons pilgrimages, health treatment, etc. The purpose of visit for the remaining 7% of arrivals was not specified. Slightly over half of travelers arrived at their destination by air transport (52%) in 2008, while the remainder traveled over the surface (48%)- whether by road (38%), rail (3%) or over water (6%). Over time, the trend has been for air transport to grow at a faster pace than surface transport, so the share of air transport is gradually increasing.

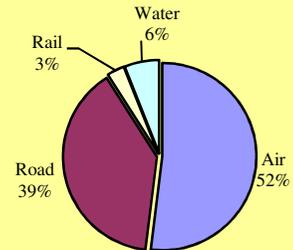
Tab. 5 (Source: World Tourism Organization)

Inbound tourism by purpose of visit, 2008



Tab. 6 (Source: World Tourism Organization)

Inbound tourism by means of transport, 2008



c. *No major changes in the top ten*

When ranked according to the two key tourism indicators- international arrival and international receipts- it is interesting to note that eight out of ten top destinations appear in both lists, even though they show marked differences in terms of the types of tourists they attract, as well as their average length of stay and their spending per trip and per night.

There were only slight changes in the ranking of the 'World's Top Tourism Destinations' in 2008. The top three places- both by international tourist arrivals and international tourist receipts- were still occupied by the USA, Spain and France, albeit in a different order. France continued to lead the ranking of the world's major tourism destinations in terms of arrivals, but ranked third in receipts. The USA ranked first in receipts, earning US\$ 110 billion and regained its second position in arrivals, which it lost to Spain after 11 September 2001. Spain dropped to third place in terms of arrivals but maintained its position as the second biggest earner worldwide, and the first in Europe.

China and Italy both held on to their 2007 position in terms of arrivals and receipts, with China ranking fourth in arrivals and fifth in receipts, while the reverse was true for Italy. The UK ranked sixth in arrivals and dropped to seventh place in receipts, after being overtaken by Germany (which ranked ninth in arrivals). Turkey moved up one rank in both categories, occupying the eight position in arrivals, and ninth in receipts. Completing the top ten ranking in arrivals were Ukraine (7) and Mexico (10) and in receipts, Australia (8) and Austria (10).

The top ten tourism earners last year accounted for 49% of the total estimated US\$ 944 billion in international tourism receipts. Their perspective share of international tourist arrivals was slightly lower at 45%.

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CLUSTERING THE HETEROGENEITY OF EU URBAN PERFORMANCES

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Abstract

Cities represent today the intrinsic socio-economic complexity of local systems. Looking at the performances of urban systems enable us to explaining the main factors of territorial development. By moving from the theory of “progressive systems”, and assigning to the cities some of this theory’s properties, it is possible to outline a methodological perspective to capture the emerging phenomena describing the cities’ performances. Keeping this view in mind, the aim of the paper is facing the intrinsic socio-economic complexity and heterogeneity of cities within the EU integration policies.. In order to better qualify this issue, we provide a multidimensional scaling approach, as a quantitative method useful to compare the several urban performances by letting a cluster evidence among the EU cities emerge.

Key words: Urban trajectories, progressive system, multidimensional scaling.

JEL codes: R10, R11

1. Introduction

It is widely believed that cities are a key driver of local development and a special unit of analysis in explaining the economic trajectories of a country. Cities represent today the intrinsic complexity of an socio-economic systems because urban areas are the places of human economies and the majority of agents productive and consumptive activities. In this sense the State of European Report (Urban Audit, 2007) underlie the role of cities as laboratories because of they are places where economic and societal changes are often experienced first and most profoundly. Moreover, as hubs of globalising world economy, bigger cities generally contribute to competitiveness, growth and jobs (OECD, 2006).

The relevant literature about cities shows a thematic and methodological eclecticism in order to highlight the way in which the city has been interpreted in urban economics (see Capello, 2008, for a critical review). Among the several features that a city shows it can be traced city as: an agglomeration of relations and externalities; a place with endogenous capacity to allocate resources efficiently; a place of interaction; an complex economic system. Actually the modern and critical economic theorisation of the city shows an enrichment of the classical and neoclassical principles whit new theorization, that have more recently produced an heterodox interpretation of urbanization using (i) a cognitive approach; (ii) a complexity approach. In the former case the city is seen as innovation and knowledge milieu (Aydalot, 1986; Camagni,1999; Feldman and Audretsch, 1999; Maillat et al. 1993). In the latter case the city is conceptualized moving by the complex system theory (see Nijkamp and Reggiani,1999 for a critical review).

With the introduction of complexity among the issue of urban development, the boundaries between urban economics and other social sciences are notably weakening in order to describe the cities’ performances. Keeping this view in mind, the aim of the paper

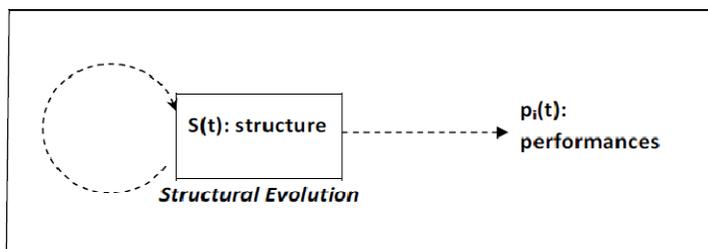
is to outline a methodological perspective to study the economic development of cities, so in section 2 we adopt a “progressive system” approach and define its methodological assumptions. According to the causal relation “structure-performances” in section 3 we define the “structure” thanks to a set of indicator provided by Urban Audit data. This paper copes the intrinsic socio-economic complexity and heterogeneity of cities within the EU integration policies. In order to better qualify this issue, in section 4, we provide a multidimensional scaling approach, as a quantitative method useful to compare the several urban performances by letting a cluster evidence among the EU cities emerge.

2. Cities as progressive system

City is a complex open system because is the coming out of heterogeneous interactions among several elements, these interactions originate a peculiar behaviour that is an *emergent* phenomena that could not be analysed focusing only on the single behaviour of the interacting elements (Bertalanffy, 1972). Moreover this phenomena and the following interactions coevolves progressively during the time, assigning a specific characteristic to the city as a system. Keeping this in mind in order to cope with the eclecticism of theoretical and methodological contributes, more and more present within the scientific literature, we decided to conceptualize the city as a complex system by moving from the theory of “progressive systems” (Calafati, 2007).

Thinking of cities as complex open systems bring us closer to outline a new research programme on performances’ analysis. As a matter of fact, assigning to the cities some of this theory’s properties it is possible to outline a methodological perspective to capture the emerging phenomena that originate from the cities. That is to say that conceptualizing the city as progressive system means that, in order to evaluate the emerging development trajectories, it is necessary to delineate three pertinent levels of description that are: (i) the structure of the system; (ii) the metabolic processes of the system, i.e. the processes that organize inputs as matter, energy and information into goods and services functional to the system’s objectives; (iii) the regulation mechanisms of the system.

Fig. 13- From structure to performances



Source: Calafati, 2007

In this work, the issue we are talking about regards the deep causal relationship between “structure and performances”. In virtue of that cities’ development trajectories have to be described and consequently analyze in the way of the specific urban system structure. These epistemological choice very reflect itself in a clear methodological perspective, that we have tried to adopt in this paper. That is to say that, at this stage, we are focusing on the first of the three levels of description of the city as progressive system. So what we present at this first step is a delineation of 15 cities’ structure adopting a seminal set of *ad hoc* indicators describe, in a very first experimental way the heterogeneity of different urban system and then to process data in a multidimensional scale analysis.

3. Cities' structure and dataset

Starting from the data collected in the Urban Audit project in order to compare statistics and indicators for European cities, we have construct a data set able to delineate the “structure” of 15 cities according to the information and data available. This exercise represents a first experimental exploration of the paper methodological assumptions, by moving from the causal relation “structure-performances”. In this cases we try to provide a first step in the description of the “city as progressive system” performances, at this moment represented basically in a meta-theoretical way.

Starting from the intrinsic heterogeneity of cities structure, in order to cope with the EU integration processes we have chosen the Multidimensional Scaling Analysis (MDS) as a quantitative method useful to compare the several urban performances by letting a cluster evidence among the EU cities emerge. That is to say that the MDS shows a series of similarities defined by cluster of heterogenic urban performances.

MDS includes several techniques of multivariate statistic analysis starting with a data matrix, cases per variables, in witch variables provide information about specific properties obtained from cases. By moving from this matrix and comparing all the couples of cases in regarding of their properties, it could be point out a new matrix in which all the comparisons emerge. The output is a proximity relation of cases, organized in triangular matrix set by the differences between the couple of cases contained in the first data matrix. In this way the MDS provides a data representation able to point out in specific modality the complexity of the relationships behind the first data matrix. This quantitative choice operate a reductionism that entails a sort of information's lack, that is to say that there is less correspondence whit he phenomena observed. By the way it provides the identification of the best coordinate in a two-dimensional space that represent the best adjustment to the proximities observed in the data. In any cases the error (distortion) of the MDS analysis can be measured by the *Stress* indicators.

About the 15 cities observed (Tab.1) we selected a group according by the demographic homogeneity, focusing the analysis on medium urban system. Then we selected 8 indicators regarding the economic, demographic and social dimensions. So the analysis is based by observing the following variables: total resident population, density population, GDP per capita, employment rate, summer smog (nota: number of day in which the level of ozone exceed the threshold fixed in the air), public green space (square meter per capita), percentage of journeys to work by car, number of crimes (per 1000 persons).

Table 8 - Reference Dataset

Cities	Tot. Resid. Population	Pop. density	GDP per head	Employment rate	Summer smog	Public green space	Journeys to work by car (%)	Num. of crimes
Wien	1,598,626	3,855	19,607	0.64	23	11	0.41	29.39
Bruxelles	999,899	6,196	52,975	0.47	15	13	0.53	160.74
Praha	1,170,571	2,357	14,860	0.74	19	83	0.27	85.51
Berlin	3,387,828	3,789	23,458	0.58	6	27	0.44	159.3
Frankurt	646,889	2,608	73,932	0.64	19	18	0.43	182.6
Munchen	1,249,176	4,030	53,073	0.72	22	32	0.41	90.81
Budapest	1,695,814	3,230	16,622	0.6	11	43	0.71	68.11
Rome	2,553,873	1,987	21,225	0.57	48	15	0.57	69.2
Milan	1,299,439	6,986	27,988	0.63	46	15	0.46	91.24
Amsterdam	739,104	4,439	38,897	0.7	4	35	0.41	142.99
Madrid	3,099,834	5,127	79,516	0.65	28	7	0.47	36.66
Barcelona	1,578,546	15,770	80,894	0.63	3	4	0.32	34.71
Valencia	785,732	5,764	73,320	0.64	1	3	0.58	39.57
Stockholm	761,721	4,052	59,244	0.69	1	96	0.33	206.81

Source: Urban Audit (2004)

These variables was chosen because of their meaningful within the data set available and according the main literature in terms of: (i) sustainable development (Daly, 2001, Grossman

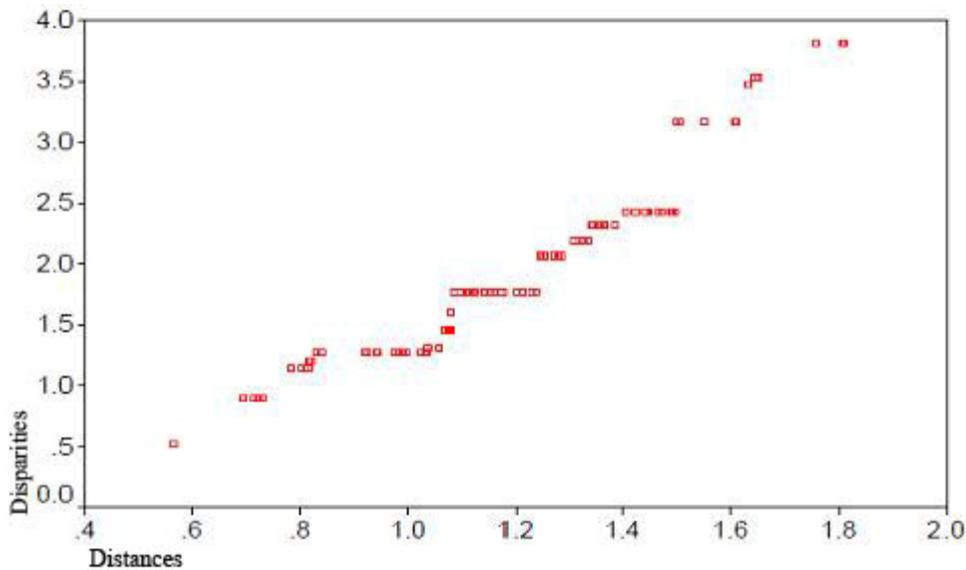
1955, Hamilton and Atkinson, 1996, La Camera 2005); (ii) socioeconomic development (Glaeser et al. 1992; 1999, Becker et al. 1964; 1999, Jacobs 1968).

From this table is possible to note, even if an approximate way, a kind of heterogeneity among the observed cities. That is to say that, for example, as regards GDP per head or population density or number of crimes, a different dimension of the cities' structures emerges. Even these are only proxies in a explicative exercise, comparing cities with similar number of people (i.e. Milan and Munchen, or Wien and Barcelona, etc), it is possible to observe some differences in terms to the others variables. This supports the concept of cities as progressive system that we have examined in this paper.

4. MDS findings

Performing a standardization (interval 0-1) on all the values to prevent the influence of the metric in order to get the index of dissimilarity, we provided the proximity matrix based on the original one. After, we have proceed the analysis fixing the number of dimensions (K=2), achieving therefore a Stress Index⁴⁵⁴ equal to 0.171 (according to the condition of Kruskal). Significativity of the model is, moreover, confirmed form the value of RQS Index (Squared Correlation), which is 0.82. The figure 1 above shows how the model could be implemented in our case, according to distribution of the coordinate of points, that are in proximity of the first square bisector.

Fig. 14 – relation disparities-distances

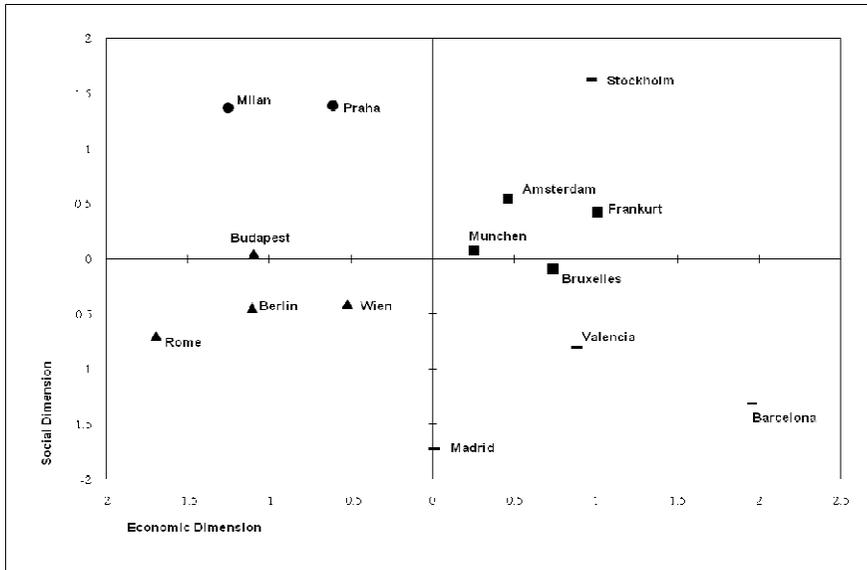


Source: our elaboration

The final map coming out from MDS shows a simple and intuitive finding a meaning to the representative space, labelling the Cartesian axes in relation to “semantic” position of the variables. That is to say that the configuration of the cities along the map is in function of the two main characteristics: social dimension and economic dimension (Fig.2)..

⁴⁵⁴ Kruskal Stress formula 1 varies between 0 and 1. When it assumes 0, data have a perfect performance. Generally a good result of the k dimensions is obtained when the Stress Index presents a value lower then 0.1. The outcome is satisfactory when the value is smaller then 0.2 (De Lillo et al., 2007).

Fig. 15 – urban configuration in a two-dimensional space



Source: our elaboration

As the graphic shows, the MDS provided the presence of three groups of cities and four outliers (Stockholm, Valencia, Madrid and Barcelona). Despite the mentioned observations about heterogeneity of cities structure, it is still plausible for the purposes of analysis to represent a kind of homogeneity among some cities subject of our study. Amsterdam, Munchen, Frankurt and Bruxelles seem to show an almost similar social-economic profile and better than other cities observed. The opposite situation is found instead for the group composed by Rome, Berlin, Wien and Budapest, which highlight a negative standard for both analyzed dimensions. Finally it is opportune to underline also the situation presented by the group Milan – Praha, which social dimension seem to assume a predominant weight within of own structure.

5. Final remarks

With the help of a Multidimensional Scaling analysis (MDS), the work in progress presented in these pages obtains an seminal mapping of an emergent process of UE cities' clusterization. By moving from the EU integration policies the main goal of this work is to reflect on the importance of urban size (structure) for urban performances going beyond the meta-theoretical approach in literature. The second main goal is to provide a methodological tool to let some homogeneity (thanks to the cities' clustering) emerge, coping the heterogeneity of EU cities performances. In these sense, at this first stage this analysis should therefore be used as a experimental tool for a better understanding the heterogeneity of urban performances, expressed in terms of different cities' structures. For this reason it could be useful to highlight the question of which EU integration policies are most appropriate for different types of structures.

Even if the paper provides an empirical analysis of the city as progressive system it is based on a sample data set, the next step is to find more relevant data and try to evaluate the binomial heterogeneity-homogeneity with the help of a family of artificial neural networks known as Self-organising Maps (SOM), obtaining an original mapping of EU cities moving by the idea of multi-dimensional similarity in different urban systems' structures.

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DEMO-SOCIAL DETERMINANTS OF EUROPEAN CONSUMER BEHAVIOUR

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The components of demo-social macroeconomic level but especially in the continental context were decisive action on both exponents of the supply and the demand; the businessman need to know features, character and effects of these variables on the functionality they produce while the European market and national.

From the range of the demo-social components, I referred to the social classes, the reference groups, the area of residence, taking into consideration reality that these components carries on business in general, particularly on the consumer, a long-term determination so, their knowledge as fair provides managers can develop policies and strategies consistent with these conditions.

Keywords: demographic-social determinants, social class, reference groups, family, residence environment, inter-variable correlations

JEL codes: D10, D31, J11, R11, R21.

Demo-social variables in the context of the business environment

One of the components business environment, with long-term influence on quality and its dynamics, is the social environment. Although the demo-social environment components have a slower time than other components, the system configuration and the features of the current global economy, changes occurring in European economies, the suite of financial, economic, natural environment crisis, however, and more once again motivates the businesses to take into account trends in the business environment variables.

Beyond the demographic changes recorded in the potential of countries in the world, the geographical distribution of population density, its natural movement, are significant trends in terms of social class, reference groups, family, environment residence option for European countries economy. These variables interfere with objective and subjective motivations outlining the buying and the consumer decision.

Social class, reference groups, family – between theory and reality

In recent view of the sociologists⁴⁵⁵, the concept of **social class** highlights:

- positioned and equipped unequal social classes within the economic system;
- social class identity strongly marked by class, in terms of time, culture, community.

In general, membership of a particular class is given by individual occupation⁴⁵⁶. A classification of socio-economic groups have highlighted that in group A (3%) place the upper middle class, head of household having a senior managerial, administrative, professional; group B (10%) is reserved for the middle class of family head having intermediate managerial functions, administrative or professional; C1 class (24%) and C2 (30%) are most consistent in terms of number and head of the family occupying positions below supervisory, administrative, professional, skilled labor respectively; working class is in Group D, has 25% of the population, head of the family is included in semi-specialized and non-specialized labor; the lowest level of subsistence is approx. 8% of the population and includes certain categories of pensioners, casual and unskilled labor, etc..

⁴⁵⁵ Chauvel, Louis, Le Retour des classes sociales, Revue de l'OFCE, 2001, vol.79, issue 4, p.315-359.

⁴⁵⁶ Blythe, Jim, Consumer Behavior, Uranus Publisher, 1998, p.116-117.

The social class was defined by Max Weber as the group of individuals sharing a specific causal component of their life opportunities; this component is defined by degree of ownership of property and the possibilities for the revenue and operating in the conditions of the commodity markets and labor markets. Already in the 60s the idea of disappearance of social classes, with the arguments:

- in the political – the power distribution across the entire set of population and de-structuring political behavior according to social strata;
- in the economic sphere - the tertiary sector increased the extent of which did not match any class system;
- raising living standards and consumption that leads to the disappearance of identifiable consumer segments.

Those who showed, subsequent, the disappearance of the social classes, they reasoned it this way:

- reduction of the economic and educational inequalities;
- restricting border access to consumer and to the cultural elements with increasing social mobility;
- hierarchical structure of classes in separate groups, identifiable and enforceable against, much less obvious, hence, minimize the conflicts between classes and even states of class consciousness.

The social classes have importance on economic activities, however, increased social mobility and reduced of the wealth concentration dilute the traditional boundaries between classes and reduce the cultural differences between them.

Given the large socio-professional categories - farmers, traders and small businesses, professions, employees and workers in the past 30 years, the composition of the working population analysis shows that middle and upper classes of employees grows and the number of workers decreases - in 2000 were approx. 30% of the population, compared with 40% in 1969. While the tertiary sector rather than being hierarchical, not creates an easily identifiable class system; the analysis of the workers and employees shows that employees are, structurally speaking, workers in services; in general, when considering the number of workers and employees observed that in the past 30 years is relatively stable in the active population.

The social classes create patterns of decision making⁴⁵⁷. The research shows that in rich families is a trend towards the decision making by those men, while in low-income families are matriarchal tendencies manifest, the wife take financial decisions, including those related to purchasing goods and services. Middle class families are showing trends in democratic decision making.

Regarding the changes in wages, they are very important in understanding the evolution of society. After 1970 due to increased income middle class at the continent, it became an important class of economic and social environment.

Across Europe, the income situation in different countries reflect the large differences existing both between rich and poor social strata and between the developed and ex-communist.

Regarding the income distribution inequality, calculated as the ratio between the total income of 20% with highest income and total income of 20% with lowest income, the dynamic profile since 1997, the situation of our continent reflect that⁴⁵⁸:

- In the year 2008, large discrepancies between income in the countries: Latvia (7,3), Romania (7), Bulgaria (6,5), Portugal (6,1), Greece, Spain, Lithuania, United Kingdom (all over 5). Polarization spectrum wealth lies not only on ex-communist countries but also on some developed EU countries.

⁴⁵⁷ Blythe, Jim, Consumer Behavior, Uranus Publisher, 1998, p. 131.

⁴⁵⁸ Eurostat, 17.03.2010.

- The same year, the smallest discrepancies between income levels are specific in countries: Czech Republic, Slovakia, Slovenia, Sweden (all with values below 3.5). The situation highlights the respective national economies macroeconomic options, obtaining GDP sectors of national economy, given that countries with strong tertiary sector employs a high proportion of the population in this sector and its higher income compared with countries with rates still high obtaining employment and GDP in agriculture. On these grounds we can add the different national labor productivity and, not least, the development of the country.
- In the period 1997-2008, the development of this situation has been fluctuating in all countries, none having a continuously decreasing or increasing trend over the interval.
- The level of our country is strong polarization of wealth, well above the EU average (5) and, in 2006, has increased.

Reference group is "an individual or group of individuals who significantly affect a person's behavior"⁴⁵⁹. Reference groups develop standards, rules, under which consumers assess their attitudes and behavior. For example, primary groups consisting of people we see most often (family, friends and close colleagues), is usually the mouth-to-mouth communication, triggering and purchase decision of the individual, regardless of nature of demand; groups side (people who meet occasionally and with which we have some common interests) are not noticeably affect the purchasing behavior of individuals but are important for managers in terms of potential workforce, to support the common causes, etc.. Are significant for business are the groups because individual membership wishes to belong, is very powerful in influencing its behavior; in some cases, group membership is the financial aspirations of individual power. By their nature and characteristics the companies looking to set up and possibly retain individual components of the official groups like clubs or associations. The process of market segmentation and target market involves setting the implicitly groups that appeal to individuals who are in implicitly because of age, gender, culture, education, etc. ..

The entrepreneurs have the knowledge typology of the reference groups to a market level and composition of each of them to develop the market strategies and policies compatible their tastes, preferences and requirements.

Family is the most powerful group that influences the consumer decisions. In many European countries, family is defined by parents and their children although, the influences are the grandparents, aunts, uncles, cousins, too. This last option is specified the Latin countries and of Southern Europe than Northern countries where the family is independent⁴⁶⁰. In Europe coexist four different family systems: liberal, authoritarian, egalitarian, nonegalitar, according bounded or not the dominant character of established links and relations values between brothers.

Regarded as the reference group, the family has several features, namely:

- direct contact between family members;
- common use;
- the subordination of individual needs;
- the purchasing agent - in the person of one family member.

Lately, Western Europe⁴⁶¹ became increasingly apparent increase in single person households; more people marry later and have fewer children and more families decide to not have children; an increased divorce rate and more increase in single parent families (Belgium has the highest divorce rate, Romania - among the lowest).

Another change in family structure that determines the buying decision process and consumption is increasing the number of couples who are not married and unmarried officiating. Such households have accelerated the dynamic. In Sweden, the households consisting of one person represented since 1994, 40% of all households. Obviously, such households have special needs

⁴⁵⁹ Blythe, Jim, Consumer Behavior, Uranus Publisher, 1998, p.121-124.

⁴⁶⁰ Adăscăliței, Virgil, Euromarketing, Uranus Publisher, București, 2004, p.72-73.

⁴⁶¹ Catană, Gh.A., Marketing - market success philosophy, vol.I, Dacia Publisher, 2003, p.255-259.

(smaller apartments, portions of 1-2 people, cheaper furniture, etc..), observation that no business should escape. In some countries (Netherlands, Great Britain, etc.) were adopted laws allowing marriage between homosexuals.

The involvement of women in economic and social life is a business reality of our continent; has increased the number of active women, strongly influencing family consumption - cooking is increasingly rare, is preferred food ready, increase the demand for microwave ovens and other appliances electrical change traditional roles of husband and wife in the family. Women do not cook, instead of the client are banks, auto repair shops, etc.. while men are more and more chores, go shopping, caring for children, etc..

In this context of changes in family structure, the European family financial resources have increased while time resources have decreased. Thus, the modern formulations and marketing of products aimed at concentrating purchases in a single space and minimize time purchase led to vigorous development of direct marketing.

Family adopt different roles depending on the state of purchase or consumption decision; the importance of the user occurs at the initial stage and the final purchase decision is taken in common. If the family, both parents have jobs, making the decision will probably be common. According to the investigations, families where the male partner is the only employee present trend of male dominance and those where both spouses are employed, decisions are made jointly.

Option to area of residence of people in Europe

Worldwide, the '90s have come large population movements between countries. In Europe, this phenomenon was caused by the collapse of communist countries in central and east. Phenomenon will probably continue, but most countries are more strongly protected in the wave of immigrants.

Also, another distinctive feature from one country to another, with implications for doing business, is to demarcate the urban-rural population segments. On the European continent's urban population, representing a significant market segment, with a specific pattern features buying, consumer lifestyle, etc.. has growth potential. Europe is among the most urbanized continents, having cca.75% of urban population⁴⁶². Over ¼ of the EU is intended to present urban use. But the differences are essential, so if in Iceland, Sweden, Netherlands, Great Britain, Denmark, Belgium, Luxembourg, Malta, the urban population in total population is high, however, in others, such as Greece, Ireland, Slovenia, Poland, Slovakia, Croatia, Romania, Bosnia-Herzegovina, Albania, Moldova, down to 60-50%. It is estimated that by 2020, approx. 80% of Europeans will live in urban areas and in the continent's 45 countries, seven of them in the urbanization ratio will be over 90%. Logical consequence is the need to increase demand for land areas affected housing, commercial premises, etc.. We are witnessing to the phenomenon of urban sprawl in Europe; the phenomenon takes place but different from one country to another, from one region to another; lead to changes of substance in lifestyles and consumption patterns on a continental scale.

Generally occurs when urban sprawl and land use conversion rate for urban population growth rate exceeds a certain area and within a certain time. Recent studies show that the area of European cities over the past decade grew by more than 5% increase, equivalent to three times the area of Luxembourg. The strongest urban expansion was observed in countries or regions with high population density and huge development - Belgium, Netherlands, Germany (south and west), Italy (north), France (Paris) and in countries with rapid economic growth - Ireland, Portugal, Germany (East), Spain (Madrid).

The urban sprawl has been determined, at the level of our continent, to the regional development policies promoted at EU level - have been directed to poor regions of the EU cohesion funds and

⁴⁶² European Environment Agency, Urban sprawl in Europe, Copenhagen, Report No, 10/2006.

structural development and modernization of infrastructure; along with numerical growth of urban population the continent's major cities began to develop small towns and surrounding areas or rural areas more developed along the transport corridor and along coastal areas in connection with river valleys. General motivations of the escalation phenomenon among urban sprawl trends are micro and macro socio-economic: increased the quality of transport systems, increasing land prices, higher housing preferences, the demographic trends, national and European traditions, customs and the cultural, attractiveness of the urban areas, and not least, increasing population mobility in the single space. Although urbanization in general, increasing the concentration of population and economic life, accusations is, particularly on environmental quality scale, there are a number of advantages and opportunities that it creates this phenomenon; it was found that land-use and consumption different forms of energy tend to be lower in urban areas than in areas with scattered population; the urban waste management benefits of economies of scale. Most of European cities and utilities have solved problems but the risk of pollution manifested in all forms is increased - air, water, noise and, in some cases, visual pollution, are realities of this.

Another trend is the growth of two times the space for a person, compared with 50 years ago. From the '80, surface built-up areas in many countries in Western and Eastern Europe increased by 20% while population grew only by 6%. One problem that stands out is the mobility and the accessibility, such European policy makers as a key driver of Europe's territorial cohesion. Number of European street transportation miles will increase by 40% between 1995-2030. Monitoring the degree of new entrants into the EU population is not in the other; the degree of congestion of the roads but costs have risen sharply. Development of local infrastructure, national and European will continue be in attention to decision makers in regional development, regarded as the very basic premise of local economic development, regional, union. The vision of urban development that meets environmental and social considerations in territorial planning policies envisaged by obtaining positive effects: policy coherence at all stages of its progress, expanding collaboration among agencies at all levels of responsibility, efficient use of structural funds EU cohesion and related environmental regulations in order to mitigate and limit urban sprawl, minimize mistakes and market failures leading to urban sprawl, in particular, towards land and housing prices soaring, the collection and dissemination of good practice in the development of compact cities, providing green spaces in urban areas, etc..

In Romania, due to the large differences between the socioeconomic life of rural and urban population migration phenomenon continues to town. In cities there is movement toward the upper class residential suburbs, while still congested areas inhabited by popular class.

The urban population enjoys a higher income level than the rural population but the issue of economic and social disparities in the urban environment can not be ignored; however, European countries examined do not face this problem as much with other countries of the world and the analysis reflected the distribution of correlations between income inequality and other socio-economic variables. We conducted this analysis to the 27 EU countries plus Norway and Iceland (Table 1) ⁴⁶³, ⁴⁶⁴, using statistical correlation coefficient.

Tab.1. Resident population in urban income distribution and inequality in EU countries + Norway and Iceland

Countries	Population resident in environment urban %	Inequality distribution income	Countries	Population resident in environment urban %	Inequality distribution income
Austria	66,5	3,7	Lithuania	66,64	5,9
Belgium	97,27	4,1	Luxembourg	83,93	4,1

⁴⁶³ World Urbanisation Prospects – The 2009 Revision, www.esa.un.org.

⁴⁶⁴ ec.europa.eu/eurostat.

Bulgaria	70,18	6,5		Malta	93,65	4
Czech Republic	73,52	3,4		Great Britain	79,04	5,6
Cyprus	69,44	4,1		Norway	77,49	3,7
Denmark	85,86	3,6		Netherlands	80,2	4
Estonia	69,4	5		Poland	61,46	5,1
Finland	83,67	3,8		Portugal	57,62	6,1
France	81,56	4,2		Romania	54,63	7
Germany	73,36	4,8		Slovakia	55,6	3,4
Greece	60,36	5,9		Slovenia	50,22	3,4
Ireland	60,48	4,5		Spain	76,72	5,4
Iceland	92,91	3,8		Sweden	84,32	3,5
Italy	67,61	5,1		Hungary	66,28	3,6
Latvia	68	7,3				

Source: www.esa.un.org and ec.europa.eu/eurostat, 2008 year

Resulted as follows:

- between the unequal distribution of income and gross value added produced in the tertiary sector (the most important and dynamic in the continent) the relationship is inverse, low intensity;
- between the unequal distribution of income and labor productivity the relationship is reversed, low intensity;
- between the unequal distribution of income and degree of urbanization of countries examined is the reverse link, average intensity (- 0.35).

Finally, those variables affect different and cumulative income inequality in the distribution of our continent; not to be missed determine which exercise the economic development of countries, quality business, quality and operability of the legal and institutional environment, macroeconomic policies of social protection but an accumulation of reasons such as personal, psychological.

Conclusions

Each of the demo-social determinants exposed here, reflects the overriding necessity to be alert to market dynamics and transformations, including duration, with reason, the idea that business should be thinking on long term; the overall market but the segment and types of consumers, must always known, especially with the lack of supervision as it can lead to action by the competition. Or competition in the European business environment is very dynamic, with accents sometimes offensive and aggressive, willing to know the smallest details of individual behavior but also the whole European market and work to attract, convince and possibly retain customer.

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CAUSAL RELATIONS BETWEEN NATURAL RISK AND BUSINESS RISK

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After a period marked by economic and financial crisis, the objectives and the priorities focused on restoring the balances, the correlations and the proportions of macroeconomic policy makers have focused attention to optimizing the relationship between man and nature. The environmental crisis installed affects the variables of the global economy system and compared with the economic crisis, its consequences are more perennial, more complex and dangerous. Environmental crisis management is based on truthful, complete and current informations regarding the interdependencies between natural risk and business risk within the system of risks that accompany our individual and societal existence.

Keywords: system risks, pure risk based on natural, natural risk with anthropic determination, risk-cause, risk-effects, business risk.

JEL codes: M21, Q51, Q53, Q54, Q56

The general coordinations regarding the natural risk

In the system risks, the natural risk is part of the range of pure, uncertain risk, in its many forms that determine and influence the life and work of the individuals, businesses, environmental. The pure risk is the result of natural major forces action and/or determining the psycho-socio-economic and political (anthropic)⁴⁶⁵. If, initially, in economic theory was made the opinion that this type of risk is not foreseeable danger to society⁴⁶⁶, today, environmental deterioration, climate change and the knowledge economy becoming more involved in environmental management, bring to light new features of the pure risk. So, in some cases, the predictability of their achievement is very low or even zero, but in most of the cases, the expert forecasts indicate the potential risk; what is uncertain and difficult to quantify, is the severity and the extent in time and space effects.

A significant feature of the pure risk is the result of achieving: if the risk decision can result in gains or losses, in situation of the pure risk the purpose can only be negative, destructive, harmful or even disastrous. The random element in such risks determine the difficulty or even inability boundary and assessing the possible losses and the control of the risk.

Natural risks can be:

- Pure, natural based: earthquakes, hurricanes, floods, volcanic eruptions, sea currents, solar radiation, dynamic factors of climate (atmospheric circulation, monsoon circulation, etc.).
- With anthropic determination (economic, social, political, psychological): air pollution, greenhouse effect, air humidity, ozone layer, acid rain, atmospheric phenomena venture with slow onset (arid climate, desertification, snow, ice , etc.)..

Each of those risks is treated in interrelation of cause and effect; the causes can be varied, the effects also; can not be said that one issue has caused only a consequence, the spread is imminent, in time and space. Causality and determination of the risks is certified and that, in literature but in real life, both the causes and the effects are considered risks - for example, the risk of flooding – risk of an area calamity. Thus each risk is engaged in the risk management

⁴⁶⁵ Danu, M.C., Business Risk, Plumb Publisher, Bacău, 2001, p.71.

⁴⁶⁶ Colson, G., Gestion du Risque, E.A.A., Paris, 1995, p.21-28.

system so that, the effect a type of risk is due to another instantaneous, short or long time, and so on.

The effects of the business risk – causes of the natural risk

Pure natural risks based stem from accidental or fortuitous events, depending on environmental vulnerability, hovering mostly beyond the decision makers and others involved. An important aspect is the change in socio-economically produced by major risks, in terms of production, consumption, distribution of wealth nations. It should shift to small business consumers of energy and raw materials, less polluting, and focusing attention to recycling and reusing the consumer goods as long a time. It also is important to establish the human efforts towards the maintenance and preservation, cultural heritage, artistic, ethnographic, scientific, etc.. and the protect to the contact with pure risks, potential major.

If the pure natural risk are the least caused by the human factor, the pure risks with anthropic determination are generated by the human activity, the costs of their achieving being incurred in present and the consequences in future. Thru size, scale, stretching across time and space, the pure risks with the anthropic determination can be major (high dimension and low frequency) or minor (some of which take place at the enterprise level).

Given the period 1987-2007, the main trends in manifestation of the risk associated or derivatives from the business environment and their impact on the environment were⁴⁶⁷:

- In 1987 the population had a significant impact on reducing ozone, but the situation improved in 2007; as a result of increases the consumer demand, during 1987-2007, increased emission of gases, having negative impact on climate change; if air pollution in 1987 was notable, particularly in urban areas in 2007, amid increasing the urbanization, grew the degree of pollution. The water pollution is an another negative effect of the irrational human intervention on environmental conditions and ultimately on their living conditions. If in developed countries the purification, the water treatment stays in the spotlight makers to ensure a healthy water, in poor countries raising problems in connection with the water sufficiency. The water pollution, may have the forms: toxic, bacterial oxidative, thermal, it is difficult to master or to control, have harmful effects on the human and animal health, leading ultimately to address other serious risks: the emergence of diseases, diseases - cholera, hepatitis, etc.. the disappearance of aquatic life, atrophy of body functions.

- At the beginning of the period, the agricultural production had a negligible influence on the ozone layer, but methyl bromide in 2007 was an important part of the decline of the ozone layer; in the period 1987-2007 the agricultural production has contributed to climate change through emissions of methane and N₂O and lately by their growth; if in 1987 the agriculture affected air pollution by emissions of ammonia and pesticides, in 2007 it was found that these emissions have increased proportionally with increasing the agricultural production. The agriculture, through intensive and irrational use of the pesticides, herbicides, artificial fertilizers, growth promoters, affects surface freshwater, soil, shallow groundwater, and long-term, deep water reserves, spontaneous and cultivated wildlife and vegetation, and on, the food, so the man. Outside the landscape change, the modern agriculture, based on intensive technologies and techniques developed for land use and farming industries implicitly assumes recourse to mechanization, use of chemical fertilizers, the substitute feed, etc., new means genetic selection of species, varieties, etc..

- The deforestation and forest fires affecting had a negligible influence on the stratospheric ozone decline over the period 1987-2007 but, contributed to the continued growth of GHG emissions; to the degree of air pollution, the deforestation especially forest fires have negatively impacted by CO, PM, NO_x. One of the atmospheric risk phenomena with slow developping is the desertification. Among the causes of desertification are important: the global or regional climate

⁴⁶⁷ Global Environment Outlook GEO - 4, Environment for development, UNEP, 2007, p.45

change, over pasture, deforestation so negative human involvement in the use of space in which they live and work; the propagated risks are: massive soil erosion and, sooner or later the desertification. The consequences are the most severe on the natural environment and, further, on the lives of populations in developing countries who choose the alternative of adaptation to conditions at the bearable limit or the abandonment of their nomadic life and anchoring into the sedentary life of a community. The progressive achievement of this type of risk has such profound and lasting implications on the individuals, both in terms of the rudimentary lifestyle, even primitive, with all ensuing gaps and the psychological risk with fingerprints on subsequent generations.

- During the reported period, the industrial production had an enhanced influence on the quality of the environment, to the ozone layer and climatic changes, due to the lower emissions; in terms of impact on the air pollution, if in 1987 he was important, in 2007 this risk had dispersed due to the increasing industrial production in some regions of the world and decreasing in others. Direct result of air pollution are the acid rain that threaten the forests and the housing, agriculture, the lakes (extinction of the lacustrine fauna), etc.. Prevention or mitigation of this risk is only possible by limiting emissions of sulfur dioxide from large industrial facilities or transportation. Being the phenomenon by which heat is trapped in lower layers of the atmosphere, resulting in a gradual warming of the planet, concomitant to the decreasing of the temperature in the stratosphere, greenhouse effect has origin as the water vapor, carbon dioxide, methane, ozone, chloro fluoro carbonates and other gases. Their concentration started to increase after 1800, so that after 1990 the average total value was with 25% higher than pre-industrial period. If the emissions would grow in the current rate, global temperatures would rise by 0.30 degree per decade, which would contribute to the desertification in the Sahel, cyclones, sea currents, etc.. An issue that raises more and more interest of the specialists but also of the business man is the waste. Endangering the environment with the transport and the storage of hazardous materials, increases the risk and the vulnerability which the modern society must cope with. With the development of the production, started by the industrial revolution, the trends were concentration, specialization in production followed by the concentrating, waste accumulation. In many cases, however, they were converted into secondary products⁴⁶⁸, used or even in the new products. Amplification of the process product specialization resulted in obtaining waste more complex and dangerous, increasing the risks derived from their existence simply.

- The tourism practiced unbalanced, irrational, can lead to excessive concentration of population in certain areas and endangering the ecosystem concerned.

- Energy production had little influence on the ozone layer over the range examined, however, the negative impact on the increased climate change; the energy production is an important cause of increasing air pollution, which, between 1987 -2007, has spreaded the globe.

- The transports had a bad contribution to the ozone layer in 1987 slightly were improved in 2007; on the climate change, the negative effects of gas emissions from transport were multiplied, in 1987 the transports have negatively acted on the air pollution (through emissions CO, PM, NOx) and in 2007 had a different impact from the one region to the another, from the one pollutant to the another. The consequences of displacement of the vehicles are: harmful gas emissions, recycled waste production, pollution concentration in large urban, the adverse effects on human health. Although the highest rate of increase in the number of cars has been registred in Europe, followed by Asia-Pacific region, the highest number of cars hold Europe and North America. Air quality is threatened in the developing countries, particularly where concerns and means of defense, protecting human health and living environment are minimal. Also, pollution from the maritime transport of petroleum products, mineral or other is very serious. In case of

⁴⁶⁸ Giardini, O., Certainty Limits - Facing Risks in the New Economy of Services, Edimpress-Camro Publisher, București, 1996, p.89-91.

stranding transportation such, the vegetation and the marine life are the first affected; plus the natural agents that can move to the coast oil stains, chemicals, etc..., causing the marine disasters.

- The negative impact of the consumption basic goods on the ozone layer decreased between 1987-2007 - and was maintained on climate change; on the other hand if the amount of biomass in 1987 was on air pollution effects in general in 2007 its growth has occurred mainly in rural areas. For luxury goods, consumption effects of ozone damage were decreased in terms of gravity; climate change has evolved from “major” to “dissemination of the growing emissions”; on the air pollution have negative effects in growth.

Simultaneously with the accumulation of industrial waste, widening consumption for the growing population whose needs are more difficult to satisfy, but it meant increasing quantitative and qualitative waste produced. The harmful effects of the existence of waste whether sterile or industrial, municipal, special (for incineration), toxic, nuclear, etc., can mention: disasters or sinister caused by the defective products continue functioning, whose physical wear is very high (explosions, fires), contamination of water, soil, air source due to the storage or discharge into areas that are not allowed, the visual pollution caused to the natural landscape and the proximity of some institutions, monuments, hotels, etc. All these risks come within the human domain and have adversely effects on the individual health and life. Furthermore, the incidences of the visual pollution on the individual are reflected in the risk of image on some sightseeing, cultural and non repetition of experience what obviously has repercussions on the company, organization. Because of the many effects arising from their existence, one of the major concerns of the current services economy is the prevention of waste and recycling

The minimizing of the business risks stemming from the global businesses, affecting the natural environment can be achieved using the instruments: technical progress and an operational regulatory environment. Thus, in recent years, the scientific researches and the technical innovations offer solutions to mitigate the downward trend of the ozone layer, more efficient use of energy sources and reducing dynamics of the climate change and as well the pollution shrinkage; the legal and institutional environment has evolved from a formal presence in tracking of the health effects of global business world to a living presence, active presence, mainly in developed countries.

Effects of natural risk – causes of business risk

From all the range of risks which operating in one way or another on the individual or his social environment, the pure risks, based on natural, have the most severe consequences and are the less frequent. Some of them have already made their presence felt by very serious consequences, others with slower progress will be felt by the future generations. Due to the multitude of these types of risk and their cost to society, is more acutely felt need to develop worldwide solidarity, the creation and strengthening global awareness that human activities are becoming increasingly interdependent.

Like pure risks based on natural, the natural risks with anthropic determination are systemic conditioned with other risks, both natural and entrepreneurial. Causal links between the changes in the natural environment and the anthropic environment can be highlighted as follows⁴⁶⁹:

- The air pollution in the form of the concentration and the deposition of pollutants recorded in the period 1987-2007, decreased in developed countries and maintenance in the developing countries; the exposure to this type of risk increased in developing countries and declined in the developed countries; effects on human welfare are on: health (respiratory and heart diseases, premature death and morbidity, asthma in children), the food security (low yield crops), the security and the physical security (border conflicts), the socio-economic situation, other effects (lower tourism potential, visibility, atmospheric effects, etc.). The soil acidification and

⁴⁶⁹ Global Environment Outlook GEO - 4, Environment for development, UNEP, 2007, p.50-51

eutrophication effects are: food security - increasing decline of forests and ecosystems, the minimizing of the potential of fisheries, safety and physical security - corrosion of materials and loss of biodiversity, socio-economic development - infrastructure maintenance costs, the decreasing of the touristic potential, etc.. Formation and concentration tropospheric ozone in the northern hemisphere will increase the effects: on the environment - exposure of the cultures, of the human and natural ecosystems and further on the health of individuals - respiratory problems, mortality and morbidity; on physical security - loss of biodiversity; regarding the economic and social status - low income, especially to the poor, all kinds of restrictions.

Increasing the levels of concentration of toxic air (heavy metals, PAHs, VOCs) has effects on air quality and for the people - cancer diseases; the food security is threatened by the contamination of food and socio-economic impact involves increasing health costs. Increasing the emissions of POPs will increase the deposition in natural ecosystems, the bioaccumulation in the food chain threatening food security, human health, the sustainability of fishery resources and in terms of socio-economic - minimizing trading of the fish species, increase the vulnerability of polar bears, etc.. For developing countries, pollution, generally, air, in particular, affects the exposure of population, growing of the mortality and a respiratory diseases and economically - the vulnerability of poor communities, impact on women and children.

- Climate change manifested by the stabilization of GHG concentrations will have consequences on the environment, such as: increasing of the air and water temperature, extreme weather events, precipitation, melting ice, ocean acidification; to the people are estimated the deaths amid stress, the different types of disease. The economic and social risks are: the risk of starvation, the decreasing of the agricultural production, the increasing of vulnerability of people, especially the poor, loss of property, threats to the livelihoods of communities. A survey of the managers' perceptions regarding the effects of climate change on business done in 2008⁴⁷⁰, shows four types of risk considered significant: legal risk, physical risk, the risk of image, the risk of litigation. Of these, the legal risk was found the most dangerous followed by the physical risk; the legal risk has a high level in the fields of automotive, construction materials industry, mining, metallurgy, oil and gas, transportation, utilities; a medium level in: aviation, chemical industry, financial sector, manufacturing. The physical risk is assessed as having high negative effects in the domains: agriculture, forestry, health, pharmaceuticals, insurance, tourism and the average level in construction, construction materials industry, finance, retail. The risk of image is claimed as medium in the in aviation domain. The natural risk produced in business environment requires makers to develop strategies to prevent, counteract it. The preparedness of the businesses environment to minimizing the impacts possible of the natural risks is considered to be very good in the fields of telecommunications, food and beverages, chemicals and very weak in transport, health, tourism, aviation, financial sector.

- The decreasing of ozone from stratosphere and maintaining the concentrations of ozone in the stratosphere will result in maintaining the radiations, ozone depletion at the poles and for people - cancer of the skin, eyes and immune system hazards. Food safety will be affected by decreasing fish stocks (especially phytoplankton) and food production. From the perspective of socio-economic impact translates into: decreased time spent outdoors, changing lifestyles, increasing spending to prevent exposure to ultraviolet radiation, etc..
- Loss of biodiversity and degradation of the ecosystems, as natural risk with anthropic determination, have the impact on business the different types of risk, such as⁴⁷¹:
- physical risk (reflected in reduced productivity, failure or shortage of resources and increased costs, particularly for companies that depend on the potential of plant, animal genetic material, etc., interruption or cessation of activities due to natural disasters products);

⁴⁷⁰ Climate changes your business, KPMG's Review of the business risks and economic impacts at sector level, 2008, p.36-39

⁴⁷¹ Biodiversity and business risk, World Economic Forum, Jan.2010, p.5, 8, 9

- legislative risk (manifested by restrictions on access to land and resources affected by natural risks, litigation, governmental limitations on the exploitation of resources, higher prices for products from areas threatened by loss of biodiversity);
- market risk (manifested mainly by changing consumer behavior);
- the risk of image (of firms exploiting resources or produce outputs with a negative impact on biodiversity);
- financial risk as a result of reduced cash flow, increasing the costs to firms concerned; risks on the marketing channels (the control of channels, increased costs).

Among the economic consequences of biodiversity loss and degradation of ecosystems, it notes: loss of bee colonies in the U.S., in 2007, meaning the \$ 15 billion financial losses; the soil erosion in Europe produces the economic damage of 53% per year; the pests cause the damages to the U.S., UK, Australia, India, Brazil, South Africa, agricultural, around of the 100 million dollars annually.

Of pure risks, natural disasters are the most serious; the volcanic eruptions lead to amplification of tidal level, lava flow, deaths in overpopulated countries, clouds of ash; the Katrina hurricane⁴⁷² hit the U.S. in September 2005 causing physical damage, economic, financial, psychological - most oil installations from the Gulf of Mexico were shut down, were increased the global oil prices, fell the GDP of U.S., it lost approx. 500,000 jobs in the New Orleans area and Gulf of Mexico, the financial losses estimated to the \$ 100 billion. Eyjafjalla eruption volcano in March 2010 caused the loss of European tourism 1.72 billion aviation industry losses of 200 million and closed the airspace of 12 European countries; by delays to the employees there have been losses of labor productivity € 1.5 million, suffered losses in areas: air transport industry, tourism, oil prices, courier service and perishable goods⁴⁷³.

The management of the natural risk should be included in the overall strategy of the firm⁴⁷⁴; a study realized by l'Economist Intelligence Unit in March 2008, on a number of 320 managers worldwide, reflect that 41% of respondents take into account the natural risks in launching policies new products, 32% in the selection of suppliers or customers, 26% in the penetration of foreign markets and 19% in shares acquisition or merger. Managing these risks depends on the quality of national business environment, the type of activity, the company's history and, not least, the ability of the entrepreneur.

Conclusions

Even if the action of natural factors can not be stopped, may be limited. Managers are required to apply effective risk management programs to reduce the frequency of occurrence and the severity of the risk. As it concerns the consumer, the achievement or the not of the natural risk and the perception on his consequences are dependent to the specific natural, economic, social and political conditions from the environment in which he lives and the particularities cultural, behavioral, personality, lifestyle desired or accepted, individual. Both for the companies and for the consumers, preventing, countering, mitigation of the natural risk effects and the relationships with mutual determination with the business risk is possible by using the information correct and lucid. Management of natural risk is based on the undeniable reality that the natural environment and managing this relationship supports the development of business and default risk-taking business. Management of business risk may not be operational without identification, assessment, treatment and control of all types of risk facing the company, primarily, to natural. Is a two-way relationship.

⁴⁷² <http://www.wall-street.ro/>

⁴⁷³ www.financiarul.ro/

⁴⁷⁴ Roussel, F., *Le risque environnemental est encore trop négligé dans les entreprises*, *Gestion des risques, Actu-Environnement.com* - 28/08/2008

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LABOR MARKET INTEGRATION OF HIGHER EDUCATION ECONOMIC GRADUATES

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Transition from school to work is a major research topic in the last. The main reason is related to the fact that after graduating finding a job is difficult and more often the graduates occupy vulnerable positions.

In Romania, one year after graduation, the insertion rate is 60,9% for university graduates and 35% for those with secondary education. This paper examines the process of insertion of higher education graduates in the Romanian labor market, focusing on economic profile graduates and using a national survey conducted on a sample including the 2003, 2005 and 2007⁴⁷⁵ promotions.

Keywords: labor market, insertion, youth unemployment

JEL: J01, I23

1. Literature review

The process of integrating young people into the labor market it is not smooth, in nowadays being accompanied by a period of turbulence and uncertainty. Young people are a great resource for the development of society, but this potential is not fully exploited because of the labor market inefficiency. According to the report published by the EU (2008), the youth position on the labor market is difficult not only in Romania but across Europe.

Currently, young people aged between 15 and 24 represent 18% of world population (1,2 billion, the United Nations World Report, 2007). Although the overall situation of young people has improved, there is growing concern that many of them cannot prosper. Inability to help young people reach a healthy adulthood may lead to their exclusion and marginalization.

The transition from school to work means the process of insertion/integration of graduates, of young people leaving the education system, on the labor market. Specialists believe that young people transition from school to work has become more protracted and difficult now than it used to be several decades ago (OECD, 1996, 1998). Currently, youth transition to work has become more complex, fragmented, extended, with a highly individualistic accent, depending more on personal skills for negotiating (Cartmel et al., 2002). Accordingly to an OECD (1998) study youth integration is not smooth, being often accompanied by a period of turbulence and uncertainty.

It is widely accepted that labor market integration of young people play a decisive role in determining their economic and social welfare and their future development. In this direction, the concept of transition from school to "decent work" was developed (ILO 1999 definition:

⁴⁷⁵ Research contract no.91-020/2007 PN-II Partnerships in priority areas, *Determinants of labor market insertion of higher education graduates*, coordinated by the National Scientific Research Institute for Labour and Social Protection (NSRILSP)

productive work in conditions of full equality of liberties, security and dignity, while labor rights are adequately protected and valued, together with the widest coverage of full social security schemes).

Bucker (2008) considers that uncertainty regarding the evolution of labor productivity is an important factor that slows down the process of integrating young people into the labor market and that is why education plays an important role.

Labor market flexibility plays an important role in the process of absorption of newcomers. This shows its ability to respond to changes occurring in the economic and social environment. Relations between labor market and other markets are made difficult by the labor market rigidity. Labor market flexibility is a necessity arising from new developments in the labor market such as the euro adoption. Several European countries have found a way to reconcile stability, flexibility and security and to create more jobs without sacrificing work quality (Denmark, Finland, and Italy). Countries with high flexibility have higher employment rates especially among the youth and faster conversion rate of temporary employment into permanent employment (in the last three years, approximately 65% of temporary job became permanent in Denmark, and 55% in the Netherlands).

In 2008 EU made an analysis on the young people integration in the labor market and divided the EU countries into four groups according to the youth labor market functioning and their major inconveniences. In this case we had: a) *friendly* labor markets which is characterized by high employment levels among young people (Austria, Denmark, Sweden, Finland, Netherlands, England), b) rigid labor markets (France, Belgium, Germany, Luxembourg and Slovenia), c) split labor markets (Greece, Italy, Portugal, Spain and Poland), d) major dysfunction between the training and the labor market (Czech Republic, Estonia, Hungary, Lithuania, Lithuania, Slovakia, Cyprus, Malta, Romania and Bulgaria).

2. Methodology and database

The data used was obtained as a result of studies conducted under the research contract no.91-020/2007 PN-II *Partnerships in priority areas, Determinants of labor market insertion of higher education graduates*, coordinated by the National Scientific Research Institute for Labour and Social Protection (NSRILSP), in which the authors have participated as members of the AES research team (consortium partner). The methodology used for data collection consisted of a survey at the national level in the second half of 2009. 2100 youth who graduated in 2003, 2005 and 2007 were interviewed.

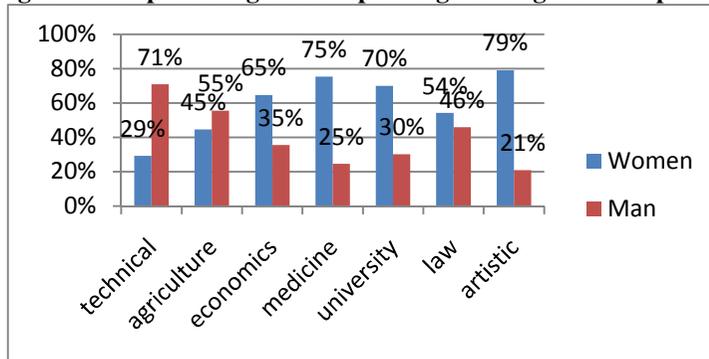
3. General characteristics of economic education graduates

Choosing the right major is very important for successful integration in the labor market. According to the 2009 ARACIS (the regulatory authority for higher education in Romania) report, the most important four factors determining the preference for a certain college are: *interest in the field, desire to know, wish to have high income, and wide public prestige that the university enjoys*. In relation to these factors, economic higher education occupies a privileged position, given the fact that during the 2008-2009 (and beyond) academic year most youth opted for economic sciences (32,4%), university-pedagogic sciences (29,3%) and technical sciences (19,7%). Preference for economic education becomes even more obvious when higher education is done in the public sector, where most students are enrolled for economic (44,3%), university education (26,3%) and juridical education (24,6%), according to the National Statistics Institute. As for the influence of family environment in choosing the career, matching the education level of parents with those of their children provide important clues (according to National Institute of Statistics). Thus, it was observed that 87,4% of young people from families with higher education background have a similar educational level. Among young people whose parents had an average educational level, 67% also had secondary education and only 21% higher education.

Depending on the graduated profile we can say that: for medicine graduates, the head of the family is, at a 47% rate, a faculty graduate, the same situation is found for the artistic and technical field (23% and 22% respectively). For other profiles, including the economic section (31%), the head of the family is a high school graduate. We can say that education level of parents greatly influence their children education level.

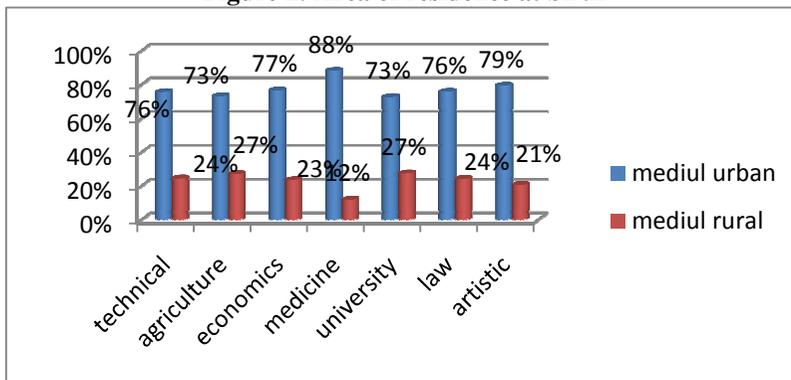
Regarding the respondent gender, it can be seen in the figure below that men specific fields are technical and farming. Economic profile graduates are largely (65%) female (Figure 1).

Figure 1: Respondent gender depending on the graduated profile



Most respondents live in urban areas (76%), which mean that access to education can be influenced to a large extent by the individual background. For the economic field only 23% came from rural areas (this being one of the lowest percentages in relation to the graduated profile, Figure 2).

Figure 2: Area of residence at birth

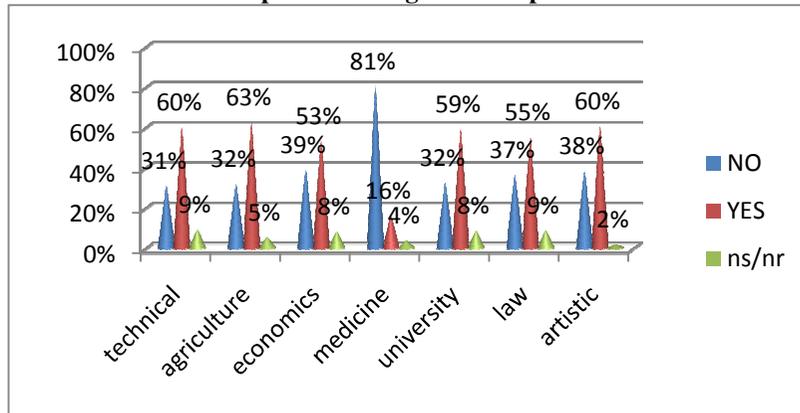


The participation in permanent education programs to complement the knowledge gained is relatively small. Thus about 1/8 of the investigated graduates have attended postgraduate courses (304), of whom the vast majority (86,5%) are master graduates. It is noted the increasing in the number of those attending postgraduate courses as a result of the Bologna process implementation. The post graduate profile may be presented in some defining lines:

- Graduates of university studies (30,7%), economic studies (27,6%), technical studies (17,0%), legal studies (9,5) and medicine studies (8,9);
- Faculty graduate – 92,9%;
- Public education graduate – 77,5%;
- Daily frequency graduate – 82,3%.
- First faculty graduate – 99,2%.

Analyzing respondents' opinion on occupational mobility, territorial and job stability there is a greater tendency to occupational mobility and territorial mobility than on external mobility. Of course, this desire is associated with a higher salary. However, surprisingly, the dominance came from those who prefer the job security and lower pay than an unsafe workplace and a higher salary. The authors interpret this situation by the worsening economic conditions at the time of the survey. Depending on the graduated profile, those with a lower mobility are those who have graduated medicine, due to the fact that they can change their occupation more difficult. The difference between those who want and those who do not want to change their occupation is the smallest for economic graduates (53% against 39%), due to close relationship between various opportunities offered by the labor market and employment benefits.

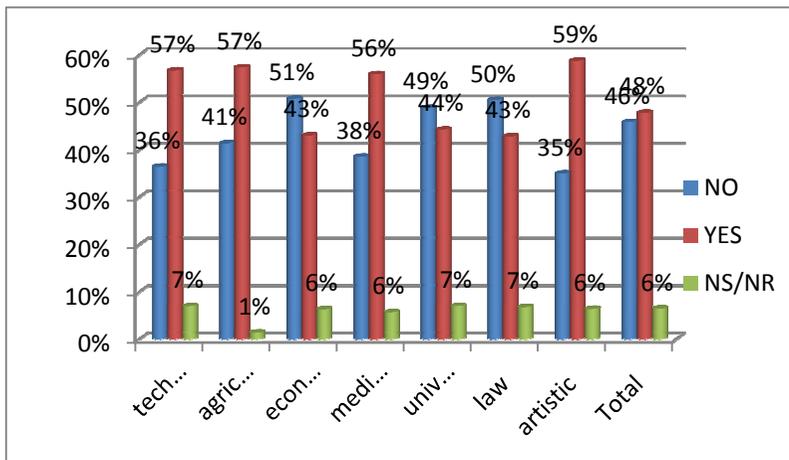
Figure 3: Structure of graduates who wish to change their occupation for a better job compared to the graduated profile



Regarding external mobility, 48% of the respondents would leave the country for a better job, while 46% would not. We believe that the small difference between the two options is given by the inertia of the social and cultural (including language) environment change and the narrow specialization of the Romanian labor market (which would indicate poor market integration in relation to that of the EU).

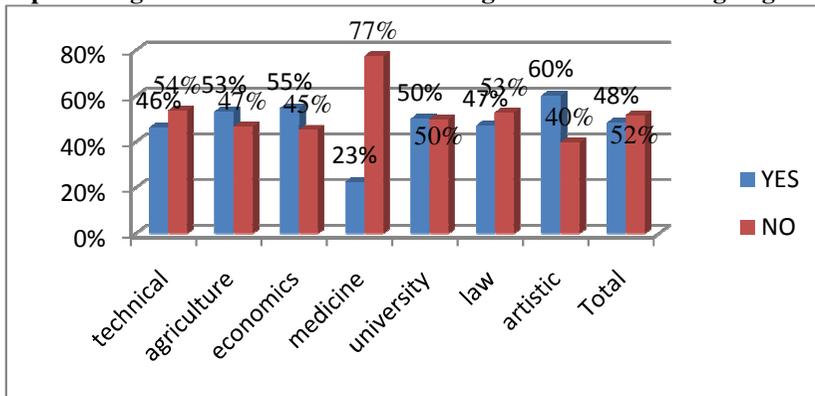
Analyzing the same problem, but depending on the area completed (Figure 4), it is noted that the vast majority of economics, law and university graduates would not want to go to another country, while other graduates would be willing to leave the country. This situation shows us that the first fields of studies are too much customized to the requirements of the Romanian labor market, while the other fields are more universal, having a bigger opening to the EU labor market (Figure 4).

Figure 4: External Migration depending on the graduated profile



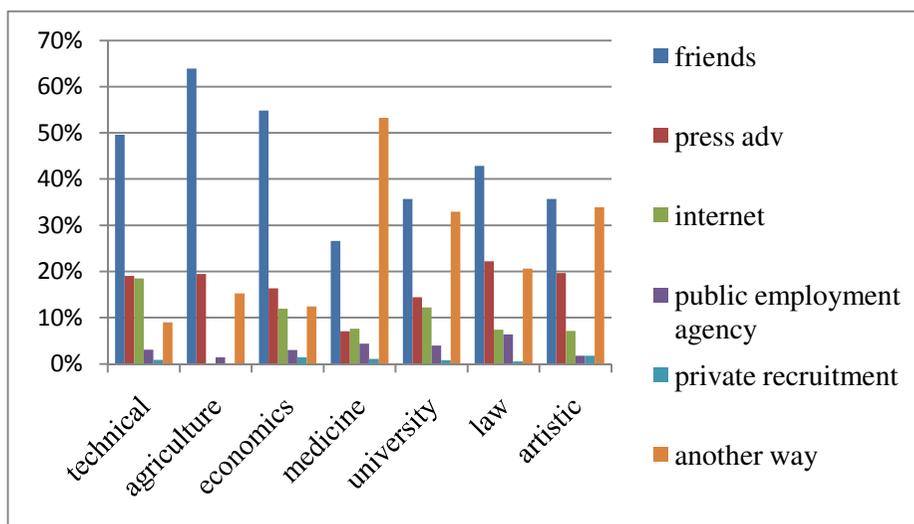
An important factor for the young graduates insertion in the labor market comes from professional experience. From the chart below we see that 52% of the respondents had worked before graduation. Compared with the graduated profile, we find that the medical graduates (77%) and those in the artistic field (60%) did not work while the economic graduates (55%) have worked. Young people want to work mainly because they need money (due to increased economic and social needs), because they wish to impress or show that they can take care of them.

Figure 5: The percentage of those who worked before graduation according to graduated profile



Regarding the way of job searching, most of the respondents used their acquaintances, friends (44%). From the figure below we see that economics graduates have the same trend, the difference being made only by medical graduates who have appealed mainly to a different way than the one listed in our questionnaire. This might suggest the existence of certain functional rigidities on the Romanian labor market. These rigidities are compounded by large disparities between residential environments in relation to the origin of higher education graduates, indicating an underdevelopment of the rural potential.

Figure 6: Searching for a job



4. Conclusions

Young people insertion in the labor market appears to be more difficult today than in the near past. This causes unemployment and partial unemployment among young people to be a global problem. Young people represent 25% of the global population of working age but totals 43,7% of the total unemployed - almost one out of every two unemployed is aged between 15 and 24 years.

There are many who blame the labor market rigidities for this situation as there are opinions that young people are excessive hedonism victims. Beyond the possible explanations, the phenomenon is quite serious since the youth are the main source of renewal for society and economy, the traditional promoters of progress. If the phenomenon tends to confirm on the medium and long term, than even the development of human society is in danger.

Romania is part of this trend of difficultly integrate the young people into the labor market. However, the success rate of higher education graduates is quite good (60,9%) compared with that of the high school graduates (35%). Choosing the economic profile has become the rule, this being even more evident for public education. This rationale is supported both by the family environment (due to secondary education domination among the graduate's parents) and the multitude of benefits and opportunities offered by this profile. However, the economic profile graduate is less mobile in changing the career and external migration. Mostly women, but moderate compared with the artistic profile, academic and medical graduates, the economic graduate has previous experience in the labor market than average, he comes from urban areas, rely on friends and acquaintances to acquire a job (but not as much as those from agricultural profile) and he is not so decided in changing the job.

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ON RISKY BEHAVIOR IN BIMATRIX GAMES

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The experiment engaging 50 participants was performed to model and identify the determinants of the players' risky behavior. Here, a questionnaire and a bimatrix game containing the negative/zero payoffs were used to identify the players' motives to play risky strategies. Besides the concrete form of the payoffs, the individual risk attitudes were also proved to be statistically significant for risky behavior of the players.

Keywords: Bimatrix Game, Experiment, Risk, Dominant Equilibrium, Maximin, Laplace Insufficient Reason Criterion.

JEL: C9, C91, C92, D84

1. Introduction⁴⁷⁶

An increasing amount of attention has been drawn in recent years to the rapidly growing branch of economics science named Game Theory and Experimental Economics. It is partly because of the fact, that they incorporate concepts such as irrationality and uncertainty, dismissed or marginalized by the classical economics. It also offers explanations to various “real life” economic situations. To do so, it often uses a powerful tool – matrix games. Games, simplified human interactions and situations, expressed in this form allow for conduction of clear, simple but still valid experiments. Players are asked to choose from the set of strategies. We may study their choices in order to better understand the dynamics of decision-making. Decisions over strategies often converge to equilibrium, such as the one described by John Nash, where mutually best response strategies intersect (Nash, 1951). To determine other potential sets of strategies to which the players may converge in the game, we may use techniques offered by the decision theory (see Hansen (2005) for an overview) such as maximin (Pruzhansky, 2003), which alongside with the Nash equilibrium, we use extensively in this paper. Other very interesting approach in the field of decision under uncertainty is a Laplace insufficient reason criterion. The Laplace's argument makes use of Jacob Bernoulli's Principle of insufficient reason. The principle is that if no information is available about the probabilities of the various outcomes, it is reasonable to assume that they are equally likely (Pažek, 2008).

⁴⁷⁶ Paper was supported by the grant VEGA No 1/0788/10

2. Model

Let $Q = \{1, 2\}$ be a set of players and sets $I = \{1, 2, \dots, m\}$ and $J = \{1, 2, \dots, n\}$ be their strategy space. The payoffs of player 1 and player 2 are defined by the matrices $\mathbf{A} = [a_{i,j}]_{i \in I; j \in J}$ and $\mathbf{B} = [b_{i,j}]_{i \in I; j \in J}$ respectively. Then, a two player game in normal form is defined as

$$\{Q = \{1, 2\}; I = \{1, 2, \dots, m\}, J = \{1, 2, \dots, n\}; \mathbf{A}, \mathbf{B}\}.$$

The strategies $i^* \in I, j^* \in J$ are the equilibrium strategies if for $\forall i \in I$ and $\forall j \in J$ the following holds: $a_{i,j^*} \leq a_{i^*,j^*}; b_{i^*,j} \leq b_{i^*,j^*}$. If the game has two or more equilibria denoted (i', j') , and (i^*, j^*) is the equilibrium strategies pair for which $a_{i^*,j^*} \geq a_{i',j'}; b_{i^*,j^*} \geq b_{i',j'}$ is satisfied, then (i^*, j^*) are called the dominant equilibrium strategies.

Alternatively, players can choose not to play the dominant equilibrium strategies, but rather to maximize the minimum guaranteed payoff, using the maximin criterion. In this case, player 1 (row matrix player) will select the strategy

$$i^0 \in I; \max_{i \in I} \min_{j \in J} (a_{i,j})$$

and player 2 (column matrix player) will respectively select the strategy

$$j^0 \in J; \max_{j \in J} \min_{i \in I} (b_{i,j})$$

The third option for both players is to play according to the Laplace insufficient reason criterion, where both players calculate their expected payoff of their strategy taking into account the equal likelihood of each outcome within the chosen strategy. According to this criterion, player 1 will select the strategy

$$i^L \in I; \max_{i \in I} \left(\frac{1}{n} \sum_{j=1}^n a_{i,j} \right)$$

and player 2 will respectively select the strategy

$$j^L \in J; \max_{j \in J} \left(\frac{1}{m} \sum_{i=1}^m b_{i,j} \right)$$

Our experiment featured a two player game with the following payoff matrices for treatment HIGH RISK:

$$\mathbf{A} = \begin{bmatrix} 5 & -8 \\ 3 & 5 \end{bmatrix} \quad \mathbf{B} = \begin{bmatrix} 6 & -9 \\ 4 & 5 \end{bmatrix}$$

For this pair of matrices according to our previous definitions the dominant Nash equilibrium strategies are $(i^*, j^*) = (1; 1)$. If players choose to maximize their guaranteed payoff, then they will select the strategies $(i^0, j^0) = (2; 1)$, and if they choose to play according to the Laplace insufficient reason criterion, then they will also select the strategies $(i^L, j^L) = (2; 1)$.

Treatment LOW RISK featured the following pair of matrices:

$$\mathbf{A} = \begin{bmatrix} 5 & 0 \\ 3 & 5 \end{bmatrix} \quad \mathbf{B} = \begin{bmatrix} 6 & 0 \\ 4 & 5 \end{bmatrix}$$

Just as in treatment HIGH RISK, the dominant Nash equilibrium strategies are $(i^*, j^*) = (1; 1)$, the guaranteed payoff maximizing strategies are $(i^0, j^0) = (2; 1)$ and the Laplace insufficient reason criterion strategies are $(i^L, j^L) = (2; 1)$. Since guaranteed payoff maximizing and Laplace criterions lead to the same results, we will not distinguish them further on.

Note that in both pairs of matrices the combination of strategies $i = 1$ and $j = 2$ results in a loss compared to any other combination of strategies. Therefore we will call these strategies risky and the opposite strategies $i = 2$ and $j = 1$ safe strategies in both treatments.

3. Experimental setup

Experiment was conducted as a classroom experiment at the Faculty of Economics of Technical University of Košice in the fall semester 2010. The experiment was run using ComLabGames software, which is designed to conduct experiments with players over the Internet. Every session lasted approximately 90 minutes and was conducted during the seminar of the optional subject Game Theory. A total of 50 undergraduate students participated on the experiment, of which 22 individuals participated on the treatment HIGH RISK and 28 individuals participated on the treatment LOW RISK. Among all players, 24 players were female and 26 players were male. Each treatment consisted of ten rounds. At the beginning of each session, supervisors invested 3 € into jackpot. Afterwards, each student was asked whether he wanted or not to participate on the jackpot. Supervisors then collected contributions of all the players that wanted to participate on the jackpot. The more someone invested into the jackpot, the bigger his claim on the final jackpot which included the 3 € invested by supervisors. The final payoff of each player was calculated by the supervisors according to his contribution on the jackpot and on his total score. Then, the players were asked to answer a short questionnaire, which was focused on the player's attitudes toward risk.

After, the experiment commenced. The software randomly and anonymously matched players into couples and then they started playing the matrix games. The payoff given by the matrices represented a score for the given round. After completing 10 rounds, the students were paid their final payoffs taking into account the total score they accumulated during the experiment.

3.1 Treatment HIGH RISK

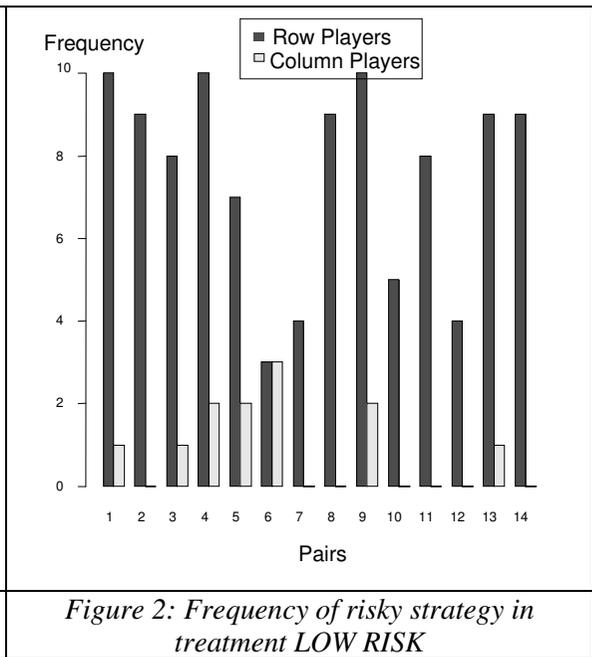
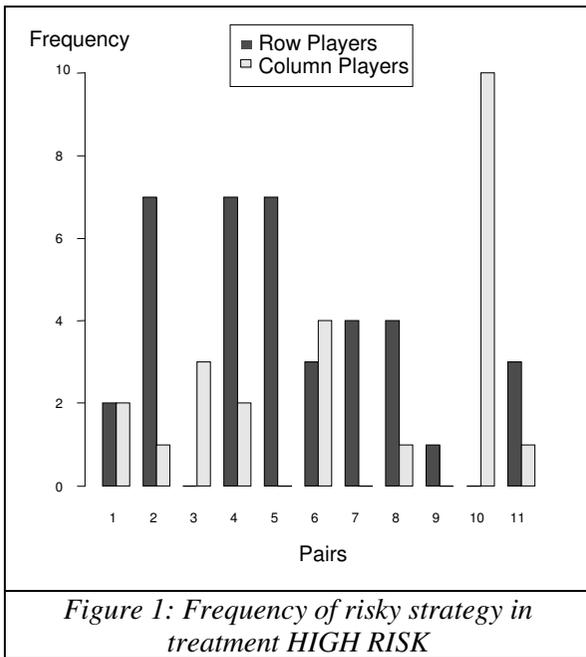
In treatment HIGH RISK the risk cell (the combination of risky strategies) contains negative payoff points (-8,-9) for both players. The hypothesis is: the presence of the risk cell containing negative points reduces the frequency of risky strategies of players in spite of abandoning the dominant equilibrium and lowering the total possible score of both players.

In treatment HIGH RISK, 14 females and 8 males participated. Results of treatment HIGH RISK are visualized in Table 1. Results show, that in the majority of cases (48,18 %) the combination of safe strategies was selected, meaning that players rather avoid the possibility of losses by reducing their gains and playing according to the maximin or the Laplace insufficient reason criterion.

	$j = 1$	$j = 2$
$i = 1$	30,00 %	4,55 %
$i = 2$	48,18 %	17,27 %

Table 1: Results in treatment HIGH RISK

Among row players, the risky strategy occurred more often than among the column players. Figure 1 shows the frequency of the risky strategy among row players and column players.



3.2 Treatment LOW RISK

In treatment LOW RISK the risk cell contains (0,0) points for both players. The hypothesis is: since the risk cell contains 0 payoff points and not negative points for the players, it will not reduce the frequency of risky strategies compared to treatment HIGH RISK. Thus, players will be able to reach the dominant equilibrium more often than in treatment HIGH RISK. In treatment LOW RISK, 10 females and 18 males participated. Results of treatment LOW RISK are visualized in Table 2. Results show, that in the majority of cases (67,86 %) the dominant equilibrium was reached. In other words, players played according to the dominant equilibrium criterion.

	$j = 1$	$j = 2$
$i = 1$	67,86 %	7,14 %
$i = 2$	23,57 %	1,43 %

Table 2: Results in treatment LOW RISK

Figure 2 shows how often the risky strategy occurred in the treatment LOW RISK. Compared to Figure 1, row players aren't risk averse any more.

3.3 Questionnaire

The questionnaire was aimed at determining players' attitudes toward risk. First two questions concerned the sex and the number of siblings of the players. Third question investigated the players' rate of trust toward banks, savings-bank, insurance companies and stock markets. Fourth question asked the players, whether they would buy some good or service from brand they did not know. Fifth question asked the players, whether they would be willing to lend money to a related person without knowing the purpose of the loan. Sixth question inquired whether players had borrowed something in the past and haven't given it back by now. Seventh question asked the players if they have used the services of a betting agency at least once. Eighth question verified whether the players actively participate in charity. Ninth question asked the players whether they would be willing to abandon their financial reward in favor of someone else.

4. Results and Discussion

This study was focused on the investigation of risky investment strategies in the context of the investors' personal characteristics. Here, gender and number of siblings as well as three trust and risk factors were investigated.

Based on the empirical analysis, in case of treatment LOW RISK female players used the risky strategy more frequently than male players ($F=1,027$, $p=0,048$). In treatment HIGH RISK this hypothesis proved to be statistically insignificant.

Investigating the influence of the number of siblings on the risky behavior of the players, proved that for the treatment HIGH RISK, selecting of the risky strategy was preferred by players having 1 sibling ($F=3,115$, $p=0,003$). In case of LOW RISK treatment, this distinction was not statistically significant.

The link between the preference of the risky strategy choice and the investor trust/risk attitude was also examined. In both treatments, the statistically significant differences in accordance to the mistrust factor "Investment into the unknown trade-mark good" ($F=0,876$, $p=0,045$ – HIGH RISK) and ($F=3,098$, $p=0,049$ – LOW RISK) were identified. If considering the trust factor „Active charity participation“, the risky behavior difference was also statistically significant ($F=1,089$, $p=0,034$ – HIGH RISK) and ($F=1,112$, $p=0,001$ – LOW RISK). Last investment factor „Using the betting agency services“ was also proved to be significant in both treatments ($F=0,845$, $p=0,009$ – HIGH RISK) and ($F=0,817$, $p=0,04$ – LOW RISK).

5. Conclusion

Based on the above presented research results, we can conclude that individuals expressing their positive risky attitudes in real situations, preferred risky strategies more frequently even in the experiment in both treatments.

Up to now we were only considering part of the social background and personal characteristics of players. However, we also proved that player preferences considering the risky strategy differed based on the treatment ($z= 3,53$, $p =0,002$). This means that players do not play by the same criterion in both treatments, but rather change the criterion they play by depending on the treatment they are faced with. In treatment HIGH RISK they played according to the maximin or the Laplace insufficient reason criterion and in treatment LOW RISK according to the dominant equilibrium criterion.

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A NEW CHALLENGE FOR THE ROMANIAN COAL INDUSTRY: ELIMINATION OF THE STATE AID

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According to the European Commission decision N 239/2007 the Romanian coal industry will receive state aid by the end of 2010. After this period public companies in this sector will finance the costs of current production and investment entirely by their revenue. This article presents a short literature review regarding the subsidization of coal industry, shows the evolution of the mining industry in Romania so far, and identifies opportunities for continuing coal production after December 31, 2010 without state aid. The paper concludes that the abolition of subsidies in is a positive measure but it must be taken gradually and responsibly, in order to ameliorate the negative effects on social and natural environment.

Keywords: coal industry, state aid, National Hard Coal Company

JEL code: Q30, Q38

1. Introduction

Reorganization of the Romanian coal industry is a problem that caught the attention of Romanian Government the two decades. Given the fact that 2010 is the last year for coal production direct subsidization (EC Decision N 239/2007), all economic and social actors directly concerned about the future of mining worked together to try solving this problem. The results of the cooperation were materialized in the development and implementation of Mining Industry Strategies (MIS: 2004-2010, 2006-2020, 2008-2020) that led to an improved situation and decreasing losses. Despite these efforts 2011 will be a difficult year for the continuation of coal extraction, particularly for the National Hard Coal Company.

2. Coal subsidization: short literature review

Coal subsidization is a well known government policy, used in many countries over time. Because of the geological conditions in most European countries the hard coal extraction costs are significantly higher than in other countries in the world. Subsidization is the only way to make domestic production competitive. Although it has been criticized for decades by many respectable economists the phenomenon hasn't completely disappeared but it has significantly reduced. One of the arguments against coal subsidizing refers to the fact that mining and the burning of coal is polluting and in stead of paying subsidies the governments should apply taxes to coal production and consumption (Anderson, 1995).

Germany, for example, has been subsidizing the hard coal mining sector since 1958, spending about EUR 128 billion between 1958 and 2002 and is considered the largest supporter of hard coal subsidization (Storchmann, 2005). There is no other subsidy that has been granted so many years at such a high level in Germany. Other European countries where hard coal subsidization persisted are Spain and Poland- the biggest coal producer in Europe with 84 million tones in 2008 (IEA, 2009).

A more recent article (Frondel M. et al, 2007) analyses the most cited arguments written against the abolition of hard coal subsidies in European countries.

The first argument is the security of energy supply. The authors criticize this argument sustaining that, as a consequence of liberalization, ascertaining secure energy and raw material supplies has now become the responsibility of the *private industry*, and this problem can be easily solved

using long term contracts and other modern methods. The growing of international coal trading is another assuring argument in this matter.

The second often used argument is the employment effect generated by mine closure in some regions. Against this argument it is mentioned the fact that the number of employees in the mining industry is considerably smaller nowadays than it was decades ago. For example in the Romanian mining industry were employed more than 300,000 people in the 80' compared to the few tens of thousands presently.

Other arguments against subsidizing refer to the opportunity cost of subsidies, negative effects on the environment and others.

Elimination of coal subsidies is also an important objective of by the European Commission. According to UE non-renewable resource policy the last year for coal subsidization in member states is 2010.

3. Romanian mining sector development and government policy

During 1970-1980, the mining sector in Romania was in full ascension offering well paid jobs and boost for the economic activity in many regions of the country. Mining activities have expanded in six of the eight regions of the country but were concentrated in the west and northwest (Bastida and Yupari, 2008). Socialist period strategy had a great influence on the development of mining in Romania. This strategy was based on self-support in ensuring mineral resources for the Romanian economy in order to reduce and eliminate imports. However mining was also an industry that received substantial subsidies employing over 350,000 people directly and 700,000 indirectly. (MIS 2004-2010).

During 1990-2007, the state spent the amount of U.S. \$ 6,156.4 million to support the mining sector, as shown in Table. 1.

Table No. 1: Public expenditures for the mining industry subsidization 1990-2007

Specification	Value (million U.S. dollars)
Subsides	4,125.20
Social transfers	316.9
Capital allowances	1,714.30
Total	6,156.40

Source: MIS 2008-2010

In addition, for the same period mining operating companies recorded a loss of U.S. \$ 1,729.4 million (MIS 2008-2010). For reducing the enormous public expenditures in this sector reorganization was impetuously necessary.

Closure of unviable mines was done in two stages. The first stage representing the period before the year 2000 was rather chaotic, paying more attention to economic issues and less responsibility for social and environmental impact. In the second stage, during 2001-2003, about 75 mines were closed and state support was given for protecting the environment and economy. In figures, by 2004, production was halted in 344 mines of which 82 were completely closed and the closure of 191 mines was outsourced to companies. The remaining 71 were preserved to be closed permanently later. (MIS 2004-2010). In early 2004 the number of people employed in mining reached 61,700.

However, subsidies to mining companies continued to be supported through two projects funded by loans from the World Bank:

1. "Draft Mine Closure and Social Impact Mitigation Project" worth U.S. \$ 44.5 million, financed by International Bank for Reconstruction and Development (IBRD) loan.

2. "Mine Closure Project, environmental restoration and Socio-Economic Regeneration, worth 120 million dollars, was financed by IBRD loan and approved by Law no. 167/2005 and extended over a period of 5 years. The project was divided into two components: component of mine closure and environmental and social regeneration. (Bastida and Yupari, 2008).

In 2004, employment in hard coal and lignite mining was approximately 60% of the entire workforce in the mining industry, of which 16,000 were employed in 12 underground hard coal mines, on the site of Jiu Valley and organized as the National Hard Coal Company (CNH). These mines have been continually receiving consistent subsidies from the government because their income was always below their expenditures.

Extraction of lignite and brown coal has proven to be more viable despite the fact that these types of coal have a lower calorific value than hard coal. Extraction was done by two public companies, the National Society of Lignite Oltenia (SNLO) and National Coal Company Ploiesti (SNCP).

Table No. 2 – The evolution of coal production in Romania

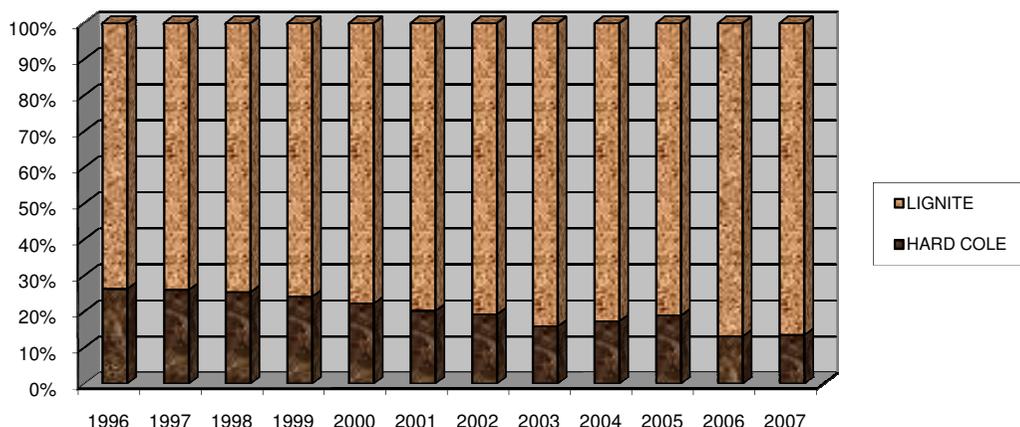
Year		1996	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL COAL	million tones of oil equivalent*	8.065	5.601	6.239	6.117	6.536	6.192	5.793	6.477	6.858
	million tones	36.5	26	29.7	29.3	30	29.1	28.1	32.4	32.7
LIGNITE	million tones of oil equivalent*	5.944	4.354	4.979	4.942	5.499	5.12	4.698	5.628	5.933
	% in total (oil equivalent)	74%	78%	80%	81%	84%	83%	81%	87%	87%
HARD COAL	million tones	5.3	3	3.5	3.7	3.0	3.1	2.7	2.6	2.6
	million tones of oil equivalent*	2.121	1.247	1.26	1.175	1.037	1.072	1.095	0.849	0.925
	% in total (oil equivalent)	26%	22%	20%	19%	16%	17%	19%	13%	13%

* Oil equivalent (10.000 kcal/kg)

Source: MIS 2008-2010

The competitive advantages of lignite are the lower exploiting costs, smaller risks involved with the extraction process (especially in surface quarries) and the existence of higher technology and reserves. These advantages influenced the annual growth of the quantity of lignite extracted.

Figure No. 1 - Evolution of the ratio between the lignite and hard coal extracted (Both expressed in tones of oil equivalent – data from Table No.2)



4. The coal industry in the last period of state aid: 2007-2010

Starting January 1, 2007 the only coal producing company in Romania which has received state aid is the National Hard Coal Company (CNH). The objectives of this measure are to finance the company's current production and cover the costs of maintaining access to coal reserves underground Jiu Valley. European Commission notes that, in terms of financial restructuring, CNH will provide increased productivity by 2010, up to reaching a level that will ensure its operation without state aid (EC Decision 239/2007). Romanian authorities have indicated that they used some technical and economic criteria for establishing a list of units within the company to be included in the restructuring plan and, therefore, receive this support to continue their activity.

The total budget of this measure is Romanian LEI (ROL) 1,289,562,000, which is distributed in the period 2007-2010 as we can see in Table No. 3.

Table No. 3. Distribution of state aid during 2007-2010

	2007	2008	2009	2010	TOTAL
TOTAL state aid (ROL -thousands)	401,440	338,940	293,160	256,022	1,289,562

Source: EC Decision N239/2007

For better understanding the importance of state aid in the proper functioning of CNH we will continue by presenting the company's estimated income and expense during period 2007-2010. We will also present the evolution of one of the most relevant efficiency indicator often used in the mining industry: Expenses at ROL 1000 of goods production (Table No. 4).

Table No. 4 CNH main indicators 2007-2010

National Hard Coal Company	2007	2008	2009	2010
Estimated production costs (ROL / tone of coal extracted - tec)	642.2	617	595.4	582
Income (ROL/tec)	320	343.8	361	379
Differences=costs – income (ROL/tec)	322.2	273.2	234.4	203
State aid (ROL/tec)	289.4	243.7	204.6	173.1
Expenses at ROL 1000 of goods production (ROL)	2006.88	1794.65	1649.31	1535.62

State aid weight in Total production costs	45.1%	39.5%	34.4%	29.7%
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Source: EC Decision N239/2007, author's calculations

By reading the table data we can observe a gradual reduction of the expenses to ROL 1,000 of goods production, from ROL 2006.88 in 2007 to ROL 1535.62 in 2010. Estimates of the decreasing evolution of this indicator in CNH are confirmed by other recent studies (Csiminga, 2009). This indicator's reduction of approximately 25% is achieved through a significant restructuring process in the fields of human resources and equipment. Although indicators evolution in Table. No. 4 is positive, there is a significant gap between last year's (2010) revenues and expenditures which makes it very difficult for the Company to continue production in 2011 without subsidies.

5. Perspectives of the Romanian coal industry after the year 2010

National Planning states that by 2020, electricity production based on coal should remain at 33% - 35% of the total production capacity. Therefore, a strong domestic market is available for hard coal and lignite.

Extraction of the latter is carried out since 2009 without subsidies, and the amount extracted has increased from year to year. The lignite quantity scheduled to be extracted annually is about 32 million tones per year and the reserves in the Oltenia region will ensure production at present capacities for the next 47 years (ESR 2007-2020)

The future production of hard coal is uncertain because of the bad financial results of the National Hard Coal Company, the only hard coal producer in Romania. The two major obstacles of this structure are:

- accumulated historic debt;
- low efficiency of business operation;

The historic debt of CNH is currently about EUR 1 billion of which 70% are penalties. This value represents about four times the value of the company's assets and it is impossible to be paid. The solution found by the Government for this problem is simply deleting these debts. Representatives of the Ministry of Economy, Commerce, and Business Environment are currently following the appropriate procedure to obtain a favorable notice from the European Commission in this issue.

The low production efficiency is influenced by the bad geological conditions and lack of modern extraction technologies (Ilias et al, 2008).

In order to increase the activity efficiency action is taken in the following directions:

1. *Reducing personnel costs*, which are approximately 70% of total expenditure by layoffs, the number of employees who left the system in April 2010, is 1420. This represents about 15% of CNH staff..

2. *Increasing productivity by investments in efficient equipment*. A recent literature study (Ilias et al., 2008) shows us that the mining activity could be viable in some of the units constituting the CNH by using modern mining methods and equipment. But the new technologies can not be adapted to all mines and therefore 4 of them would be closed after the year 2010 if there are no subsidies. Even for the 3 remaining mines installation and utilization of mining units is difficult and problems that occur can temporarily interrupt production and create fluctuations to the coal quantity delivered.

3. *CNH vertical integration* with the main clients: Electrocentrale Deva, Termoelectrica Paroseni, and a part of Hidroelectrica Society divided to create two large energy companies that will provide heat and electricity required throughout the country.

The third measure, the current government initiative, is criticized by the World Bank because of the coal-hydro-nuclear energy mix, saying that companies generating losses like some of the mines composing CNH will be in advantage on the behalf of profitable ones.

6. Conclusions and recommendations

Eliminating state aid in the Romanian coal industry will adversely affect the activity of the National Coal Company, customers and suppliers, as well as the economic and social environment of the Jiu Valley. The lack of a clear plan of activity after the end of 2010 generates concerns among CNH employees, small and medium enterprises in the area, local authorities and other economic and social actors.

The current situation in the Jiu Valley is difficult because of the lack of certitude. The activity is conducted “by inertia” and the measures taken to make coal exploitation more viable were only partially successful. This statement is reinforced by the lack of action in recent years for solving historical debts problem (so obviously necessary, regardless of the future), lack of a new collective labor agreement for the years 2009 and 2010, and no realistic business plan for the coming years.

Measures to be further taken will have to consider the following aspects:

1. *Strategic*: by considering the importance of energy independence of the country on long terms. This can be achieved in part through continued domestic production of hard coal. According to Romania's Energy Strategy for 2007-2020 coal reserves in the Jiu Valley region can ensure continuity of energy production at present capacities for at least 30 years.
2. *Economic*: by considering the impact of mining activity on other economic sectors. Because of the strong local impact, mining has the potential to promote complementary activities in other economic sectors in the region.
3. *Social* aspects require a special attention. Restructuring the mining industry involves reducing personnel. This measure affects the populations' current quality of life and the opportunities of future generations. The social aspect also includes health, education and training programs for former employees.
4. *Environmental*. Mine closure requires protection of public health and safety, alleviating or eliminating environmental damage and achieving a productive use of the land, a return to its original condition or an acceptable alternative. It is a complex procedure that requires planning and following specific steps.

Given the changes in key indicators of the CNH, presented in Table No. 4, in particular the expenses at ROL 1,000 of goods production for year 2010 that overcome revenues with about 50%, the company could encounter a financial jam during 2011 in the case of a complete elimination of subsidies.

Therefore I consider that the abolition of subsidies should be made gradually in the following years and combined with a restructuring and closing program. In addition to these measures the government should make parallel investments in the Jiu Valley infrastructure (especially for finishing construction of the road between Uricani city and Herculan resort) and stimulate private initiative in production activities and tourism.

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FACTORS INFLUENCING INNOVATION IN SMES IN ROMANIA

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Innovation is a broad concept and it is not in contradiction with tradition. Any entrepreneur, even when working in a traditional sector or businesses with strong traditions such as a family business can be innovative.

Innovation is not only pushed by the entrepreneur but is increasingly market pulled. Through an innovation entrepreneur it is wanted to influence his market structure or to develop new markets. Radical innovations introduce new business concepts, which require an ability to organize resources and competence in novel patterns. Enterprises extend their ability to develop new business concepts, their dynamic capability, by accessing external resources. This study proposes to investigate how the use of external resources varies in the course of SMEs innovation processes, and how deployment of external resources is influenced by the nature of the innovation as well as by the context of the innovation process.

Keywords: Small and Medium Enterprises, competitiveness, innovation.

JEL: O32,Q55

Introduction

In an increasingly complex business environment, organizations have been confronted with rapid changes in technology, competition, regulation and customer needs and demands. This has caused managers and researchers alike to search for new ways of developing organizational capabilities by continuous adaptation and anticipation of the need for change. Organizational learning, which promotes continuous adaptation and change, has therefore captured the imagination of managers seeking to survive the current turbulent operating environments.

Innovations may represent novelties in one or along several dimensions. They may provide new products or services to a market; they may introduce new technology to existing products; they may introduce new forms of organization of a SMEs or a value creation chain.

The focus here is on innovation processes that are more than minor improvements of existing products or processes. Our interest is the introduction of products or processes that are novelties to the degree that they represent new business concepts, and will require and provisions outside daily operations.

A new business concept is the spark that triggers the innovation process. It is on how the novel products or processes may be achieved from the platform of current products, that is, products and processes, combined with thoughts or estimates of the market new business concept. The new business concept is conceived from the current state of products and processes in the enterprise, the current markets and a perception of future market opportunities.

With the current rapid transformation of markets, enterprises would quickly stagnate and competitive positions without renewing. Such renewal is most often produced by several small adjustments, commonly referred to as incremental, stepwise or gradual innovations. In many cases, incremental innovations are implemented in the course of ordinary operational activities hardly noticed from day to day. However, the cumulative effect of incremental innovations is usually sufficient to maintain a competitive position when changes in markets follow predictable patterns.

Consistency between two major elements is decisive for a successful completion of the SMEs innovation process. The first element is the character of the innovation - what challenges does the innovation present. The second element is the capability of the SMEs to address these inherent challenges, that is, the capacity of the enterprise to muster resources and to act in a sufficiently dynamic way.

Literature review

Innovation is not confined to the area of entrepreneurship. Also other agents such as government agencies or non profit institutions can 'innovate' but in this paper we limit the discussion to innovation and entrepreneurship, operating in a market environment.

By definition, innovation processes address novel products or processes that require new capabilities or a new application of existing capabilities. Moreover, when the innovation requires interaction between an increasing number of components or subsystems, the complexity of the innovation process will increase rapidly.

The link between entrepreneurship and innovation has been established strongly since Joseph Schumpeter. Since then innovation is considered as an essential characteristic of entrepreneurship. The link is emphasized by any textbook on entrepreneurship, even introductory ones, such as for example Zimmerer and Scarborough in its fifth edition (2008): "Entrepreneurs also create innovations to solve problems they observe, often problems they face themselves".

The fundamental issue is the management of innovation processes, which differs from management in general (Salomo & Hölzle, 2007) due to the high level of uncertainty and application of novel competence.

However, in discussions on innovation there is a tendency to associate it with large, technologically advanced firms. This was already a sensitive point for Schumpeter, as can be read in the contribution of C. Freeman in the Palgrave dictionary: "Schumpeter (1928 and 1942) is often known for his emphasis of the advantages of large size and monopoly on innovative performance, whilst traditional theory has continued to stress the advantages of competitive market structures".

Business innovation processes require access to new resources, including competence (Bayer & Gann, 2007; Chell & Baines, 2000), which are frequently tapped from external sources. Many therefore consider better access to such external resources to be a vital policy instrument to support the innovative capacity of the business sector, especially for smaller enterprises. The term innovation system (Cooke, 2001) has often been used to describe the interaction between an individual firm, on the one hand, and firms and institutions that can provide such resources on the other hand. Innovation systems have received attention from researchers as well as policy-makers as possible instruments for improving the innovation capacity of enterprises. It is imperative that innovation systems are developed with a thorough understanding of how enterprises utilize external resources in their innovation processes.

During times of dramatic changes in the business environment or when SMEs exploited completely new opportunities, incremental innovations would not provide sufficient le for rapid and large transformations. We refer to these large transitions over a short time period as radical innovations. They are also referred to with terms such as discontinuous or really-new innovate (Garcia & Calantone, 2002; McDermott & O'Connor, 2002).

The innovation capacity of an enterprise thus rests on the foundation of its resources, which have been accumulated as a result of previous activities. These resources have been shaped by the needs of the past and are subsequently applied in the current innovation process to respond to the needs of the future. The ability to come up with novel solutions will therefore depend on an ability to adapt the resources in response to the new requirements of the innovation process (Eisenhardt & Martin, 2000; Pek-Hooi, Mahmood, & Mitchell, 2004; Teece, Pisano, & Shuen, 1997).

Eisenhardt and Martin (2000, 1107) define dynamic capability as “...the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die.” The dynamic capability is thus the process at the strategic level that enables the enterprise to change the content, structure and organization of the resources that are available to the innovation process. Correspondence between the dynamic capability and the dynamic change patterns of the business environment is essential for the long-term survival of the firm. Therefore, adequate flexibility in its dynamic capability constitutes a significant part of the core competence for a firm’s innovative sustainability.

However innovation is not only a matter of product differentiation or product management in general. It refers to all aspects of doing business. Entrepreneurs can be innovative with regard to any aspect of running their business including the production processes, the organization structure, finance management etc. Innovation can be successfully applied in ‘new’ sectors such as high-tech but as well in very ‘traditional sectors in industry, services and even agriculture. It can be successfully applied in new startups with an informal business culture but also in existing businesses such as family businesses with a tradition of several generations. Small as well as large businesses can be innovative with regard to their product, their technology, their organization or their financial management.

Government intervention within the European economic area

Businesses operate in a market within an open space such as the European Economic Area. When a national or regional government wants to design a policy to support entrepreneurship in general of innovation in particular, it has to focus on the businesses which are active on its territory.

This is a very important case for EU policy. On the one hand there is an argument in support of positive government intervention; on the other hand the European Commission has to watch carefully the rules of fair competition within the European Economic Area. The following quotations from European policy documents show that it is not easy for the European Commission to find equilibrium between these considerations.

“The identification of policy areas should be market-driven, in full respect of the need to preserve free and fair competition. Without excluding any areas from such initiative, there is a clear public interest in helping the emergence of solutions that would provide answers to citizens concerns. These would, in particular, be areas where public authorities play a critical role to eliminate existing barriers to market take-up of new products. However, this should not be at the expense of supporting innovation in more traditional sectors” (2006, p. 12)

Innovation is market driven and not only pushed by the firms. This has been recognized by the EU: its policy should be devoted to support ‘innovation management’ and to develop the promotion of markets. “‘Innovation management’ is a prerequisite for innovation to flourish in firms. Many enterprises, especially SMEs, encounter difficulties in planning, implementing and marketing innovative products and in innovating in their production processes. Innovation cannot work without taking people into account”. “Enterprises of all sizes should be more flexible in responding to rapid changes in demand, adapt to new technologies, such as ICT and e-business, and be able to innovate constantly in order to remain competitive”. (2005, p. 17)

The main motivation of the European Commission to accept state aid within the European Economic Area is the possibility of market failures. “Aid for projects covering fundamental and industrial research and experimental development is mainly targeted at the market failure related to positive externalities (knowledge spillovers), including public goods”. Other forms of aid are motivated in a similar way (2006, p.8)

Innovation and competitiveness in the Romanian SMEs

Innovation is a crucial concept involving creativity, organization and profitability but can it be measured? Is it possible to use operational concepts that allow measurement?

The creation of new businesses is necessary for the renewal and modernization of the economy but not sufficient. The new businesses also must be of 'good quality'. But what does that mean? One of the characteristics of this 'good quality' is the degree of innovation. Now the question arises: is it possible to measure the innovation?

From the first 10 states using the GDP for each inhabitant, only one has a social contribution in the net profit resembling ours, Suede, with 38%. Next we find Finland with 29,6%. But the first 5 states as a developed well being of the population has reduced ponders: Norway (16,3%), Island (13,7%), Switzerland (11,5%), USA (10,1%) and Denmark (2,2%). The data confirms a much tied connection between the work tax and the suburb economy, comparing that between the income tax and gray economy. The Northern states with large amount of social expenses in the brut profit have also increased suburb economies. Suede, Norway and Finland, have gray economies of 19%, while USA or Switzerland – only 8,8% of the total economy. In spite of reducing the income tax and those on the profit to 16%, Romania with assistance expenses of 38,6% has a suburb economy of 34,4%. It is very logical why a company manager to be very reticent to legalize his affair, as long as due to the "fiscal reform" it has a reduction for taxes, incomes and contributions by 2,2% of the brut profit, and not 9% as the governors say.

In Romania was created a vicious circle where the state is ensuring the minimum financial resources for stimulation of knowledge-based economy and only a few companies proved able to compete through innovation. Very often knowledge is strongly connected with people and all or part of it can do a major challenge. Innovation system is important for clarifying the area of innovation policy and also for fostering the interactions.

According to the statistics of Ministry of Education and Research until 2002, a number of 590 units were involved in the innovation system. Out of which 280 were research and development institutes and 310 joint-stock companies (public or private) with research -development as the main object of activity. Since 2003 the situation of research system was improve because, on the hand, Romania became a member of the European Patent Convention in March and, on the other hand, the Government took the Decision 406/2003 where there are present specific conditions regarding the eligibility of a firm or a department of research institution to be considered as an innovation entity. In the document is specifically that the applicants for such a status provide certain documentation in order to be accepted. So, being with that decision an innovation entity can be called innovation infrastructure unit, practical a new concept was introduced refers to technological transfer centers which are financed through a governmental program. That initiative is very important for creating the visibility of the entity which wants to invest in innovation. The current situation of Romania is highly dependent upon the visibility level and the research system that includes the research institutes, the research departments of universities, and research departments of the companies.

The specific situation in Romania regarding the research system was considered to be the only policy element, so, research and innovation are not approached as different process that address distinct markets and have a different timelines. This does not mean that the research units are able to move on the global technological frontier and increase their chances to apply innovation.

The initiative to the governmental level of innovative process based on the market strategies have the most important role in transforming the visible knowledge into marketable products and representing the economic opportunity of recombining knowledge. At top of that, more and more companies have involving in different stage of the innovation process. In order to stimulate the companies to start their learning process, the first necessary step is to ensure a higher visibility of the economic benefits that knowledge incorporation brings about.

In this direction in Romania the capital and financial channels for innovation activities can be the private venture capital. The availability of that capital does not depend only on financial issues, but also on other factors as follows:

- the risk propensity;

- the provider's capacity for technical evaluation;
- the provider's insertion on the innovation market.

The innovation infrastructure includes: incubators (infrastructure for start-ups), technological parks (experimental facilities), technical transfer centers and the system of intellectual property. Regarding the infrastructure the government consistent policy measures according to the recently launched National Plan for Developing the Infrastructure for Innovation and Technological Transfer. In this plan is mentioning the amount which is destined to co-finance centers of technological transfer, office for connection with industry, technological parks and technological incubators.

Ministry of Education and Research and the Ministry of Communications and Information Technology aim to attract to industrial parks with intention to create such parks in every Romanian city that has a university center. They estimate that around 50 business incubators have been created, but there are no monitoring mechanisms and no efficiency criteria or targets for them.

The whole set of documents released by the Romanian authorities regarding the evolution of research, development and innovation systems does not even address the issue of patents and it was only in 2004 that the grants are made conditional on patent applications.

Results and discussion

At the moment, companies hiring less than 10 employees produce more than 20% of Europe's value added and offers employment for approximately 50 million European Union' citizens. SME represent 98% of approximately all enterprises in Europe. Approximately 80% of their activities are carried out at a local or regional level.

Therefore, for Romania the small and medium businesses are representing the engine of the economic growth and a vector for disseminating the research and development results. The increase of the small and medium businesses sector had a positive influence upon the businesses environment reducing the unemployment rate and increasing the productivity. It is necessary for the Romanian state to rethink the fiscal system in order to better sustain the growth of the small and medium businesses sector taking into consideration that even though its major role in the development of the country is known and admitted the support is not likewise. We think of this considering that even though the number of the small and medium businesses in Romania has grown, the number of small and medium businesses to 1000 inhabitants is under the number from the European Union (in Romania the number of small and medium businesses to 1000 inhabitants is 25 and in the European Union is 64).

Strategies related to the environment characteristics, when an accentuate competition on the internal market and a rapid change rhythm in their activity domain can be associated with the orientation to the international market- between them it should be mentioned the niche's strategy, which presupposes their concentration on the products and services for which it is disposed competitive advantages as a result of their capacity of innovation, adaptability and personalization of the production in connection with the request exigencies.

Conclusion

Innovation is a broad concept. Innovation is not in contradiction with tradition. Any type of entrepreneur, even when working in traditional sectors or in businesses with strong traditions such as family businesses can be innovative with the product, the production process or any aspect of doing business.

Innovation is increasingly market pulled: entrepreneurs meet and want to solve a problem but at the same time the entrepreneur wants to influence his market structure or to develop new markets through his innovation. Policy has to protect intellectual property and to promote competition. There is a high correlation but not full coincidence between entrepreneurship and innovation.

The degree of innovation is monitored by policy makers. A high degree of innovation is considered to make the economy more 'competitive'. Innovation will not only support the development of new products or increase the productivity of labor and capital, but also bring more economic growth, employment, a better balance of payments, improve the labor conditions etc. There is clearly a link between microeconomic issues such as entrepreneurial startups and macroeconomic performance.

It is not easy to measure innovation. Businesses operate in international markets while policy makers focus on a territory. Very often the effect of a policy is felt beyond the territory of the government. In a large area such as the European Economic area there is much interdependence and many spillovers. This is especially the case in a small open economy operating in this type of market as is illustrated by the case of Romanian.

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MAJOR MISUNDERSTANDINGS IN ECONOMIC CRISES, IN THE LIGHT OF KNOWLEDGE SOCIETY

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Present study reviews certain main pro-active approaches and connections. Searching for root concepts, a number of current views on causes of today's crisis are selected. They are viewed through the criterion of their effects in practice, in a heterodox approach which is a critique of standard economic routine. Connections are made with the intellectual core of the knowledge society, in the context of the required interdisciplinary character of the scientific act. Requests for the economic analysis result: the economists should judge by a broader horizon. Practical conclusions also ensue, being generally applicable to the crisis management at macroeconomic and microeconomic level.

Keywords: economic crises, growth, intellectual factor, knowledge society

Cod JEL lucrare: E20, O40, Q01

1. Introduction

Two main mistakes (chapters 2 and 3) have to be coped with, as trying to understand present day's crisis and cope with its effects or act towards solutions to crisis generated troubles. We present a selection from the ideas issued in our research on the matter, inside the abstract and the key words, consistent with the requested dimensions of the text, focussing here on few main conclusions.

2. Production and service

Materialist misunderstanding may be called the *classical* one or *Marxist*, because it is materialism-bound. Common sense says that *production-proper* is a strong sure thing, as opposed to *immaterial activities*, which are impalpable and, therefore, considered uncertain. Such approach implies a defining preconceived neat superiority of industry as against the other lucrative sectors (especially services) in terms of productivity expectable increase. But we may not have the preconceived idea that services (like scientific research and education services, for example) would be less *productive* than industry, for the reason that they are the *producers* (generators) of the technical-scientific progress itself and ensure the staff for the accomplishment of the technical-scientific progress. Even if, as a rule, industry endorses the grater part of the profit that technical progress produces, nevertheless, research and education have the main *role, sine-qua-non* in generating general progress, despite of their less-than-in-industry income and gain. A big service (done to society or to one singular client) is none the less for being cheaper or pro bono, i.e. without payment *on the market* in the benefit of the person who serves (being so only in the formal "technical" recording). If it is cheap (sold on little money) or pro bono, it "produces" little income or little (or no) profit to the supplier, therefore it is considered (by the business man and by the economists) of little importance; even if it makes a *large* service to the customer! On the contrary, it is all the greater and *humane*⁴⁷⁷. Modern intellect-intensive services bring a specific contribution to development; they allow diminishing compulsions and growth re-launch. Intellectual services should not be perceived only as job creation sectors: they create the main value-added, even if not wholly recorded in the accounts of their performers. Such activities

⁴⁷⁷ Al. Jivan, "Services and Servicity", *Services World Forum Bulletin*, no. 3-4 (July-December 1993), 16-24.

have a fundamental role and essential functions for the whole of the economy: they allow it to get a superior level performance. But services need no more demonstration of utility beyond the *market test*. Moreover, many services are much more useful than certain most material productions, considering and respecting complex analysis and utility assessment criteria and taking into account multiple approaches: such as individualistic, societal, planetary. The relation of the tertiary sector with technical progress, here including the capacity of services to absorb technical progress and to increase productivity is settled for quite a while, most pertinently proven, despite of the preconceived idea of higher productivity of industry vs. services.

The problem is in the lack of qualitative judgements and therefore the profound causality and the “external” effects of economic acts is often ignored. But they are *not the services that generated the nowadays crisis*. The causes of the negative effects of the economic activity over human society in general can belong with industry sector too. A revision and correction of industrialism is necessary and should be *structural* and also in terms of *economic policy*.

3. Supply and Demand

Setting up priorities between demand and supply is the *second* big misunderstanding. This dilemma is the translation, into the field of economic policies, of some different approaches concerning the role of demand and supply in the market. It consists in the two opposite alternatives: the neo-liberalist one and the Keynesian one.

In the Keynesian approach, when the demand is considered to have priority, there is the *Keynesian* variant. It sets hierarchies between demand and supply, giving priority to consumption in the business circle. Most anti-crisis policies would stimulate economy by stimulating demand; and action taken is to such effect. In the Keynesian approach – so much boasted at the present day crisis – in order for production to rebound, i.e. in order to beat the crisis, *more consumption* is requested; to stimulate consumption for maintaining it at high levels is seen as vital for all type enterprisers, as a prerequisite of any supply, increase thereof re-launching production.

The question issued is here: *which consumption?* Any consumption may have good effects for the short-term run, i.e. it will bring in a certain amount of income for a certain number of producers, thus favouring certain types of production. So the role of stimulating production raises the question: which production, then? Activities will be enhanced that lead to or contributed to social economic welfare and to Mother Nature’s redemption? Or is it production that profits to some enterprisers, while side effects – if we rigorously consider the entire result - thereof make the investment all for the worse-off, thus generating consuming, rather than true investing? Dope and bomb demand can boost production, same as bread and butter. But in terms of preference, consumption should be favoured that does not prove detrimental, in the long run, for the overall environment, for constructive goals. Unfortunately, in fact, the egoistic decisions of the enterprisers do not always for constructive goals: the market fails in such targets. Therefore economic actors should have not only temporally limited selfish interests. Responsibilities can be only set at societal level: economic policies of co-interesting actors and adequate regulation, for coercing them.

On the other side, in the traditional approach, coming from the classics and kept and developed by neo-classics, the logic of the economic action (and also in the economics thinking) starts with supply. That is, *in order to beat the crisis saving is necessary*: savings allow each person to cope with price rises and the hard times an economic crisis is. Also, at the level of the macroeconomic system, savings allow for the investment novel technology takes, or research, or advertising (here seen as immaterial investment); any renewal aimed at re-launching economic activity takes investment.

But the question issued is: *which investment?* Is it stimulating consumption (like advertising is) and investment in consuming capacities? It may profit to a number of enterprisers, apt to thus produce more; yet such action will also result not just in *less planetary raw materials*; but also in

new *destructions* thereof (see inbuilt decay, dispensability, the concept of produce a-new rather than mend... costs being recorded *per supplier*, not *overall*, *global*, for the whole systems and planet). Or, rather, is it true investment, in the long run *globally constructive*, in the *recovery of the planet*, in *socially balancing*, and other organising goals, generally having anti-entropic effects? In the traditional (classical) economic model, technical progress tends to be distinctly shown versus *labour* and *capital* factors, or to be included in *capital*. Profit and interest are usually seen as varying with capital amount, economic growth is generated by material investment, which is about quantitative growth of tools, machines, money and other forms of capital employment for production which generates quantitative growth of production. But we must remember that the economic growth can be generated not just by such economic activity spreading, but better by growing returns. We emphasize that, despite of the standard approach, productivity and the quality of being lucrative are given by innovation, information, knowledge, science, brains, including the results of human capital formation and education. Therefore, growth is varying with inter-relational growth and with intellectual factor. Therefore, under the circumstances of a knowledge based economy, a more adequate presentation should take into account that labour and capital as well, have a *qualitative* component part, besides the quantitative one. Thus, two types of economic factors, differing from the orthodox ones, could be outlined, in a manner proper for the XXIst century: the *intellectual* factor and the *material* one, represented, the first one, by information, innovation, invention, knowledge, science, intellect, idea, initiative, enterprising spirit, know-how etc., and the second one, consisting in the material component parts of capital and the pure energetic, physical aspects of labour.

The essential idea of the liberalist way out of the crisis is the individual effort: for research and renewing, for finding solutions and generating progress, including implementation thereof, new production capacities etc.; saving (by avoiding and reducing individual consume) and investment can be seen like its sources, even from Ricardo's view. The bourgeois spirit, which existed before the consumption stage of the market economy, would actually economize, rather than consume: this was the condition for any enterprising, for any economic project, this was the thinking of Ricardo himself. Emphasising demand is beneficial to satisfying *real* needs, but creating an artificial demand, by paid digging-and-filling-up of holes (à la Keynes), or other such like palliative economic policies, is nonsense, even if generating short-term demand: it proves detrimental to the money system, to the economic system in general. Emphasising supply is not a bad thing in itself, i.e. just because it can find itself with no demand, in Keynesian terms (contradicting classical optimism of the Say's law).

This is criticisable, because a serious solution will not intemperately and unlimitedly pedal on emphasise supply: production can be destructive, if it produces bombs or dope, for instance. Thus, just like consumption, *investment* and *production* are also not all constructive and absolutely beneficial (over a large space and time span). In the same manner, consumption in itself should not be blamed for irreversible transformations, if manifested in answering real needs (like bread, cheese and wine - that cannot be put under question). It is destructive, though, if purposefully meant for increased production (like dig up holes and fill them up, à la Keynes; or throw away things, instead of mending them; or change fashion, in order to drop old clothes; or artificially create and stimulate "needs", like sex-change surgery, lifting, dope etc.): which fill a perverted market, with *artificial needs*, going contrary to *natural* market run. Of the above, there results that, today, saving should be understood in the widest sense of the term.

4. Concluding answers

The issue is: *what effects* do consumption and investment have? Not only the effects on the short-term run matters, but mainly the effects on the long run matter. Otherwise we deal in surface effects, i.e. sham actions, tools and methods involved.

Consumption should therefore be stimulated *only of non-destructive goods, environmental friendly and low-cost*. Such approach is valid for crisis-time and beyond. At all times, and acutely at crisis times, we should *save*; not for economizing sake, but mainly *for (i) diminishing destructive costs*; destructive costs are way out of line in our consumption society, even if accepted by the hedonistic speculative *homo-oeconomicus* spirit.). And we also should *save for (ii) long-term run investment* (so: not for any type investment).

Quite like about industry and services, there ensues that investment, on the one hand, and consumption, on the other, are not antagonistic: we simply must to change the analysis criterion; as both consumption and investment – always correlated – may produce effects, and those effects are the matter to be studied in detail; their nature is the fundamental criterion: are they constructive or rather consuming?

In the field economic activity and in the usual economic analysis as well, we are in the presence of the *narrow scope analysis fallacy*: targeting the *self-benefit here-and-now*, regardless of what may befall to *others elsewhere*, maybe in the future. In the logic of open economies, the main stay is in the environment of the individual person or entity. The reasoning underlying this fallacy is that the national, world-wide, planetary ensemble will somehow, some day take care of the side effects.

The trouble with the approaches that we discussed so far is the very analysis and perception criteria, based on which oppositions are assumed, regarding their auspicious causing role (or not) in crisis.

The *material* should not be preached over the *immaterial*, and *immaterial* must not be blamed; going back to industrialization is not advisable where it is already done, and industry and palpable goods should not replace services; services must not be reduced to a minimum. Neither is industry, per se, to be blamed *in corpore*, declaring services preferable and denying industrialization (especially where industrialization is poor; deindustrialization effects in Romania could teach everybody and every developing country a lesson).

Supply is not to be discouraged, encouraging demand (as in Keynes obsession with employment, employment meaning incomes, even if generating no value-added), with famous inflation effects (accepted, as per Philips' curve, or unaccepted, as per the neo-liberal thought). *Demand* is not to be discouraged, either.

Analysis *criterion* should be a different one, i.e. how the crisis should be viewed. Potential complex effects, variously analyzed (at individual, local and global level), including target-attainment must be pointed out and should become the main criterion; which means considering, besides the entrepreneur's income, "external" effects, covering *all* costs. Unfortunately, the analysis scientists make in economics often goes not deeper than the businessmen's approach and perception (the understanding being muck like that of the actors in economy). Scientists in other branches (philosophy, sociology, geography, politics etc.) can sometimes have wider horizon and, therefore, better understanding than economists. Economists would be all the better for a broader horizon: besides financial effects (*economic, generally*), other (that are not) could be considered by economic analyses, especially active on the long term run *over economy itself* (e.g. education); research can only be cross-sciences, in knowledge economy: *scientific* research must be inter- and multi-disciplinary. The criterion should be more rigorously set, based on target (desired), as well as unwanted (ignored by the individualist enterpriser) *ground* effects on the short, medium and long term run. Thus biased (i.e. considering the mix of implications), we can understand/clarify a number of aspects, facets and nuances that are affected by preconceived ideas, by routine and by ignorance.

For instance, like a first set of conclusions of our analysis, we can find that *immaterial economy* can be pure speculation, gaining on the poor sanctioned by the free market (being under the

coercion of the market⁴⁷⁸), and that credits may have no cover validation (such as, quite topical of late, in the context of global financial crisis). The conclusion is that part of the services can be crisis-encouraging. Such statement will not hold true for services *in general*, but for only *specific services*, which are apt to generate inflation; e.g. such services that do not have constructive, lasting *general* results. Certain of them can be positive on the short term run, i.e. for some individuals, not for all the people, not for the most of the saviours, i.e. not for those who grant, by economizing, the banking funds over which (private) banks are supposed to have the expertise to manager. But such economizers are now, during the crisis, also in sufferance. Consequently services can generate crises: *not because immaterial*; but just if they are destructive or merely speculative, i.e. non-creative, just transferring assets from certain entities in the advantage of other entities; or exploiting, i.e. absorbing alien income, for the short-term run benefit of a few, and detrimental for their environment. Concerning the *material economy*, we may as well find out that some material products are in fact gain at the expense of other individuals, or of Mother Nature: there do exist immaterial speculative activities, but also, there are industries, of the most material nature, which are destroying rather than constructive, equally destructive on the medium and long term run, i.e. when activity oriented in a consuming way) The fact that they are material does in no way grant them a *merely* advantageous nature (an “anti-crisis” character, in the meaning of present study).

Another set of conclusions concerns the fact that we can similarly prove consumption and supply able to generate crises, like it was shown previously.

Economic activities do not generate crises depending on whether they are material or immaterial; nor depending on some assumed priority in some far-fetched hierarchy between demand and supply; but depending of their aims, of the manner of accomplishing goals and, therefore, of overall complex effects thereof (i.e. actual complex and general effects). Effects and implications on the whole, and not truncated, should be considered, even if usually just some parts, shares or sides of such effects are seen, depending of convenience, conventions or self interest. So the criterion is the *constructive vs. non-constructive* nature of the concerned activity: it can be more or less investing, it can be more or less consuming - or even destructive.

6. Ending Remarks

The European concept of *knowledge society* implies an interdisciplinary vision, including the care for the social problem, for the planetary environment and such like, among which moral-institutional aspects are also important and also the inter-generational share of the planet. The interaction in economy and in society is made mainly by information and knowledge exchange among the elements of the system and with the context of the system. The economy is not limiting itself anymore to the immediate material needs of the individual. The vital requests being better accomplished, other needs (more subtle, more human, more intellectual and more spiritual than the previous ones) come out. The scientific and technological supply must go a step further, outrunning the necessities of material sectors, the growing of intellectual potential should bring the restructuring and the development of this new economy - based on knowledge.

In opposition with the classical *productivity*, we advanced and promote *servicity*, meaning social-economic efficiency and the priority of constructive qualitative aspects of agents' activity (as from the own merit of the economic actor), in an adaptation to our days of Manoilescu's conceptions on competitiveness and international trade. Remaining (lasting) in the thinking schemes inherited from the industrial revolution period, means loosing from analysis important correlations that could allow outrunning certain limits and contradictions of the world economy. Therefore, the intellectual resource should not be squandered by selling as simply *labour* (factor

⁴⁷⁸ Jivan A. Determinants and Compulsions in Setting Priorities at Macroeconomic and Microeconomic Level, Proceedings of International Symposium “Economics and Management of transformation”, Timisoara, Romania, May 11, 2002, University of the West, Timisoara, p. 539-554)

L) or by migration in the rich countries; intellects should be kept and valorised in the benefit of the own country that generated them, as the most precious capital: such is the most important economic policy mainly for the undeveloped or developing countries.

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ESTIMATING TECHNICAL PROGRESS IN CENTRAL AND EASTERN EUROPE. WHAT ROLE FOR FDI?

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Technical progress is a key factor in economic growth, mainly due to its productivity enhancement. It is a fact that most innovation and new technologies are created in developed countries. International trade and FDI are the main channels for technology transfer. Our objective is to determine the role of FDI in technical progress. In this paper, we start with two questions: is there evidence of significant contribution of technical progress to economic growth? And if there is, what is the role of FDI in technical progress? Using a production function approach, we estimate the TFP and we regress it on the stock of FDI, in a panel framework. We find evidence of positive correlation.

Key words: technical progress, Solow residual, FDI

JEL: O33, O47, F23

1. Introduction

The turmoil in the world economy during the last two years has reinforced research on economic growth and its determinants. This subject is all the more important in Central and Eastern Europe (CEE), since these countries had experienced high rates of economic growth in the years before the crisis. Trying to explain the long run economic growth, scholars have brought into attention the role of technical progress as the key for long term growth.

It is a fact that most innovation and new technology are created in developed countries. Therefore, the chance for developing countries is to import that technology. Unlike Western countries, CEEC are relatively far away from the production possibilities' frontier. That is the reason why they are more concerned with technology transfer and could benefit more from the productivity enhancement effect of technical progress. Furthermore, these countries have a real research-development potential, inherited from the communism, which allows for local adaptations and second rank innovation.

International trade and foreign direct investment (FDI) seem to be the most important channels of technology transfer. FDI is considered to be a crucial factor in economic growth and catching-up process in this region. There are even opinions suggesting that technology transfer through FDI is more important than the capital inflow itself (Hunya, 2000). Blomstrom and Kokko (1996) argue that FDI is also the cheapest channel for technology transfer. Unlike other channels, it simultaneously allows the transfer of tangible and intangible assets, being therefore one of the most effective international technology channels (Kinoshita, 2000).

The *objective* of our paper is to estimate the contribution of technical progress in economic growth in CEE and to evaluate which might be the role of FDI in technological change. We adopt a two step procedure. First, we use the growth accounting approach in order to estimate the Solow residual. Second, we run a panel analysis on 8 countries in CEE, trying to explain the sources of technical progress, more precisely the role of FDI. We find a positive correlation between the stock of FDI and total factor productivity.

We proceed with the paper as follows: section 2 presents the theoretical framework of estimating technical progress, using the Solow growth accounting approach. Section 3 presents the 2 step

methodology we have used, section 4 discusses the data and results obtained and section 5 concludes.

2. Theoretical framework

Measuring the stock and the technology transfer is a difficult task, given the fact that technology appears as a latent variable, which is not directly observable at plant level. Especially when dealing with know-how, several proxy variables are being used in order to estimate the technological level. Such variables are: research-development expenses, registered patents, share of high skill workers etc. What is of interest for economic research is not necessarily the technical level itself, but the change in technical level, more specifically technical progress.

The literature retains four main approaches in estimating technical progress: the production function approach, the index number approach, the econometric approach and the distance function approach. The vast majority of the literature uses the production function approach, namely calculating Total Factor Productivity (TFP). For reasons of comparability of results, but also of data availability, we will proceed in our research with this approach.

The production function is a microeconomic concept, indicating the mathematical expression of combining a set of inputs in order to obtain the maximum output. Even if every firm has its own production function, the concept is also being used at aggregate level, for explaining economic growth. Solow and Swan (1956) have based their famous growth model on a two input production function. This model explains economic growth mainly by accumulation of physical capital and labour. The share in economic growth not attributed to these two factors is accounted for technical progress. The sources of this progress are not explained by this neoclassical model, that is why it is called exogenous or unexplained technical progress.

Solow decomposes the observed growth of GDP in 3 components: the first two attributed to capital and labour, and the third attributed to a residual factor. This unexplained factor has been called **Solow residual** and accounts for changes in the technology being used.

The Solow standard model uses a neoclassical production function and tries to establish the share in economic growth due to capital, labour and technical progress. In order to better estimate the share in output growth due to technical progress, taking into account FDI, we have **extended the standard model** by including a third factor, which is intermediate inputs. The theoretical model we use is as follows:

$$Y_t = A_t F(K_t, L_t, II_t) \quad (1)$$

where Y is gross output, K capital, L labour, II intermediate inputs and t time. A_t is a variable that measures the technical level in the economy, on which we will base our technical progress estimates. In order to obtain a linear model, we took logarithms on both sides of equation (1), and then derived with respect to time, and we obtained equation (2):

$$\frac{\partial \ln Y / \partial t}{\ln Y} = \frac{\partial \ln A / \partial t}{\ln A} + \frac{A}{Y} \frac{\partial F}{\partial K} K * \frac{\partial \ln F / \partial K}{\ln K} + \frac{A}{Y} \frac{\partial F}{\partial L} L * \frac{\partial \ln F / \partial L}{\ln L} + \frac{A}{Y} \frac{\partial F}{\partial II} II * \frac{\partial \ln F / \partial II}{\ln II} \quad (2)$$

In order to empirically fit the model to the data, we need to re-estimate it in a discrete form:

$$\Delta Y = \Delta A + \alpha \Delta K + \beta \Delta L + \gamma \Delta II \quad (3)$$

ΔY , ΔK , ΔL , ΔII represent the growth rate of output, capital, labour and intermediate inputs. α , β , γ represent the factor remuneration shares in total output. For this reason, $\alpha + \beta + \gamma = 1$.

The variation in the A parameter is called *Solow residual*, or Total Factor Productivity (TFP), and is the expression of technical progress. A represents the percentage in the annual increase in output which is not accounted for an increase of labour or capital.

From equation (3), we can see that the growth rate of output is decomposed in the growth rate of TFP, given by the A parameter, and the weighted growth rates of capital, labour and intermediate inputs. All the rates are known, except for the variation in the A parameter. This variation is estimated as a residual, by subtraction, where the name of Solow residual.

From a theoretical point of view, the *TFP contains all the changes in output which are not accounted for by an increase in the quantities of K, L and II being used*. Therefore, besides the efficiency of using the production factors, TFP also accounts for changes in the quality of these factors. But from a practical point of view, TFP comprises much more than that. In empirical estimations, it acts as a residual that “collects” all the factors having generated economic growth, besides the quantities of K, L and II, which are not observable or have been excluded from the model (Neuhaus, 2005). For example, technical progress can be embedded in capital goods. The qualitative change in factors is therefore contained in the TFP, overestimating it, even though it should be included in the “qualitative growth” of inputs.

Estimations of the Solow residual, especially in the early literature, have been affected by several errors⁴⁷⁹. The parameter also residually contains errors of measuring inputs, imperfect competition effects, scale economies etc. Fortunately, several adjustments have been proposed in the literature, so that the Solow residual still remains the best way of estimating technical progress

A drawback of the production function approach is the hypothesis that firms act on the production possibility frontier, which implicitly assumes that the production function describes the maximum output that can be obtained with a given set of inputs. This might be close to reality in the long run, but in the short run there are real distances given by market conditions, labour training and employment, financing the necessary investment etc. More, this is in fact a microeconomic approach that can lose its accuracy by aggregation at a macroeconomic level. For these reasons, whenever possible, production functions should be estimated differently at sector and even plant level.

3. Methodology

Our methodology in estimating the technology transfer through FDI is a **two step procedure**. First, we need to confirm the **presence of technical progress**. Second, we are trying to establish the sources of that technical progress. To put it differently, **is FDI a source of technical progress?** Even if one might find evidence of technical progress, it doesn't necessarily mean that it is the consequence of foreign firms' activity in the national economy.

Step I. Estimating technical progress based on the production function approach

For calculating the growth rates we have computed the logarithmic variations between the 2 time periods t and $t+1$. For the factor weights, we have two possibilities. The first one, suggested by Thornquist (1936) is to calculate the average for the shares in t and $t+1$. Therefore, equation (3) becomes:

$$\frac{Y_{t+1} - Y_t}{Y_t} = \frac{A_{t+1} - A_t}{A_t} + \frac{\alpha_{t+1} + \alpha_t}{2} * \frac{K_{t+1} - K_t}{K_t} + \frac{\beta_{t+1} + \beta_t}{2} * \frac{L_{t+1} - L_t}{L_t} + \frac{\lambda_{t+1} + \lambda_t}{2} * \frac{CI_{t+1} - CI_t}{CI_t} \quad (4)$$

⁴⁷⁹ Initially, Solow (1957) had estimated for the USA that only 12,5% from the GDP growth was explained by factor accumulation, the rest of 87,5% being explained by technical progress. Griliches and Jorgensen (1967) have proved these estimations to be wrong, the Solow residual being overestimated due to omitted or unobserved variables.

The second approach, introduced by Nordhaus (2005), consists of using as weights in $t+1$ the exact shares in $t+1$, the argument being the use of “end of period” data. Considering that our data are not end of period, but average for the period taken into consideration, we have decided to use the first approach in calculating the weights. We can therefore see that the weights of K, L and II are not constant, but variant over time. On real data, and especially for aggregated functions, it is expected for the weights not to be constant.

Our objective is the estimation of the A parameter from the growth accounting equation. More precisely, the equation we used for estimation has the following form:

$$\Delta A = \Delta Y - \frac{\alpha_t + \alpha_{t+1}}{2} \Delta K - \frac{\beta_t + \beta_{t+1}}{2} \Delta L - \frac{\gamma_t + \gamma_{t+1}}{2} \Delta II \quad (5)$$

α , β and γ are the weights of capital, labour and intermediate inputs in gross output.

In elaborating our methodology, we identified two *estimation problems*. The first one refers to the reported values of output (being gross output or value added), which are nominal values. An increase in nominal value could mean a decrease in real terms, so in order to correctly estimate the Solow residual we need the real values. Another correction is needed for the weights, as we calculated them not as a quantity ratio, but as a value ratio.

In the case of estimating the Solow residual in the presence of FDI, there is always the risk that the productivity growth due to technology transfer could be compensated by losses due to the crowding-out effect (Blalock and Gertler, 2004). Since both of them come from the entry of multinational firms on the local market, we consider relevant for our research the net outcome.

Step II. Searching for the sources of technical progress

In the first step, using an aggregated production function, we try to establish if there is indeed technical progress and to what extent. For this stage, even if we find evidence of technical progress, we don't know yet which are the sources of such a progress. Once we have established the presence of technical progress, in a second stage, we will try to decompose this residual factor in order to identify the sources of technical change. One of these *potential sources is technological transfer through FDI*. There is an important body of literature who tries to identify correlations between FDI and changes in total productivity.

In searching of the sources of technical progress, there are two main factors that influence the technical level: the quality of inputs, and second, the way these inputs are being used in order to obtain the maximum output. Therefore, explaining the sources of technical progress has been the starting point in *endogenous growth models*. Romer (1986) was the first to argue the endogenous character of technical progress, building a growth model based on technology diffusion and learning by doing. He eliminated the problem of decreasing returns of capital from the Solow model, by assuming that every capital unit invested brings gain not only to the firm itself, but to the rest of the economy also. Technology diffusion, as a result from investment, was considered the source of long term economic growth.

This idea of technology diffusion as a consequence of investment has been extended by other authors also, in order to explain the role of FDI in economic growth. FDI is directly linked to capital stock accumulation, in both quantity and quality.

Numerous studies who applied growth decomposition have come to the conclusion that technical progress and capital accumulation were the main factors that drove economic growth in transition countries. As FDI proved to be an important channel in technology transfer and fixed capital formation in Central and Eastern Europe, we can argue that FDI has played a major role in economic growth in this region.

4. Data and results for Central and Eastern Europe

For estimating the Solow residual, we use data for 8 countries in Central and Eastern Europe, drawn from the **EU KLEMS database**. EU KLEMS Growth and Productivity Account is a database created by the European Commission, for the analysis of productivity at industry level in the European Union. Data is available for 27 countries (25 EU members, Japan and the USA). This is the only database at European level to contain series at industry level, constructed on the growth accounting methodology. To our knowledge, this is the first study made by Romanian authors to use this database. For FDI and gross fixed capital formation, we used EUROSTAT. Concerning the aggregation level of the data, the production function approach is more adapted for a microeconomic perspective. From a policy maker point of view, a sector or industry level would be more appropriate. The recent work in this field uses plant level data, where problems of quantifying technical changes and economic performance are less important and easier to correct. Being constrained by data availability, we will run our analysis on macroeconomic data. Aggregation problems at industry level are corrected by EU KLEMS by calibrating the variables, so that the contribution of each NACE Rev. 2 sector is taken into account.

In order to apply the decomposition of growth, we used the following *variables*:

Y - Output, expressed as gross output in current prices;

L – Labour, expressed as labour services, based on the hours worked and not on the number of employees;

K - Capital. EU KLEMS uses a special method in calculating the capital input. It is computed not as capital stock, but as capital services, weighted by types of assets.

II – Intermediate inputs, given by the value of materials, energy and services, also expressed in current prices.

The availability of intermediate inputs series has allowed us to estimate TFP based on the gross output. Another way of estimating the TFP would have been by value added. We have chosen using the gross output for 2 reasons. The first one is the fact that technical progress can be already embedded in the intermediate inputs used in production. An important part of FDI contribution to technical progress, besides capital accumulation, is the use of intermediate goods. Since our objective is estimating the contribution of FDI to technical progress, we can not ignore this potential channel for technology transfer. The second one, regressing output on labour, capital and materials, avoids the assumption of additive separability of material inputs, and therefore allows a certain generality (Arnold, 2005).

We used data for Hungary, Poland, Slovakia, Slovenia, Czech Republic, Estonia, Latvia and Lithuania, for the period 1995-2007. Our initial intention was to include Romania and Bulgaria also, but data is not available for these countries.

Each of the variables was expressed in national currency, in current prices. We first proceeded in deflating all the nominal series on the base of the appropriate price indexes, in order to obtain the real values. We therefore obtained the real evolution of quantities, inflation excluded.

Starting from the growth rates of real gross output for the period 1995-2007, we tried to estimate what percentage in growth was due to other factors than labour, capital and intermediate inputs. The residual factor that remains after subtracting all these evolutions is the expression of technical progress.

On the basis of equation (5), we computed the contribution of each factor in growth, for each country and every year. The mean values of these contributions are presented in Table 1. We present the data under the form of a mean aggregated production function, expressed in first order differences (growth rates).

Table 1. Aggregated production function estimates

Countries	Production function estimates on the basis of mean parameters
Hungary	$\Delta Y = 0.64 + 0.16\Delta K + 0.25\Delta L + 0.58\Delta CI$
Poland	$\Delta Y = 0.63 + 0.14\Delta K + 0.32\Delta L + 0.55\Delta CI$

Slovakia	$\Delta Y = 0.90 + 0.19\Delta K + 0.19\Delta L + 0.62\Delta CI$
Slovenia	$\Delta Y = 0.71 + 0.11\Delta K + 0.33\Delta L + 0.56\Delta CI$
Czech Republic	$\Delta Y = 0.76 + 0.15\Delta K + 0.22\Delta L + 0.63\Delta CI$
Estonia	$\Delta Y = 0.84 + 0.18\Delta K + 0.23\Delta L + 0.59\Delta CI$
Latvia	$\Delta Y = 0.76 + 0.22\Delta K + 0.24\Delta L + 0.54\Delta CI$
Lithuania	$\Delta Y = 0.87 + 0.24\Delta K + 0.27\Delta L + 0.49\Delta CI$

Source: Authors calculus, on the base of EU KLEMS data. The coefficients are computed as mean values for the yearly coefficients, 1995-2007.

For all the 8 countries included in the sample, the Solow residual has similar values, between 0.63 and 0.90. We can interpret these values as percentage points in output growth due to technical progress. This means that technical progress contributes to a little less than 1% point to the growth rates of output in the new EU member states. These are the absolute values.

We can see that the sample is quite homogenous in terms of absolute contribution of technical progress. Concerning the production factors, capital has a contribution between 14 and 24% to output growth, the highest values being for Latvia and Lithuania. For the two countries, the result seems to have 3 explanations. First, the decrease in labour supply (because of demographic and emigration issues) has led to a decrease in the contribution of labour. Labour has practically been replaced by capital. Second, the period taken into account was that of gross privatization, which has led to technological restructuring and increase in gross fixed capital formation. Last, once EU member states, important investment inflows have taken place, which reinforced capital accumulation. A small contribution of capital we find for Slovenia, compensated by a high contribution of labour. This is explained by labour intensive industries, also suggested by the sector distribution of output.

Since our objective was to determine the correlation between technical progress and FDI, we have proceeded with the analysis of the Solow residual, on the basis of an 8 country panel, for the period 1996-2007. The advantage of such a method comparing to classical regression is that it takes into account the unobserved country specific effects. As value for FDI, we have used the FDI stock, instead of inflows, because we considered that accumulated FDI, rather than inflow, is responsible for an increase in technology stock and contribution to output growth. As we previously discussed, a part of the technology is incorporated in capital goods. For this theoretical reason we have decided to also include fixed capital formation as a variable in the panel regression. The equation we estimated using STATA 10.0 was the following:

$$A_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 GFCF_{it} + u_{it} \quad (6)$$

The Hausman test indicated that a fixed effect model would be more suitable than a random effect model. This means that the error term u_{it} has in fact the form $u_{it} = \mu_i + v_{it}$. The first term has no time index, referring to the country-specific, time-invariant effects.

The results we have obtained are the following:

$$A_{it} = 0.31 + 0.12 FDI_{it} + 0.52 GFCF_{it} + u_{it} \quad (7)$$

(0.041**) (0.088*) (0.423)

The preliminary results show a positive coefficient for FDI, even if it is significantly different from zero only at a 10% significance level (In brackets we have presented the p values associated with each coefficient). This means that for a billion euros increase in FDI stock, the residual parameter, more precisely TFP, increases by 0.12 percentage points. The coefficient associated with gross fixed capital formation it is not statistically significant. We are aware that the two exogenous variables are not independent, but could be in fact correlated (a part from FDI will result in GFCF). We consider these as preliminary results, in order to have a general idea about

the relationship between FDI and TFP. We are planning to improve our empirical part by correcting the model (6) with an interaction term between the exogenous variables $FDI \cdot GFCF$.

5. Conclusion

As a general conclusion regarding CEEC, they are in a convergence process towards the western productivity levels. After the collapse of the socialist regime, these countries have known important transformations, like: decrease in the contribution of labour to output, substitution of labour with capital and therefore increase in the contribution of capital. FDI has played an important role both in fixed capital accumulation and technology stock.

Using the new EUKLEMS database, we have shown that technical progress has generated between 13%-19% of output growth in the region and that the 8 countries are similar in this concern. In evaluating the role of FDI, we are cautious in interpreting the coefficients of the panel regression model. The only thing we can say is that ***technology and the stock of FDI are positively correlated***. This correlation does not imply causality. It only means that an increase in the FDI stock is accompanied by an increase in the technical level. These two variables can be linked either directly or indirectly, through other variables such as fixed capital formation, research expenses etc. We consider this to be a first step in analysing the implications of FDI on the stock of technology. A further, more detailed, analysis is needed in order to evaluate the possible sources of technical progress. When analyzing FDI as a determinant of TFP growth, we consider useful taking the analysis at industry level, to better correlate it with the foreign presence in the sector.

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INVESTMENT IN HUMAN CAPITAL – AN INVESTMENT IN FUTURE

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Abstract: The paper aims to study, reveal and understand one of the most important production factor, considered by some as being labor, understood nowadays as human capital. It is important to reveal and to demonstrate that the investment into human capital will have results with a very high return on investment, maybe not so seen in the first years to come just after the investment, but for sure as a big result and a cause for economic development. The investment into human capital can be determined by public or private investment. Either the case the result will be in favor of the national economy.

Keywords: investment, human capital, economic development, labor flows.

JEL codes: A10, A14, D24, I28.

1. Introduction

In economic perspectives, capital is generally thought to be assets that serve as resources for a company. The term human capital is a component of capital and has many definitions, with most relating to the knowledge, skills and abilities that people bring to a specific job within an organization (Young, McManus, & Canale, 2005). Some describe human capital as a “commercially valuable skill” (Marcus, Ippolito, & Zhang, 1998, p. 490), while others describe human capital as “the attributes of a person or people that are productive in some economic context” in an organization (Econterms, 2004) According to Nobel laureate Gary Becker, education is investment to us, which raises one’s productivity and thus the remuneration. Better known as Human Capital Theory, this concept describes its mechanism within the framework of economic analysis. (See Becker (1974)). What maybe Becker did not take into account is not only the benefit for the individuals, but also the benefit for the society and for the national economy as a whole. Those benefits can be expressed in value as remittances for those that are working abroad and sending money into the country and also at the level of knowledge, know-how, possible to be brought in the home country. We must say that is for sure those individuals, in which states are investing and in the end they are working elsewhere, the investment is not totally lost, or we must say that the investment is not lost at all and this because of at least two reasons. One, in the case that they are working abroad usually they are in the case of having remittances, which can be a very powerful and quite cheap way to invest in future generations. On the other hand if they are working abroad and let’s assume that they are not sending nothing back, at least they are producing more goods and services, so that the possibility of imports of cheap and very good, products from which is benefiting the entire society and not only the producer’s country.

We can, and for sure must see the education as an investment, an investment into the future, and also we must see the education as maybe the most important public spending policy, because, it has the most certain way to have the highest return on investment.

On the other way we must see the investment into education from the point of view of the training on the job. Maybe we should see this problem as a continuation of the education started in the early stages. More and more we are speaking about long life learning program as a follow up of the high school program and bachelor in the universities.

The other important way to analyze and to develop the investment into human capital is the return on investment. If in the first two cases it is quite easy to debate, because we think that it is quite impossible to measure the positive or negative effects, in the case of remittances for example those can be measured quite accurately together with the percentage from GDP to be invested into education. Maybe it is a link, maybe not, but for sure those two elements can lead to enough elements in order to link the degree of education, level of the education and the income for the national economy seen as remittances. For the countries on the way to development it is one important way to have cheap money.

2. Human capital theory

2.1. Education as an investment

According to the theory, one would pay for the education up to the point where the present value of the costs equate to the present value of the stream of income generated by the educational achievement. In the case of the university the total costs are composed of the costs with the tuition fees and the opportunity costs (for example the income at which the individual has to renounce in order to be able to take course). Of course this opportunity costs can be as to say recovered from the difference in payment that can result from a higher wage due to a higher qualification. Unfortunately this possible increase in wage is not certain, but, the loss of the wage in the university years it is. So the individual has to decide between a possibility and a sure thing. As other investment taking risks can lead to increasing revenues or higher losses. For instance the cost of a bachelor program in USA can go till the level of 30.000 – 50.000 US dollars in comparison to the cost of approximately 2500-5000 euro in a country on the way to development. Of course a degree obtained into a university considered to bring more knowledge can be the “cause” of a very well paid job. So maybe the effort is worth taking. Once again it is not sure. There are a few functions that can be used in order to determine the annual rate of return to education by using the years of education in order to obtain annual earnings. Those functions are called Mincerian wage function (Mincer (1974)).

Or an internal rate of return, a familiar concept in investment literature, may be derived for the case of education by equating present values of costs and benefits of education. The internal rate of return to education usually falls between 5 to 10 %, being greater than that of typical financial investment. (See, for example, Sveinbjorn et.al (2002)) However, many question the meaning of such economic returns to education. The educational credential is also known to act as a signaling device, since the future employee’s productivity is not revealed before the employment takes place. It is a proof of his/her ability at workplace. The empirical difficulty, however, is to verify whether education raises productivity as in the human capital theory or reveals it as in the signaling theory, since in either case education is likely to raise earnings. Still, it is probably safe to say that it has the both elements.

2.2. On-the-job Training

By and large everyone faces an initial period of difficulty when he/she starts working, which will gradually sooth away, and then the wage will eventually start rising. This suggests “there are certain skills you can only learn at workplace so that the longer you work the more productive you become,” and this is the idea of “On-the-job Training” or “Learning-by-doing.” Becker (1964) divided OJT into two types: general training and firm-specific training. General training is a training of skills which can be used in any firm and therefore the trained worker can raise his/her productivity in any firm, while firm-specific training cannot raise the worker’s productivity other than in the training firm.

This argument raises an issue about the incidence of OJT costs. The basic idea is as follows. If OJT is general then the worker can use the skill wherever he/she goes and thus it is worthwhile

for the worker to pay for it --- on the contrary, the training firm will not be able to recover the investment if the worker decides to leave and so there is no merit in paying for it. If, on the other hand, OJT is specific then it will not be in the interest of the worker to pay for it as this OJT does not affect his/her productivity anywhere else and thus it would be the firm to pay for the training. This distinction, however, is a highly theoretical one and in reality any OJT is likely to be a combination of both elements

3. Remittances

If we want to see the importance of the education we must present a few data's concerning the size and the importance for the remittances in the economies no matter those economies are weak or strong.

In each case we are speaking about huge sums of money, sums that sometimes are the same or even higher in comparison with the level of the budget for the educational field either the public or the private one. The migrant workers are accumulating knowledge in the countries in which they are going, they have access to technologies, sometimes transferring back home, sometimes not. Even in those cases some researchers are having doubts into linking the development with migration. In their perspective this link is much more complex and if it is not well achieved it can produce much more negative than positive effects. For some authors the gainers are the destination countries and not the origin ones. In our view all the time from the international trade benefits the most the country which is poorer and not the wealthy one, this being also a reason for the migration.

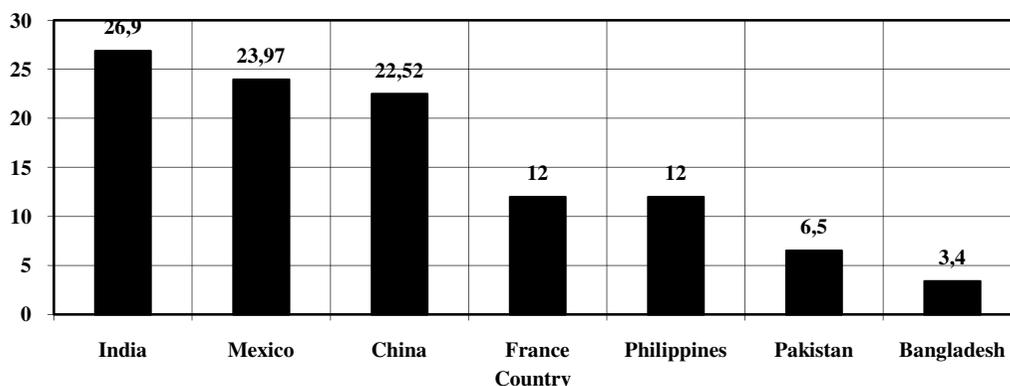
Remittances and their weight into the international trade for some countries

Country	Remittances (billion of US dollar)	% in EXPORT	% from IMPORT
Romania	750	9,0	6,3
Poland	2897	6,6	5,5
Hungary	1018	3,9	3,7
Cech Republic	408	1,2	1,1
Slovakia	366	2,8	2,3
Bulgaria	230	3,8	3,8
Slovenia	112	1,0	0,9
India	10280	21,6	17,3
Greece	7510	50,5	29,3
Mexico	6014	4,6	4,3
Turkey	5727	10,5	10,3
Egipt	4403	32,6	20,1
Portugalia	4031	11,6	8,8
Spain	3249	2,0	2,0

The level of the remittances in the first 7 countries of the world (2009) (billions of US dollars)

Country	India	Mexico	China	France	Philippines	Pakistan	Bangladesh
Remittances	26,90	23,97	22,52	12,00	12,00	6,50	3,4

Remittances



ROMANIANS REMITTANCES FOR 2000-2008 (BILLION OF USD)⁴⁸⁰

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total inflow, out of which:	96	116	143	124	132	4,733	6,707	6,800	7,000
Remittances of workers	2	4	7	14	18	3,754	5,506	-	
Employes compensation	94	112	136	110	113	954	1,157	-	
Transfers for migration	-	-	-	-	1	25	44	-	
Total outflow, out of which	6	5	7	8	8	34	56	-	
Remittances of workers	1	1	-	1	1	4	6	-	
Employes compensation	5	4	6	7	5	24	42	-	
Transfers for migration	-	-	1	-	2	6	8	-	

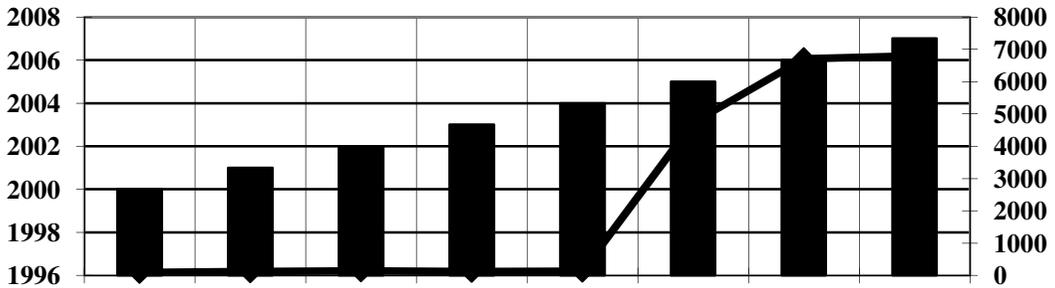
World Bank is considering that the level of the remittances for our on the way to develop country is to represent approximately 5,5% from the GDP.

ROMANIANS REMITTANCES FOR 2000-2008 (BILLION OF USD)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sum in billion US dollars	96	116	143	124	132	4733	6707	6800	7000

480 Source: data's from the World Bank Report.
<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21352016~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>

Remittances of romanians between 2000-2008



4. Difficulties regarding the investment into human capital

There are a few problems to be discussed when a government is having investment into something. The investment into human capital is bringing together with common problems of the investments in general some other specific problems.

- Existing tax laws discriminate against the investment in human capital, sometimes they do not have a fiscal deductibility.
- Unemployment (i.e., sitting idly) causes human capital to deteriorate so the investment sometimes is not for life.
- There are hindrances to free choices of professions. In this situation it is possible that one investment to be fully lost if the individual is changing field.
- There is a need to provide funds for investment in human capital, and thus, long-term public and private loans should be made available to students. This can be a problem in the situation of low financing of the educational system or in the cases of financial crises when investing can represent a problem.
- There should be investments made in migration (i.e., in helping people settle and find education). This can be seen as a problem to be considered also when we speak about remittances.
- There has been a failure to adequately invest in those who sit on the periphery of society. This can be a problem when we are speaking about education as a cause and a necessity for the free market system.
- The return on public investment in human capital should not be returned directly to each individual. The individual will see a return in the form of wages, and will benefit from a strong economy.
- As a society, underdeveloped countries should be assisted to achieve economic growth, and to begin investing in human capital. This is a very important measure in order to be taken by those countries that are considered as being emergent countries and this can be a quite sure investment in order to diminish the gap to developed countries.

5. Ideas for future considerations

There is no doubt that the demand for higher education continues to grow globally. This comes together with the decrease in the population number and still the number of students is increasing a lot into these times.

Maybe the experience of those countries that have invested into education was an example, a good example for the emergent economies. Yes it is necessary to have funds in order to invest. And for sure when we are speaking about funds we need to take into account also the choice, to invest in education or in something else.

Maybe the investment in education will not show directly and obvious the benefits of the investment, in comparison with some other investments, for example in communication services. Yes we must say that the investment into education should represent a basic investment, a start for the other investments

The realization of return to educational investment is a long term process and it is not simple to quantify the outcome, which often results in underinvestment --- this is one of the reasons why free education exists particularly at primary and secondary education with governmental supports.

It is important that the companies should receive fiscal and financial support in order to invest in education. So a help provided by the governments, by the law regulators it is not only obvious but also necessary.

Paul Bouchard, in his article entitled "Training and Work; Myths about Human Capital" challenges seven basic assumptions used in the theory of human capital. Briefly, they are as follows:

Problem 1: Human Capital is in investment in the future.

-It is impossible to accurately predict future labor market needs. All the forecasting tools we have are problematic. Not only for the developed countries but also for the emergent ones and also at the regional level.

Problem 2: More training leads to better work skills.

-Organizations value particular skills and what these are often change over time. There are not necessarily 'better' skills, just ones that fit what serve the needs of the organization at the time. This is also a solution when we are speaking about structural unemployment. It can become a solution of requalification of the labor force.

Problem 3: Employees need to improve their skills.

-Work has not become more complex, in fact, with technology things have become 'easier'. The need to improve one's skills comes from having to compete in a job market with people who are in many cases over-qualified. So sometimes the need for qualification is not for increasing productivity but to become more competitive between workers.

Problem 4: Training enhances employability.

-Many individuals do not have access to training and thus access to jobs, while others may have access to training, but not to mobility within the organization.

Problem 5: Training can compensate for skill shortages.

-Bouchard argues there are not skill shortages, rather there is a skill-mismatch. In other words, for various reasons, individuals with appropriate skills do not find work. Three potential reasons for this are: labor market dynamics, structural discrimination, and employee self-selection.

Problem 6: Employment and unemployment are economic concepts.

-The labor market is NOT a market like any other. In all situations, but with very few exceptions, the supply of labor force will exceed the demand for labor force. So that the problem of qualification for workers it is a problem of becoming more competitive on this specific market. There are social forces present that keep people from having equal access to employment regardless of their skill and experience.

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LA REGLEMENTATION DES MARCHES FINANCIERS EST-ELLE REMISE EN CAUSE PAR LA CRISE ACTUELLE ?

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One the most important things to reveal about each economic crisis that can occur is to understand the past and the present and then maybe to try to predict the future. Economic crisis are not new, sooner or later they have common economic phenomenon and common causes and results. What is it not common are not the solutions. If some crisis can be described as crisis of over production or even oil crisis, the current one is more a consumption crisis. Is it possible to regulate the market? Is it worth? Will it be a solution? Maybe we can try but what we see is that all the countries that have tried a regulated national economy their increase was either small or none at all.

Keywords: réglementation, crise économique, marché financier

Jel Codes : B22, B23, B25

I. Le cadre théorique sur le libéralisme et l'interventionnisme économique

I.1. Le libéralisme économique.

On commence avec d'Adam Smith, le père de l'économie politique. L'une des principales idées de son œuvre: « Recherche sur la nature et les causes de la richesse de nations » (1776), c'est le libéralisme économique, plus précisément, la promotion du libre-échange, la concurrence non effrénée et de non-ingérence de l'État dans la vie économique.

Avant lui, avec « le passage du capital commercial dans la production, accompagnée d'une affirmation de la société capitaliste dans les XVIIe et XVIIIe siècles, étaient des penseurs et des praticiens qui ont fait campagne pour une politique économique libérale⁴⁸¹, comme : William Petty, David Hume, Condillac, Cantillon et bien sur les physiocrates.

Pour Adam Smith la liberté naturelle est juste et cette liberté naturelle conduit au plus grand développement que l'on puisse espérer, les capitaux seront utilisés d'une façon optimale, et la société va prospérer rapidement. C'est précisément la perturbation de l'ordre naturelle, la raison pour laquelle ne veut pas l'intervention de l'Etat dans l'économie.

Les principes sur lesquels est fondé le libéralisme économique Smithien ce sont : la main invisible, et le principe du « laissez-faire ». C'est-à-dire que les marchés s'autorégulent et obéissent à la loi de l'offre et de la demande à travers le prix qui va fluctuer. S'il y a une demande supérieure à l'offre, les prix vont augmenter, pour revenir à l'équilibre ; s'il y a une demande inférieure à l'offre les prix vont diminuer, toujours pour revenir au niveau de l'équilibre ou la demande est égale à l'offre. Ces choses sont possibles parce que la demande d'un produit est une fonction décroissante de prix, tant que l'offre d'un produit c'est une fonction croissante de prix ; ça veut dire que si les prix d'un bien augmentent il y aura une demande moins forte pour ce bien, et un offre plus forte, tant que si les prix d'un bien diminuent on aura une demande pour ce produit plus grande, et un offre pour ce produit plus petite. Donc, le prix c'est l'élément essentiel du marché parce que de lui dépend les quantités demandées, mais aussi les quantités offertes.

⁴⁸¹ G. Popescu – Evolutia gandirii economice, Editura Academiei Romane, 2004, pp 178.

Les économistes néoclassiques, comme Léon Walras, et leurs héritiers, ont pensé qu'une concurrence libre conduira au maximum de satisfaction. Mais par là il ne faut pas entendre le plus grand bonheur pour le plus grand nombre. Walras n'est pas Benthamien, mais il croit dans un droit naturel. L'équilibre est bon car il convient à la justice commutative. Walras ne va pas aussi loin que Pareto dans la formalisation de cette idée mais l'idée est déjà là.

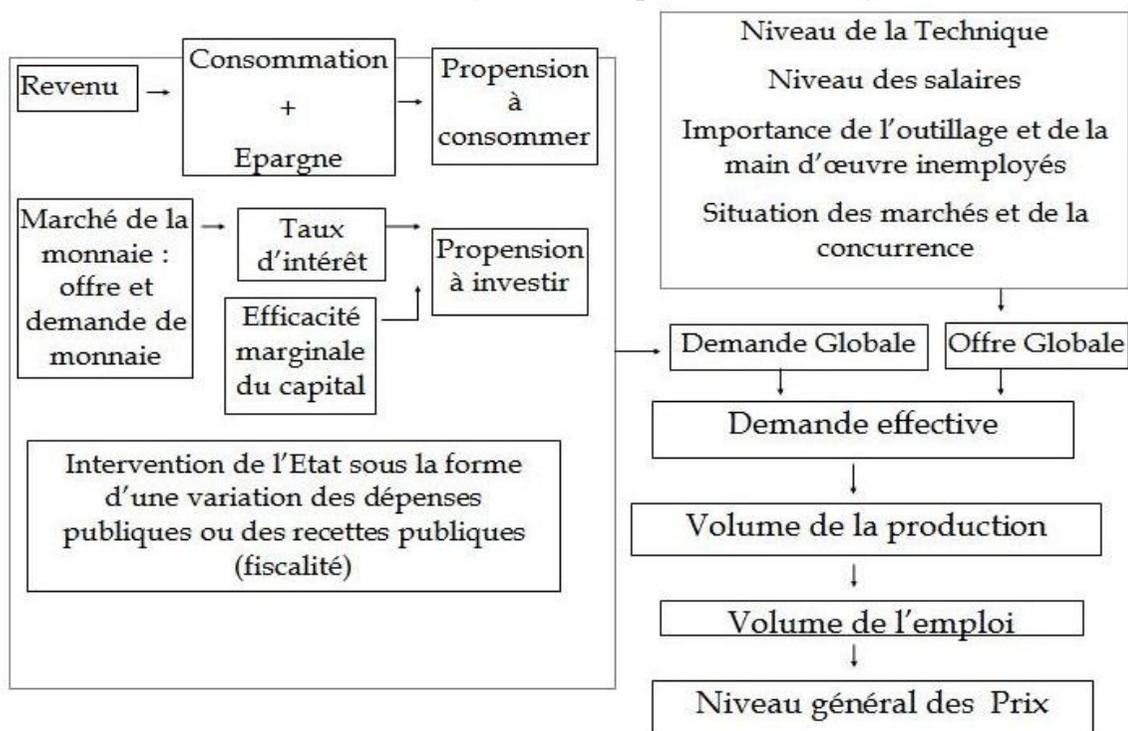
Ils ont mis l'accent sur la partie quantitative de l'économie. Le marché est présenté comme statique. Comme Daniel Villey disait : « Walras va mettre le marché en équations ». ⁴⁸² Mais, mettre l'économie en équations ca veut dire aussi l'abandon de la causalité. Ici, apparaissent les économistes de l'école autrichienne, Hayek en particulier, qui vont mettre l'accent sur la partie qualitative de l'économie, sur la causalité, sur la dynamique du marché, de la concurrence, comme dira Hayek plus tard une dynamique de la découverte.

Le principe selon lequel les marchés s'autorégulent, a été mis en œuvre dans les années 1980, aux Etats-Unis, soutenu par le président Ronald Reagan (1981-1989) et en Royaume Uni, soutenu par le premier ministre Margareth Thatcher (1979-1990).

1.2. L'interventionnisme économique.

Certains économistes ont remis en cause le bien-fondé d'autorégulation des marchés. C'est le cas, bien sur, de John Maynard Keynes, qui pensait que le marché n'est pas la modalité optimale d'allocation des ressources. A son avis, chacun actionne dans le marché selon les intérêts personnels, et les choses qui sont bonnes pour un individu ce n'est pas sur que ce sont bonnes pour tout le monde, pour la société en général (contrairement aux choses dites par Smith). Pour Keynes, l'intervention de l'Etat c'est nécessaire parce que les marchés vont aboutir a un équilibre de sous emploi, et cette intervention doit réduire le chômage.

L'intervention de l'Etat dans la vision keynésienne est présentée dans la figure ci-dessous :



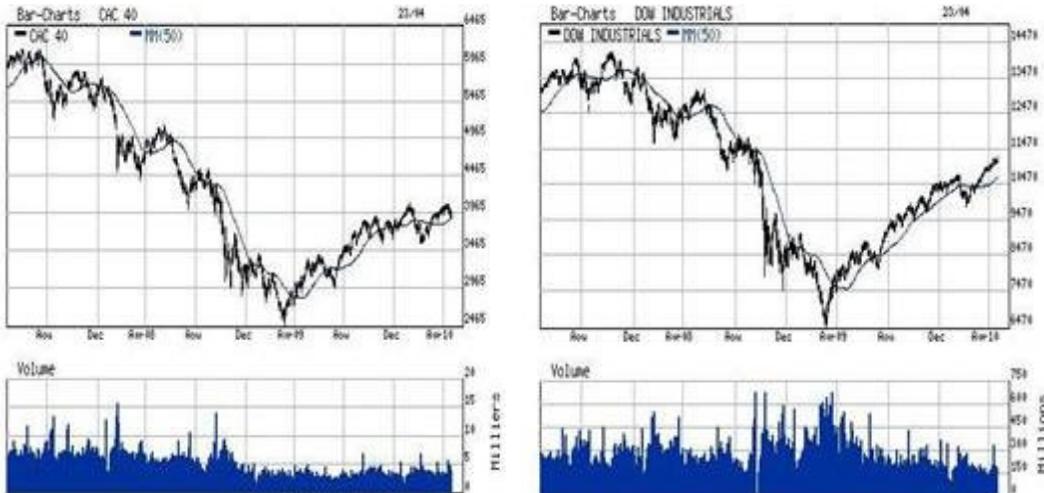
II.L'impact de la crise subprime sur les marchés des actions.

⁴⁸² D. Villey – Petite histories des grandes doctrines économiques, Paris, Neme, 1996, pp 198.

Pour mieux voir l'ampleur de la crise subprime on voudrait montrer comment ont évolué les marchés des actions dans cette période, de combien ont-elles chuté.

On commence avec l'indice américain Dow Jones Industriels, l'indice français CAC 40 qui ont les graphiques suivants :

Graphique 1 : Graphique historique a un jour, durée 3 ans pour Dow Jones Industriels et CAC 40, avec les volumes de transactions

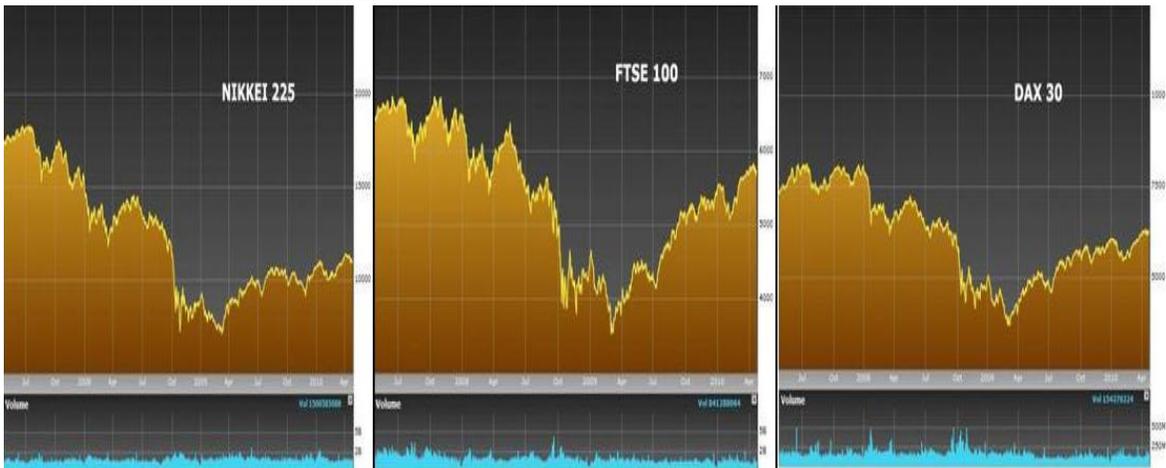


Source : Boursorama

Comme on peut voir sur le graphique, le niveau plus haut de Dow Jones Industriels c'était à 14198,10 Pts, et le niveau plus bas à 6469,95 Pts. Ca veut dire que l'indice américain a chuté de 54,43%.

Pour l'indice CAC 40, le niveau maximum c'était à 6168,15 Pts et le niveau minimum c'était à 2465,46 Pts. Donc, la bourse de Paris a reculé pendant la crise subprime de 60,02%.

Graphique 2: Graphique historique a un jour, durée 3 ans pour Nikkei 225, FTSE 100 et DAX 30, avec les volumes de transactions



Source : Bloomberg

L'indice asiatique le plus important c'est le Nikkei 225. Pour mieux voir comme les marchés financiers ont été touchés en Asie, on a montré aussi le graphique de cet indice, et son niveau plus haut c'était à 18297,00 Pts et son niveau plus bas c'était à 6994,90 Pts, donc le marché japonais a chute de 61,77%.

Le plus important indice européen est considéré l'indice anglais FTSE 100. Le niveau maximum c'était à 6754,10 Pts, et le niveau minimum c'était à 3460,71 Pts, donc une chute de 48,76%.

En fin, l'indice allemand a « tombé » de 55,97%, parce qu'il avait le niveau maximum à 8151,89 Pts, et le niveau minimum à 3588,89 Pts.

On a choisi les graphiques de plus importants indices du monde, pour mieux comprendre l'ampleur de la crise subprime sur les marchés « matures » des actions. On voyant tous ces importantes chutes de bourses internationales on peut conclure que la crise subprime a touché très fort le monde financier. A cause de ça, il y a pas mal du monde qui a perdu beaucoup avec ce recule de bourse. Pour ne pas se répéter cette chose, plein des économistes des gauches on proposé des normes de réglementation les marches financières.

III. Les règles proposées: mieux et peut-être plus.

III.1. La révision les normes comptables.

Des le début il faut qu'on dise que comptabilité a un rôle très important. Ce n'est pas difficile à constater que les normes actuelles de comptabilité sont pro cycliques et qu'elles favorisent les crises.

Les systèmes des actuelles de comptabilité déforment l'information. La loi fondamentale de la comptabilité : « copie fidèle de la réalité » est partiellement oublié. Par exemple, en Roumanie, un vendeur qui livre un produit aujourd'hui est obligés d'enregistrer en comptabilité, le montant de cette transaction comme une recette; mais aucun paiement n'a pas été fait et personne ne sait pas quand ou s'il se fera. Avec cette recette fictive les situations comptables seront embellites.

Actionnaires, investisseurs, spéculateurs attendent de bons résultats de sociétés pour acheter plus. Les entreprises sont conscientes de cette chose et que, pour survivre, elles ont besoin de fournir les résultats attendus et les états financiers figurant ainsi "faussée" et ainsi apparaissent les situations financières "déformés". Les entreprises, les comptables profitent des échappatoires laissés par la réglementation en vigueur. Cela s'est produit dans le cas Enron, qui a fait couler beaucoup d'encre.

Il a pas mal des opinions selon lesquelles l'International Accounting Standards Board (IASB) ne doit plus être une institution privée, et que les banques centrales doivent avoir aussi des représentants.

III.2. La réglementation des agences de notation et la réduction de leur influence

Il est préférable qu'il existe un nombre plus grand d'agences de notations⁴⁸³ dans plusieurs parties du monde, pour ne pas servir certains intérêts. L'amélioration de la concurrence entre eux serait plus que bénéfique. S'il y a plusieurs, elles doivent travailler mieux, donner de mieux rating pour avoir des clients.

Après, il faut réduire leur influence. C'est inadmissible que les banques ne font pas des travaux de notation interne, et qu'elles prennent toutes les informations de ces agences de notation sans les vérifier.

En plus, on ne doit pas oublier que les agences de notation sont payées par les entreprises pour lesquelles elles font la notation, le rating. Donc, c'est l'émetteur qui paye pour avoir le rating, et ici c'est un petit conflit d'intérêt. Cette chose doit être changée d'une façon ou l'autre. Par exemple, on pourrait avoir de représentants de l'Etat, dans la direction des ces agences. Est une chose connue qu'avant de faire faillite la Banque Lehman Brothers avait le meilleur rating.

III.3. L'amélioration de l'information des investisseurs et, aussi, du grand public

⁴⁸³ Elles sont trois et toutes les trois sont pratiquement américaines.

Ce n'est pas difficile à observer que l'information offerte par les sociétés, en général, manque la clarté souhaitable et beaucoup de gens ont du mal à déchiffrer cette information. On pourrait demander un minimum des informations que doivent être fournies, et aussi un niveau minimum de lisibilité.

Toujours il y aura une asymétrie d'information entre l'offreur d'un produit complexe et son client, mais cette asymétrie peut être limitée, en imposant des restrictions strictes pour tous les papiers remis au client. Ce aussi important d'avertir le client que certains produits n'ont pas reçu l'agrément du régulateur.

III.4. La redéfinition des modalités d'action des banques centrales

Les banques centrales ont un rôle très important dans le processus de développement économique. Elles peuvent provoquer une crise économique, mais elles peuvent aussi stopper une. Comment disait Patrick Arthus, qui conduisait à l'époque L'institut de recherche et des Etudes de Natixis: «Le monde est devenu différent, pas la philosophie des banques centrales»⁴⁸⁴.

Soit le cas de la crise subprime: si les banques commerciales peuvent emprunter des banques centrales avec un taux d'intérêt très bas, et elles savent que si elles ont des problèmes la banque centrale les aidera, les banques commerciales accordent des prêts à leurs clients sans se ressemblent sur eux. Le crédit a deux conséquences directes: a) une positive, parce qu'il multiplie les possibilités de financement avec le même montant d'argent ; b) une négative, car il y a le danger de multiplier la monnaie fiduciaire, résultant un gonflement de la valeur symbolique de la économie en comparaison avec sa substance matérielle. L'argent sans couverture qui alimente en spirale la valeur gonflé, nécessitant d'autres montants et des autres montants... jusqu'à ce qu'elle atteigne son point culminant. Et la crise a apparue. Le coût et disponibilité de crédit sont des facteurs importants influençant le niveau de l'activité économique: ils sont très probablement les facteurs les plus importants dans la détermination de la forme asymétrique de modelé boom / crash⁴⁸⁵. Le crédit à taux d'intérêt tres bas a gonflé toujours l'économie symbolique sans avoir couverture dans l'économie réelle.

III.5. L'harmonisation de la notion de fonds propres des banques

Comme disait Voltaire : « *Si vous voulez parler avec moi* définissez vos termes ». Donc pour mieux s'entendre il faut définir le concept des fonds propres de banques. Comme nous ne pouvons pas mesurer le poids, si son unité de mesure (le gramme) lui-même n'est pas pareille pour tout le monde⁴⁸⁶, nous ne pourrions pas bien comprendre les banques si leurs fonds propres ne sont pas pareille pour tout le monde.

Elles doivent travailler avec les mêmes notions. Ce serait une étape vers un marché unique des services financiers, ce qui implique évidemment une plus grande concurrence et une égalisation des termes.

Des règlements sur les normes et sur l'utilisation possible de capital pourraient être restaurée et, en plus, des règlements pour un capital minimum que les banques devraient avoir.

III.6. La sécurisation des marchés de dérivés

Le volume de ce marché de dérivé a été, avant la crise, dix fois plus grande que la valeur de PIB cumulé de tous les pays du monde. Impressionnant, n'est ce pas ?

⁴⁸⁴ P. Arthus – Les incendiaires - Les banques centrales dépassées par la globalisation, Librairie académique Perrin, Paris, 2007 pp. 87.

⁴⁸⁵ G. Soros, Criza capitalismului global, Editura Polirom, Iasi, 1999, pp. 118.

⁴⁸⁶ G. Popescu -O paradigma a crizelor economice; Volumul: Criza financiara si economica: cauze, efecte si solutii, 26 mars 2009, pp. 12.

C'est important de connaître plus des choses sur ces marchés, on pourrait standardiser ces genres de contrats et le faire passer par une sorte de « chambre de compensation ». Comme ça, on pourrait avoir un véritable marché.

Les choses sus-énoncés peuvent être appliquée seulement dans une période de crise, parce qu'autrement il y a presque tout le monde qui s'opposera en disant, pourquoi réglementer quelque chose qui marche tres bien ?

En conclusion, avec une meilleure règlementation, on pourrait arrêter l'effondrement économique, le crash économique, mais aussi nous ne pourrions pas nous attendre aux booms spectaculaires.

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THE DETERMINANTS OF THE UNEMPLOYMENT RATE – EMPIRICAL EVIDENCE FROM ROMANIA

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Abstract:

Among other aspects, the 2007-2009 financial and economic crisis had an impact on the Romanian labor force, too. The aim of this article is to analyze the macroeconomic determinants of the unemployment rate in Romania, using an econometric model. We use the GDP, net and gross wage, monetary policy rate, inflation rate, budget deficit, average RON/EUR exchange rate, export and import values to estimate the model. The analyzed period is 2000-2009.

Keywords: regression model, unemployment rate, net exports, monetary policy rate, inflation rate

JEL code: C22, C53, E24

Introduction

Taking into consideration the effects of the 2007-2009 financial and economic crisis on the unemployment rate in Romania (in Q3 2009 it reached the values of 6.8%, which is higher with 9.22% than the value measured in 2007, and with 21.57% than the value measured in 2008), and knowing the negative social implications of an increasing unemployment rate, we find it important to seek the determinants that lay behind these values. The aim of this article is to identify those macroeconomic factors that have the greatest impact on the Romanian unemployment rate between 2000 and 2009. We do this in order to be able to suggest measures of decreasing it.

1. Literature review

Boianovsky, M. and Presley, J. R. (2009) use the theory first mentioned by Robertson, D. in 1930 which states that there is a connection between the natural rate of unemployment and the monetary policy rate. As Robertson, D. shows, there is a direct connection between the cyclical change of prices, the output and the employment on the long run. Boianovsky, M. and Presley, J.R. starting from the price expectations of the economy, using the theory of money illusion, deduce a relation between the monetary base, the interest rate, the real wages and the unemployment rate. They also emphasize on the differences between the Robertson and Keynes theories regarding the unemployment, which in their view lays mainly in the way they look at the interest rate, which has an impact on savings, consuming, and finally on the unemployment rate.

Fitzenbergern, B. and Garloff, A. (2008) who analyze the problems of the labor market in Germany, come to the conclusion that the main reason of the high unemployment rate is the low value of wages. According to the neoclassical views wages are determined by the marginal product of labor, therefore the increasing minimal wages lead to a decreasing wage and increasing unemployment rate.

Kooros, S. K. (2008) identifies those macroeconomic variables that have a significant effect on the unemployment rate. He estimates a multi-variable regression model, using GDP, the monetary policy rate, the budget deficit, the inflation rate, and the nominal wages.

Mussard, S. and Philippe, B. (2008) come to the conclusion that the unemployment rate in time t depends on the GDP and inflation rate in time $t-1$. In the study it is shown that through the process of money multiplier the GDP is in relations with the unemployment rate.

Guha, D. and Visviki, D. (2001) in their empirical research conducted on the USA, using data from the years preceding the 2nd World War, come to the conclusion that inflation, and labor marginal product cause the increasing unemployment rate. They show that the marginal product is in stronger relations with the unemployment, than the inflation is.

2. Methodology and data

We estimated the model using the OLS⁴⁸⁷ method. To eliminate the autocorrelation we use the Cochrane-Orcutt procedure (Ramanathan, R., 2003).

In the model we tested 10 macroeconomic variables: seasonally adjusted GDP, net and gross wage, monetary policy rate, seasonally adjusted, cumulated inflation rate, budget deficit, average RON/EUR exchange rate, seasonally adjusted export, import and net export values. These appear in the literature mentioned above.

The source of the unemployment rate, average RON/EUR exchange rate and monetary policy rate is the monthly report of the National Bank of Romania⁴⁸⁸. For better results we use the logarithmic value of the unemployment rate. The gross⁴⁸⁹ and net wages⁴⁹⁰ are values calculated by the authors, using the National Institute of Statistics data. We consider the average number of hours worked in a month as being 170⁴⁹¹, therefore, we calculate the gross and net wages as the rate of the gross and net wages per month and the number of hours worked in a month. The seasonally adjusted net export, export and import values, and the seasonally adjusted GDP⁴⁹² and seasonally adjusted cumulated inflation rate⁴⁹³ data are taken from the National Institute of Statistics database.

The quarterly data come from Q1 2000 to Q3 2009 but because we use the moving average method to seasonally adjust the data, we lose 4 data; therefore, the number of observations is 35. The data from the sample are aggregated data that refer to the entire economy. The model is estimated using the Gretl⁴⁹⁴ econometric software.

⁴⁸⁷ Ordinary Least Squares, Ramanathan, R. (2003), pp.101.

⁴⁸⁸ The National Bank of Romania (Banca Națională a României), Monthly Reports, <http://www.bnr.ro/PublicationDocuments.aspx?icid=1182>, downloaded on 02.01.2010.

⁴⁸⁹ National Institute of Statistics (Institutul Național de Statistică), average monthly gross wages between 1991-2009, <http://www.insse.ro/cms/pages/castiguri91-2010.do>, downloaded on 04.01.2010.

⁴⁹⁰ National Institute of Statistics (Institutul Național de Statistică), average monthly net wages between 1991-2009, <http://www.insse.ro/cms/pages/castiguri91-2010.do>, downloaded on 04.01.2010.

⁴⁹¹ Value taken from the Romanian accounting practice.

⁶ National Institute of Statistics (Institutul Național de Statistică), quarterly GDP, seasonally adjusted, <http://www.insse.ro/cms/rw/pages/PIB-trim.ro.do>, downloaded on 02.01.2010.

⁷ National Institute of Statistics (Institutul Național de Statistică), consumer price index, <https://statistici.insse.ro/shop/index.jsp?page=tempo3&lang=ro&ind=IPC102A>, downloaded on 16.12.2009.

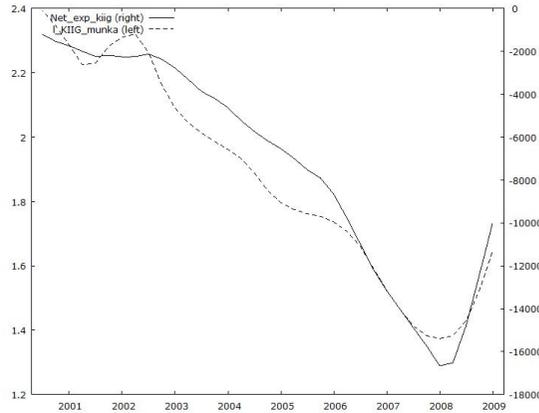
⁴⁹⁴ Gnu Regression Time Series, econometric software, <http://gretl.sourceforge.net/>

3. The results of the empirical study

Leaving out the insignificant variables, we find that there are 3 determinants of the logarithmic values of the unemployment rate: seasonally adjusted net export, monetary policy rate, and seasonally adjusted cumulated inflation rate.

In *Figure 1* we can see the logarithmic values of the unemployment rate and the seasonally adjusted net export values between Q3 2000 and Q1 2009. We assume a positive correlation between the two.

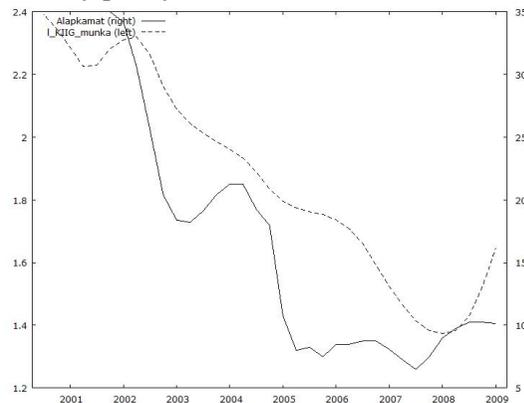
Figure 1: The logarithmic value of the unemployment rate and the seasonally adjusted net export between 2000 and 2009, quarterly data



Source: Authors' calculations, based on the National Bank of Romania monthly reports between 2000 and 2009 and the National Institute of Statistics TEMPO online database

In *Figure 2* we can see the logarithmic values of the unemployment rate and the monetary policy rate between Q3 2000 and Q1 2009. In this case too, we assume a positive correlation.

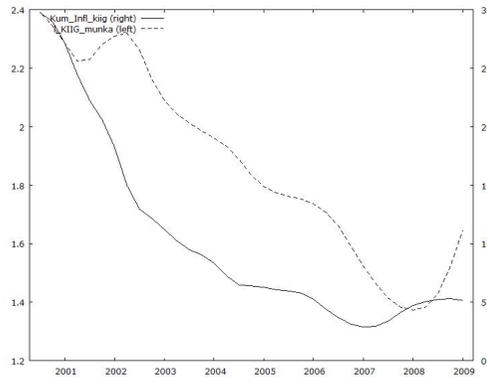
Figure 2: The logarithmic value of the unemployment rate and the monetary policy rate between 2000 and 2009, quarterly data



Source: Authors' calculations, based on the National Bank of Romania monthly reports between 2000 and 2009 and the National Institute of Statistics TEMPO online database

In *Figure 3* we can see the logarithmic values of the unemployment rate and the seasonally adjusted cumulated inflation rate between Q3 2000 and Q1 2009. In this case we assume a negative correlation.

Figure 3: The logarithmic value of the unemployment rate and the seasonally adjusted cumulated inflation rate between 2000 and 2009, quarterly data



Source: Authors' calculations, based on the National Bank of Romania monthly reports between 2000 and 2009 and the National Institute of Statistics TEMPO online database

The results of the Cochrane-Orcutt model are shown in *Table 1*. The dependent variable is the logarithmic values of the unemployment rate.

Table 1: Cochrane - Orcutt model

Explanatory (independent) variables	Coefficient	Standard error	t-statistics	p-value
Constant	2.05986	0.068052	30.27	4.82E-24
Net export	4.39E-05	4.57E-06	9.6	1.17E-10
Monetary policy rate	0.007846	0.00222	3.534	0.0014
Cumulated inflation rate	-0.01244	0.007077	-1.758	0.089
Average value of the logarithmic unemployment rate: 1.8555854				
Adjusted R ² : 0.994173				
F(3,30): 38.25734				
p-value (F): 2.24e-10				
Standard error of regression: 0.024371				
Durbin-Watson: 0.996650				

Source: Authors' calculations

According to the results of the adjusted R^2 and global F statistics we can conclude that the built model is a good estimation.

The function derived from the model is the following:

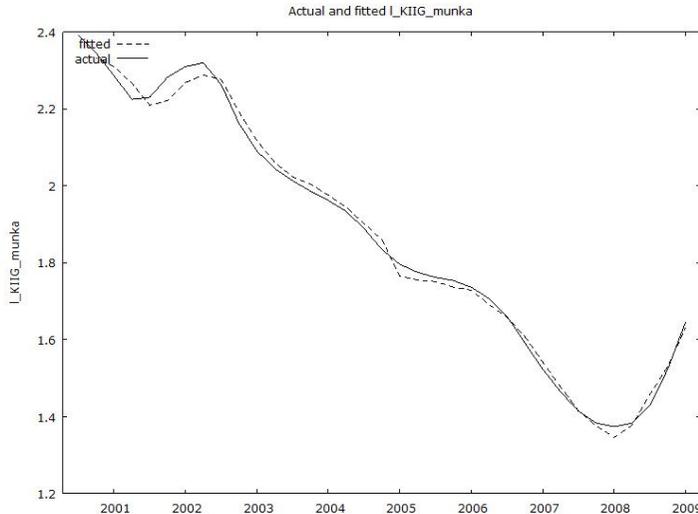
$$\text{Log_unem}_t = 2.05986 + 4.39 \cdot 10^{-5} \text{net exp}_t + 0.007846 \cdot \text{mon.pol.rate}_t - 0.01244 \cdot \text{inf.rate}_t + \varepsilon_t,$$

where $t = \overline{1,35}$ and ε_t is the residuum.

As we assumed, the seasonally adjusted net export and the monetary policy rates increase the value of the logarithmic value of the seasonally adjusted unemployment rate, the cumulated seasonally adjusted inflation rate decreases the value of the logarithmic value of the seasonally adjusted unemployment rate.

Figure 4 shows the fitted and actual values of the logarithmic unemployment rate. As we can see the fitted values are a good estimation of the actual values.

Figure 4: Actual and fitted values of the logarithmic value of the unemployment rate, between 2000 and 2009, quarterly data



Source: Authors' calculations

The increase in the net export causes the increase of the unemployment rate. This can be explained by the fact that in those periods, when the import values are high, the domestic currency is depreciated, therefore it is less attractive for investors, and therefore, unemployment increases.

The increasing monetary policy rate increases the unemployment rate, as well, because higher rates mean higher costs for the companies, that moderates economic growth and therefore increase unemployment.

However, the increasing inflation rate decreases the unemployment rate, which is in correlation with the result found by researchers quoted in the literature review.

Among the three variables, the coefficients of the independent variables are small, besides the inflation rate, so we can conclude that the inflation rate is the main determinant of the unemployment in Romania.

4. Conclusions

In our study, we analyze the macroeconomic determinants of the unemployment rate in Romania. For the estimation of the model we use quarterly data from the period 2000-2009. We find that the seasonally adjusted net export, the monetary policy rate and the inflation rate are those dependent variables that have a significant influence on the seasonally adjusted logarithmic value of the unemployment rate.

The positive and negative signs of the independent variables are those expected: the net export and the monetary policy rates increase the value of the unemployment rate, whereas the cumulated seasonally adjusted inflation rate is in correlation with economic growth, therefore decreases unemployment rate.

With the identification of the determinants of the unemployment rate we have a chance of proposing such monetary policies that can decrease the unemployment rate, mainly through the monetary policy rate, but also through the inflation rate. Moreover, we show that it is equally important to have a coherent foreign trade policy in order to be able to decrease the unemployment rate.

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THE ELDERLY PATIENTS IN THE GERMAN HOSPITAL SETTING: FACTS AND FIGURES

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The demographic evolution and its consequences – population ageing - have been the topic of multiple research studies and analyses in many countries, industries or political regimes. Health care systems have been faced with questions regarding future financing, organization and resource allocation under the impact of the demographic evolution. This time is the hospital sector in focus. Analyzing the situation in German hospitals on the basis of recent, detailed statistical data and studies, this paper provides information, data and figures on elderly hospitalized patients with regard to costs, diagnoses and operations and presents briefly implications of the demographic evolution and of an ageing population for hospitals.

Keywords: hospitalized elderly patients, acute hospital care, demographic changes.

JEL Classification Code: I10 J10 M10

1. Introduction

The health care system of the European countries has been undergoing major changes related to the financing of the health care system, the allocation of resources, the spectrum, structure and organization of the health care service provision and also the access of the population to these services in the last decades. These health care reforms together with other factors of influence have had a great impact on the hospital sector in the European countries. Data provided by the World Health Organization Regional Office for Europe show that both the number of hospital and of hospital beds per 100,000 inhabitants decreased in the great majority of the member countries of the European Union in the last decades, but considerable differences between the member countries still persist. The average length of stay in acute care hospitals also diminished considerably, whereas the inpatient health expenditure per capita has been almost continuously rising, with small exceptions, in the member countries of the European Union.⁴⁹⁵ But the hospital sector in Europe is also facing a major challenge provided by the demographic evolution – the European hospitals will be caring for more and more elderly patients with special and often complex needs. In Germany, the patients aged 65 years and older discharged from German hospitals accounted in 2008 for about 42% of the cases registered in the hospital diagnosis statistics, whereas the patients aged at least 80 accounted for almost 14% of all primary diagnoses.⁴⁹⁶ The data referring to total health expenditure by age and disease groups in 2006 show that the average health expenditure per capita for the population aged at least 65 years and less than 85 is about 2.1 times higher (6090 €) and for the population aged 85 years and over about 5 times higher (14 370 €) than the average health expenditure per capita within all age

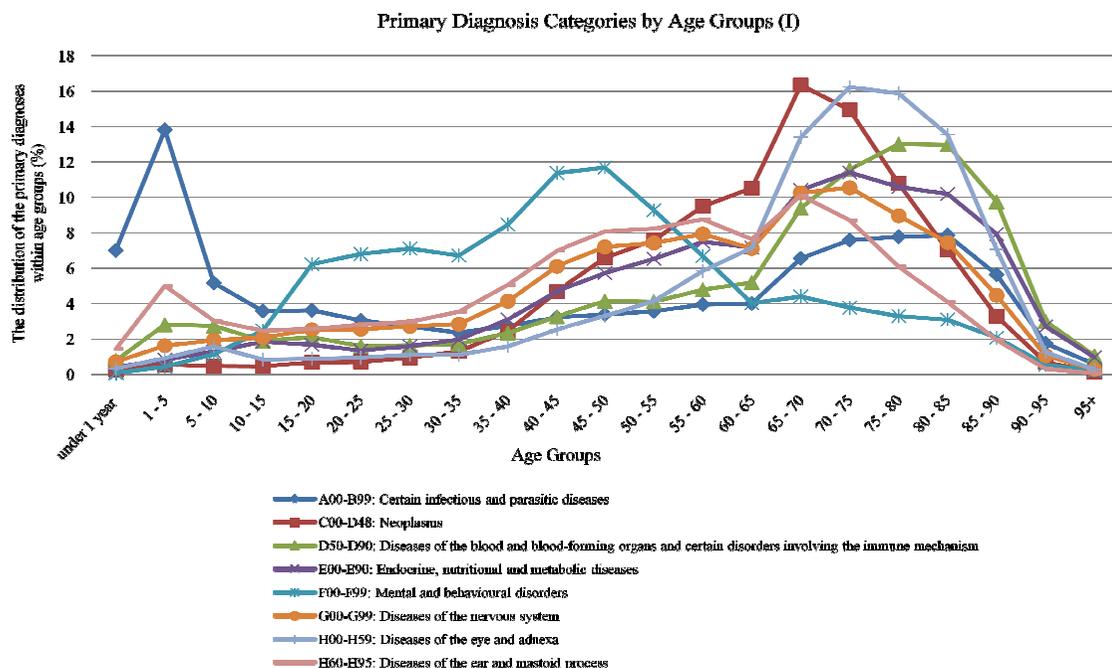
⁴⁹⁵ World Health Organization Regional Office for Europe, *European health for all database (HFA-DB)*, Copenhagen, Updated: January 2010, Online Version – selected parameters: Health Care Resources, Health Care Utilization and Expenditure.

⁴⁹⁶ Statistisches Bundesamt, *Diagnosedaten der Krankenhauspatientinnen und -patienten (einschl. Sterbe- und Stundenfälle)*, Fachserie 12 Reihe 6.2.1 – 2008, Wiesbaden, 2009, table 2.1.1.1.

groups (2870 €).⁴⁹⁷ What for an impact will the demographic ageing process have on the health care system and on the hospital sector? The studies, data and publications available have been so far aiming at quantifying the impact of the demographic changes on the health expenditure, organizational structure and allocated resources and on the evolution of the medical specialties. This paper presents and analyzes some of the results of studies published on this topic and recent statistical data available with regard to the diseases and operations of the elderly hospitalized patients in Germany, trying to underline their characteristics and presents briefly implications of an ageing population for the German hospitals.

2. Characteristics of hospitalized elderly patients in Germany

There are many publications trying to estimate or predict the impact of the demographic evolution and of an ageing population on the health care expenditure, hospital cases, capacities and costs. There are more theses with regard to the evolution of morbidity at high ages, such as the compression of morbidity⁴⁹⁸ or the medicalization thesis⁴⁹⁹. The German hospital diagnosis statistics⁵⁰⁰ shows that the diseases of the circulatory system (about 2.7 million recorded primary diagnoses) accounted for the highest number of primary diagnoses of the hospitalized discharged patients in 2008 in Germany, followed by the neoplasms (about 1.9 million recorded primary diagnoses), by the diseases of the digestive system and of the category injury, poisoning and certain other consequences of external causes (each about 1.8 million recorded primary diagnoses), by the diseases of the musculoskeletal system and connective tissue (about 1.6 million recorded primary diagnoses), the top 6 diagnosis categories ending with the mental and behavioral disorders (about 1.1 million recorded primary diagnoses).



⁴⁹⁷ Statistisches Bundesamt, *Krankheitskosten nach Krankheitsklassen und Alter 2006 in EUR je Einwohner der jeweiligen Altersgruppe*, Wiesbaden, 2008, online table document.

⁴⁹⁸ Fries, J.F., *Compression of morbidity in the elderly*, in: Vaccine, 2000, Nr. 18, pp. 1584 – 1589.

⁴⁹⁹ Verbrugge, L.M., *Longer Life but Worsening Health? Trends in Health and Mortality of Middle-Aged and Older Persons*, in: Milbank Memorial Fund Quarterly, 1984, Nr. 62, pp. 475-519.

⁵⁰⁰ Statistisches Bundesamt, *Diagnosedaten der Krankenhauspatientinnen und -patienten (einschl. Sterbe- und Stundenfälle)*, Fachserie 12 Reihe 6.2.1 – 2008, Wiesbaden, 2009, table 2.1.1.1.

Figure 1: Primary Diagnosis Categories by Age Groups (I).

Source: authors' own calculations based on available statistical data from Statistisches Bundesamt (2009a).⁵⁰¹

The analysis of the diagnoses data for the patients aged 65 years and over shows that the top 5 diagnosis categories are identical with those of all discharged patients, followed by the but the diseases of the circulatory system on the 6th place. The diagnosis categories mental and behavioral disorders, certain infectious and parasitic diseases, diseases of the blood and blood-forming organs and certain disorders involving the immune mechanism, diseases of the skin and subcutaneous system and the diseases of the ear and mastoid process occupy the last 5 places in the top diagnosis categories for the group of patients aged 65 years and over. Figures 1 and 2 show that the highest frequencies of recorded primary diagnoses from the categories neoplasms, diseases of the musculoskeletal system and connective tissue and diseases of the ear and mastoid process are registered in the age group 65 – 70 years (patients aged at least 65 and less than 70 years).

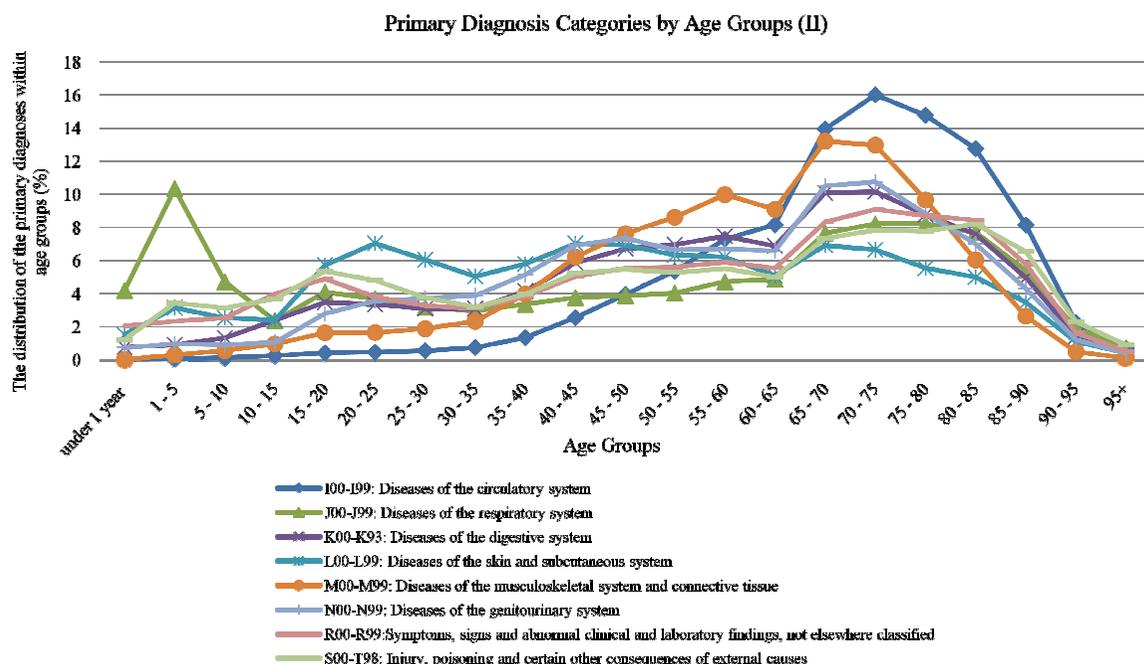


Figure 2: Primary Diagnosis Categories by Age Groups (II).

Source: authors' own calculations based on available statistical data from Statistisches Bundesamt (2009a).⁵⁰²

The highest frequencies of recorded primary diagnoses from the categories: diseases of the circulatory system, diseases of the genitourinary system, diseases of the digestive system, diseases of the nervous system, symptoms, signs and abnormal clinical and laboratory findings, not elsewhere classified, then endocrine, nutritional and metabolic diseases, and diseases of the eye and adnexa are registered in the age group 70 – 75 years (patients aged at least 65 and less than 70 years). The highest frequency for injury, poisoning and certain other consequences of

⁵⁰¹ Ebenda.

⁵⁰² Statistisches Bundesamt, *Diagnosedaten der Krankenhauspatientinnen und -patienten (einschl. Sterbe- und Stundenfälle)*, Fachserie 12 Reihe 6.2.1 – 2008, Wiesbaden, 2009, table 2.1.1.1.

external causes is to be found in the age group 80 – 85 years (patients aged at least 80 and less than 85 years). The percentage of the patients suffering from diseases of the circulatory system is in all 7 age subgroups 65+ (at least 65 years old) the highest among analyzed diagnosis categories, followed by the neoplasms in 3 age subgroups (65-70, 70-75, 75-80) and disease of the musculoskeletal system and connective tissue in 2 age subgroups (65-70, 70-75). For the last 4 age subgroups 65+ (80-85, 85-90, 90-95 and 95+) the next 2 highest percentages after the diseases of the circulatory system are registered by the categories injury, poisoning and certain other consequences of external causes and diseases of the digestive system. The data from table 1 shows that 6 of the 10 top primary diagnoses of the discharged patients aged 70 years and over in 2008 were diseases of the circulatory system.

Top 10 Primary Diagnoses for the age group 70+	Percentage of the 70+ hospitalized patients in all hospitalized patients by primary diagnosis (%)	Percentage of the sum of the hospital days of the patients 70+ in all hospital days by primary diagnosis (%)
Heart failure (I50)	79.4	80.2
Cerebral infarction (I63)	67.8	69.6
Angina pectoris (I20)	46.8	54.2
Femur fracture (S72)	77.7	82.3
Atrial flutter and atrial fibrillation (I48)	53.3	63.4
Acute myocardial infarction (I21)	55.0	60.6
Pneumonia, organism unspecified (J18)	54.6	62.8
Non-insulin-dependent diabetes mellitus (type-2-diabetes) (E11)	57.6	58.6
Essential (primary) hypertension (I10)	51.0	58.1
Knee osteoarthritis (M17)	49.2	55.0

Table 1: Top 10 primary diagnoses for the age group 70+.

Source: authors' own calculations based on statistical data from Statistisches Bundesamt (2009c).⁵⁰³

Table 2 indicates the gender differences with regard to the top 10 primary diagnoses (for example: angina pectoris, knee and hip osteoarthritis, arteriosclerosis, malignant neoplasms of bronchus and lung etc.) for the patients aged 70 and over discharged in 2008 from German hospitals. Analyzing the data with regard to surgical operations and procedures one can observe that the age group 65+ accounted for almost 42% of the inpatient surgical operations performed in German DRG-hospitals in 2008 (when not considering additional information on operations).⁵⁰⁴

Top 10 Primary Diagnoses: age group 70+, female	Top 10 Primary Diagnosis: age group 70+, male
Heart Failure	Heart Failure
Femur fracture	Angina pectoris
Cerebral infarction	Cerebral infarction
Essential (primary) hypertension	Chronic ischemic heart disease

⁵⁰³ Statistisches Bundesamt, *Tiefgegliederte Diagnosedaten der Krankenhauspatientinnen und -patienten (Datensatzstruktur) 2008*, Wiesbaden, 2009c, table: Geschlecht_Anzahl_08.

⁵⁰⁴ Statistisches Bundesamt, *Fallpauschalenbezogene Krankenhausstatistik (DRG-Statistik) - Operationen und Prozeduren der vollstationären Patientinnen und Patienten der Krankenhäuser – Ausführliche Darstellung - 2008*, Wiesbaden, 2009, table 1.1.1.

Knee osteoarthritis	Acute myocardial infarction
Atrial flutter and atrial fibrillation	Pneumonia, organism unspecified
Non-insulin-dependent Diabetes mellitus (type-2-diabetes)	Other chronic obstructive pulmonary disease
Acute myocardial infarction	Malignant neoplasms of bronchus and lung

Angina pectoris	Arteriosclerosis
Hip osteoarthritis	Atrial flutter and atrial fibrillation

Table 2: Top 10 primary diagnoses for the age group 70+ by gender.

Source: authors' own calculations based on statistical data from Statistisches Bundesamt (2009c).⁵⁰⁵

Table 3 shows the percentage of the operation categories within all 7 subgroups 65+: the operations of the musculoskeletal system and of the digestive tract accounted for high percentages in all selected age groups (correlating with the information provided by the analysis of primary diagnoses by age groups) in the year 2008. Whereas the percentage of the operations on the nervous system, on the lung and bronchus, on the heart, on the blood vessels, on the male and female genital organs decreased in the higher age groups, the percentage of the operations on the skin and subcutaneous tissue and on the musculoskeletal system (partially) increased in the higher age groups.

Percentage of the number of performed inpatient operations within the selected age groups (%)							
Operations: categories	65 - 70	70 - 75	75 - 80	80 - 85	85 - 90	90 - 95	95+
Operations on the nervous system	5.0	5.0	4.5	3.7	2.6	1.6	1.2
Operations on the endocrine glands	1.5	1.1	0.7	0.4	0.2	0.1	0.1
Operations on the eye	4.6	5.7	6.8	8.1	8.1	6.6	5.1
Operations on the ear	0.6	0.5	0.4	0.4	0.4	0.4	0.5
Operations on the nose and paranasal sinuses	1.5	1.0	0.8	0.6	0.6	0.6	0.6
Operations on the oral cavity and face	1.1	0.9	0.9	0.9	0.9	0.9	1.0
Operations on the pharynx, larynx and trachea	1.1	1.0	1.0	0.8	0.5	0.3	0.2
Operations on the lung and bronchus	1.5	1.4	1.2	0.8	0.5	0.3	0.2
Operations on the heart	3.6	4.6	5.4	5.1	4.3	3.7	2.8
Operations on the blood vessels	7.3	7.1	6.8	6.3	5.6	4.7	4.4
Operations on the hematopoietic and lymph vessel system	1.9	1.4	1.1	1.0	0.7	0.5	0.3
Operations on the digestive tract	18.2	19.0	20.4	22.5	24.3	23.6	22.1
Operations on the urinary organs	5.6	6.0	6.4	6.4	5.9	5.3	4.2
Operations on the male genital organs	2.6	2.5	2.2	1.8	1.3	1.0	0.8
Operations on the female genital organs	3.3	3.1	2.6	2.1	1.7	1.1	0.6
Operations on the jaw and craniofacial bones	0.3	0.2	0.2	0.2	0.2	0.3	0.4
Operations on the musculoskeletal system	30.8	29.9	28.3	26.5	27.1	30.4	34.8
Operations on the breast	2.0	1.2	0.9	0.9	0.8	0.7	0.5
Operations on the skin and subcutaneous tissue	7.8	8.4	9.4	11.5	14.3	18.1	20.4

Table 3: Performed inpatient operations by age groups in 2008 in German DRG-hospitals.

Source: authors' own calculations based on statistical data from Statistisches Bundesamt (2009b).⁵⁰⁶

⁵⁰⁵ Statistisches Bundesamt, *Tiefgegliederte Diagnosedaten der Krankenhauspatientinnen und -patienten (Datensatzstruktur) 2008*, Wiesbaden, 2009c, table: Geschlecht_Anzahl_08.

⁵⁰⁶ Statistisches Bundesamt, *Fallpauschalenbezogene Krankenhausstatistik (DRG-Statistik) - Operationen und Prozeduren der vollstationären Patientinnen und Patienten der Krankenhäuser – Ausführliche Darstellung - 2008*, Wiesbaden, 2009, table 1.1.1.

The data presented above shows that even at present the elderly patients register a high percentage in the number of inpatient hospital cases, of hospital days and absorb a high degree of the operation resources in German hospitals.

3. Implications of an ageing population for the German hospitals

The data presented above together with the values of the hospitalized patients per 1 000 inhabitants by age groups indicate that the number of inpatient hospital cases increases considerably at a high age.⁵⁰⁷ Under the premises of the representativeness of the statistical data for the year 2008, one could expect a considerable increase of the age-related diagnoses as result of the demographic changes. Using the age and gender specific diagnoses probabilities of the years 2004/2005 and the results of population projections in order to quantify the impact of population ageing on the number of hospital cases and beds, one of the analyzed studies presented a projection scenario indicating an increase of about 12% in the hospitalized cases in 2030 compared to 2005; according to this projection scenario, high growth rates are expected in the age-related diagnoses categories, for e.g. diseases of the circulatory system (34.2%), neoplasms (20.9%), diseases of the digestive system (13.7%), injury and poisoning (10%), diseases of the musculoskeletal system and connective tissue (9.9%) and diseases of the respiratory system (11.5%). In the case of decreasing hospitalization rates (in accordance with the hypothesis of compression of morbidity⁵⁰⁸), the results of this projection scenario indicated an increase of 5.3% in the hospitalized cases in 2030 compared to 2005. With regard to the percentages of the hospital inpatient cases by age groups, both scenarios showed similar results: the percentage of the age groups 60 - 80 and 80+ are predicted to increase from 35.5%, respectively 12.5% in 2005 to 39.5%/42.1%, respectively 20.2%/20.4% in 2030.⁵⁰⁹ On the basis of the analyzed data, one can say that the implications of an ageing population for the German hospitals will be multiple and complex, ranging from changes in the diagnosis spectrum, allocated resources (number of beds, operation resources and capacities, qualifications of the hospital personnel, care effort etc.) to changes in the hospital organizational structure and processes (for e.g. case management, coordination activities and discharge management). The characteristics and often complex needs of the elderly patients require more than ever the implementation of multi- and interdisciplinary care concepts in hospitals. Due to the expected increase of the percentage and number of the patients aged 70/80 and over, German hospitals should consider the necessity of ensuring geriatric medicine knowledge in the hospital setting.

4. Conclusions

Many data illustrate implications of the demographic evolution for European health care systems. The hospital sector, as integrative part of each health care system, will be also facing challenges and changes. The precise analysis of the patient hospital structure and their characteristics can provide hospitals with important information and enable them to react in time by adopting necessary structural and organizational measures in order to be well prepared for the multiple facets of the demographic evolution.

⁵⁰⁷ Statistische Ämter des Bundes und der Länder, *Demographischer Wandel in Deutschland, Heft 2 – Auswirkungen auf Krankenhausbehandlungen und Pflegebedürftige im Bund und in den Ländern*, Wiesbaden, 2008, pp. 7.

⁵⁰⁸ Fries, J.F., *Compression of morbidity in the elderly*, in: *Vaccine*, 2000, Nr. 18, pp. 1584 – 1589.

⁵⁰⁹ Statistische Ämter des Bundes und der Länder, *Demographischer Wandel in Deutschland, Heft 2 – Auswirkungen auf Krankenhausbehandlungen und Pflegebedürftige im Bund und in den Ländern*, Wiesbaden, 2008, pp. 7.

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THE INVESTMENT CLIMATE AND THE DECISION TO UNDERTAKE FDI

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FDI is well acknowledged as an important factor stimulating growth at the level of national economies. Therefore, governments are interested in attracting FDI by adopting various policies and implementing focused strategies. However, the decision to undertake FDI is taken on a case-by-case basis by each foreign investor. Nevertheless, certain patterns can be observed which reveal the investor's objectives.

The article presents a specific analysis performed based on the latest statistical data available on FDI in order to evaluate which are the most appealing economies to foreign investors and argues on the potential criteria considered in the process of FDI.

Keywords: foreign direct investment, multinational enterprises, investment climate

JEL classification: F21, F47

Introduction

The multinational enterprises ('MNE' hereinafter) are continuously seeking to increase their profitability, when possible by extensive means, including under the form of increase of production capacities. When the domestic market is saturated, MNE eventually decide to focus on overseas expansion by carefully choosing where the planned investment is to be situated. The decision of undertaking a foreign direct investment ('FDI' hereinafter) is not less objective than the choice of the country where the new investment should be located, as feasibility studies and profitability forecasts usually fundament such decisions.

From another perspective, a set of priorities acknowledged by MNE transform the statistics of FDI in something else than a simple computation of assets held by MNE in foreign countries. From a broader point of view, FDI is characterised by heterogeneity which comes from the diversity of the factors considered by MNE when choosing the location of the future investment. In the context of the benefits brought by FDI to the stability and development of worldwide economies, countries attempt to become more attractive to MNE.

In the following pages, this article is trying to evaluate which are the criteria that determine foreign investors to choose a certain country as location for their foreign investment as well as on the tactics that governments often undertake in order to become more appealing to foreign potential investors. Finally, a specific analysis of statistical data regarding FDI inflows was performed in order to outline FDI trends and forecasts.

Key drivers for MNE to select a certain foreign location for their direct investment

From a general perspective, MNE are usually considering individually or as a group the following criteria in their assessment of undertaking FDI: natural resources availability, the potential of maintaining or increasing of sales in certain markets, acquiring strategic assets or low production costs in the light of subsequent exports. As such, countries with significant natural resources, large consuming markets, attractive corporate assets or low wages labour markets would become attractive for MNE searching to meet one or several of the above objectives. In principle, we could argue that the geographical distribution of FDI around the world reflects the capacity of countries to satisfy the above-mentioned objectives assumed by MNE.

In addition, we could note, especially in the past two years, most probably as a consequence of the global financial crisis, an increased interest of MNE in restructuring their business, by taking

into account specific tax aspects and more precisely by performing extensive tax planning (which hopefully generates low effective tax rates at group level and increases consolidated profitability).

On a related note, the distribution of FDI on the worldwide map during the 20th century and beginning of the 21st century proves a change of interest at the level of foreign investors. If during the 20th century (and particularly before the World War II) large investments in countries having available well-known raw material resources – the current poor countries of the world – were performed, nowadays the market-seeking investments in wealthy industrialised countries are the most frequently FDI undertaken.

Apparently, MNE are seeking for low waged and non-regulated labour protection countries where labour costs reach the lowest levels and at least theoretically the best profit level indicators should be achieved. However, FDI distribution statistics prove the contrary, meaning that, except for China, there is no positive relationship between the level of a country's wages and its capacity of attracting FDI. Moreover, statistics show that FDI usually moves from one wealthy developed country to another. One perfectly consistent explanation would be that MNE are looking for high productivities (computed as output per unit of input) which are quite difficult to achieve if only low instructed workers with bad working behaviour are available, which is frequently the case of less developed countries. In addition, other costs such as raw materials, equipment, transportation, tax burden should be also considered as components of the production cost endured by MNE. Therefore, we could argue that the high wages of the industrialised countries would reflect the level of their productivity.

In addition, statistics show that FDI is moving towards countries with potentially high foreign consumers' buying power and not towards weakened economies. The latter, although frequently capital-scarce economies with low developed labour markets, are not characterised, statistically speaking, by a high FDI inflow.

The investment climate

The investment climate is one of the main elements considered by MNE when selecting a location for establishing an investment. Although not quantifiable and resulting from a mix of factors, the investment climate represents mainly the foreign investor's perception on how business friendly is a potential host country. From a more pragmatic perspective, the foreign investors make a judgement on the risk involved by FDI and whether the expected returns are satisfactory in comparison to the level of uncertainties.

There is a list of most important factors which would determine the foreign investor to establish the nature of the investment climate, as follows: political and country stability, quality of governance, stable system of law, macroeconomic policies with direct influence on the entire economy, etc. Lately, the fiscal policy is also increasingly important for the investors, either envisaging FDI or simply business restructuring. Tax planning has become a major interest for MNE which envisage diminishing the tax burden (by applying efficient tax planning strategies, MNE actually manage to reduce their effective tax rate at group level and thus realise a significant reduction of costs). Corporate tax rates, as well as the monetary policies setting the cost of borrowing in the host country are the main features of the fiscal policy.

In addition, there are also meso-economic factors such as industry policies (providing for e.g. tax exemptions, protection from import competition), regulatory environment of business, quality of human and physical infrastructure, regulation of capital outflows, import barriers, etc. that cannot be ignored by MNE.

The strategies adopted at the governmental level are very important in attracting or, conversely, discouraging FDI. As such, as a first possible attitude, governments might decide to focus on attracting FDI by adopting policies and implementing strategies and measures (either applicable to all industries or customised for certain specific industries) in order to become more appealing

to foreign investors. Moreover, very aggressive governments might also target certain MNE or sectors and court them in order to offer different incentives which would hopefully determine the foreign capital inflow. Currently, from a worldwide perspective, this is the attitude the most frequently adopted by governments, interested in attracting FDI.

Nevertheless, a second possible attitude of governments is the “laissez-faire” one adopted, for example, in the US at federal level. Such attitude implies no effort of what so ever from the part of governments which have few or no policies implemented. The purpose of such position is to let the market mechanism completely free in attracting or, by opposite, discouraging FDI at different industries level. However, the above-mentioned example is one of the rarest ones.

Thirdly, governments may also adopt certain specific policies which provide for disincentives for the MNE. Such countries, under the intention of protecting the national interest (irrespective of what it consists of) may actually risk fully discouraging FDI and finding themselves destitute of the FDI benefits. This would be the case of certain very nationalists Asian countries.

A fourth situation, i.e. the one of a government which manages very poorly its national economic policies or handles very aggressively its political objectives so that is discouraging FDI, could also be considered, although such a situation would be mostly unintentional and could not be viewed as a strategy.

However, irrespective of the governments’ strategies with regard to FDI, there are also other factors which cannot be controlled, such as the level of the instruction of the labour force, the potential aggressiveness of union trades, the quality of the raw materials available, etc.

Despite all, it should be stated that investment climate improvement, which would normally lead to attracting FDI is a process which requires efforts and implication from the part of governments. Most likely, such improvement requires a period of time so that the transmission mechanism (from governments adopting official FDI supporting position to reception by the foreign investors of such message) to take place.

The decision to undertake FDI

The decision to undertake FDI is, from the foreign investor’s perspective, a case-by-case decision which ultimately takes into consideration the objectives of the investor, on one hand, and the strengths and weaknesses of specific countries/regions contemplated, on the other hand. In addition, the corporate culture has an increased significance in the decisional process, as it would attribute certain levels of importance to each of the countries’ attributes and finally it would determine the acceptance and the rejection factors.

Despite the above, in case of resource-seeking investments (e.g. oil drilling activities), we can argue that there are mainly three basic criteria influencing the investment decision making, i.e. easy access to important quantities of focused raw materials, costless transportation by means of satisfactory infrastructure and an acceptable level of corruption and environmental legislation.

On another side, there are market-seeking foreign investors (mainly all players in the consumer products industry) which are primarily looking for large economies, having constant economic growth, with a strong consumer purchasing power, goods infrastructure and human capital endowment. Most of the countries which could qualify for the above desiderates are located in the EU, US or Japan / Eastern Asia.

The efficiency-seeking foreign investors are attracted by economies with relatively low wage scale (e.g. less developed countries). However, such countries should be carefully analysed in order to avoid the ones with low labour productivity or possible sources of high production costs (e.g. increased corruption, less developed law systems, inadequate infrastructure).

Finally, in respect of foreign investors seeking for acquiring strategic assets or entering into a merger with a foreign company, specific factors are taken into consideration in relation to the objectives of the foreign investor. Therefore, it is difficult to enumerate a list of factors which

could be considered, as most of the times the decision is not related to the attractiveness of the respective foreign economy, but to intrinsic factors.

The bias of assessing positive factors characterising a potential host country also applies when it comes to negative factors. It is quite less probable for foreign investors to be able to find a host country for their investment having all or either part of the required strong points without having at least one weak point. Therefore, the foreign investors should determine very well which are the weak points that are acceptable and which are not from the perspective of their envisaged objectives.

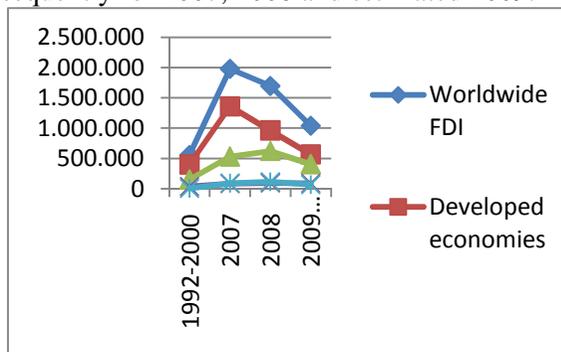
Specific statistical analysis on the development of FDI

We aim in the following analysis to determine which were the FDI trends in 2007, 2008 and partially in 2009 and based on such an analysis to forecast on the future potential actions to be undertaken by foreign investors with regard to the most likely location for their FDI (we note in this respect that we do not have yet official statistical data available for 2009 FDI flows, however, a specific analysis has already performed based on estimated figures).

Further to the review of the statistical data available on the online FDI statistical database of UNCTAD⁵¹⁰, we note that in 2008, the total FDI flow was evaluated at 1,697,353 MEAS⁵¹¹ in comparison to 1,978,838 MEAS in 2007.

With regard to 2009, the estimated FDI inflows are of 1,040,300 MEAS. This deep decrease (i.e. approximately 15% in 2008 and estimated 38.7% in 2009) of the level of the worldwide FDI comes after a long period of constant growth and is undoubtedly caused by the global financial crisis. As such, the companies have seen their capacity of investment significantly being weakened by the lack of financial resources (both internal and external) and their propensity to invest diminished by collapsed growth prospects and heightened risks.

In the following chart we have included the relevant information regarding the amounts of FDI inflows recorded by each category of country for the period 1992 – 2000 (considered as an annual average) and subsequently for 2007, 2008 and estimated 2009.



Please note that we have chosen the period 1992-2000 for our analysis as considered a period of relative economic stability. It is also a period of increase of FDI inflows at the worldwide level which proves the increased interest of foreign investors towards FDI (which is also due to the globalisation phenomenon becoming more obvious worldwide).

When analysing the data included in the above chart, we note that a constant increase in the level of FDI flows was registered since 1990. Also, we note that FDI inflows recorded a sinusoidal evolution as of 1990, with periods of constant growth during 1992-2000 and 2003-2007. The peculiar evolution of FDI in 2008 can be argued by the financial crisis which determined a significant decrease of FDI worldwide. In addition, we note a slightly increased interest of

⁵¹⁰ FDIStat, the official site of UNCTAD presenting extensive statistical information regarding FDI (<http://stats.unctad.org>)

⁵¹¹ US dollars at current prices and current foreign exchange rates in millions

investors towards developing countries and transition countries in 2008. With regard to the 2009 evolution of FDI inflows, we note a significant decrease affecting all categories of countries.

In addition, we note that a significant increase of the level of FDI inflows was recorded in 2007 and 2008 in comparison to the annual averages of the period 1992-2000 for each category of countries (i.e. the growth was up to 3.5 times). In addition, we note quite a small interest shown by foreign investors in the transition countries in the period 1992-2000 (i.e. only 1% of the worldwide attracted FDI), however such interest increased in the late 2000s, the share of attracted FDI being of approximately 6.74% in 2008.

We also note that the developing countries continue being very attractive to foreign investors, gaining advantage in comparison to developed countries (we note an important increase of the FDI inflows share in 2008 and 2009 compared to the annual average of 1992-2000). In addition, it seems that the global financial crises affected, at least based on the estimated figures, in a more profound way the developed countries rather than e.g. the developing countries (the latter having attracted an increased percentage of worldwide FDI inflows in 2009).

China appears to be a very important player in the category of developing countries, having by itself in 2008 a share of 6.38% of the total FDI inflows and of between 15% - 20% (decreasing from the period 1992-2000, when it was of approximately 37%) of the FDI inflows for developing countries, which shows an increased interest of foreign investors in other developing economies than China. In 2009, the interest of foreign investors in China seemed to have slightly decreased. However, its level of FDI attractiveness in the developing countries zone has increased (up to 8.65% of the worldwide FDI flow).

As per the above analysis, we note that the interest of foreign investors in developed countries started to slightly decrease over the past years in the benefit of developing countries (out of which China is a major player). Also, the transitional countries become more attractive from a FDI perspective.

Forecasts on FDI evolution in the years to come

In order to understand the way in which foreign investors think when analysing their possible destinations for FDI, UNCTAD took a survey at the level of the executives of 241 of the most important non-financial MNE. The aim of such a survey is to provide insights into FDI patterns over the following three years.

According to the 2009-2011 World Investment Prospects Survey undertaken by UNCTAD in 2009 ('WIPS' hereinafter), the most attractive countries from a FDI perspective are Brazil, the Russian Federation, India and China (BRIC countries). The respective rank was established by MNE after considering criteria such as market growth, followed by the availability of cheap labour, and, in some cases, access to natural resources, location of major assets, etc. They mentioned the quality of the business environment and market size as the main strengths of the most developed economies.

In addition, the WIPS reflects a high concentration of answers. As such, the top 15 countries in the list account for 74% of the total number of responses, while at the level of developing and transition economies the respective percentage is even higher, i.e. 76%. Thus, the interest of the MNE in developing and transition economies, although increasing, is still limited to a small number of countries.

From another perspective, as a slight increase of 3.1% of the worldwide GDP is expected for 2010 (as per the estimation of the IMF, included in the latest World Economic Outlook), against a decrease of 1.1% in 2009, we could argue that a modest recovery could be expected in 2010 mainly due to the stabilisation of the worldwide economies. However, FDI flows figures are most likely to be still significantly inferior to those recorded in e.g. 2007.

Conclusions

The interest of national economies towards FDI is increasing, especially under the conditions of the actual global financial crisis when the appetite of foreign investors for FDI is very low. Studies performed show quite pessimistic views of foreign direct investors with regard to 2010 and 2011; however it is envisaged an upward trend for FDI inflows for the years to come.

Foreign direct investors in developing and transitional countries are more optimistic about future FDI inflows in the years to come, probably also because their countries were less affected by the financial crisis from an FDI perspective.

The results of the above analysis show an important interest in performing FDI in wealthy countries. Apparently, there is not a migration of foreign capital from North to South (a vertical movement), but a horizontal one. However, percentages held by developing countries and transnational countries in global FDI inflows are slightly increasing.

In addition, it should be stated that the 2008 and 2009 data should not be considered as reference years for the purpose of this analysis due to the effects of the global financial crisis affecting with a different intensity the various categories of countries (e.g. developed countries versus e.g. transition countries). The most severely affected by the global financial crisis in 2008 and 2009 were the developed countries, while developing and transition countries have experienced low growth rates of inflows of FDI. However, it is quite probable that the worst is yet to come for the developing and transitional countries and they are expected to record decreases of FDI inflows in 2010 and possibly 2011.

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THE ECONOMIC IMPLICATIONS OF THE GEOTHERMAL POTENTIAL OF WEST AND NORTHWEST REGION OF ROMANIA

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The energy crises of the 70s led to the vigorous interventions of the industrialized states in the energy sector. On the European political agenda a new problem appeared, namely the one regarding the security of the energy supply. Romania is the third geothermal power in Europe, after Italy and Greece. The energy potential produced by means of geothermal resources of the West and North - West regions is approximately of 144 MWt. The production of a MWt of electricity through conventional sources (in our case study we chose diesel) emits into the atmosphere about 21,673 tons of CO₂. If it's used the entire installed capacity in these areas Romania reduces pollution by approximately 6,935,552 TCO₂.

Keywords: durability, externalities, renewable, geothermal, energy independence, pollution.

Jel classification: H23 - Externalities; Redistributive Effects; Environmental Taxes and Subsidies

For a long time it has been considered that the production and selling of energy is an area regulated by national policies and direct involvement of the governments. The natural monopole of production and distribution of energy activities and transport activities represents one of the reasons that determined the strengthening of the initial ideas of the governments.

The energy crises of 70s led to the vigorous intervention of the industrialized states in the energy sector. On the European political agenda a new problem appeared, namely the one regarding the security of the energy supply. Costly programs were initiated for the construction of nuclear plants and were allocated grant – in – aids for alternative energy. International Energy Agency was created in order to supervise the allocation of the financial resources and to encourage the diversification of alternative forms of energy. Meanwhile, in a modest way, began to emerge national energy policies and the implementation of agencies. However, some traditionally planned interventions proved to be hasty or even useless, so the capacity of the governments alone to intervene in energy policy began to be questioned.⁵¹²

In the history of the European Communities, the energy policy has been rather insignificant, although, paradoxically, two of the basic treaties, *the Treaty establishing the European Coal and Steel Community (ECSC) and the Treaty establishing the European Atomic Energy Community (EAEC or Euratom)* refers to energy. ECSC established through the Treaty of Paris of 1951, created a common cola market. Then was the Euratom Treaty that was signed in Rome in 1957, which originated in the Suez oil crisis of 1956. 1956. It aims to reduce the dependence on imports from the Middle East. Also, *the Maastricht Treaty* signed in 1992 and known as the EU Treaty, has brought some additions to the definition of the internal energy market (PIE).

⁵¹² http://www.renerg.eu/Document_Files//Evenimente/00000058/9dn9j.

The European Commission plays a central role in the debate between different actors on the energy market, some of them wanting decentralization, while others, on the contrary, as it had been seen previously. The first statement of the European Commission that approaches the issue regarding a common energy policy dates from 1995 and was called the Green Paper "For a European Union Energy Policy." In the same year came out, the White Paper "An Energy Policy for the European Union, then a new sequence of communications in 1996 and 1997, called "Green Paper for a Community Strategy - Energy for the Future: Renewable Sources of Energy" and "White Paper: Energy for the Future - Renewable sources of Energy.

These documents underpin the current common energy policy and the European legislation designed to implement it. The complexity of the problems regarding the production of energy, the transport and the energy consumption has much increased in the last decades, together with the ingravescence of the global environmental problems, climate changes and depletion of natural resources. In addition, the EU confronts itself with some specific problems among which the most serious being the one linked to the increased dependence on imported energy resources.⁵¹³

The efficient conservation, valorization and in an ecologic manner of the energetic resources and also the sustainable use of these resources, represent in recent decades is a major worldwide concern. Finding viable solutions for the problems with which man confronts today in the energy domain, is imperative because of:

- the gradual depletion of oil resources;
- the increased rhythm of growth of the greenhouse gases' emissions;
- the expansion of the nuclear power plants, having as consequence the volume of radioactive wastes;

In order to avoid these unwanted phenomena, over time it has been tried the adoption and implementation of measures designed to prevent the occurrence of this phenomenon. In this category belong the eco-taxes or environmental taxes that represent "extraordinary constraints" introduced by governments as to counterbalance the social costs resulting from damages to the surrounding environment due to externalities generated by people. This notion was introduced by the economist Alfred Pigou in 1920 which stated that for an economy it would be useful to correlate the price of goods with that of the common consumption goods by using property taxes. Another implication in this sense has the British economist Ronald Coase, Nobel Prize winner in Economics in 1991 who contributed to the development of the economic Theory of Externalities. Marketable pollution licenses - LPT (Tradable Permits)⁵¹⁴ are based on the principle of the right to emit pollutants within the limits stipulated by laws and regulations concerning environmental protection. This system is the most often used in the U.S.A. (regulated by the *U.S. Clean Air Act*). Through the system of tradable pollution licenses a company or a country has the permission to sell to a third party the right to issue the amount of pollutants due to the difference between the level of pollution permissible by law, considered as the maximum allowable level of pollution and achieved by adopting new ecologic technologies or ecologising the existing ones.

Reducing the environmental impact of the energy sector involves the use of regenerable energies including biomass, geothermal energy, solar energy, aeolian and hydropower that should play a key role in the future. On the other hand, it is necessary to strive for a more efficient energy use, as a relatively easy means to reduce the environmental impacts of energy. Thus, the geothermal potential of Romania and especially of the west and north - west region shows a great energy importance and implicitly an economical and environmental one for the country.

The population of the West and Northwest area

⁵¹³ Idem.

⁵¹⁴ <http://www.bibliotecadigitala.ase.ro/biblioteca/pagina2.asp?id=cap4>.

The northwest Region is one of the eight development regions of Romania and includes six counties: Bihor, Bistrița-Năsăud, Cluj, Maramureș, Satu Mare, Sălaj. The surface area is of 34,159 square kilometres, representing 14.32% of the country's surface, with a total population of 2,744,914 inhabitants.

The West Region of development of Romania is located at the border with Hungary and Serbia, and is organized from administrative and territorial point of view in four counties: Arad, Caras-Severin, Hunedoara and Timis. The West Region's population is of 1,924,442 inhabitants, representing 8.93% of Romania's population. The West Region covers up an area of 32,034 km², representing 13.4% of the country.

The table below presents a synthesis of the main parameters of the important geothermal perimeters from Romania, including theoretical power potential. Using the extracted geothermal energy is used for heating in a proportion of 37%, 30% for agriculture (greenhouses), 23% in industrial processes and 7% for other purposes. From a total number of 14 geothermal wells dug from 1995 to 2000 at depths of 1500-3000 m, only two wells were unproductive, registering an 86% rate of success.⁵¹⁵

Table 1. The Geothermal System Today

No. Unit	The geothermal system	Estimated area	No. of wells	Drilling Depth	Exploitable flow	Resource's temperature	Theoretical energy potential
		km ²		m	$\frac{l * s^{-1}}{m^3 * h^{-1}}$	°C	MW _t
1.	Crișul Negru – Someș Săcuieni, Margita, Ciumeș, Salonta – the counties of Bihor and Satu Mare	3570	18	1500	$\frac{148}{533}$	77	29,14
2.	Borș Borș City – Bihor County	13	4	2800	$\frac{148}{533}$	100	8,79
3.	Oradea Oradea City – Bihor County	77	12	2800	$\frac{151,5}{545,4}$	83,8	34,1
4.	Mures – Crișul Negru Curtici, Macea, City of Arad - Arad County	1060	113	1500	$\frac{79}{285}$	58	9,3
5.	Western Banat Nădlac, Sămnicolau Mare, Săravale, Tomnatic, Lovrin, Jimbolia, Periam, Teremia Mare, Comloșu Mare, Grabat, Beregsăul Mic – the counties Arad and Timiș	2790	20	2000	$\frac{318}{1144,8}$	77	62,75

Source: http://www.minind.ro/domenii_sectoare/energie/studii/potential_energetic.pdf

National exploitable reserve of geothermal water is of approximately 167,000 tep / year of low enthalpy resources, which currently capitalizes about 30 000 tep/ year. The total installed capacity in Romania in the west and northwest part is of 320 MWh (for a reference temperature of 300 °C).

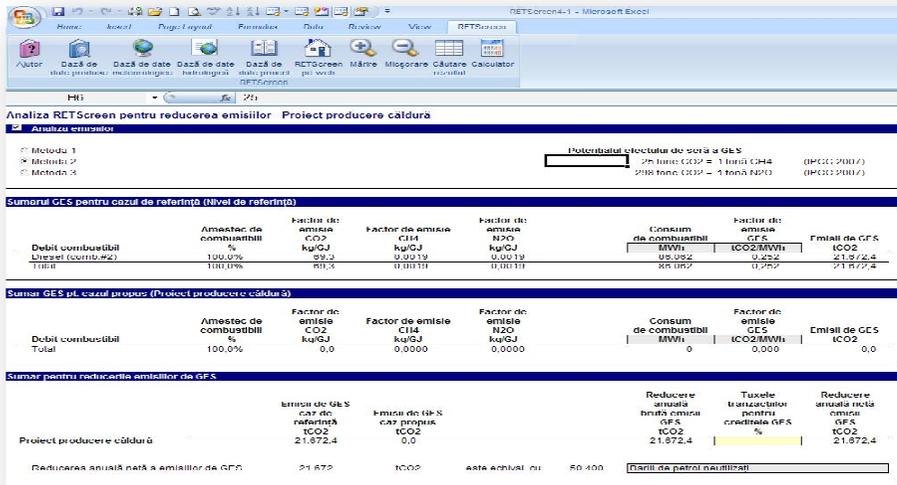
Western and North – Western Regions have an electric potential of approximately 144 MWt of the current well installed. The production a ton MW_t of electricity through conventional sources (in our case study we chose diesel) produces and emits into the atmosphere about 21,673 tons of CO₂.

From a simple calculation we observe that if we use the entire installed capacity in these areas of Romania reduces the pollution by about 6,935,552 TCO₂. By the end of 2009 the price of pollution certificate was of 15 Euros (a pollution certificate equals a ton of CO₂ emanated in the atmosphere). So, we can observe the economic benefits that Romania would obtain in the case of using at maximum the installed capacity of electricity generation that is of 104,033,280 Euros.

⁵¹⁵ http://www.minind.ro/domenii_sectoare/energie/studii/potential_energetic.pdf

In the White Paper it is proposed that by the end of 2010 to be produced using geothermal resources 1GW_t of electricity and 5 GW of thermal heat. The production of 6 GW_t by burning liquid combustibles can generate and emanate approximately 21,672,499 TCO₂. Or, it can reduce pollution in the case of using available geothermal potential or other renewable resource.

Graphic no.1. Analysis of CO₂ emissions for the production of one MWh, using liquid fuels



Source: The data were elaborated by the authors with the help of RETScreen

Graphic's explanation

RETScreen Analysis for emission reduction – Heat production project
Emission Analysis

Method 2 Greenhouse effect's potential of GES

25 tons CO₂ = 1 ton CH₄ (IPCC 2007)

298 tons CO₂ = 1 ton N₂O (IPCC 2007)

GES Summary for the case of reference (Level of reference)

Combustible debit	Combustible mix	Emission agent CO ₂ kg/GJ	Emission agent CH ₄ kg/GJ	Emission agent N ₂ O kg/GJ	Combustible consumption	Emission agent GES	GES emissions tCO ₂
					Mwh	tCO ₂ /MWh	
Diesel (comb# 2)	100.0%	69.3%	0.0019	0.0019	86.062	0.252	21.672.4
Total	100.0%	69.3%	0.0019	0.0019	86.062	0.252	21.672.4

GES Summary for the proposed case (Heat production project)

Combustible debit	Combustible mix	Emission agent CO ₂ kg/GJ	Emission agent CH ₄ kg/GJ	Emission agent N ₂ O kg/GJ	Combustible consumption	Emission agent GES	GES emissions tCO ₂

					Mwh	tCO2/MWh	
Total	100.0%	0.0	0.0000	0.0000	0	0.000	0.0

Summary for reducing emissions of GES

	Emission of GES Reference case tCO2	Emission of GES Proposed case tCO2	Annual gross emissions reduction GES tCO2	Transactions' taxes for GES credits %	Annual net emissions reduction GES tCO2
Heat production project	21.672,4	0.0	21.672,4		21.672,4
Annual net emissions reduction of GES	21.672	tCO2	equivalent with 50.400 Unused oil barrels		

Source: The data were elaborated by the authors with the help of Retscreen

In Romania, the capitalizing degree of renewable geothermal energy resources is low, the main cause being determined by the lack of proper financial support, which doesn't favour the development of the energy sector with superior financial and economic effects. Using geothermal water constitutes a viable option when the extracted agent at surface insures a supply system at a constant flow, and the variation of the energy demand at the consumer in different periods of the year is not great. The recommended system is the one with several active wells, of which some will be for re-pumping. The advantages of this system, besides the provided energy, are the conservation of the water reserve and that of the water's layer pressure. In the U.S.A., the energies obtained from renewable sources, 5% came from geothermal sources and 1% of solar power.⁵¹⁶

At the present time, studies reveal that the Earth's geothermal potential is about 13,000 per year ZJ, of which approximately 2000 ZJ could be used to produce electricity, with the geothermal plants. If we could get to use only 0.25% of this potential, we won't need coal, plutonium, oil and gas for the production of electricity. Currently, we use only 1% of the world's electricity need which is covered by geothermal sources, so use 0.0025% of the full potential.⁵¹⁷

We consider being worth mentioning and underlined the positive effects of using this resource:⁵¹⁸

- Reducing the imported primary energy resources dependence (primarily fossil fuels)
- The diversification of the available energy resources.
- The production capacities considered for different parts of the country will simultaneously lead to employment's increase and the labour market will diversify its offer.
- The business environment will be diversified by attracting private companies (domestic and foreign) as well as local and central public authorities, in the process of exploiting regenerable energy resources.
- Investments in the domain of renewable energy resources will enable the manufacture, transfer and sale of products and modern technologies in this field.

⁵¹⁶ http://www.agir.ro/univers-ingineresc/energia_geotermala_1664.html.

⁵¹⁷ <http://www.energeia.ro/energie-geotermala/potentialul-geotermal-al-terrei-de-4000-de-ori-necesarul-energetic-global-549/>.

⁵¹⁸ <http://www.fonduri-structurale-europene.ro/poscce/valorificarea-resurselor-regenerabile-energie.html>.

- The valorisation of renewable energy resources will lead to a greater emissions' reduction possibly resulting from the fossil fuel combustion process and to the preservation of the environment.

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STANDARD MONEY IN VICTOR JINGA'S OPINION

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The author of this article has aimed to analyse Victor Jinga's opinion on currency or on standard money, with respect to the importance he gave to the stability of the buying power of the currency and especially to the source of this stability.

Keywords: standard money, buying power, paper money, stability

JEL code: A10

Victor Jinga's fundamental work about money entitled **Moneda și problemele ei contemporane (Currency and its current problems)** was published in Cluj-Napoca in two volumes at Dacia Publishing House in 1981. The following ideas spring, generally, from this work. Jinga also has other works about money but I considered that, in its size and content, and considering the author's age at the time of publishing, this work practically reflects his overall view upon money, a view established after a long and mature experience. Thus, as the title of this article states, what we assume to find out and present in this article is Jinga's view upon money, as it transpires from this fundamental work and, of course, the way we managed to grasp it. The task has not been an easy one because Jinga's book is quite big; it is also particularly complex, maybe even slightly complicated and highly illustrated with quotations and references; some several times (e.g. paragraph one page 114 and paragraph two page 147; or, Nogaro's quote page 188 and the same idea presented without reference on pages 76-77) and others contradictory indeed; without any comment, any argument or any evaluation from Jinga; he plainly exposes them and the readers can help themselves with whatever they like. Indeed, the literature consulted by Jinga for elaborating this work is really impressive.

Before moving forward we need to state that Victor Jinga prefers the word currency instead of the word money and we believe him to be right in doing so because in this work he is primarily preoccupied by the state and the evolution of the buying power of the currency. Indeed, understanding the essence of money boils down to understanding the essence of the currency, respectively of the monetary unit or the standard money. Thus, what does money or the currency look like in Victor Jinga's view?

The first thing that drives our attention is Jinga's insistence on the stability of the buying power of the monetary unit, an idea presented along the entire work "an essential quality of the currency –Jinga states on page 108, volume I – is the stability of the of its buying power; having this quality – he continues – a currency is considered 'healthy'. Its stable buying power – Jinga says – means stable prices." Hence, it is only by prices, by their static or dynamic nature that we realize what happens to the buying power of the monetary unit. On the other hand Jinga claims that "stability does not mean immobility ... the ocean does not rest at all – he argues – but in the vastness of its bed it is stable" (page 182 volume I). Finally, to close one idea, let's give another quotation: "any attempt to 'stabilize' the buying power of the currency is useless. As long as the economic organism is alive – Jinga goes on –, nothing stays the same; obviously, the succession of instabilities should not exceed a certain average line" (page 148 volume I). As we can note, it takes a lot of attention to interpret Jinga's thoughts as his statements are sometimes contradictory; at least apparently because the last part of the quotation, the part with "average line" shows though that Jinga is consistent. At the same time, regarding his ideas about inflation as well –

which we widely dealt with in another work (2) – we reach the conclusion that the stability of the buying power of the currency remains a constant of his thinking.

Another idea, as important as the former one and closely connected to it, is represented by the **source** of the stability of the buying power of the monetary unit. Where does this stability derive from and what does it assure or what **can** it assure? The problem is the more important as in real life we can notice that the stability of the buying power of money is more of an illusion, a fiction. On the other hand, the lack of stability most commonly manifesting in the form of inflation, sometimes raging, has disastrous consequences on the economic activity, being able to trigger even crises – as Rothbard states (3) – and a strong redistribution of the population's buying power against those with relatively constant incomes like budgeteers and especially retired people (4); as Jinga claims also. Consequently, lack of stability (of course relative stability, as professor Jinga accurately saw it) can generate great social inequities (in fact, that's what it does), with extremely serious consequences on people's participation to the economic life and so on the results obtained. Given these reasons, especially in the pages covering inflation, Jinga vehemently argues it and with scientific and convincing arguments. Thus, which is the source of the stability of the buying power of the monetary unit in Victor Jinga's opinion?

While going through the pages of Jinga's book I got increasingly curious even more as Murray N. Rothbard, the author of a recent work on money work of money to which I have referred to, relates this stability to the material the money is or, more precisely was, made of (gold or silver) and to the taking of the monopoly of coin manufacturing or monetary issue from the state and giving this activity to the private sector (3). At contrast, Jinga claims from the very beginning of his work and all along it that the link between money and precious metals has broken, has deteriorated and, at any rate, it does no longer present any importance currently, except perhaps in foreign trade for a given time. Why is that? Because, Jinga says, "Gold is – even when monetized – a merchandise as well, whose price fluctuates and thus cannot be a stable reference element, an essential feature for the currency in order to fulfil its role of general equivalent" (page 86, volume I). A few pages on, Jinga states again: "Previous standards have been and are based, more or less, on gold. So, monetary stability, the stability of the standards are dependent on the stability of the value of gold. We are aware how fluctuant this value has been for the last 150 years. A healthy currency, though, – Jinga goes on – doesn't have to be necessarily a golden coin but a coin with a constant buying power" (page 180 volume I); "a perfect standard – Jinga had written a bit earlier – supposes theoretically a stabile price of gold, stability practically unattainable" (page 83, volume I).

Constantly rising, along the book, against the gold standard, Jinga states at a point the following: "this standard claims a large quantity of gold whilst gold is so little, which triggers price reduction and bad trade (page 187, volume I). Incidentally – Jinga says – "Gold is not only little (...) but also wrongly distributed among the various nations" (page 87-88, volume I). Seeing these statements of Jinga's thinking, a few questions occurred to me. I wonder if the instability of gold value on the world market has been and is greater than instability of the buying power of the banknotes of the various countries from the moment of their complete abandon of the standard. The information we have about the price of gold on the world market, at least for the past 50 years, makes us believe it hasn't and it isn't. In this respect, let us consider what had happened to the Romanian currency since 1990 and by the time of its replacement with the current money; or to the US dollars after 1965 or, finally, to the German mark before Hitler's coming to power. Since 1991, since I observe even more carefully the evolution of the price of gold on the world market, this price has slightly and almost constantly increased, even more pronounced since the crisis began; perhaps because, as mass-media state, the demand for it has increased steeply in the time of crisis. This means that, in fact, the dollar devalued and not necessarily, as Jinga believed that the gold increased in value. As a matter of fact, at a point, Jinga stated in his usual note

quoting an indirect source without commenting it: "It is not that gold increased in price, but the dollar that depreciated as compared to gold" (page 109, volume 1).

I also wondered if the stability of the buying power of the banknotes is bigger from the moment of the abandoning of the gold standard, than it was before, when currencies were defined by reference to gold and were, at the same time, convertible into gold. Without deep search into the matter I would, however, think not. This opinion is based both on information rather inconstant, as those which we mentioned above were, and on logic; but especially on certain works of speciality as the book of the American economist we talked about.

As for the other reasons that Jinga considered to be at the basis of renunciation to gold as a base for stability of the buying power of the currency, such as 'littleness' and the gold's "inequitable distribution among nations", we have to say for very beginning that these are not sufficiently serious grounds to support this. First of all, because as the 'littleness of the gold' is concerned there is this principle of the Romanian peasant or, at any rate, of the Transylvanian one, that works properly, principle stating "if there is a lot, it will be used, if there is little, it will do"; be gold as little as it may, it is always enough as means of exchange, because the buying power of monetary unit grows proportionally to the decrease of the quantity of gold. In what its distribution among various nations is concerned, this depends on the competitiveness of the products of different countries and the customs duties system which both are at each country's determination. On the other hand, the dollars or euros, as paper money are particularly concentrated in a few countries, even though, at a world level, they are plenty (perhaps too many). Otherwise, Romania wouldn't have recently had to borrow almost 20 billion dollars or euros from the international institutions, while the USA didn't borrow any, though facing difficulties derived from the crisis, difficulties maybe even bigger than in Romania.

Thus, Jinga does not regret the abandon of the relation between paper money and gold, but on the contrary. But then, however, what is the source of the stability of the buying power of the monetary unit that Jinga, perfectly correctly, considers a sine qua non condition of the monetary health? However strange it may seem, this source is, in Jinga's opinion, the state: "Currency is currency - Victor Jinga writes - because this is what the state decides, and those that use it ratify this decision; can they do differently?" Jinga asks rhetorically (page 28).

A few pages further, Jinga argues again: "The socialist economy has vast and varied opportunities to socially plan and manage; it assures as many premises that favour a firm control of the monetary phenomenon and of the monetary stability" (page 32). Drawing a comparison between money and ordinary goods, especially as some economists argue that money itself is originally a merchandise like all the others, Victor Jinga argues: "The goods bear nothing more than the mark of their quality, it is not conditioned by laws and rules, it is not charged with certain forms and contents, while the currency has an established figure, is manufactured according to strict legal advice, it has the approval and guarantee of the state or of an issuing institute." (page 35, volume 1). All these statements of Jinga and, of course, many others in his work on money, which underlie our views, demonstrate that, from his point of view, the state's institutions are, or should be, the source of monetary stability.

We should not be misled into thinking that for Jinga the state's institutions have already solved the problem of the stability of the buying power of the monetary unit; not even in the former socialist countries at that time. Still, we must admit, the stability of the buying power of money in these countries was, however, much bigger than it was in the Western capitalist countries, as professor Jinga very properly appreciated, or bigger than it is nowadays in Romania or in other countries. Jinga thinks the state can and must assure the stability of paper money and, for that, it is not necessary that paper money are related to gold and defined by reference to the yellow metal. He even expresses his hope that sooner or later the world states will agree even on global paper money which would be stable and would allow international exchange without any disturbances or, at any rate, without the disturbances common to the previous decades. "We could

also note - Victor Jinga writes - that only an entirely superior organization of the human society could at a point establish and accept a non-metallic universal currency, bearing the approval and under the authority of a great monetary board unanimously acknowledged. (page 141, volume 1)

Unlike Jinga, Murray N. Rothbard, we previously referred to, does not trust at all the state's institutions, which historically have proved incapable or, better said, subjective and unfair in intentions, using the money to redistribute incomes in favour of their interests groups and, consequently, he hopes in a stable currency, as aforementioned, by readopting gold and silver coins, or gold only, manufactured by the private sector with no interference from the state. As we know, in the period 1990-1993, the American economist of Romanian origin Anghel Rugină came to Romania with high hopes and a proposition to put into circulation silver money instead of paper money. Vain hopes, because Romanian politicians did not pay much attention, but out of conventional courtesy. As well known, Rugină published a book in Romania in which he supports his ideas (5). He there pleads for returning to precious metals money or, at least, to compulsorily cover paper money, a 100 percent, in precious metals or, otherwise, completing with stocks of certain goods which can be stored for a long period of time. The reason - a bigger financial discipline of the state institutions. As we know, there isn't currently anywhere in the civilized world and, of course, neither in Romania, sufficient financial discipline or gold coverage of paper money.

Victor Jinga knew, of course, Rugină's ideas, but would not agree with them: "A. N. Rugină firmly assimilated the idea of monetary gold standard - Jinga writes - considering it the only one capable of bringing a sense of order in the difficulties created by the contradictory and controversial monetary experiments in the recent decades (...) And this option can be considered a prejudice as well, in favour of gold this time." (page 63, volume 1)

As we can note, in literature of specialty there appeared finally two directions concerning the monetary phenomenon: one, being led by prestigious names as Anghel Rugină, Murray N. Rothbard, J. G. Hulsmann, Ludwig von Mises etc., who relate the stability of the buying power of the monetary unit either to the manufacturing of money from precious metals in the private sector or, at least, to the obligativity for the state to entirely cover the paper money in precious metals or, in other words, to the limitation of paper money issuance to silver and gold stocks or to gold stocks only compulsorily constituted at the state's disposal; the other, supported by prestigious economists again, such as J. M. Keynes, for instance, Roy Harrod, Milton Friedman, Paul A. Samuelson or Victor Jinga who hope the states institutions shall stabilize the buying power of the monetary unit. The latter consider it may be obsolete to maintain a connection between paper money and the yellow metal, in modern times; let alone their manufacturing of gold and silver. Which of the two groups is right?

With no presumption to have thoroughly established a position towards this dispute, we can notice that, if we follow the evolution of the stability of the buying power of money, as it develops or, more precisely, as paper money move away from the metals it was initially manufactured of, we tend to be in favour of first group. Indeed, instability of paper money has increased over time, as the link between it and the yellow metal has been broken. As Jinga says: "In the past, inflation was a singular phenomenon, even accidental, while today, in the capitalist world, it has become an ordinary and almost generalized fact." (page 199, volume 1). A return to the precious metal seems, therefore, a return to peace and more monetary stability. But if we think that in order to return to the gold and silver money or to the free manufacturing in the private sector of gold and silver coin or, at least, to the obligation of the state to cover the paper money in these precious metals, we must somehow grab these rights from the hands of the state, which, as we can realize, will not willingly agree to it, then it seems quite as easy to force the state's institutions into being more careful and more accurate, into taking care that the paper money should maintain its buying power as stable as possible. The former socialist countries have demonstrated that this is possible. It is true, though, that we cannot point out or evaluate, at

this moment, what economic and social consequences this could bring about. Therefore, Victor Jinga seems to be right.

On the other hand, while the return to the gold and silver coins and to freely manufacturing them in the private sector involves a single dispute with the state's institutions (if successful, of course), the pressure exerted by the civil society upon state's institutions, in order to force them to maintain the buying power of the monetary unit as stable as possible in the case of paper money, even with coverage, should be permanent and, therefore, much more difficult. Still, a return to the past seems almost impossible. Jinga claims, even from the first pages of his book, that money means power as well. He gives plenty of references regarding this idea, accepting them without any comment. Indeed, today money in the government's hands also means an instrument of economic policy, inclusively or especially at an international level. The devaluation or revaluation of one country's money in relation to other currencies represents a means of stimulating or inhibiting exports and imports (as appropriate) in order to equilibrate the balance of payments or to temporise its disequilibrium. To deprive state of this lever means, under current circumstances, to let economy function according to monetary decisions of other states, which cannot be an advantage for the country in question. Of course, if all countries in the world simultaneously embraced paper money instead of precious metals money or the obligation of entire coverage of paper money in these metals then we could talk about a triumphal return to the past. But who would do that? And how? A country nowadays embracing by itself gold and/or silver coins could well end up without them, overnight, unless having forbidden their taking out of the country. But in the latter case, the country would have big problems with international trade. Therefore, Rugină had no chance with his proposition back in the '90s. In fact, in old times, when money was made of gold and silver, kings and emperors often withdrew from circulation a part of the money (as much as they could) and remelted the coins, only to put them back into circulation with a lower precious metal content, though. In other words, with a lower buying power. This argument also supports Jinga's opinion. Nowadays, the world economies are so closely connected to one another that we can only proceed together; either towards better or to the final disaster.

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FREEDOM AND ECONOMIC DEVELOPMENT: INSTITUTIONAL SOLUTIONS FOR EDUCATION REFORM*

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The economic literature tends to bring together development theory and institutional economics by emphasizing the institutions role in explaining economic performance differences among different countries. New institutionalism could also be seen as a very useful exercise to link education sector and economic performance. As we will underline in this paper, more education does not mean necessarily economic performance. Education could positively influence economic growth only if it is correlated with the individuals' preferences and labor market requirements. We will emphasize some institutional changes in order to bring more flexibility and responsibility in education sector in accordance to labor market signals.

Keywords: institutional change, education, labor market, economic development

JEL Classification: B52- I22- J24

Especially in the last decade, the economic literature tends to bring together development theory and institutional economics by emphasizing the institutions role in explaining economic performance differences among different countries. Indeed, the specific approach of institutionalists could be seen as a very useful exercise to link education sector and economic performance, since it has the capacity to explain and assert education role in development process comparing to other quantitative or qualitative theoretical approaches. The main explanation is based ultimately on recognizing that the educational inputs, as well as the quality of educational human capital existing in an economy, have a different contribution to economic development in accordance to the institutional arrangement that prevails in education sector, labor market and business environment.

This is the reason why we appreciate that simply emphasizing the impact of education on economic development based on vague and limited empirical correlations could lead to misleading results. Moreover, to understand the role of education on economic performance means taking into account an essential element: institutional structure e.g. the network of incentives and constraints existing in the economy. The specific institutional paradigm starts by considering two important economic sectors in the attempt to integrate education in the development function: education sector and labor market, as an anteroom for business environment.

As we will underline in this paper, more education does not mean necessarily economic performance. Education could positively influence economic growth only if it proves it's usefulness by increasing individual's income and economy's productivity and national output. Thus, the correlation between education and labor market in the first place necessary, but also inevitable as long as individuals view education the proper way to leave a relative poverty. From this perspective, the level of education is – or should be – the natural consequence of structure of incentives and constraints of the labor market. Moreover, educational services, as well as types of specific education, are subject to individual choice like any other good. The coordination of

individual preferences and labor market requirements lead us to the following conclusion: education sector should respond adequately to individuals' and labor market demand.

Further, we will emphasize some institutional changes in order to bring more flexibility and responsibility in education sector in accordance to labor market signals. In the economic literature there is a vast series of studies that explain the primordial role of institutions – seen as the existing set of incentives and constraints – in the education output. Thus, North (1990:72) emphasizes the double correlation between informal institutions and the level of social knowledge. Education undoubtedly influences the people's perception on the surrounding world but, at the same time, the way in which they judge, explain and justify their action in society. Similarly, their perceptions about the world tend to explain and influence their behavior in getting more knowledge⁵¹⁹.

The analysis of human behavior from the institutional perspective is able to explain, for example, the orientation of human capital (gained through education) to profitable activities such as piracy to the detriment of productive activities. Thus, if the opportunities favored by institutional existing frame make piracy a profitable work, then we could expect an increase of knowledge and abilities oriented to exploit such opportunities. As North (1990:73) pointed out “the incentives included in the institutional structure play a decisive role in selecting the most profitable knowledge and skills”. To a similar conclusion has also reached Pritchett (2004). He emphasized, because of the deficiencies of institutional arrangements, cognitive abilities have been mostly directed to unproductive social activities in many transition countries. Easterly (2002) considers education plays a secondary role in development process comparative to structure of incentives that prevails in emerging economies. Moreover, Hanushek and Wössmann (2007:41-43) emphasized the positive role of the openness of the economy on the quality of educational output and, in extent, on economic growth process. In the same time, they insist on the greater impact that qualitative education has on economic development especially in those countries in which institutions favor productive entrepreneurial initiatives. According to their opinion, productive institutions and the quality of education may develop a symbiotic relationship in order to lead economic development. Therefore, like in the case of an economy, where its performances depend on the quality of economic institutions that governs social interactions on the labor and goods market, on free trade or foreign investments, the education system could not work properly in the absence of a favorable institutional arrangement. The performance of every organization is strongly influenced by the incentives and constraints structure that influence the behavior of its members. Therefore, if the members of educational organizations (schools, education departments or minister) receive earnings or penalties in accordance with their personal achievements, then it is naturally to expect an increase in the organizations' performance. But this to be true, we should understand and create the specific pro-market institutional arrangement in the education sector⁵²⁰.

From this perspective, the reform directions should to aim three important areas: the introduction of a real competition among educational organizations, decentralization of education sector, and bringing more responsibility in educational organizations. We consider the first direction to be the most important one, as long as the other two directions appear as potential consequences of implementing an institutional arrangement aimed to increase competition among schools. Thus, furthermore we will focus on some different solutions destined to achieve this goal.

⁵¹⁹ For example, North explains that, in medieval period, the western societies have been dominated by church as regard education. This is probably the reason why the knowledge and discovery process has been stimulated in some areas, while in other countries social ideologies are intolerant to theoretical knowledge development.

⁵²⁰ Obviously, by market relations in education sector we do not understand only the existence of education demand and supply. The simply fact that students could choose a specific university or parents could choose the primary school for their children does not necessary mean there is a market. The absence of free entry and competition among schools, as well as the costumers' capability to penalize some education providers reveal there is no market at all.

The arguments in favor of competition are based on the natural right of parents to choose their children's education. The possibility to choose your own education or to your own children means necessarily competition among education schools, private or public, and stimulate them to diversify the educational services and to increase quality of education. In the past years, many education studies around the world reveal a negative correlation between public financing and the quality of education provided. Having no way to control public education has determined the individuals to spend less and less to influence government policies in this matter. This probably explains why public education is presently the subject of negotiations between school unions and minister, none of them paying attention to parent's and children's preferences. By promoting competition among education providers means the proper path in which the present educational controversies leave the struggle between unions and minister and become voluntary interactions between education providers and consumers. Instruments like voucher, fiscal credit or human capital contract could prove their usefulness in attaining this goal, even if the state will still play an important role in education matters, especially regarding the financing issue.

The specific voucher educational program

It is addressed especially to the pupils educated in public schools with low performances to turn to private schools which have well-known standards of education. Using the voucher system those children can be able to finance their studies. If this program is applied, it is expected that inefficient public schools become more motivated to improve their educational process, teaching methods, curricula and so on. It is also stimulated the emergence of new private schools focused on offering new innovative ways to serve education demand. The mentioned program is based on the experience of the state of Florida, combined with financing elements from Europe or Asia (e.g. Hong Kong); it is supposed to be flexible enough to ensure substantial growth of private education. For example, the model applied in Florida is based on two directions. On one hand it allows parents whose children attend low quality public schools to transfer them to private schools according to their preferences. On the other side, as a consequence to the possibility of choice, strong stimulants for public schools emerge in order to change their self-sufficient attitude towards the educational process.

An efficient way to test the viability of this model could be experimental schools. The Ministry of Education could implement this program in selected schools considered to have poor results obtained at national tests. It is obvious that the Ministry can use other performance indicators such as results to national exams, admission to college grades and so on. Although the Florida experiment has as purpose obtaining in two years out of four the F degree, it is possible to build another arrangement, for example three years out of four, or two out of three, according to the estimated representative time frame. We also suggest that the one year option could be efficient, the main reason being that public schools will be alert for new ways to improve the educational process even from the current year, motivated by their interest to keep the pupils for the next year, or even to bring in new ones. Regarding the value of the educational voucher, we can consider that public resources per student are a good start in financing matter. Concerning the ability to finance a new school, the Dutch model is the best example.

Therefore, following Holland's example, groups of parents (minimum 20) interested in founding a new school must be granted funds and investment grants for modernizing schools with technical equipment.

The universal educational voucher program

The second proposal for reform is more radical, trying to implement a universal voucher program based on Sweden's experience. Among the main features of this model we can identify: the educational voucher can be used for both private and public schools, depending on the parents choice; any school is free to participate at this program, including private schools profit-

motivated; the amount of governmental financing must not cover the entire school taxes (for example it could be about 75-80% of the sum, as in the Danish model); schools must be able to cover the rest of the costs for the educational process by imposing schooling taxes, such as in Germany or Hong Kong; similar to the model of Hong Kong, there must be a special system of scholarships meant to facilitate the access to education in private schools of children coming from low income family.

If this program would be applied in Romania, we foresee a very good perspective, for two reasons. Firstly, as mentioned above, it increases parent's influence in choosing schools (they become more responsible), assures opportunities for everyone and also stimulates competition between schools. Secondly, the development of the private schools is paradoxically meant to stimulate the government to implement this program. Most primary and secondary schools are public and by introducing the universal voucher there will be no extra pressure over budgetary resources. This program will only redistribute the public funds according to the demands and preferences of parents and not according to the bureaucratic decisions based almost exclusively on quantitative evaluations. We can also think of reducing public expense, for two reasons: Firstly, voucher covers only 75-80% of the educational cost in the public system and secondly, because increasing the education services competition, will lead to a cost-cutting management. Although such a measure can be blamed to put aside the quality standards, we remind that private schools (and even the public ones) depend on offering high quality education, because this is the criteria for receiving the voucher.

Fiscal credits for education

The third proposal is the result of a success of USA and Canada's models. It basically involves offering a fiscal credit to parents whose children go to private schools. The procedure is relatively simple: from the total amount of the taxes paid by one family, expenses for education are deducted. If the family has low incomes and the taxes paid are less than the schooling taxes we recommend creating a legislative context to allow additional funds to facilitate the access to private schools.

The advantage of this proposal is encouraging parents to send their children to private schools, and therefore stimulating competition among education services suppliers. Some parents, whose children used to attend public schools, will choose private schools. Therefore, the fiscal credit will bring into force the ethical criteria. The only losers in this model would be the inefficient schools, practically, that ones that don't fulfill the quality standards according to the customers' expectations.

In conclusion, we strongly believe that such proposals are aimed at achieving common goals like increasing quality in education process, bringing more ethics in this field and, furthermore, stimulating competition among schools.

Human capital contract

Human capital contract has a novelty nature comparing to voucher, the other instrument analyzed above. Comparing to voucher, it requires a minimal interference of the state, the essential role being that of building legal framework. "Human capital contract promote equal chance for everybody, and it is directed to the source of income disparities, without impending competition, without destroying incentives and without redistributing incomes in society. The foreseen results are an enhancing competition, a proper orientation of incentives and constraints, an elimination of causes that lead to (state created) arbitrarily inequalities" (Palacios, 2002:2).

Human capital contract is a specific contract through an individual could finance its higher education in exchange to a percentage of his future annual income paid for a specific period of time. The decision to finance the education of potential beneficiary (e.g. student), the (private) human-capital investment fund might be based on different criteria, like the evolution of the

economic sector, the reputation of university, his previous school results etc. Further, since repayment depends on earnings and thus adjusts to the student's capacity to pay, human capital contracts should be more attractive to students than traditional student loans. If, for example, the student is unemployed for a while, he should not pay anything to its investor until he enters again in the work field⁵²¹.

What are the main advantages of this instrument? In the first place, this institutional arrangement is less risky for the student, because it is not obliged to pay a fixed amount as long as repayment depends on the existence of earnings. Therefore, this instrument protects students from an eventually default in unemployment period. Moreover, due to its flexibility, it makes his life easier if his carrier is less profitable than he expect. This advantage can be seen as a powerful constraint for the investment fund to finance human capital, since it confronts with an increased entrepreneurial risk. Nevertheless, it might be surprisingly but the investor is in a better position than student regarding the risk. The first could reduce significantly the risk by diversification, exactly in the same way as insurance companies do. Student has not this opportunity at all. His future specialization cannot be changed costly and infinitely as response to economy trends. The investment funds could extend the number of contracts, and the loss from some contracts is compensated by the returns of other, or to extend the spectrum of skills and competencies financed according to labor market signals. Another advantage of this kind of contract, compare to other existing financing instruments such as traditional student loans, is that it requires no other guarantee mechanism. Another way to put this is: human capital contract is influenced by the type of education, the dynamics of a specific sector, not by the financial situation of his family.

The introduction and development of this instrument requires three steps: establishing the contractual clauses, finding the financial resources, and, very important, policymakers should assure investors that such contracts are fully enforceable and afford them the same legal protection that student loans receive today. Human capital contracts should be acknowledged as securities so that investment funds will be allowed to hold them. The effects of these arrangements are, among others, less risk for the student, transfer of risk to a party that can manage it better, increased information regarding the economic value of education, and increased competition in the higher education market.

In conclusion, these alternative institutional arrangements in the sphere of management and financing education could bring more liberalization of educational services, an important social field which has been wrongly treated as a traditional state monopoly.

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FEMININE ENTREPRENEURSHIP AS A RESEARCH THEME. SOME CONSIDERATIONS REGARDING THE WAY OF INITIATING A BUSINESS BY THE ENTREPRENEUR WOMEN IN THE WEST OF ROMANIA⁵²²

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The present paper aims an incursion in the concern for researches in the field of feminine entrepreneurship – as a research theme, the study directions of the feminine entrepreneurship, on the basis of the special literature in the field. The applicative part of the paper refers to the research taken in the field of feminine entrepreneurship in Romania, through the project AntrES, in the area of the initiation way of business by entrepreneur women investigated and aligns aspects regarding the research methodology, the study of the way of initiating a business, the length with the age of manager women, the occupational situation at the moment of business initiation and their previous experience.

Key words: Entrepreneurship, feminine entrepreneurship, women entrepreneur, business start up, occupational situation

JEL code: E24, R11, J24,

Feminine entrepreneurship – research theme

Entrepreneurship is defined, from historic point of view, as a area with predilection masculine. The first characteristics of the entrepreneur included the notion of „*the leader of industry*”⁵²³ („Captain Man”), „*man with initiative*”⁵²⁴ (enterprising man), „*basis man*” „Key man”⁵²⁵ or „*the man who organizes the firm and/or increases its productive capacity*”⁵²⁶. Also, the literature in the field, describes the entrepreneurial theories as being „created by men, for men and applicable to men”⁵²⁷. These definitions centered mainly on the entrepreneur, are not surprisingly because,

⁵²² Paper realized on the basis of the studies and reports realized in the project entitled: *Entrepreneurship and the Equality of Chances. An Inter-regional Model of Women School of Entrepreneurship*, financed by the European Social Fund - “Invest in people!” Contract nr. POSDRU/9/3.1/S/5. **Inter-regional coordinator:** University of Oradea, Faculty of Economics, **Partners:** National Agency for Chances Equality between men and women; West University of Timișoara; “Aurel Vlaicu” University of Arad; North University, Baia Mare; “Eftimie Murgu” University, Reșița; “Commercial Academy of Satu Mare” Foundation; Scientific Society of Management in Romania, **Project manager:** prof.univ.dr. Anca Dodescu, Implementation period: 01.05.2009 – 01.05.2010, Value: 12.500.104 lei, www.antres.ro

⁵²³ Schumpeter J., *The theory of Economic Development*, Cambridge, M.A, Harvard University Press, 1934; sorbed after Brush Candida G., *Women entrepreneurs: a research Overview*, chapter 23 from Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel (Editori) – *The Oxford Handbook of Entrepreneurship*, Oxford University Press, 2006, p. 611;

⁵²⁴ Collins O.F and Moore D.G., *The enterprising man*, East Lansing: Bureau of Business and Economics research, Graduate School of Business Administrations, Michigan State University 1964, quoted after Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel (Editors), op. cit., p. 611;

⁵²⁵ Hebert R.F and Link A.N., *The entrepreneur: Implications of family educational, and occupational experience*, 1982, in J.A. Hornaday, J.A., Timmons and K.H. Vesper (Eds), *Frontiers and Entrepreneurial Research*, pp 255-70. Boston, MA: Babson College, quoted after Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel (Editors), op. cit., p. 611;

⁵²⁶ McClelland, D., *The Achievist Society*, New York: The Free press, 1961; 205, quoted after Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel (Editori), op. cit., p. 611;

⁵²⁷ Holmquist, C. and Sundin, E., *The Growth of Women’s Entrepreneurship – Push or Pull factors?*, 1989:1, citați după Carter M. Nancy; Henry Colette; Cinneide O Barra; Johnston Kate (Editori) - *Female Entrepreneurship – Implication for education, training and policy*, Ed. Routledge Taylor & Francis Group, London and New York, Routledge Advances in Management and Business Studies collection, New York, 2007; p. 11;

from historical point of view, for many decades, they have been the most active in initiation, ownership and developing businesses.

More recent definitions of the entrepreneurship are less gender centered, suggesting that entrepreneurs that make activities that bring an added value depending on certain conditions⁵²⁸. Like this, entrepreneurs are definite as being all who⁵²⁹:

- try to find opportunities without considering the resources they control;
- create economic innovative organizations to obtain advantages and grow under risk and incertitude conditions;
- discovers, evaluates and exploits the opportunities to introduce new goods and services.

Even though the feminine entrepreneurship is defined in terms of creative activity, owner of the business of self-employed, a very big percentage of men and women are implied in entrepreneurship in all developed countries, even though there is a tendency of growing the feminine entrepreneurship in many of these countries.⁵³⁰ In the period 1975-1995, the percentage of women entrepreneur has raised with more than 60%, comparatively to the 20% growth of men entrepreneur⁵³¹. This growth has been registered until 1955, when, the percentage of those remained 12%, percentage who registered a tendency to increase only after the '90's.⁵³² In Europe, women entrepreneur are a minority, even so the proportion of those varies considerable from over 20% in England, Ireland, Sweden to 40% in Belgium and Portugal⁵³³.

Into the first notable article dedicated to the feminine entrepreneurship published at the middle of '70's, published by Eleanor Brantley Schwartz's (1976), the article „Entrepreneurship – a new feminine border”⁵³⁴, the writer appreciated that, the same like men, women are motivated by the wish of accomplishment, work satisfaction and independence. Also, other authors, Schwartz (1976)⁵³⁵, followed by Hisrich and Brush (1983, 1984, 1985, 1986, 1987)⁵³⁶ who have described the abilities of women entrepreneur and their business, reached to the conclusion that women's motivations are similar with men's motivations, but they are less qualified, less capable, less trained in the field of business, have a smaller inclination to entrepreneurship and manage to settle a business in a slower rhythm than men. Even though the preoccupations in the field of studying feminine entrepreneurship are growing, authors who have hold on inspection the profession bibliography⁵³⁷ show that approximately 7% of the articles published between 1969 and 1994 have included and have centered on business women. In 2000, the percentage of the

⁵²⁸ Acs, Z.; Audretsch, D.B; “*Innovation and Technological change: The new learning*”, in G.D.Libecap (ed.) *Advances in the study of Entrepreneurship, Innovation and Economic Growth*, Greenwich, CT.: JAI Press, 109-42; 1993; quoted after Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel (Editors), op. cit., p. 611;

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⁵³⁰ Simon, C. Parker, *The Economics of Entrepreneurship*, Cambridge, University Press, Cambridge, 2009, p. 184;

⁵³¹ Budig M.J., *Intersection on the road of self-employment: gender, family and occupational class*, Social Forces, 84(4), pp.22-23, 2006, quoted after Simon, C. Parker, op.cit., p. 184;

⁵³² Wellington, A.J, *Self-employment: the new solution for balancing family and career*, Labor Economics, 13, pp. 357-386, 2006, quoted after Simon, C. Parker, op.cit., p. 185;

⁵³³ Cowling, M., *Are entrepreneurs different across the countries?* Applied Economics Letters, 7, pp. 785-89, 2000; quoted after Simon, C. Parker, op.cit., p. 185;

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⁵³⁵ Schwartz, E.; “*Entrepreneurship: A new female frontier*” Journal of Contemporary Business, 5 (1): 47-76, 1976, quoted after Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel op.cit., p. 611;

⁵³⁶ Hisrich și Brush (1983, 1984, 1985, 1986, 1987), quoted after Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel, op.cit., p. 612;

⁵³⁷ Brush, C. G., “*Research on women Business Owners: Past trends, a new perspective and future directions*”, *Entrepreneurship Theory and Practice*, 16 (4): 5-30 (1992); Baker, (1997), quoted after Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel, op. cit. p. 611;

articles on this topics reached 6%⁵³⁸. Also, other authors who have reviewed the articles written in the field of feminine entrepreneurship, counting over 400 scientific papers and several articles, published in professional magazines in the last years, have reached the same conclusion, which is that women entrepreneur represent, for sure, a field very little researched. This thing is surprisingly considering the fact that they register the most significant growth in line of entrepreneurs, the contributions of women entrepreneur being significant in innovation, creating workplaces and developing the business environment. Even though there is in the last decades an obvious concern for the domain, the specialty papers highlight that they have not managed to build adequate theories, particularly over the gender concept and the way in which entrepreneur's women experience are reflected in the socio-economic context⁵³⁹. Though, the research directions synthesize by the specialty papers in the field of feminine entrepreneurship are centered on the following directions⁵⁴⁰:

- characteristics and motivations of women entrepreneurs, with subthemes: differences in psychological characteristics between men and women, social background and business differences between women and men, the effect of labour market in the women's decision to start in business;
- the start-up patterns, resources and constrains, with subthemes: motivations, processes and structures used at start-up businesses, resource acquisition and mobilization including finance, social and human capital; the business start-up pattern and long-term performances of the business; Programs and development politics of women entrepreneurs;
- management of female-owned firms, with the following sub-themes: women's management style and approach to leadership; the family business and the wish of accomplishment; gender effects over the performance of the business;
- finance issues of female start-up businesses, with the subthemes: access to financing resources, guarantees on loans and relationship with external lenders and women's credibility;
- business relationships built by the female entrepreneurs, with the subthemes: gender differences in building business relationship; gender differences in the contain and the different approach to forming relationships;
- business performances and their growth, with subthemes: gender differences and criterions used in obtaining business performance; business performance in nowadays business performances.

Synthesizing these research directions, we observe that referring to Romania, the interests for studying female entrepreneurship are modest. A review of the publications in this field shows a lack of preoccupation of the researches for this field, even though it is registered a similar trend to the European one, of growing the number of female entrepreneurs in the last ten years.

Even so, the research directions emphasized in the specialty literature, have raised interest in the research activity realized during the project AnrES, who through the research made until this moment and the one that is prefigured to be outlined at the end of the project (January 2011), aligns in the study interests of the Romanian female entrepreneurship, especially on the North-West of Romania.

⁵³⁸ Brush, C.G și Edelman L. "*Women entrepreneurs Opportunities for Database Research*" (2000), in J. Katz (ed.) Databases for the study of Entrepreneurship to be filled, C, New York, JAI Press, quoted after Casson Mark; Yeung Bernard; Basu Anuradha, Wadson Nigel, op. cit. p. 611;

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⁵⁴⁰ Carter M. Nancy; Henry Colette; Cinneide O Barra; Johnston Kate (Editors), op.cit., p. 14;

Aspects regarding the research methodology

The data base that stays at the basis of the present paper is constituted from the answers registered at the Questionnaires of research-monitoring⁵⁴¹ applied on a total number of 153 respondents – manager women⁵⁴², from the territorial centers created in the AntrES project, distributed as it follows: Baia Mare - 24, Satu Mare - 24, Oradea - 30, Arad - 27, Timișoara - 24, Reșița - 24.

The questionnaires applied to this target group I –manager women, have been constituted in a number of 52 questions, grouped as it follows: 39 questions in section A – Questions about entrepreneur/manager women and their businesses; 13 questions in section B – Aspects regarding the psychological profile of women entrepreneur/manager.

The present paper proposes to analyze answers given by women manager at section A – questions that have outlined at female entrepreneurs the following characteristics: the way of acquiring the business, the length with the age of business women, their previous experience.

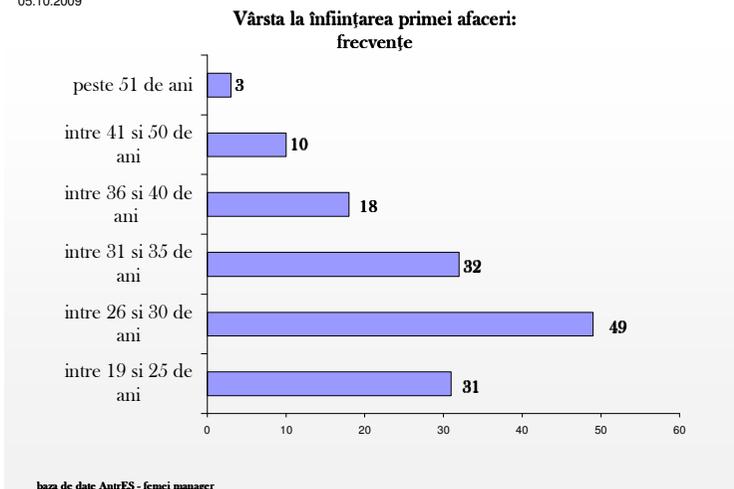
The study of the way of acquiring the business and the lengths validated

The majority of the persons from the data base of the manager women from AntrES, respective 85%, are at their first business developed, so the valid affirmations for the actual business are valid for the first business as well as a result. In the case of the first business, the age of respondents at its start-up is, for most of them, in the group 26-30 years, followed, with frequencies approximately equal, by the groups of 19-25 years, respective 31-35 years. This means that 78% of the persons who answered were, at the moment of starting-up their own business, aged under 35 years, *thing that confirms the appetite for entrepreneurship and for risks higher in younger ages* (Graphic nr.1 – *The age of manager women from AntrES research at the start-up of their first business*).

Graphic nr. 1. The age of manager women from AntrES research at the star-up of their first business

⁵⁴¹ These questionnaires have been applied, in the period 07.17.2009-07.31.2009, according to the Methodology of developing the research-monitoring activity using questionnaires, with the Instructions of application of the questionnaires and with the Instructions of filling in the data base, documents realized in AntrES project.

⁵⁴² Target group I in the project AntrES – business women – *who which to develop their business, form the counties situated along the West border (Maramureș, Satu-Mare, Bihor, Arad, Timiș, Caraș-Severin)*. For this target group, the projects wants to develop the managerial abilities, intra and entrepreneurial, in order to develop the existing business, for the optimum utilization of the opportunities existing on the market, of the success factors that raise competitiveness, of the management and marketing strategies etc. and promoting the adaptability, with effects upon performance, the SME's stability and the occupation level.

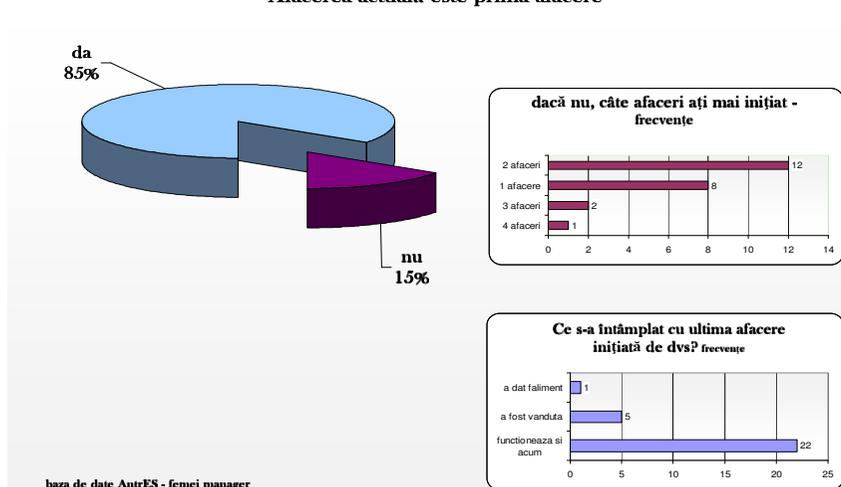


Source: ****Progress report nr. 2 –Research-monitoring study - aggregate and comparative – at inter-regional level*, realized in the project “*Entrepreneurship and the Equality of Chances. An Inter-regional Model of Women School of Entrepreneurship*”. Project financed through the European Social Fund - “Invest in people!” Contract nr. POSDRU/9/3.1/S/5. **Project manager:** prof.univ.dr. Anca Dodescu, www.antres.ro;

Though, the entrepreneurs have not been out of any professional experience at the beginning of their business, 78% of them declare that they have not worked forever in their own business, so they had previous workplaces, before their started their own business (**Graphic nr. 2. Previous experience of entrepreneur of the manager women form AntrES data base**). In average, manager women who have worked in other places than their own business, had two previous workplaces, the highest number of previous workplaces being 6.

Graphic nr. 2. Previous experience of entrepreneur of the manager women form AntrES data base

Afacerea actuală este prima afacere



Source: ****Progress report nr. 2 –Research-monitoring study - aggregate and comparative – at inter-regional level*, realized in the project “*Entrepreneurship and the Equality of Chances. An Inter-regional Model of Women School of Entrepreneurship*”.

Regarding the present businesses of the respondents, as it can be noticed in the first table, The way of acquiring the business, 51% have been conceived personally by the entrepreneur women, 37.2% have been initiated together with other persons, 5.4% have inherited the family business, 1.4% have bought the business. Only 4.8% have acquired the business in other ways, either joined an existing firm or got a franchise.

Table nr.1. The way of acquiring the business

Your business was:	Frequency	Valid percentage
Started by you personally	76	51,0
Started by you together with someone	55	37,2
An inherited family business	8	5,4
You bought the business	2	1,4
I joined an existing firm	6	4,1
Franchise	1	0,7
Total	148	100,0

Source: ****Progress report nr. 2 –Research-monitoring study - aggregate and comparative – at inter-regional level*, realized in the project *AntrES*.

As the majority of the entrepreneurs begun their business alone, it is interesting to emphasize the main reasons, as well as the context in which they decided to start-up their own business. So, referring to the occupational situation in the moment of business start-up, 35.3% of the respondents have declared that they had a workplace but the salary was unsatisfying, 16.7 % did not have a workplace, 15.7% were happy with their workplace, 8.7% had a workplace but were going to lose it, 5.3% had a workplace but the conditions were difficult, 4% declared that they had a workplace but the relationships at the workplace were unsatisfying. Quantifying, over two thirds of them either did not have a workplace or were going to lose it, or they were unhappy with their workplace that they had because of their salary, work conditions, climate etc.

Though, it is to be remarked that the unhappiness towards the occupational statute from the respective moment has been associated with the apparition of a special business, with a favorable conjuncture 29.45% or with a special business opportunity (28.77%).

These conditions – unhappiness towards *status quo*, but the favorable moment for expressing the business idea – describe the context in which the nowadays entrepreneurs have assumed the risks of starting-up a business.

Regarding the business start-up determined by the motivation of self-determination, participants have been asked in to what extent they agree the affirmation „I started the business to demonstrate myself and those around me that I can succeed”; only 7.8% declared that they have not been determined at all by such motivations, while 41.8% have declared that they largely agree with this affirmation (24.8% have declared that totally they agree with the affirmation, and the same percentage has been registered for those who have declared their agreement in a small percentage with the affirmation).

Conclusions

As a result of our study, we conclude with emphasizing on the following correlations: there is a significant negative correlation between the age and the year of the business start-up, in other words as much as the age of the respondents grows as much the year of starting up the business decreases; the average age of women who have always worked in their own business is significantly smaller than the average age of the women who had other work places as well, on the extent to which the age increases at the moment of the business initiation, increases the number of workplaces that they had previous. The analyses did not emphasize a significant relationship between the age of the entrepreneurs at the moment of present business settlement and the number of businesses started up until present. In other words, we cannot state that older

women have a bigger experience in entrepreneurship comparatively with the younger ones. The factors considered more important in the decision to initiate a business look to be those bounded to the opportunity and not to need, even though enumerating the problems from the occupational situation from the start up moment, the problem of the unsatisfying salary appears as prevailing, followed by the lack of a work place (more than 53% of the respondent persons have stated that at the moment of the business settlement they had a workplace but were not happy with the salary). It is, like this, possible that the answers related to the entrepreneurial mobile to be rather desirable and not to present correctly the accent on opportunity towards the need. On this conclusion join, besides, the results obtained as a result of a study taken on the theme of entrepreneurship, made by 162 Romanian firms initiated after 1990⁵⁴³, study that revealed that the main reason for which the Romanian entrepreneurs have started their businesses has been the “opportunity”, followed by “the wish to use their experience”. This result coincides with the entrepreneurial theories accepted all around the world, according to which “the opportunity” is the main reason for starting-up a business⁵⁴⁴.

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⁵⁴³ Văduva, S., *Antreprenoriatul. Practici aplicative în România și în alte țări în tranziție*, Ed. Economică, București, 2004, p. 180;

⁵⁴⁴ Văduva, S., op. cit., p. 185;

LA NATURE DE L'INCERTITUDE ET LA RELEVANCE DES PREVISIONS FINANCIÈRES

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Abstract

In the actual train of events, it would be a utopia for the economical agent to avoid the uncertainty. It had been argued that the dimension of this phenomenon knows two extremes: once it is a generator of anxiety but then also a strong motivator regarding the knowledge, innovation and production. The cause of this hazard are numerous, two of them are here reflected.

Key words: uncertainty, financial prevision, risk,

Jel: G38, M20, F30

Dans la mesure où l'essence de l'incertitude se réduit à un sentiment acquis à la suite d'une expérience personnelle ou d'une expérience du groupe auquel on appartient, la connaissance de l'évolution de sa dimension exerce une influence directe et indirecte sur les performances obtenues par une entreprise. Il a été démontré que la dimension de l'incertitude affecte différemment l'efficacité du travail des employés d'un agent économique car elle peut évoluer du niveau le plus haut, où elle génère une anxiété insupportable, excessivement dommageable, à l'autre extrême, où elle motive fortement en vue de la connaissance, de l'innovation et de la production. Dans le contexte actuel il serait une utopie qu'un agent économique se propose d'éviter l'incertitude. Les causes d'un tel hasard sont multiples, j'en retiendrai ici deux seulement. L'une résulte de la possibilité toujours plus grande de choisir, ce qui fait que l'avenir devient incertain pour toute société commerciale. Et la deuxième : la croissance exponentielle des influences externes sur n'importe quelle entreprise, beaucoup étant en dehors du set d'informations que l'on pourrait obtenir. C'est pourquoi ceux qui pensent pouvoir obtenir des habiletés d'action supplémentaires en respectant les opinions des experts qui promettent au moins d'appivoiser l'incertitude, entrent dans un jeu du hasard totalement injustifié.

Étant donné la nature imprédictible de l'activité économique, je crois qu'il faut mettre en doute l'ampleur de l'erreur qui résulte ou peut résulter des procédures de ces experts. Je ne veux pas dire par là que leurs méthodes sont incorrectes, mais que la confiance dans les résultats de leur travail est réduite, voire très diminuée dans certains cas. Le scepticisme est ici justifié par les permisses axiologiques et épistémologiques que les analystes financiers mettent à la base de leur démarche.

J'ai pu constater, grâce à la fréquentation quotidienne de ces experts s'étendant sur plus d'une décennie, que leur arrogance épistémologique trouve son explication dans les nombreuses prognoses correctes qu'ils font. Celles-ci sont facilitées par la longue phase de croissance du cycle économique et ne relève pas premièrement d'une capacité hors du commun de prévoir l'action ou la possibilité d'apparition de certains événements en mesure de justifier cette croissance. Leurs prognoses étaient en fait des constructions naïves et rappelaient des extrapolations des chiffres déjà réalisés pour la période suivante. Or, le regard rétrospectif, même si nécessaire lors de la prise de décision, sous-estime le degré de risque de la situation future. L'avenir doit être compris pour être prédit. C'est pourquoi il est nécessaire de recourir à certains éléments propres à cet avenir, et non seulement à des éléments qui ont prouvé leur validité par le passé ou dans le présent. Un tel procédé reconnaît implicitement le caractère aléatoire des variables utilisées dans la prévision financière, fait qui justifie l'élaboration et le suivi de plusieurs scénarios de l'évolution future d'une entité ou d'une activité économique.

La confiance dans sa propre capacité dont font preuve les experts financiers n'est pas d'abord fondée sur leur habilité exceptionnelle d'avoir l'intuition ou d'identifier la possibilité d'apparition des phénomènes surprenants. Nombreux sont ceux qui ont une conviction spontanée que leurs prédictions individuelles se superposent sur l'évolution du segment de la réalité de référence grâce à l'infailibilité de la méthode employée, à savoir la considération des données spécifiques à la période antérieure comme repère absolu pour la prédiction à propos de la période à venir. Les différences entre les prédictions individuelles ne sont pas considérées comme erreurs du moment où la prévision faisait preuve d'une même tendance, d'une même direction. Les distinctions concernaient le rythme, tandis que les différences d'amplitude étaient insignifiantes. C'est pourquoi l'on pourrait même parler d'un instinct de groupe dans cette catégorie socioprofessionnelle.

La justesse de la prédiction est influencée encore aujourd'hui, quand le point maximum de la crise a été dépassé, plutôt par la réputation de la personne qui l'énonce, que par l'adéquation finale des résultats à la supposition initiale. Forcément, une question surgit : les erreurs des conseillers financiers sont-elles inévitables, et relèvent de la nature humaine en général, ou bien dépendent-elles uniquement des particularités de ceux qui élaborent la prognose sur l'évolution d'un indicateur ou de plusieurs ? J'ai constaté que les deux niveaux de cette détermination agissent simultanément, dans des proportions variables. C'est la raison pour laquelle je fais mien l'avis que l'espèce humaine a une vision trop restreinte pour être capable de considérer la possibilité que les événements puissent dévier des projections initiales.

Les hommes et les experts regardent le monde dans et à partir du modèle qui leur est spécifique, à eux ou au groupe auquel ils appartiennent. Dans ce modèle, la possibilité de l'apparition des risques inconnus a été éliminée, ou l'on a exprimé la conviction qu'ils peuvent apparaître à tout moment et qu'ils peuvent, par conséquent, menacer les coordonnées financières du projet conçu pour des tiers. Faiblesse épistémologique qui fait que les scénarios élaborés soient ou bien trop optimistes ou bien trop pessimistes par rapport au résultat final. Or, cette déficience procédurale entache l'exactitude de la prévision car l'on ne calcule pas une échelle des résultats susceptibles d'être obtenus, l'on n'offre pas une marge d'erreur provenant de la manière de concevoir les projections respectives en fonction de la considération de la probabilité d'apparition des différents événements. Or, par exemple, le fait que le temps contribue à la dégradation des prognoses, même de celles fondées scientifiquement, est devenu un lieu commun.

La validité des prévisions diminue au fur et à mesure que s'agrandit la période temporelle pour laquelle elles ont été élaborées, justement à cause de la possibilité de l'apparition d'événements inattendus. Ce qui fait que la tendance d'établir des directions d'action à partir de ces prévisions revient à accepter un hasard non justifié. C'est pourquoi, ce qui gagnent leur vie en proposant à d'autres des prévisions, doivent s'abstenir d'énoncer des verdicts au-delà de la limite temporelle justifiée. Sinon, ils vont rendre dérisoire cet outil de travail indispensable - la prévision - par les explications permanentes qu'ils seront obligés de fournir.

Puisque la plupart des prévisions sont inefficaces, l'emploi de la règle de la flèche est souvent recommandé. Ou bien l'on peut se poser la question si ceux qui les conçoivent peuvent être considérés comme des gens moraux. Une réponse située à une extrême énonce que la prognose, fut-elle inexacte, est plus souhaitable que l'absence de prognose. Une autre réponse, propre à l'autre extrême, affirme que ceux qui élaborent les prévisions font plus de mal à la société que les criminels. Je pense que les limites de l'activité de prévision découlent, dans des propositions différentes, d'abord des caractéristiques des informations utilisées, et seulement dans un deuxième temps, de la nature humaine de leurs auteurs.

Quant à l'information, j'ai constaté que ceux qui décident réagissent à une certaine information non pas en fonction de ses qualités logiques, mais en fonction du cadre institutionnel qui la reçoit et l'apprécie. Ce cadre conduit aussi ensuite à l'évaluation inexacte de l'incertitude qui découle de l'information reçue, car il encourage la tendance de dénaturation de son interprétation. La

faute méthodologique qui consiste à isoler une régularité uniquement à partir de certains faits, conduit, inconsciemment, à l'erreur épistémologique qui surestime la valeur des faits en les présentant comme des preuves incontestables d'une vérité suprême.

On peut aussi tromper les bénéficiaires d'une prévision par une autre voie : on peut placer les souvenirs dans un cadre causal qui contient aussi le phénomène invoqué et situe ce dernier dans une histoire qui véhicule le message nécessaire à l'acceptation de la prognose proposée. J'ai également rencontré la catégorie d'experts qui créent de l'inquiétude par rapport à certaines sources d'incertitude, mais ne mentionnent que les sources qui ont peu de chance d'apparaître. Ainsi, l'auteur de la prognose jouissait seul des conséquences positives, palpables, tandis que le destinataire de la prognose avait affaire à ses effets négatifs.

Si le domaine où agit l'agent économique qui utilise la prévision est caractérisé par un degré élevé d'aléatoire, tel le marché du capital, il peut souffrir davantage des effets nocifs entraînés par des prévisions élaborées superficiellement. Ces agents arrivent à se considérer comme coupables, dans une mesure qui diffère dans chaque cas, d'avoir réalisé ou de ne pas avoir réalisé des opérations quand les prix leur étaient plus favorables qu'actuellement et quand ils auraient pu éviter, selon eux, les désagréments financiers qui maintenant les accablent. Contestant même le fait qu'ils sont victimes d'une chance non linéaire, ces agents économiques demandeurs de prognoses, arrivent littéralement non seulement à rejeter toute prévision, mais aussi à éviter les investissements et les opérations spécifiques à des domaines avec un degré peu élevé d'incertitude.

À propos du degré de culpabilité qui relève de la nature humaine dans l'élaboration des prognoses inefficaces, on peut parler de plusieurs de ses hypostases, toutes situées dans les limites de la moralité. Si l'on néglige la différence entre ce que savent véritablement les spécialistes du domaine financier et ce qu'ils pensent savoir, on ne saurait se contenter de mentionner qu'ils défient d'une manière esthétique la réalité en exagérant les regrets pour ce qui s'est passé et en ignorant ce qui aurait pu se passer. Ou de mentionner que, même s'ils travaillent avec l'aléatoire, ils acceptent la prédictibilité de la succession des phénomènes et des processus économiques. Plus faciles à percevoir sont en revanche les faiblesses de ceux qui, tout en sachant qu'ils ne sont pas en mesure de prédire l'évolution ultérieure de certains processus économiques, affirment qu'ils élaborent des prognoses afin de justifier le salaire perçu. Ou de ceux qui justifient leurs erreurs sur le plan de l'anticipation grâce à l'action imprévue d'un élément situé en dehors du système pris auparavant en compte.

Je suis convaincu que même si les prévisions sont d'une manière prépondérante inefficaces - car, je souligne, aujourd'hui plus que jamais, le déroulement des événements et des processus économiques est imprédictible, certains connaisseurs de ce domaine vont continuer à faire des prognoses si la demande est élevée et si, par conséquent, elles sont bien rémunérées. Les recherches ultérieures devront mettre en lumière si la fraude qui en résulte est individuelle ou institutionnelle.

A NEW PARADIGMA OF THE ECONOMICAL AGENT. FROM ADAM SMITH'S HOMO ECONOMICUS TO HOMO GENEROSUS BASED ON SOCIAL RESPONSIBILITY

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Analyzed from outside, many actions of the economical agent seem to be impulse by the self interest. As a prototype of this kind of person we have the Homo economicus as Adam Smith described it. In a blitz portrait we identify some characteristics: he is perfect rational, perfect egoist, perfect free, perfect competitive and perfect social. The aim of this research is to permute the barycentre from Homo economicus based on self interest, to Homo generosus, based on social responsibility. As a support we have used the prison dilemma to illustrate the roll of cooperation instead self interest. This new coordination will be analyzed to the level of ethical system. Homo economicus is identified in ethics of consequences and the homo generosus in ethics of duty. In my vision, the prototype of homo generosus, is delineated under Kant's categorical imperative: respectful, based on principles as subject and sovereign.

Key words: ethical system, self interest, cooperation, Homo economicus, Homo genorosus

Jel: A13,N00, P12, P13,

Homo economicus based on self interest

Homo economicus based on own interest can be enclosed to the ethical system called ethical egoism. Egoism is the theory that people act out of their self-interest. When we describe an egoist person, we have the next portrait: a person devoted for his own interest and advantages, looking forward to accomplish his needs, without evidencing interest for people around. One occasional altruistic act dissembles a hidden further interest.

There are two versions of egoism. One is known as *psychological or descriptive egoism*; this view holds that people do, in fact, act in their own self interest. The second version of egoism is known as *ethical egoism or normative egoism*; it holds that people should act in their own self-interest. The distinction between these two type of ethical system is represented at the level "is" and "should be". When we are speaking of self-interest, there are some questions to be clarified, for example:

- Do people always act only for self interest?
- What is the meaning of the definition "self-interest"?

The two version of the egoistic ethical system mentioned above holds that whatever people do, they do in fact always act only out of their own self interest. A work hard to be promoted, I donate some many or I help a person to increase a reputation, to be considered a good man, or I love my children or my family to be also loved by them to be respect. In this situation can we identify Mother Theresa's action under the impulse of self interest? It is obvious that people seem to act for various other motivations other than just self-interest. But The egoist has to claim that these other motivations are only a mask for self interest, that the person who is doing something altruistic (i.e. action done for the sake of another) is really being altruistic for his own self interest -- he is doing this, the egoist claims, because he has a self interest in being seen by others as being altruistic or because he gets pleasure (thus satisfying his self interest) in being altruistic. To argue this affirmation Lloyd Eby, illustrate us the case of the red light of the fire engine. "Suppose someone claims that all fire engines are red. I reply that this is not true because I've seen green and yellow ones. The first person then responds, "But those are not true fire engines because all fire engines are, by definition, red." The first person may thus win the argument, but

does so only by introducing a highly tendentious - and false - definition of "fire engine." I think that, in a similar way, strict egoists likewise set up tendentious - and false - accounts of human motivation and altruistic behavior."⁵⁴⁵ The answer to the first question and its particularly arguments illustrate some actions which are not only motivated by self interest.

The second question proponents of egoism must distinguish between people's genuine self interest and their apparent self interest. Thus most of us would hold that a person who smokes a lot of cigarettes or who takes heroin is not in fact acting out of his self interest because those practices are highly self destructive. The proponent of egoism says that such people are acting not out of their true self interest but only their apparent self interest; such addicts, the egoist claims, believe that their actions are in their self interest, even though they are not in their actual self interest, and thus they do what they do out of their self interest after all. That answer, however, flies in the face of the fact that many addicts will say explicitly that they are not acting in their self interest when they continue to smoke or take drugs. This suggests that people are aware of the difference between true and false self interest and are well aware that they sometimes act out of motives other than self interest, either true or false self interest.⁵⁴⁶

Until now we have created a background to illustrate the coordination of the self interest. This type of system was claimed by Hobbles offering a psychological argument; Adam Smith illustrates an economical argument and Ayn Rand statues selfishness as a virtue quality.

In this paper work our interest is focus upon Smith's economic argument. Smith argument for a self interest which conducts to public benefits is exemplified by the well known quotation: "*It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.*"⁵⁴⁷

The eighteenth century economist Adam Smith defended an egoistic approach toward morality based on the economic benefits that this would bring to society. Based on the theory of "**invisible hand**", in a competitive market, the homo economicus produce a state of optimal goodness for the society. Smith argues how competition determines the economical agents to produce a better product ant to sell it to a lower price compared to the other.

His self interest – to sell his products and to obtain profit – guides his actions, related with his competitors. This kind of attitude, in Smith's opinion, concurs to a public benefit not only for the one's sake.

The laws of the market formed by Adam Smith are quite simple. These can be reduced to a picture which illustrates two important things: **self interest**, and on the yonder side the **competition**. For example, if I am a gloves manufacturer my interest is to sell my merchandise and to obtain a substantial profit. To achieve my aim I would like to sell my products to a high price. But the high competition will not admit this situation, because the consumer would like to buy the gloves from my competitor, if they are to a lower price. I need to find ways in producing gloves to a reduced cost ant to sell it at a cheaper price in an effort to get more costumers. Adam Smith considers that in this situation the manufacturer gain, but so too does the costumer. Thus, my self interest leads to a best overall situation for society.⁵⁴⁸

For Smith, these two: self interest and competition can not be separated. It is both natural and an advantage to cooperate in economic affairs. Making reference to the quotation above, we understand that the butcher, brewer or the baker, do not give away meat, beer or bread, but they depend on mutual respect, fair play in business, the honoring of contracts, and indeed, even

⁵⁴⁵ Lloyd Edy, *Viewpoints: What about ethical egoism?* <http://www.tparents.org/Library/Unification/Talks/Eby/Eby-060607.htm>, accessed at 10.04.2010

⁵⁴⁶ Lloyd Edy, *Viewpoints: What about ethical egoism?* <http://www.tparents.org/Library/Unification/Talks/Eby/Eby-060607.htm>, accessed at 10.12.04.2010

⁵⁴⁷ Adam Smith, *The Wealth of the nation*, Penguin Boobs, London, 1999, Book I.ii.2.

⁵⁴⁸ Louis Pojman, James Fieser, *Ethics: discovering right and wrong*, Wadsworth, Cengage Learnig, 2009, p.89.

cooperation to stay in business together in the same town.⁵⁴⁹ Adam Smith's economical argument directs to a two tier system:⁵⁵⁰

- individual motivation – egoistic;
- general goal – social utility;

Both levels are based on the ethical system based on consequences. On the first level the consequences are redound upon one person, the one involved in the action. This level is known under the terminology of ethical egoism. When it is looked for the social utility, there is involved a great number of people and it is intend to offer the greatest happiness, or good to a great number of people. This way of acting is known as utilitarianism. In Smith economical argument, we met on the highest level, the utilitarianism, which makes use of self interest to attain the good for a great number of people, a social benefit based on free-enterprise system that guides enlightened self interest to reach that goal. Conform to his theory the economical agent is not worry for the social good, but only for his own good and in this way he will attain the highest social good possible.

The problem with that argument is that not everyone has equal power and ability -- Adam Smith's argument depended on a more-or-less equal distribution of power, information, and ability among the actors in his economic drama -- and thus in pursuing their self interest the strong will prey on the weak, and the less powerful or wealthy or knowledgeable will be abused (and thus unable to achieve their self interest) by the actions of the powerful, the wealthy, and those with greater knowledge.⁵⁵¹

An example of self interest in business world was offer by Nestle Company which infant formula. During the 1970s and 1980s, Nestle launched a marketing strategy in developing countries that lured countless poor mothers into infant formula dependency. Wearing uniforms that resembled those of the legitimate nurses, Nestle's sales force infiltrated hospitals, accentuated the health benefits of their infant formula. The penetration of this product forced and made dependent the mother of this infant formula. However, proper use of it required up to 70 percent of a family income, an unable to pay, mother diluted the formula, often with contaminated local water. The result was the death of millions of infants from disease and malnutrition. After a decade-long worldwide boycott against Nestle, in 1984 the company changed their practices. The train of events illustrates how the follow of self interest does not conduct to a social benefit, as Smith argue.

Homo generosus based on social responsibility

Nowadays, many practices invoke the way self interest did not conduct to public good, different crisis exemplify the deficiency of classical *laissez-faire*. As a new paradigm for economical development we identify a *permutation from Homo economicus based on self interest to Homo generosus based on social responsibility*.

Under the terminology social responsibility, has been developed a new concept *corporate social responsibility*. Corporate social responsibility (CSR) is a form of [corporate self-regulation](#) integrated into a [business model](#). Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international [norms](#). Consequently, business would embrace responsibility for the impact of its activities on the environment, consumers, employees, communities, [stakeholders](#) and all other members of the [public sphere](#). Furthermore, CSR-focused businesses would [proactively](#) promote the [public interest](#) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere,

⁵⁴⁹ Robert Frederick, *A companion to business ethics*, Blackwell Publishing, 2009, p.336.

⁵⁵⁰ Louis Pojman, James Fieser, *Ethics: discovering right and wrong*, Wadsworth, Cengage Learnig, 2009, p.89.

⁵⁵¹ Lloyd Edy, *Viewpoints: What about ethical egoism?* <http://www.tparents.org/Library/Unification/Talks/Eby/Eby-060607.htm>, accessed at 10:12.04.2010

regardless of legality. Essentially, CSR is the deliberate inclusion of [public interest](#) into corporate [decision-making](#), and the honoring of a [triple bottom line](#): People, Planet and Profit.⁵⁵²

This concept has developed from the classical form exposed by Milton Friedman: “*the social responsibility of business is to increase its profits*” - when corporate are responsible only to their shareholders - to the responsibility for the society seen as a whole.

Nowadays the impact of corporate social responsibility is measure on the level of reporting or standards. One of these is the Global Reporting Initiatives. The table below illustrates the number of the company who adopt this way of reporting. The evolution on 10 years is relevant to conclude the great impact assumed by the economical agent seen at the level of corporation.

Table nr. 2 – The numeric evolution of CSR-GRI reporting on period 1999 – 2009

Period of reporting	Number of company which have reported a CSR-GRI Report
1999	20
2000	50
2001	80
2002	150
2003	166
2004	272
2005	370
2006	507
2007	684
2008	1068
2009	1368

Source: created by author, interpretation of the date available on:

<http://www.globalreporting.org/GRIReports/GRIReportsList/>,

Conclusion

Adam Smith’s homo economicus relieved the portrait of an economical agent who action in the economical field based on self-interest. He is based on the premise that the economical agent does not have to worry about the social benefit or good but only about his own good or benefit and in this way he will attain the highest social benefit possible. The homo economicus can indoor his individualism under the theory of “invisible hand”, considering that the interactions between the egoistical impulses will lead to an unanticipated result: social harmony.

As a support, for cooperation instead self interest we intent to use the Prisoner’s Dilemma. It points to another possible logical error in egoism by offering an example in which the pursuit of self-interest results in both agents being made worse off.

Tabel nr.1 Prisoner’s Dilemma

	Prisoner B	
	Confess	Don’t confess

⁵⁵² Wood, D. (1991) *Corporate Social Performance Revisited*. The Academy of Management Review, Vol. 16, No. 4 (Oct., 1991) <http://www.jstor.org/stable/258977>, http://en.wikipedia.org/wiki/Corporate_social_responsibility

Prisoner A	Confess	5,5	½,10
	Don't	10,½	2,2

Source: Internet Encyclopedia of Philosophy <http://www.iep.utm.edu/egoism/>

From the table, two suspects in a crime are individually offered different sentences by their captors. A, for example, is offered 5 years in prison if he confesses, and he is told that if his partner doesn't confess he will be given 6 months in jail and his partner 10 years. If he refuses to confess, then A faces 10 years in prison if his partner does confess; however, both would only serve two years in prison if they both do not confess. A prior agreement between A and B *not to confess* would result in the best solution for the two of them, but that is not allowed by the game because they must make their decision by themselves without communicating with the other person. The incentive that each personally faces to avoid spending time in prison is to squeal in the hope that the other does not confess. If each does this, then both will end up serving the non-optimal solution of 5 years each.⁵⁵³

As an argument for the sunset period of homo economicus based on self interest are different depression and crises which could not illustrate how the classical laissez-faire works.

Included in an ethical system, Adam Smith's homo economicus, has a good responding to the consequences ethics, based on ethical egoism and utilitarianism. The consequences system sustains the moral of an action based on its consequences. If an action ends with good benefit for me and for the others, then we identify a moral action. If a fact produces bad consequences upon me, then it is immoral. Specified to Adam Smith theory, the ethical egoism is released under the concept of self interest and the utilitarianism – which sustain the spread of happiness or in this case benefit around as much as possible – is identified at the level of social benefit, which is accomplished if everyone is looking forward for own benefit.

I identify the economical agent based on social responsibility, homo generosus, having as coordinates the ethics of duty, substantiated by Kant. Specific to Kant's categorical imperative, the economical agent will “act only on that maxim which can be considered in the same time a universal law”, this means that his action are based on principles, compared to homo economicus, which based his action on consequences. Second, the prototype of homo generosus, according to the second Kant's imperative, will respect the human being, treating the stakeholders as persons: “always treat the humanity in a person as an end and never as a means merely.” And the third imperative analyses the business firm as a moral community.⁵⁵⁴

This is a way to understand the balance from the economical agent based on self interest to the economical agent active involved in social responsibility through ethical system.

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UNEMPLOYMENT IN THE TIME OF ECONOMICAL CRISES

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This article is a brief presentation of the periods of economical crises that occurred along history as well as a presentation of the effects that these crises had on the evolution of unemployment among the working population. The total effort the population, economy, and society in general can undertake subsequently to economical crises is immeasurable, and one can prefigure the adaptation of economic theories to the conditions and demands of the actual epoch to be a lasting and laborious process.

Key words: unemployment, unemployment rate, economical crisis, economic theory
JEL Code: J60

1. Great economical crises and the appearance of unemployment

World economy has been hallmarked by periods of upsurge and recession. Economical crises, irrespective of the period they occurred in, had the same negative phenomenon – the emergence and increase of unemployment within the working population.

The Great Depression between 1929-1933 had severely shaken the edifice of world economy. The great economical crisis or the Great Depression was a period characterised by the sudden, dramatic plunge of world economical activity. The first signs of the crisis were manifest from 1928. The extent of this world-scale event had catastrophic consequences: downsizing national income to half, drastic reduction of employed persons and the sudden increase of unemployment, the disequilibrium between merchandise demand and offer. All these revealed the fact that it was not the disequilibrium between merchandise demand and offer, as the word among economists at that time went, but due to more complex and serious causes in the market economy.

Of all contemporary western economists, J. M. Keynes was the one who adapted most efficiently and rapidly to the new situation. The serious and urgent problems he witnessed actually marked a double crisis: the economical crisis itself that encompassed the entire economical system, as well as an ideological crisis in the third and fourth decades of the past century that manifested through the above-mentioned crisis taking by surprise most economists: “evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence. Fluctuations may start briskly but seem to wear themselves out before they have proceeded to great extremes, and an intermediate situation which is neither desperate nor satisfactory is our normal lot. It is upon the fact that fluctuations tend to wear themselves out before proceeding to extremes and eventually to reverse themselves, that the theory of business cycles having a regular phase has been founded.”⁵⁵⁵

Unlike neoclassical economists who, usually supposed full utilization of production capacities and workforce, thus denying unemployment, J. M. Keynes acknowledges and recognizes the existence and emergence of involuntary unemployment, chronic mass unemployment as he would refer to it every time.

⁵⁵⁵ Keynes J.M., *Teoria generală a folosirii mâinii de lucru, a dobânzii și a banilor*, Editura Științifică, București, 1970, p. 261.

The crisis of the 1970s, the second economical crisis, is important in its depth, encompassing sphere, duration, and its consequences. For two decades after the war, developed countries experienced a growth based on the driving policy without relevant recessions managing to reduce considerably unemployment. But the experience of these years showed it is not enough for unemployment to decrease for economical instability to be attenuated, but one has to take account of the activities the former unemployed are doing at the moment. At the middle of the seventh decade and beginning of the eighth a series of data and facts considerably accentuated economical instability. Among these we can speak of the emergence of *stagflation* and *slumflation* i.e. the simultaneous presence of inflation, unemployment, and economical stagnation, that of inflation and recession which became ever more worrying. Trying to mend unemployment and economical blockages, monetary and budgetary policies became the source of other evils – inflation and the currency-financial crisis with a prolongation of negative effects on a global scale.

The catastrophic decrease of production was the major cause of the great depression from 1929-1933. The economical crisis in that period was characterized by underproduction resulting from poor crops as a consequence of natural factors (as drought, flooding) or due to wars. The crises occurring in modern times are due to overproduction. These crises do not merely refer to a certain branch or activity sector, but they encompass different branches and sectors of activity, economy as an ensemble, and, under certain conditions, the entire world economy. They have important economical and social consequences: between 1929-1933 the plummet of production in the USA was of 46%, while that of prices was of 30%, and the number of registered unemployed persons was of 13.5 million. In UK the unemployed were numbering 3 million, and in Germany the figure was of 5.5 million.

Comparing the two unsatisfactory state of economy during the two economical crises of the 1930s and of 1970s, Joan Robinson speaks of two distinct crises: “The first crisis surfaced out of a theory that could not explain the occupation level. The second crisis was born out of a theory that could not explain the content of occupation.”⁵⁵⁶

In other words the events of the 1930s proved the inability of neoclassical theory to explain involuntary unemployment and economical crisis, just as the events in the 1970s proves the new Keynesian and neokeynesian trend failed to explain how it reached the fantasy of “digging useless holes” mentioned by Keynes.

Greek academic Angelos Angelopoulos, in his work *A World Plan of Occupying Workforce. For an International-Scale Keynesianism*, published in France in 1984 and translated into Romanian in 1987, tackles by Keynesian means the issue of underdevelopment of countries in the third world and its causes. He forwards a series of measures to trigger their development at a fast pace and to achieve durable international cooperation among peoples. In the view of the Greek economist unemployment is a deeply negative phenomenon to be encountered not only in developed countries, but on a large scale and under different forms in under-developed countries. Causes of unemployment in developed and developing countries reside in the insufficient productive investments and modern technology. To avoid a future crisis Angelopoulos, adapting the Keynesian policy and theory, proposes a global plan to relaunch economic activity in all categories of countries by attracting and stimulating international cooperation of the countries in the North with those in the East and South “nowadays everybody wishes for a better, more righteous, and more humane world not only on a national scale, but on a global scale as well.”⁵⁵⁷

Thus, according to statistics presented by Angelopoulos in *A Global Plan of Occupying Workforce. For Keynesianism on an International Scale* “Between 1979-1981 in EU the unemployment rate increased by 55%, while between 1981-1983 by 32%. In the US the increase

⁵⁵⁶ Robinson J., *Contributions to Modern Economics*, Academic Press, New York, 1978, p. 9.

⁵⁵⁷ Angelopoulos A., *Un plan mondial de ocupare a forței de muncă. Pentru un keynesism la scară internațională*, Editura Politică, București, 1987, p. 28.

was devastating higher than 75%. The lowest unemployment rates were in Canada – of 12.3% and in Britain where unemployment rate reached 13.5% in 1983.”⁵⁵⁸

During the economical crisis absolute size and unemployment rate were not uniform. They varied from one country to another and within each country they also varied from one (activity) branch to another. Therefore, according to the information presented by the great Greek statistician during 1976-1981 the textile industry in the EU suffered 8.8 million workplaces loss, the shoemaking and clothes industries went through a 9.1 m workplaces loss, metallurgy – 8.3 m, the automotive and shipbuilding industries – 6.3 million workplaces.

The evolution of workforce occupation, under-occupation, and unemployment were directly influenced by the labour market dynamics, especially by its absorption capacity, that of creating new workplaces for the active under-occupied population. According to calculations referring to the 1970s out of 100 active persons on the labour market 89 in Japan, 85 in USA, and only 25 in four EU countries actually found a job. During this interval there were countries that registered rather low unemployment rates, such as Japan, Norway, Switzerland, and Sweden. Due to this fact there was a full occupation of the workforce.

According to these statistics one of the main structures of unemployment is that of the youth. Taking a look at its evolution in different countries and periods we reached the conclusion that at the beginning of the 1980s the number of young unemployed persons reached 6.5 million in Europe, compared to 1 million ten years before. In 1984 every fifth person apt for work was unemployed. In 1995 the percentage of young unemployed individuals aged 15-24 was as follows: 26.9 in Canada, 39.1 in Italy, 31.7 in Holland, 32.1 in Spain, 29.9 in Britain, 35.4 in USA, and 50.3 in Romania.

Women unemployment rate is another worrying figure. Therefore the rate of unemployed men represents 10.6%, while unemployment values referring to women indicate 18.4%. In some countries these indicators have the following values: 9.8 and 13.9% in France, 8.5 and 15.8% in Italy, 9.6 and 11.4% in Germany, 5.9 and 8.8% in Holland, and 5.4 and 7.3% in Romania.

Despite the fact that in the last two decades following the economical crisis of the 70s, other ideological currents made way in the history of economics (neoclassicism and neoliberalism), yet some major features of Keynesianism and driving policy continuing to raise interest: macroeconomic approach and state support for the private entrepreneurs by adopting new macroeconomic policies (budgetary, fiscal, monetary, and commercial policies). In this context positive results of these policies materialised in Austria – that ensured full workforce occupation up to 1981, while in all other OCDE member countries unemployment continued to increase. After 1981 unemployment surfaced in Austria as well, yet this country registered a high level of workforce occupation.

The economical crisis we are experiencing nowadays has as a starting point the year 2007 when on the mortgage market in the US the first transient financial signs manifested, consequently these would determine a very economical crisis that is fully manifesting. Therefore, according to the devastating implications this would have, one considers that the present economical crisis is the greatest after the one recorded 8 decades ago. The present economical crisis has repercussions on the global unemployment degree which is quickly bursting.

According to Eurostat statistics the number of unemployed persons in the EU is close to 22.9 million in November 2009, out of which more than 15.7 million coming from the Euro zone. Compared to the previous month the number of unemployed individuals increased by 185,000 in EU and by 102,000 in the Euro zone. Compared to November 2008 the number of jobless persons increased by 4.978 million in the EU and by 3.04 million in the Euro zone. At the end of last year (2009), lowest unemployment rates were recorded in Holland (3.9%) and Austria (5.5%), while the highest were reported in Latvia (22.3%) and Spain (19.4%). According to

⁵⁵⁸ Angelopoulos A., *Un plan mondial de ocupare a forței de muncă. Pentru un keynesism la scară internațională*, Editura Politică, București, 1987, p. 56-57.

studies carried out it was noted that the most affected by unemployment are persons with secondary education. Therefore, a continuous professional training determines the potential jobless person to cope better in case of a possible layoff. In fact “unemployment rate tend to be reversely correlated to the qualification degree.”⁵⁵⁹

Romania does not report data referring to the monthly evolution of unemployment rate according to the standards of the International Work Bureau (IWB), only to quarterly data – the latter being for the third quarter of 2009 when the unemployment rate was 7.2%, unlike the third quarter of the previous year (2008) when Romania had a 5.9% unemployment rate, as Eurostat shows.

The evolution of the unemployment rate in the previous period (November 2008) and the current period (November 2009) shows that among men this has gone from 7.2% to 9.7% in the EU, while the increase in the Euro zone was from 7.5% to 9.9%. for women unemployment rate went up from 7.8% to 9.2% in November 2009 in the EU, respectively from 8.6% to 10% in the Euro zone.

More recent data shows that in Romania unemployment rate reaches ever higher levels, fact which determines us to assert that Romania has not exited the economical crisis, but on the contrary it deepens ever more. So “in January this year unemployment rate continued to increase, reaching 8.1% compared to 7.8% in the last month of the past year, nad 4.9% in January 2009 according to the information of National Workforce Occupation Agency (ANOFM). In the first month of 2010 unemployment rate exceeded 8%, such a level in this period being unprecedented from 2003, when in January there were 781,388 jobless persons, the national level being of 8.6%. In January 2010 740,982 jobless persons were reported, 459,158 were on redundancy payment and 281,824 were not. According to ANOFM most jobless persons, respectively 605,371 (over 81%) come from the private sector.”⁵⁶⁰

An outline of the current crisis can not be made but approximately because this is fully in process, and the causes of its start off as well as its characteristics could only be exactly presented when the economical crisis is over.

We are nevertheless attempting to present some similarities and differences between the Great Depression of 1929-1933 and the current economical crisis.

2. Similarities between the present crisis and that of 1933

Even if the period between the two economical crises is considerable and the current economical crisis is still manifesting, there are some obvious similarities with the one from 1929-1933. Firstly both crises have as a starting point the US and the financial market of this country. These similarities must not be viewed as random, they should be analysed very minutely considering the fact that it is happening in the most developed country in the world where every wrong step has serious repercussions on global economy.

Secondly, the present economical crisis, like that from 1929-1933, has a global nature affecting most of the countries (including our country which admitted entering the crisis rather late).

The third existing similarity between the two crises is their global nature. Thus, just like the Great Depression “the crisis that recently began will involve, to a different degree, all sectors, respectively both those of real economy, and those of nominal economy.”⁵⁶¹

Fourthly, but more importantly than any other arguments presented above, the present economical crisis just as the Great Depression of the 1929-1933s anticipates to be a lasting one. It is very difficult to predict the length of the present crisis what is more because we are at its debut and we do not have enough data yet regarding the content, depth, and its encompassing sphere.

⁵⁵⁹ Becker, S. Gary, *Capitalul uman*, Editura All, Bucuresti, 2000, p. 32.

⁵⁶⁰ Bălan, Ionuț, *România în stagflație: recesiunea, inflația și șomajul se adâncesc concomitant*, Săptămâna Financiară, February 12, 2010, p.1.

⁷Adumitrăcesei, I.D., Niculescu N.G., *Criza economică globală (2009-20..?) cauze, implicații, soluții*, Editura Academiei, Iași, 2009, p. 25.

The history of economy and the aspects analysed from the perspective of economical crises emphasize the fact that in contemporary times there are a series of factors both in favour of renewing economic theory, and in favour of protecting and diffusing the old into the modern. In the confrontation to take place again between the new and the modern at the level of economic theory, one can foresee and claim the birth of a new theory that would lead us to a new economic science of the 21st century. To consent with the previously-stated, Nicoale N. Constantinescu noted: “Under the current conditions... we need, more than ever, an economic theory based in contemporary realities, ... a theory free of any prejudices and mastered only by the truth.”⁵⁶²

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⁵⁶²Adumitrăcesei, I.D., Niculescu N.G., *Criza economică globală (2009-20..?) cauze, implicații, soluții*, Editura Academiei, Iași, 2009, p. 189.

THE BERTRAND MODEL OF THE SINGLE MARKET

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Starting with the signification of the rationality hypothesis when the agent's contentment is directly affected by the other agents' decisions, the theory of games defines solutions for solving different situations of conflict. The economic actors have different behaviours of the Single Market. Oligopoly strategic behaviours were analysed by the Bertrand model. The two types revealed in the work show that strategic interactions are sensitive to the companies' features, products and markets. Regarding the situation when we have an oligopoly competition, the companies make interdependent decisions in the environment affected by risk and uncertainty of the Single Market. For this reason it is an opportunity to study the structure of oligopoly type of of the Single Market with the aid of non – cooperative games.

Keywords: the Bertrand model, the Single Market, theory of games, Nash equilibrium.

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1. Introduction

The economic models and the practice of economical - mathematics constituted an excellent instrument for studying the economic games, stimulating the research in this field. In the last decade, a series of methods regarding the representation of the economic theory were used in order to study the evolution of state parameters of the social- economic field. The category of systems highly studied in the economic dynamism are those who pattern the business circle, patterns of economic increase and patterns which study the costs game in a dynamic perspective. In the last decade, from time to time, evolution and chaotic behaviour were noticed in the economic patterns. The main conception of the economic science was demonetized, which says that the economic balances are constant even with the lack of external shocks, the economy leaning towards a stationary state.

From this point of view, conducting a study in a dynamic environment, about costs mechanism seems to be a very important problem. Taking into account the cost which is an economic phenomenon, this work trying to approach it, using a modern instrument of work, belonging exclusively to mathematics, which is *the game theory*.

We are interested in the theoretical results which are revealed in literature regarding the theory of games starting with the key concepts of this one: games, strategies, balance, game value, etc. the research is focused on the main oligopoly market structures from the microeconomics point of view. The theory of games studies the human behaviour in situations of conflict, where the reason is contrary to the reason, each of the parties involved being able to analyse and to decide in order to reach their own targets. It emphasises the meaning of the rationality hypothesis when the contentment of a person is directly affected by the other agents' decisions and defines solutions for various situations of conflict. The theory of games is a method of research for strategic interaction situations, where the economic agents are aware of the interdependence which exists between them and each of them will make their own decisions taking into account the others' behaviour.

The theory of games was first mentioned and historically related to the year 1944 when the mathematician John von Neumann and the economist Oskar Morgenstern publish the famous work: Theory of Games and Economic Behaviour

Augustin Cournot studied in 1838 the operation of the oligopoly markets where each company takes action knowing that its volume of production affects the market cost. In 1833 J. Bertrand studied the operation of the oligopoly markets where the companies with constant efficiencies produce the same product settling the selling price. The result mentioned by Bertrand is known as Bertrand paradox⁵⁶³. In 1934 Stackelberg shows that some companies can be leader and that are able to impose the price to the others. The leader company, as a barometer company, knows best the market situation and has the means necessary in order to control the counter party. This doesn't mean that the company is the most powerful but well informed and organised.

The following question comes up: Which of the behaviours mentioned above should be followed of the Single Market? In order to answer this question, a theory was needed which could explain the interactions between companies. This is the great contribution of the game theory. It allows the elaboration of an analytical framework regarding the situations when an agent's decisions can affect the earnings of the other agents.

The theory of games studies the manner in which the rational decision are made by people in interactive situations when the results of their action depend directly on the others; actions. In this case, where the coordination of the individual actions is adjusted by competition, each economic agent (named player in the game theory) must forecast the future actions of the other agents and then optimise their own behaviour depending on the results. In the last two decades the rent-seeking type of dynamic games were analysed (to share the fortune). A systematic study of the balance point for this kind of games was made by Okuguchi K. and Szidarovsky F. who revealed that these games are equal to the Cournot type of oligopoly with price hyperbolic function.

The theory of games hypens the meaning of the rationality hypothesis when the contentment of the person is directly affected by the decisions of the other agents and defines solutions for different situations of conflict. Out of this reason knowing the analysis instruments of this theory is essential nowadays, the theory of games constituting a real matrix of the contemporary financial theory. Its postulates are based on the analysis of the people's interdependent relations.

The economic description and analysis must be oriented towards solving the conflicts caused by the problems of redistribution. The approach moves from solving problems related to assignment towards the analysis of the availability restrictions which influences the resources assignment and distribution. In conclusion, the economic reality can't be properly presented by a static approach, as the traditional microeconomics theory does it, but it must be seen as a process, with the help of a dynamic approach, from the new microeconomics perspective.

2. Competitive strategies of the Single Market.

Some of the economic agents have a different behaviour on the market affecting the other economic agents' behaviour. This type of reality resides in the "market structure" concept. The meaning of *market structure* represents the features of a market by the number and the relative power of the companies which operate on the market having the purpose of settling their behaviour and its consequences on the economic efficiency of the economic system. The contributions of the game theory to the study of the Single Market can solve some problems related to the costs system and to the intelligence exchange. Competition was and is related to the behaviour hypothesis of the economic agents and to the relative hypothesis of the market operation.

⁵⁶³ Binmore K., *Jeux et théorie des jeux* Ed. De Boeck Université, Bruxelles, 2001, p.23

The market structures vary depending on: the influence on the costs settlement; the companies' production of standardized or non - standardized products; the companies' possibility to enter on the market; the publicity, the products' features, etc. The oligopoly means a market structure controlled by a restricted number of producers, the actions of each producer affecting the others competitors' actions. If a producer cuts the price in order to increase the sales, then its competitors will react by cutting their price too, thing which will determine a profit decrease for the first company. Before making the decision regarding the price cut, the oligopoly company would have to analyse first the future reaction of its competitors and the consequences upon it. In the first works on oligopoly, Cournot (1838) and Bertrand (1883), write about the elements used by the theory of games for analyse of the imperfect competition. The theory of games uses a general method of analysing the strategic interaction situations. This theory applies on analysing the companies' strategic behaviour of the Single Market, starting with the general framework of a game situation.

The game situations are based on few important elements: game rules; strategies to follow; earnings and in oligopoly situations we have: rules of the oligopoly game; strategies of the oligopoly game; earnings of the oligopoly game. The rules of an oligopoly game are made starting with the features of the economic, social and politic environment of the oligopoly market, with the laws of the trade practices. One of these rules regards the number of players meaning the number of companies operating on the market. The rules of an oligopoly game represent all the possible actions of each player. This one makes a complete list of game strategies. The possible strategies in an oligopoly game can be: prices increase, cutting prices or keeping them at the same level; increase, decrease or keeping the production at the same level; more, less or the same advertising; improving, lowering or maintaining the quality, etc. The earnings of an oligopoly game may be represented by the economic profits or losses of each company⁵⁶⁴. The earnings of the companies depend on their strategies and on their constraints which they deal with.

Studying the situations of imperfect competition, especially the *Single Market* where the buyers' decisions are interdependent, can be achieved with the help of non – cooperative games. Important applications of the game theory reside in different aspects of the oligopoly competition, for example: secret agreements or price forming study in a closed economic system. The situation of oligopoly competition, the companies can't deal with an unreceptive environment. The interdependent situations between different centres of decision and their contribution to obtaining a credible solution can be done with the help of *non-cooperative games* which developed a lot over the last years.

For the duopoly games, the possible strategies the two companies can follow are: agreement for profit division; or breaking the first agreement, thing that would allow the cheating company to obtain greater profits than its partner. This kind of structure is similar to the one of the game named prisoner's dilemma⁵⁶⁵. In case of a balance situation the two companies break or follow the duopoly agreement, they will sell at the same price, producing the same volume and obtaining the profit of a monopolist.

The theoreticians of the game with practice in economy showed that price war can be considered to be the result of a repeated duopoly game. The producers follow the concluded agreements until the request variation determine the price cut under a certain limit. The companies' reaction to the price cut is like it would be the result of a problem the competitors deal with. They have to operate in order to make the competitors believe in the penalty in case of agreement breakage. Updating the credibility of the menaces is important in order to respect the agreement as longer as possible. On this kind of markets, from time to time, price war can occur, which can end with the exclusion from the market of the weaker competitors.

⁵⁶⁴ Kreps D. M., *Théorie des jeux et modélisation économique*, Ed. Dunod, Paris, 2002, p.69.

⁵⁶⁵ Jhele G. A., Reny P. J. – *Advanced Microeconomic Theory* - Ed. Addison Wesley, New-York, 2006,p.231

3. The Bertrand model

Bertrand (1883) suggested a solution which depended on price variation; he started with a rather simple case where two companies produce the same product, settling their selling price. The production costs for each product are constant (marked with letter „c”) and identical for both companies. In this case the consumers will buy from the company which has lower prices. We suppose that the two companies share the total request in two, if the prices are the same.

Bertrand’s paradoxical result is that at an equilibrium level the price is equal to the marginal cost and the profits are null. None of the companies can improve the profits because it would obtain a negative one cutting the price. If a company settles a price higher than the marginal cost, the other company will be interested in settling a lower price in order to cover the entire request. The question is if Nash equilibrium is present where the price is equal to the marginal cost. The Nash equilibrium, if present, is it unique?

In the Bertrand model, Nash equilibrium is a combination of strategies weakly controlled: some players are not interested in settling an equal or higher price than „c” (the cost), others set a price equal to „c”⁵⁶⁶. An irrational player who sets a price (P) higher than the cost (c) he obtains the same profit as the player who will obtain Nash equilibrium if the competitor always sets a price (P) equal to the cost (c). The player’s irrationally occurs when a competitor must explore such behaviour, choosing a price (P₁) higher to the cost but lower to P. This kind of argument shows that players can be interested in manipulating their competitors making them believe that they are irrational. If player 1 is an agent with “irrational” reputation, choosing a monopoly price, then player 2 sets a price P₂ lower to the monopoly one. But he is not sure that player 1, declared irrational but being rational benefits by his reputation, then he will chose a price lower to P₂.

Such reputation problems can be studied in a dynamic framework. We will consider the reputation game for two companies of the Single Market, marking with δ the discount factor and trying to settle the perfect Bayesian equilibrium. The game can run by converse induction taking into account the beliefs. If the cooperation was supported in the first period, then in the final period the players will have the same reputation. If the players broke the agreement then they would lose the initial reputation. But choosing a cooperative strategy the player maintains the reputation, without bringing any new information regarding his behaviour, meaning the cooperative one. If we assume that the players cooperated in the first period then in the last one, a player obtained $\alpha\delta\pi$ this one being a price lower than the monopoly one. The question which rises is: are the players interested in cooperating at the beginning? The company has an updated hope for earning equal to $\alpha(\pi/2 + \delta\pi)$ in case of cooperation. In case of non cooperation for the entire monopoly profit the company will obtain $\alpha\pi$, losing its reputation. The company is interested in cooperation when $\delta \geq 1/2$. This model shows that the companies can be interested in cooperating at the beginning when their option for the present is low enough. In this case, we can talk about cooperation at the beginning of the game which degenerates in a price war. The reputation phenomena can be very important if there is the slightest incertitude regarding the perfect rationality of the players. Such a feature can explain many behaviours assuming that the players believe there are other “irrational” players but with a lower probability.

The examples mentioned above express the result of the strategic interaction which is very sensitive to the companies’, products’ and markets’ features. There are many different situations by which the consequences of these features can be studied (for example: the problems related to noticing the products’ quality, the advertising, the strategies of research and development, the network of distribution, the possibilities of market input and output). If we start with a normal game $(x_1, \dots, x_n; u_1, \dots, u_n)$ we will assume that the players behaviour is decentralized, each of them having to chose alone a strategy, ignoring any decision of other players. The communication

⁵⁶⁶ Kreps D. M., *Théorie des jeux et modélisation économique*, Ed. Dunod, Paris, 2002,p.136.

possibility between players is excluded. There is no initial result or a game history which could emphasize the strategies used more frequently than the one of the others. We can take into account all the strategies as being a priori equally possible and also the choice of the best strategy.

In order to determine a *non-cooperative* behaviour the controlling strategies can be removed. Strategy Y_i of player “i” is controlled by strategy x_i (where the results $(x_1, \dots, x_{i-1}; y_i, x_{i+1}, \dots, x_n)$ represent a non – controlling assembly of strategies of player “i”) when whatever would be the strategic choice of other players, the use of x_i is at least as profitable for “i” than the use of “ y_i ”, meaning strategy “ x_i ” better than y_i . The games which have an equilibrium regarding the controlling strategies will be the decentralized solution of the non-cooperative game.

The strategy used by the company of the Single Market depends on the forecasts made on the reactions of the competitor companies, its analysis can be achieved with the help of the “game theory”. In this game each player must choose between a *pacifist strategy and an aggressive strategy*. The results of this game are described in picture nr.1.

		Y*	
		Pacifist	Aggressive
X*	Pacifist	(2, 2)	(0, 3)
	Aggressive	(3, 0)	(1, 1)

Fig. 1 — Game matrix of the Single Market.

In picture 1 each of the four boxes in the game matrix represent a result of the game with use of X^* in left and use of Y^* in right. We can verify if the pacifist strategy of a player is controlled by his aggressive strategy. In our situation the game has only an equilibrium in controlling strategies (aggressive, aggressive) which corresponds to an open price war of the Single Market. Such a result is not acceptable because the result “peace” meaning (pacifist, pacifist) is proffered by the two players in other words the war is not an optimal Pareto. The dilemma of the game shows that for a player which is not entirely sure on the pacifist intentions of its partner the use of the aggressive strategies is needed to follow the individual interests but the mutual interest recommends that everything has to be done in order to obtain a pacifist result.

The dynamic approach of the economic reality goes to the change of parameters of the variables which economic and social life. The key to survive in case of economic games is the capability of the companies to adjust their strategies to the environment which is in continuous change⁵⁶⁷. A correct forecast of the future events it is necessary. The cross - impact analysis, the request - hazard forecast as well as other numerous scenarios are just a few of the methodologies used in economic forecasts.

4. Conclusions

In the economy structural changes and oscillations are the rule and not the exception and the stationary states become instable when certain parameters vary. The economic actors have different behaviours on the Single Market which have different consequences depending on the number, relative size and strategies approached by the other economic actors. Starting with the rationality hypothesis when the agent’s contentment is affected by the others decisions the game theory defines solutions for solving the situations of conflict.

⁵⁶⁷ Sirghi Nicoleta, *Microeconomie Aprofundata. Teorie si aplicatii*, Editura Mirton, Timisoara, 2008, p.92.

The economic level of the competition can be considered as a mechanism of resources allocation which allows, in many cases, the promotion of the economical efficiency. The game theory contribution to the development of the competition politics can solve some problems related to the price system and to the intelligence exchange. For this reason the notion of competition was and is related first to the behaviour hypothesis of the economical agents and second to the relative hypothesis of the market operation. When the coordination of the individual actions is adjusted by competition, each economic agent must forecast the other agents' actions and then maximise depending on the results their own behaviour.

Conducting a study in a dynamic environment regarding the Single Market represents a very important problem of the contemporary economy. We are interested in the theoretical results which are revealed in literature regarding the theory of games starting with the key concepts of this one: games, strategies, balance, game value, etc. The research is focused on the main oligopoly market structures from the microeconomics point of view. For this reason it is an opportunity to study the structure of oligopoly type of markets with the aid of non – cooperative games.

The use of the game theory as reference framework regarding the representation of the economic agents' on different market structure opens the way for an expansive field of investigation. The problem of the economic agents is no longer. The problem of the economic agents is no longer conducting studies for the operation of the perfect competition markets but to analyse the means in which they can coordinate the decisions, in dynamic configurations in a competitive environment affected by risk and uncertainty.

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GENDER DISPARITIES IN THE ENTREPRENEURIAL FIELD IN WESTERN ROMANIA

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The entrepreneurial spirit may develop in any economic sector and any type of business, both in the case of men and women, it is applied to a wide range of organisations, from family businesses to large companies, irrespective of the structure of shareholders, from NGOs to companies gone public on the capital market, firms from all sectors of activity.

As regards the gender disparities in the entrepreneurial field, studies reveal the fact that although the two genders are similar, women entrepreneurs differ from men through motivations, their business ability and occupational past.

Although the gender differences are still important, the number of women entrepreneurs has significantly increased compared to the previous period.

Keywords: entrepreneurship, gender disparities, motivations

JEL classification: L26, M13, M21

1. Introduction

According to the definition of the MacMillan Dictionary of Modern Economics⁵⁶⁸ the entrepreneur is the factor who organises the manufacturing process, is in charge with the economic decisions regarding what is produced, in what quantities and through which manufacturing methods.

Entrepreneurship is first of all a state of mind referring to the motivation and capacity of an individual to identify opportunity and follow it with the purpose of producing value or economic success.

Entrepreneurship means people and refers to the decisions they make and to their actions in starting, taking over or managing a business.

Although the financial independence is very important, some people say they choose to become entrepreneurs motivated not only by potential earnings, but especially by the challenges the business world implies. For others, who do not feel fulfilled by the position of employees, the chance to become entrepreneurs present the opportunities they need in order to build a better position. It was found that the satisfaction provided by work is higher among entrepreneurs than among employees.

Some persons are involved in the entrepreneurial activity because they have identified certain attractive business opportunities, whereas others are involved in entrepreneurship because they do not see another way of earning their living. For those attracted to entrepreneurship one may identify two major reasons of opportunity, i.e. independence and increase of revenues. The other motives of involvement in entrepreneurial activities are the necessity and the maintenance of the present revenue level.

⁵⁶⁸ MacMillan Dictionary of Modern Economy, Codex Editions, 1999, p. 216.

Women are motivated, in general, by their need for independence and achievement, resulted from the frustrations related to the place of work. In contrast, men tend to be led by the desire to be in control, to try new things.

In terms of personality, women and men entrepreneurs match the classic success profile, proving courage, energy, discipline, orientation towards goals, enthusiasm, innovation, persistence, passion, vision, orientation towards the customer and desire of commitment to hard work. In comparison with men, women tend to be more flexible, balanced and tolerant, more realistic. Some researchers pointed out that women are more prudent, more confident, less aggressive and more easily persuaded, with more reduced abilities of leadership and problem-solving, when decision making implies certain risks.

Moreover, women have been described as being dependent of those around them, as caring more about the others; the tendency towards ethic behaviours is more powerful among women, being less likely that women grant incentives for closing a deal.

2. Dimensions of the entrepreneurial phenomenon in the west of the country

Actually, typical studies on women entrepreneurs are focused upon their distinct individual features (motivations, personality traits, experience) or upon the characteristic of the firms they have created (size, sector of activity, management style, strategies adopted by women, performance of the business led by women).

Similarly to the entire country, in the western Romania (Maramureş, Satu Mare, Timiș, Bihor, Arad or Caraș-Severin), although the increase of business owned by women is encouraging, their size is reduced in terms of earnings and number of employees, compared to men's businesses.

Moreover, if as regards the rate of the active population registered in Romania's western counties we find that the data, as they are presented by the National Institute of Statistics, do not reflect the existence of certain gender disparities (the average of these counties is of approximately 96% both for men and for women), in the case of business ownership the discrepancies are still very high between women and men.

By comparison, we may remark that men are more frequently found in the role of company managers, but also among the self-employed (natural authorised persons) in the year 2008.

As regards the number of natural authorised persons (self-employed persons) legally registered until 31 December 2008 (table no. 1), in Timiș county there are only 8348 such entities, less than in Maramureş, Satu Mare, Bihor, Arad; in Caraș-Severin, at the level of the year 2008 a number of 4940 self-employed people were registered. Moreover, we find that in Timiș the number of women registered as self-employed is not even half, compared with the number of men (43.39% of the number of men).

Table no. 1

Self-employed persons legally registered until 31 December 2008

	MM	SM	BH	AR	TM	CS
Women	5955	3528	4024	6277	2526	1896
Men	8848	5512	6528	10136	5822	3044

Source: *National Office of the Register of Commerce, 2009*

Although at a different level, discrepancies are found in all the other analysed counties, where the number of self-employed women is nevertheless above the half of the number of men, the less gender difference are registered in Maramureş county (but here also, the number of self-employed women is much more reduced than in the case of men, because their percentage is only 67.30% of the number of men registered as self-employed).

Table no. 2

Managers of companies registered in 2008

	MM	SM	BH	AR	TM	CS
Women	710	1455	1039	870	1569	399
Men	1985	1592	2754	1956	3792	772

Source: *National Office of the Register of Commerce, 2009*

As regards the management of a company (table no. 2), we remark that in the Timiș county we encounter the highest number of businesspeople, but the gender differences are found also in this case (1569 women and 3792 men).

In the Timiș County also, we register the highest number of women administrators of small and medium companies (table no. 3).

Table no. 3

Administrators of small and medium companies registered in 2008

	MM	SM	BH	AR	TM	CS
Women	4967	4006	8659	5455	9834	2186
Men	10444	7698	17012	10740	20957	4168

Source: *National Office of the Register of Commerce, 2009*

Although the figures in this field, as they appear at the county level, are higher than the national average, the gender disparities are evident, if we were to relate of the number of women and men who are managers of companies, administrators of SMEs, or self-employed persons.

According to the data supplied by the Office of the Register of Commerce, in the Maramureș county there are 4967 women managing SMEs and 10,444 men. Nevertheless, the density of companies in this county is much more reduced in comparison with the regional or national average, as there is a percentage of 16.96% companies per 1000 inhabitants (the regional average being of 26% companies per 1000 inhabitants). We refer mainly to SMEs preponderantly led by men.

One particular fact draws our attention by far, i.e. irrespective of the type of incorporation, the Caraș-Severin county ranges last, as the number of entrepreneurs is much more reduce compared to any of the other analysed counties.

The potential of creating small enterprises in Caraș-Severin county is limited, as there are few people who dispose of private capital, and the banking systems offer a very reduced access to capital. However, where experience was present, solid businesses were created, that efficiently used the valuable management resources and where access to western markets was, there also occurred remarkable results. In other cases, management was confronted with the issue of formulating and implementing a good strategy of survival and development.

As for the gender differences, we remark that in this county also the women managers are much fewer compared to men, but the latter are very few in their turn.

We may remark the fact that in all the analysed counties the number of men managers of SMEs is approximately double than that of women, the discrepancies being more obvious in the case of the managers of large companies (table no. 4), in the latter case the number of men being seven or eight times higher than that of women.

Table no. 4

Managers of large companies registered in 2008

	MM	SM	BH	AR	TM	CS
Women	33	13	38	83	67	11
Men	121	67	141	220	264	89

Source: *National Office of the Register of Commerce, 2009*

On the other hand, we must underline that along with the increase of the number of newly-founded companies, the number of companies created and/or managed by women has increased as well.

We also wish to highlight the concentration of the SMEs in the region dealing in the field of textile industry, a field toward which especially women tend to orient themselves.

The feminine entrepreneurial culture in Romania is closely connected with the attitude of society towards the status of women managers. In a traditionally patriarchal society that expects women to be first of all good administrators of their home (i.e. good mothers and skilled housewives) it is difficult to feel integrated into the men-dominated entrepreneurial world.

Moreover, the segregation on the labour market has major influences also upon the entrepreneurial tendencies of women. Similarly to the labour market, in the field of entrepreneurship the women's interest is also oriented toward traditionally feminised sectors.

It was found that the domains in which women work are preponderantly traditionally feminine, e.g.: public administration, commerce, education, housekeeping, and social work. Nevertheless, their interest for self-improvement are focused on exact domains and sciences such as: finances, management, environment protection, tourism, human resources or methodology.

And yet, women face a series of difficulties men do not normally encounter. The banks and other financial institutions are more conservative and reluctant to grant loans to women entrepreneurs. An explanation is the fact that some banks assign successful entrepreneurs' traits especially to men.

3. Conclusion

The decision to start a business in the case of women is more complex, as they are usually more connected than men to the obligations related to family.

On the other hand, the starting points and the motivation to start a private business are similar for men and women, although women tend to be more motivated by the need of achievement resulted from the frustrations at the place of work, provoked by the lack of opportunities of promotion and talent manifestation, both genders have a strong interest for the domain of the firm.

As regards the sources of financing, women generally rely on the personal assets and savings, as women get loans from banking institutions with more difficulty than men.

We also found that in general the personality traits are similar for men and women entrepreneurs. Both men and women are energetic, independent, sociable. However, men are often more self-confident and less flexible and tolerant than women, which may led to the existence of very different management styles.

The nature of businesses led by men and women are also different. Women tend to start a business especially in the field of services and retail. Consequently, the businesses owned by women are often smaller, and their revenues more reduced than those of men. However, the business opportunities for women have an unprecedented growth tendency, as the field of services exhibits an accented development trend.

As shown by one of the most complex studies in the field of feminine entrepreneurship in the year 2007⁵⁶⁹, we may underline the following:

- Potential women entrepreneurs are 35 years of age on the average and they have around 8 years of experience. Most of them (62%) have studies or training in management and business administration;
- While the new and potential women entrepreneurs declare that their main motivation to start a business is the opportunity to earn higher revenues, the

⁵⁶⁹ Driga Otilia, Lafuente Gonzales Esteban, *Feminine entrepreneurship in Romania – Personal traits and effects of socio-cultural variables*, CEBR, 2007, p. 9.

SMEs owners consider that their main motivation is the identification of a business opportunities they wanted to take advantage of;

- The social status associated to entrepreneurs and the feeling of respect towards them are perception factors positively influencing the decision to become an entrepreneur;
- The existence of positive entrepreneurial models stimulate the activity of women entrepreneurs in Romania. 38% of the women who have not started a business yet, but intend to do it in the future, declare to have acquaintances that are entrepreneurs within their social circle (family, friends). In comparison with men entrepreneurs, women however dispose of less entrepreneurial examples. This result confirms the results obtained in empirical studies at the international level and to support the idea that women, because of their exclusion along time from economic and social life, dispose of less entrepreneurial examples.
- Women tend to start smaller businesses than men entrepreneurs. Considering the initial number of employees as the size criterion for the business, this number is of 3 employees in the case of women and 4 in the case of men. Nevertheless, the businesses of Romania women entrepreneurs tend to develop more rapidly by a growth rate of approximately 39% compared to 31% in the case of men.
- Women entrepreneurs in Romania are involved in international business more than men entrepreneurs. 13.2% of the products or services provided by firms created by women are dedicated to export while this percentage is of 13.14% in the case of men.

Consequently, we may conclude that although the gender differences are still important, the number of women entrepreneurs has significantly increased compared to the previous period. The modification of family life and professional activity made more and more women get involved in business. Women entrepreneurs are different from the other women by the fact that they are more inclined to assume risks, they are more decided and firm and they exhibit a higher desire to control their own destiny.

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DEVELOPMENT OF ENTREPRENEURIAL ACTIVITIES – PREMISE OF THE INCREASE OF ECONOMIC COMPETITIVENESS

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In the context of the integration into the European Union, the issue of the increase of firms' competitiveness has become essential for Romania's economy also, which requires as a mandatory condition the elaboration and application of certain clear strategies, both at the level of firms, and of the Government's, with specific goals and actions.

Although it has made certain progress, Romania has significant competitiveness delays compared to the EU member states.

In this context, development of entrepreneurial activities is a premise of the increase of economic competitiveness.

Entrepreneurship is first of all a state of mind referring to the motivation and capacity of an individual to identify opportunity and follow it with the purpose of producing value or economic success.

Keywords: entrepreneurship, competitiveness, development

JEL classification: L26, O10, R11

1. Entrepreneurship and competitiveness– overall perspective

After several years of rapid and almost unhindered growth, the global economic landscape has changed. The raise of energy and food prices, the international financial crisis and the slow-down caused by it confronts the managerial policies of the present economy with new challenges.

The present context has underlined the importance of competitiveness that can help national economies survive these types of shocks, with the purpose of assuring economic performance in the future.

Competitiveness is a complex concept, largely debated at present by economists and politicians throughout the world.

Representing the highest degree in which, under the conditions of a free market, a nation is capable to produce goods and services that can be successfully launched on the international market, contributing thus to the increase of the living standard of its citizens, competitiveness is a challenge, which applies not only in the case of nations, but also at the level of each of the actors of the national economy.

Competitiveness suggests security, efficiency, quality, high productiveness, adaptability, success, modern management, superior products, and low costs.

Creativity or innovation are needed in order to access and become competitive on a market, to change it or even to create a new market. Moreover, in order to turn a business idea into success one needs the ability to combine creativity or innovation with solid management principles.

In relation with the remarkable importance of *innovation*, P. Drucker⁵⁷⁰ underlined the following: *“innovation is the specific instrument of entrepreneurs, the means with which they exploit change as an opportunity for various businesses or services; it can be also represented as a subject and*

⁵⁷⁰ Drucker P., *Innovation and the entrepreneurial system*, Encyclopaedic Publishing House, Bucharest, 1993, p. 19.

thus it can be learned and practised. Entrepreneurs must seek with precise purpose the sources of innovation, its changes and symptoms, which indicates for them favourable opportunities for successful innovations. They need to know and apply the principles of successful innovation.”

Furthermore, entrepreneurship contributes more and more to the creation of new jobs. One remarked at the global level that small firms and not large firms created most jobs. Studies have shown that entrepreneurship can significantly contribute to the stimulation of economic activity, to the integration of the unemployed and social disadvantaged groups, contributing thus to the economic growth of a country.

2. Stimulating factors of entrepreneurship in our country

The new entrepreneurial initiative, the start of a business or the reorientation of an exiting one (after the transfer of a business to a new owner), the support for productiveness - all these raise the pressure of competitiveness, forcing other firms to react by enhancing efficiency.

The increase of efficiency and innovation within the firm, in products, services or markets, raise the force of the competitiveness of an economy as a whole. This process brings thus benefits to all participants in economic life, and thus not only to entrepreneurs, but also to consumers, who have the possibility to choose the best existing offers.

Although slight progress has been registered in our country lately, there is not yet an entrepreneurial culture and consequently the State institutions, the academic institutions and the SMEs recognise the necessity to act in this direction. The limited number of studies on entrepreneurship in Romania made entrepreneurship itself remain in a continuous state of inferiority (because of the absence of resources put at the disposal of universities and governmental agencies).

In spite of the improvement efforts under progress, entrepreneurs identify *bureaucracy* as being a major obstacle in the way of business operations, especially for those who desire to operate and develop within the European market. The legislation is not generally differentiated in accordance with the size of the firm and thus it disproportionately affects smaller companies. The local public authorities must be encouraged to think at the micro level at the beginning and keep the legislation as simple and appropriate as possible.

Adequate *fiscal measures* can contribute to the development, growth and longevity of companies. The structure of the fiscal system, including income tax, corporate tax, labour tax and VAT influence the capacity of firms to expand. The complexity of the fiscal systems is in itself an administrative burden for entrepreneurs.

As the rates of marginal tax raise, the entrepreneurs tend to expand their own business more slowly, to invest less and to employ less personnel. The level of the labour taxation can also be a decisive factor in the decision of the firms in our country to employ staff. The fiscal reform in the past year have not contributed to the creation of a clearer trend as regards the creation of small and medium enterprises, as the labour taxation is still high.

On the other hand, the strangulations on the labour market create barriers in the way of development and one must intensify the qualification efforts for workers.

Although unemployment still constitutes a major challenge for Romania, the recent years have exhibited higher difficulties in *recruiting labour force* in certain regions and counties. The firms already respond to the qualification voids, for instance, by providing formal or informal training for their own staff.

Consequently, we are currently witnessing the need to make sure that most qualifications of the local, regional and national labour force correspond to the economic and technological evolution. The permanent enhanced training represents an effective means of getting a qualification.

Moreover, *the access to financing* is indispensable for development, but most SMEs encounter difficulties such as: the risk capital market is underdeveloped and banks avoid more and more risky loans.

Furthermore, in order to deal with the challenge of a harsh competition, entrepreneurs must be encouraged to innovate and to tend towards the internationalisation of the business. For this reason, they must have *access to knowledge, relevant contacts, specialisation and support* for a first-rate business.

SMEs consider that the Single Market has led to a higher competition, but also to new opportunities of expansion. The competitive pressure makes firms continually exploit knowledge and innovation. Firms can modernise themselves in different ways, including by means of technologic development, quality management, new modalities of work organisation or distribution channels. The human capital is important for creating innovating ideas.

A stimulating factor for encouraging entrepreneurship is also the *business incubators*, a facility putting at the disposal of small entrepreneurs, besides working premises, centralised services of secretarial activities, guarding and cleaning, a package of consulting and business services. In the period of incubation, ranging from 1 to 3 years, the newly-established firms, those in their first years of operation or in their first years of crisis are assisted by the consulting team of the incubator to develop managerial and operation capacities in order to become viable partners of the local business community.

A study performed by GEM (Global Entrepreneurship Monitor) and forwarded in Romania's country report 2007 – Global monitoring of entrepreneurship – highlights the features of entrepreneurship in Romania in an international comparison:

- absence of entrepreneurial tradition, activity and education before the '90s during the socialist period;
- unfavourable entrepreneurial environment in the transition period of the '90s;
- in the period of economic growth, after 2000: acceptance by the population of jobs offered by the large companies, as they are perceived as having a lower risk.

The explanation for the rather low level of entrepreneurship development in Romania can be found in the restrictions faced by small companies as regards resources and their vulnerability related to the environmental changes and uncertainty, the enhanced comprehension of factors and mechanisms explaining the development of firms⁵⁷¹.

3. Conclusion

In the present context of economic crisis, both new SMEs and the existing ones are confronted with financial problems and especially with the absence of resources, limited access to loans and absence of customers, increase of the number of customers with due payments.

As for demand, entrepreneurs consider that their problems depend on the constraints of their competition on the sales markets and the lack of economic resources of their potential customers. Thus, in the context of the economic and social changes exhibited at the national level as a result of the global financial crisis, we find that the labour market is undergoing a continual change. The high rate of BIM unemployment or the absence of prospects of economic investments able to stimulate the development of local communities are factors generating stagnation or social crisis. This reality highlights the need for the intervention of public institutions or other non-governmental organisations for the support of entrepreneurship development. The need for information, counselling, professional training or creating a support network for entrepreneurs or for those who desire to become entrepreneurs can be palliated by certain legislative regulations, efficient programmes and projects able to respond to the specific needs of this category.

Under these circumstances, entrepreneurship can contribute to the economic and social growth in the area whose development is delayed as it is, by stimulating economic activity and creating new

⁵⁷¹ Lafuente Esteban, Rabetino Rodrigo, *Human capital as a determinant of small firms growth in Romania a quantile approach*, CEBR, Working Paper Series 03 – 2007, p. 10.

jobs, **all the above contributing to the regional development and implicitly to the increase of economic competitiveness.**

Entrepreneurship is crucial for competitiveness, as the raise of efficiency and the introduction of innovation in companies, either related to management, processes, products, services or markets increase competitiveness among competitors, and leads to the obtaining of new products and to the reduction of prices.

Entrepreneurship offers the possibility of exploiting the creative potential of the person, as owning a business is not only a way to earn money, but also a modality to earn independence, to deal with a variety of challenges and thus to reach a higher level of satisfaction.

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THE COORDINATES OF THE INTERNATIONAL ECONOMIC CIRCUITS – REFERENCE POINT FOR THE SCIENTIFIC DEFINITION OF SMALL AND MEDIUM SIZED BUSINESSES AND THEIR INTEGRATION IN NATIONAL, EU AND WOLRD WIDE DISTRIBUTION SYSTEMS

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The new framework for the development of contemporary society will have in the future, through the generated results, a powerful impact on the overall integration coordinates of small and medium size businesses within the economic network, a shift from seeing them as a means of escaping poverty to perceiving them as important entities orientated towards the satisfaction of both client and market from the point of view of product demand – entities with a high flexibility ratio capable of a better reaction time to change and a faster sell of their products. The conducted analysis in this present study mainly concern two aspects: the figures concerning homogeneity and eclecticism within the greater international economic system and the place of business in the new century – with an impact upon the fruitful integration of the above mentioned businesses within different structures from the international economical system.

Keywords: homogeneity, heterogeneity, businesses

JEL codes: M16, M21

The impact of the major challenges of the current century and early twentieth century upon our contemporary society trigger a positive outlining for the future, making it seem more attractive, inspiring and compelling, so people should be able to gradually change their current mentality that focuses on immediate effects of the economic crises and consider a lot more an economic-social development, in which the well-being of the population can be achieved in full while preserving the planet's health. In terms of development specialists, this new visionary environment means a move towards a new era of business, on one hand business will remain society's most powerful institution and the power behind any change, and on the other hand business will bring its contribution on the outlook of managerial-corporate direction, in the future, the firms - regardless of their nature and size will be able to survive only if fundamental change will occur in the way they address individual and social needs, thus becoming more democratic from both the social-structurally aspect and in terms of targeted objectives.

Such a potential framework of development represents in regards to the issue addressed by us, a special importance because insofar provides the details of the overall integration of small and medium size businesses in the economic system, and a new vision of the role and place of these entities in society, and could thus move from thinking of them as a means of escaping poverty, to conceiving them as important entities in a customer-oriented design characterized by high flexibility, enabling them to respond more quickly to market changes and to market faster their novelties.

This prompted us to perform some analysis on the new data concerning the international economic system and on some aspects of the visionary thinking of specialists in respect to the future framework and role of business in a changing society, concentrating our efforts on two major issues: the coordinates of homogeneity and heterogeneity in the current international economic system and the role of business in the new century.

The first issue under review relates to how the details of homogeneity and heterogeneity of the current international economic system need to be considered as reference points for activities designed for small business firms. In this regard, we have assumed that the current global

economy is characterized by particularly complex features, in which the continuous interference affects two important processes. All of this is about, on one hand the process of consolidating globalization with the inclinations of his followers for even a relative specialization of production profiles of States to be able to remove mimicry production structures, such as competition and the struggle for outlets and, on the other hand, the regionalization process that has seen a strong impetus in recent years, promoting the concept of "open regionalism" as the most appropriate way to bring together the augmentation of preferential trade commitments which runs over 60% of global trade, and the rules of conduct of the trading system, managed by the World Trade Center. Among the effect of these two processes, which give the shape of the evolution of our contemporary society, we must notice further phenomenon that generate the further complication of the processes mentioned before, among them economic autonomy, inter-independence, economic integration, modernisation and underdevelopment. All seven of the phenomena mentioned put their mark on the orientation system of state trade policies and strategies on the foundation underlying the development policies of different grounding of distribution systems or of large multinational companies or the small and medium entrepreneurs.

In terms of the power of impact of different factors upon the localization of small and medium-sized commercial businesses within the economic circuit, in the foreground, it is believed to be located globalization, which takes place concurrently with the regional integration processes in the greater context of a general tendency to assert the identity of national economies and the peoples' aspirations to use resources to increase wealth, making the role of organizer of the market contrary to the already established national and economical arrangements, thereby emerging the problem of mutual and sustainable relationships between firms, areas and departments specialized in regional and global integration. In such a sense, with globalization seen as a central aspect of the system, the priority of the process is the need to ensure appropriate joints between local and global, through the help of a new relationship between the two which should be based on a new type of the division of labor, based on the coordination, while respecting the spirit of the market, of small and medium business either in the same territory, or working in the same field of activity, each having the duty to specialize in one segment of the marketing process.

In its turn, Regionalism, through its judgments on trade liberalization in the area profile and the segregated attraction in the economic system of sources and values specific to different areas, is also focused on small commercial companies which through their flexibility in adapting to the customer's needs in a regional profile and, in particular, through their creativity and continuous innovation, can contribute to the efficient realization of various facets of the process envisaged by the concept of open regionalism. In addition, such commercial entities, through their unique flexibility, creativity and innovation, may form links between sustainable global development and activities that constitute an integral part of the open regionalism idea, especially the so called "Seven Sunrise" actions which involve pollution reduction, the recycling and substitution of resources, environmental services and information technology, all of these activities having a clear potential to create wealth, long term viability and are considered to be business that will prosper once the ecological rehabilitation will become an imperative of the era of serious ecology.

Regarding autonomy, interdependence and economic integration as concepts that seeks to functionally combine on one hand nationalist, maybe even chauvinist trends, with rational thinking on the other hand, which consists in the acceptance of interdependence and wish for the achievement of effective economic integration, outline a large playing field for small and medium businesses, including the commercial type. It has been acknowledged since the 80's and - 90's that the world economical evolution has shifted from autonomy to a complex economic interdependence, economic process that takes place between a variety of businesses, through a variety of shapes, circuits and systems or channels and without the existence of structures of

authority and hierarchy. The experts added that the same developments shaped and developed a strong integrationist process, which is a positive phenomenon in the implementation under different types of distribution area -community and regional - of small commercial businesses, either through collaborations with large multi-business firms or by cooperation in specific systems such as organized independent trade – within the national borders or outside borders.

Small and medium commercial enterprises can have an important role in the international economic flow through their involvement in actions meant to counter or mitigate the tensions arising from modernization processes, as oppose to underdevelopment. It is a well known fact that economic growth is linked with the modernization of production and marketing structures. However, it is recognized that in the same time this process can generate inequalities in development, in the distribution of the income, in the welfare of the population and in some cases even underdevelopment, leading to the emergence of disadvantaged areas, which will be isolated and ignored by potential investors. In such cases it is recommended that entrepreneurship should be encouraged – through the cooperation between market and theories that encourage the involvement of the state in private business principles, the encouragement of partnerships between public and private sectors, the direct stimulation using different forms and funds to improve cohesion among small businesses – which will lead to a more dynamic role in both economic and social field. In such a context entrepreneurs may turn out to be the dominant factor in the entire process, the power of their influence surpassing the value of their size as expressed in numbers, leading to the realization of their place in the system, as the growth and technological progress engine, becoming the promoters of the new economy, they can – in a business environment under the influence of competition – to introduce new innovative products and services, pushing forward the boundaries of technology, creating new jobs and making it possible for them to emerge in other markets. Moreover, in such situations, small business entrepreneurs – supported by the previously mentioned reforms – can access to modern and sophisticated commercial technologies – for example those common for electronic commerce – and thus easily navigate in a fluid business environment – taking advantage of the available opportunities, which tend to have a shorter life span as time passes.

The second issue examined in the context of concerns about how to define the place occupied by small and medium business enterprises within the greater international economic flow, concerns the role of business in a changing society - a phenomenon which, according to experts, will characterize the new century – and how will small firms contribute in running these businesses.

It is estimated that the double transition towards a society founded on knowledge and sustainable development requires new paradigms of production and consumption - to this list we add the concept of new marketing - must move from the resource-based approach to one based on knowledge, to shift from quantity to quality, from mass products to new concepts of a higher added value, eco-efficiency and new durable products, processes and services. Linking such issues places the concept of the firm – regardless of size and nature – in the center of the discussion. Moreover, we have to highlight a phenomenon of great interest, especially for small and medium size businesses: the phenomenon refers to the fact that while concerned with the sustainable reconstruction of the company - the requirement of macro policy which envisages the creation of a free society, prosperous and just, based on democratic capitalism and on a market economy system - emphasis on the idea that "the greater the economy, the more power is available to the smaller players and the higher the system, the more effective its component parts must be".

Starting from such premises, in the context of trying to determine the best way in which we can address the scientific framework for defining small and medium business enterprises and their integration into the distribution system, we further tried to examine some of the main issues that can be taken as the axes of the development system such as: business goals, possible key business

structure and finally, the underlining of the place that will be occupied by small and medium businesses in the continuation of those specific business activities.

Regarding the potential axes for the development of the twenty-first century, focusing on the implications for small and medium business enterprises, we found it necessary to start from two major paradigms: new landmarks of a constantly changing world and the new role of business - serving the global needs. Regarding the first point of the discussion, I started from the new type of producer and consumer behavior outlined by the model proposed by BSFrey. That model brings up three institutional elements which, in our opinion, will make its mark on future changes. It is all about the systems of decision making in our society - the market and its pricing system, democracy, hierarchy or authority and negotiation procedures, rules, traditions and other rules of behavior - some set explicitly, others formally expressed, institutional organizations - the state, the groups of interest, businesses and governments, private clubs, families and informal associations. Under the impact of such concepts the proposed study case outlines five key assumptions - which in time will materialize in major changes: individuals continuously act, their behavior can be understood as the result of interactions with their environment, but also with different people and different institutions, incentives influence behavior, a phenomenon that makes people not act randomly, but systematically and forecast, forcing them to react when they consider that the possibility of action is more beneficial, incentives are produced by preferences and constraints which are strictly differentiated, which makes the concepts of price and cost to be understood not only in monetary terms but also in terms concerning the costs of an action or interaction, a good example for this type of situation is the opportunity costs, individuals pursue their interests and in general they display egocentric behavior, promoting a neutral behavior, constraints determine human opportunities and are produced mainly by institutions, the main restrictions being represented by income, relative prices of goods and services, the time required to obtain, consume or react.

Putting together the institutional elements with the economic assumptions of "Frey" model, scientists have outlined a model whose basic assumptions can help to generate changes that will characterize the evolution of society in the twenty-first century and is likely to make their mark on the revised entrepreneurial approach to business, regardless of the size and nature of investors. The result of the analysis conducted on the new model of behavior for producers and consumers that will constitute the backbone for the development of the twenty-first century society, and on that company's earlier developments, which had as a research basis the concept of the waves of change, identified seven trends that will gradually turn out to be paramount landmarks for future changes, in fact trends that will become reference points in the process of locating and determining the importance of small and medium business enterprises within the economic requirements of the system. As a consequence the focus is on a strong tendency to shape a fundamental shift of values, a trend that will shape the transition from competition to cooperation, from consumerism to the concern for economic and social justice, from materialism to intangible values, the support for a new systems that will promote social values based mainly on environmental and economic justice, which means new views on natural resource management, end economic imperialism and the need to reorganize the realities of global interdependence, the emergence of a new borderless society based on interdependence, composed of regional groups economically and technologically united, thus the emergence of the concept of bioregionalism, under which land is divided into uniform areas according to the principle of ecology, sharing the same habitats, soils, climates and similarities with the firm in question.

Our opinion is that all these milestones of change foreseen for the future evolution of society constitute on the one hand, in a thought concerning the possibilities of integrating all dimensions and responsibilities of life for all possible development and the recognition of the identity of all living systems, reflections that will give rise to new ways of networking and interaction for the benefit of all human factors and, on the other hand constitute into the reference points for all the

political, social and economical powers that can be convinced into joining this process, becoming responsible and effectively contributing to the process of achieving the aspirations outlined by the foreseen changes. This means identifying macro-social and political capabilities, and at the micro level, the types of companies, partnerships and systems that will be involved in entrepreneurial activities among those entities, specialists giving great credit to small and medium businesses.

As far as the second paradigm is concerned – the theory according to which global services will shape the new role of business in the twenty-first century – I considered, in our analysis, and as many other scientists considered, as a basic reference point in locating the place of small commercial businesses in the future economic, that a business will no longer be just a business made out of other businesses. The businesses field must take responsibility for the whole, the firms will have to be considered as being producers of moral effects, the producers of something a lot bigger than the sum of financial ratios and the strategic planning should be focused on the future needs that will exist independently from the firm, businesses will be considered as a means by which these companies will be able to grow and serve others, starting from the premise that as long as the company will serve customers, employees and community, in turn, all of them will serve it in turn. Within the new framework of business - whose role will be the overall global service - the company will have to create and assume, in addition to the role of providing goods and services to a basic consumer base, also the role of an integral part of the overall system, to which demands also to be served, thus shifting from a concern based on the priority for producing, to a concern on servicing individual needs, acting as a leader in addressing global issues raised by the community of which it is an integral part.

Obviously, in the context of such changes new perspectives appear in the overall orientation of the activities conducted by the company, and also new reference points for the business, both set of problems influencing the nature of the commercial activity which in turn will influence the objective of the firm, its strategies and its way of promoting itself, its size and especially its possibility of getting involved in different types of economic systems; competitions will take place that will involve more than just money, but also creativity, innovation and visions that will need substantial investments in the human part of the firm, in intelligence and skills, elements of which the entrepreneurial department has plenty of.

Starting from such issues, our research that set out to identify the place of small and medium size commercial firms within the economic system and the system formed by these companies, have identified a series of options that specialists have brought to focus. Taking this issues into consideration we consider the idea that the gigantism and automation type of economy is unable to resolve the small real problems of our time, making us realize that we require a system of thought that will place people before things, switching from mass production to production through the help of the people, only possible through small firms. Both ideas have begun to influence big companies which slowly start to realize that they need a reconfiguration in order to survive, starting to create new structures that have at their core small and flexible firms, autonomous and democratic, units that easily switch from competition to cooperation in order to achieve a rapid penetration of the market, markets which with time have gradually started to become smaller as they begin to be constructed on the idea of different styles of living, a standard that slowly replaces the standard of the economic power. This means that as the present day society moves forwards towards the embrace of knowledge and globalization – important reference points for the twenty-first century- small and medium size firms, also the commercial ones, will start finding a better economic and social place within the greater economic system, and the information models of our society, will encourage these types of firms in becoming real partners for cooperation and competition. Besides these ideas we have also identified ideas that promote the view that the economy of the twenty-first century will represent a perfect period for the small and medium sized companies. These theories, which do not exclude the existence of

large corporations, put forward the idea that these huge companies will have around them a lot of small and medium sized companies – sub-contractors, clients, supplies – either independent or part of chains more or less formal, different groups of small and medium sized companies, administrative branches, which seem to be the best fitted structures to survive in the future economy.

Putting forward the above mentioned ideas, regarding the reference points for the social development of the twenty-first century, raises new problems regarding the new orientation and structuring of the local, national, regional and world economic systems, but also put forward problems regarding the place of different types of firms – including small and medium businesses. We will witness a complex restructuring of the business framework on several vital fields of activity, which in turn will influence the nature of the future firms, their size, small and medium businesses being put in front of other types of businesses, in turn having to be more motivated, more creative, innovative and intelligently run in order to survive.

At the centre of the thoughts regarding the orientation of the business environment in the twenty-first century, with a powerful effect on the place firms will occupy in the future economic system, lies, according to specialists, the necessity to create in each area of the world adequate technologies, that can correctly react to the level of education and culture in that area, to the needs and customs with which the consumers in that area are used to. For all of these to take place, small and medium size businesses will have to be involved, not giant multinational corporations.

Taking into consideration that a lot of countries and areas have a lot of human resources but have a low buying power, some specialists, consider the necessity of the reorientation of an important part of the economic activity from a focus on materials to a focus on labor, information and intelligence. Even from this point of view, small and medium size businesses have an advantage, having a great potential.

The two reference points seized - the need to promote appropriate technology and the relationship between human resources and financial resources - can be real challenges for small and medium sized companies - whatever their nature - in their effort to mobilize in order to develop new technologies and marketable product, challenges arising as inevitable consequence of technological progress based on biology and high-tech discoveries – this way of thinking will make the boundary between living and non-living matter virtually disappear- and as a result of the single system of conditions facing the world today. Among the challenges that appear in the depicted context, for both businessmen and for small and medium sized businesses, as well as for the general public – as a reference point – also appear challenges that focus on the need of telling apart between the variants of a product – product or service- that will be manufactured in order to be sold and to clearly express the difference between what it is intended to be created and what we wish to be created followed by an action taken according to the conclusion of this way of thinking. Thus, at least in the business environment, we will have to get rid of the international way of looking at things and the future will bring a new reality, the economic entity will be found in business literature with also a learning component, which will have become an integral part of its definition. Thus, in future economic systems, new small firms or even individual willing to collaborate with big companies could be integrated within the economic system, becoming important sources for changes, investments and new production and commercialization technologies, phenomenon that will simultaneously establish the viability of the business environment on the long run.

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SOME CONSIDERATIONS ON THE TERTIARY EDUCATION SECTOR IN ROMANIA AND ITS CONTRIBUTION TO ECONOMIC DEVELOPMENT

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The performances achieved in economy depend in a good measure on the possibility of developing innovative projects. The development of this capacity at national level is a goal that a country should always pursue.

In the present paper we intend to realize an analysis of some of the problems in educational sector and some performances of the tertiary education in Romania in comparison with other central and eastern European countries, in terms of some specific indicators, relevant especially for innovative process and the economic progress.

Our statement is necessary for Romania as the indigenous human capital is clearly under-utilized by the neglect of public and private spending in education and research.

Keywords: education, innovation, employment

JEL Classification: I 21, J 21, J31

Introduction

The present stage of evolution at global level and the open competition have generated the need of special attention in investing, at national or even communitarian level, in the human resources which are supposed to be able to produce, adapt and implement innovations. This imperative is the main reason for which we tried to analyze in the present paper the situation of the Romanian tertiary education, which should be the first field to generate added value in what is concerning the preparation of the young specialists and their formation in a manner that will stimulate them to try to bring their own contribution in their domains, through innovative projects.

Romania has a good potential in what is concerning the innovation possibility, fact that is proved by the numerous prizes obtained by the Romanian inventors at international competition in field, but in our opinion this potential is not only far from being utilized at its maximum capacity but it has not, in some cases, the possibility to affirm and develop. This situation occurs in principal because of the lacks of the educational system, especially of the tertiary education, which are not able to encourage the creativity and to support the exceptional students with low financial possibility. This system is created to pursue some immediate interest and goals and have little performances in what is concerning the long time results of the instructed students and their added value in the field they work. The system based mainly on testing and individual study, the lack of interest of the teachers are only some aspects that require immediate measures. We do not intend to make here a qualitative analysis of the tertiary education, because of the lack of space, but we hope that the presented facts and data will be sufficient to get an appropriate image of the issues we proposed for analysis. In what is concerning the education and the tertiary education in general, other paths to change are possible. On a national level, we may consider Finland. As the unemployment rates were almost 19 percent in the early 1990s, Finland consciously coordinated economic and educational transformation. The nation's effort to develop a creative and flexible knowledge economy was accompanied by the development of a significantly more decentralized education system. Finland now has a largely local curriculum and virtually no standardized testing. Finns control teacher quality at the most important point, the point of entry. Applicants to teacher education programs have only a 1 in 10 chance of acceptance. Even though teacher pay is only average for industrialized nations, teacher retention is high because conditions are good. Within broad guidelines, highly qualified teachers create curriculum together in each

municipality for the students they know best. In classes rarely larger than 20, Finnish teachers know their students well. Teachers are free from excessive paperwork and endless external activities. They receive generous specialist support as needed. With these advantages, teachers strive for quality by quietly lifting all students up one at a time. Rectors share resources across schools and feel responsible for all the students in their town and city, not only for those in their own university. In each university, the rector is seen as part of a "society of equals", not as a line manager. The results: Finland boasts with one of the best tertiary education system in the world. It also ranks at or near the top in economic competitiveness⁵⁷².

General considerations on education sector in Romania

In what is concerning the situation in Romania, although the number of students increased approximately four times between 1999 – 2008, their percent per 1000 inhabitants in Romania is lower than in the other eastern European countries, and among the lowest in Europe. This is certainly a premise for some of the failures of this country, both economically and socially.

In the Table 1 are presented the number of graduates on different level of education in Romania, considering its population of 21.53 millions in December 2007.

Table 1. Number of graduates on level of education

Number of graduates on level of education	2005/2006	2006/2007
Secondary education	231800	219500
High school education	185300	187600
Vocational and apprenticeship education	150200	133800
Post high school and foremen education	15900	12700
Tertiary education	112200	125500

Through the Lisbon Agenda, EU established 5 indicators showing the extent to which a country and the Union, in its totality, are capable to face the challenges of knowledge economy. Five EU benchmarks for 2010 are⁵⁷³:

- No more than 10% early school leavers;
- Decrease of at least 20% in the percentage of low-achieving pupils in reading literacy;
- At least 85% of young people should have completed upper secondary education;
- Increase of at least 15% in the number of tertiary graduates in Mathematics, Science and Technology (MST), with a simultaneous decrease in the gender imbalance;
- 12.5% of the adult population should participate in lifelong learning.

Romania's positioning in relation with the third, fourth and the fifth knowledge economy indicators ("Lisbon indicators") is presented in the table bellow⁵⁷⁴.

Table 2. Positioning Romania in relation with the Lisbon indicators.

Lisbon indicators	Romania	EU	EU target (2010)
Percentage of 22 years old population who graduated at least from high-school (higher secondary education)	66.5%	77.3%	Min. 85%
Proportion of graduates in the mathematics, sciences and technologies fields	23%	24.1%	+10%
Participation of adults to permanent education	1.6%	10.8%	12.5%

Source: Eurostat

⁵⁷² Hargreaves, A., Shirley, D., Evans, M., Johnson, C, & Riseman, D. *The long and short of school improvement: Final evaluation of the Raising Achievement*, Specialist Schools and Academies Trust London, 2007.

⁵⁷³ Commission of the European communities, Commission staff working document, *Progress towards the Lisbon objectives in education and training. Indicators and benchmarks 2008*: http://ec.europa.eu/education/policies/2010/doc/progress08/report_en.pdf.

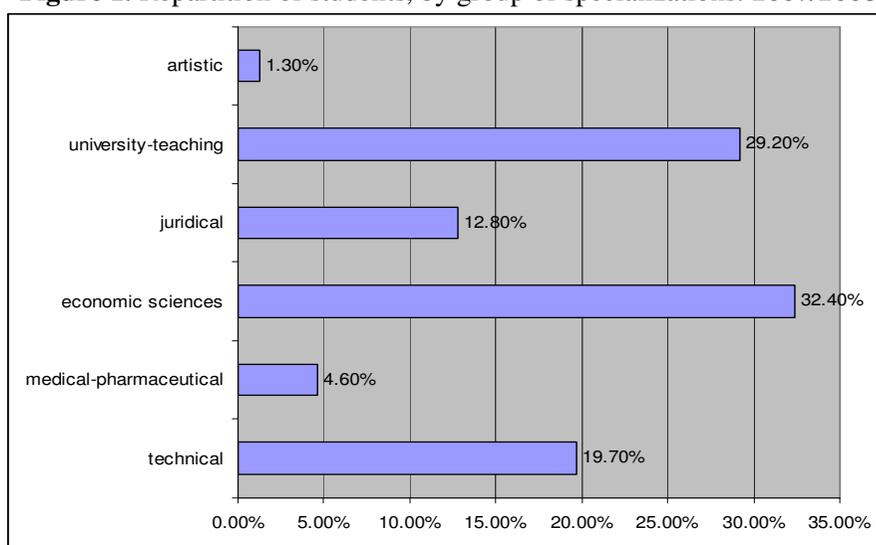
⁵⁷⁴ *Romania education, Romania of research*, Report of the Presidential Commission for analysis and policy making in education and research, Bucharest, July 6 2007.

From the analysis of these data, a clear conclusion results: the current educational system is not capable to ensure a competitive position in the knowledge economy. We can see that these proportions are worrisome. Although the targets were established for 2010, we observe that for Romania will be quite difficult, if not impossible, to achieve this value, the more so as today the rate of premature leaving school is 23.6%. Another quite sad obtained result refers to PISA tests, where the percentage of those who have not managed is 41% compared to the EU average of 19.4%. Also see that although the participation of parents in education is always vital, is only 1.6% the proportion of those who take part in this, there is therefore a great disparity between the EU average which is 10.8%.

Characteristics and performances of tertiary education in Romania

In order to get an as comprehensive image of the preferences of students for tertiary educations in Romania, we found appropriate to analyze the repartition, by group of specializations, in the academic year 2007/2008. A representation of this indicator can be seen in the Figure 1.

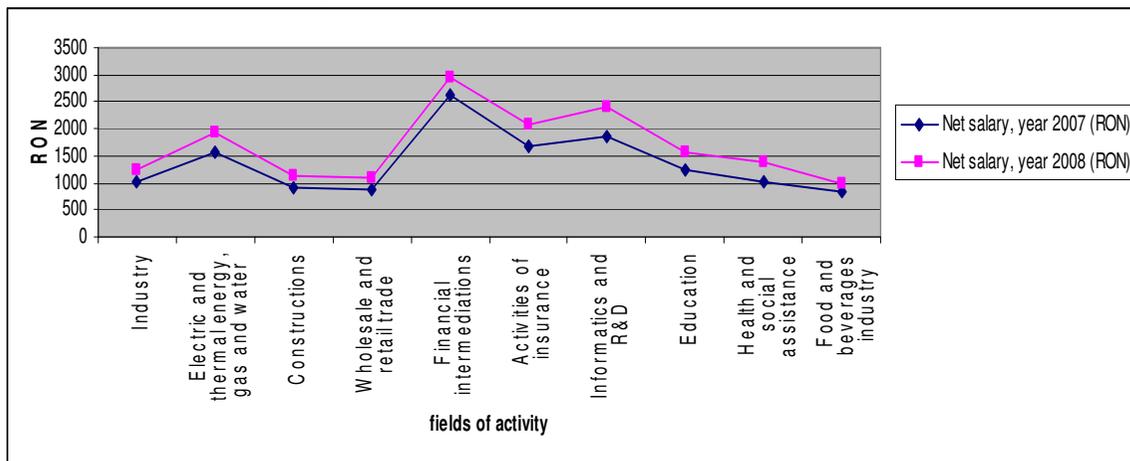
Figure 1. Repartition of students, by group of specializations: 2007/2008



Source: data offered by *National Institute of Statistics*, Bucharest, 2008

As it is easy to be observed, the percent of the students at economic sciences is the highest, fact that could be explained by the need of specialists in the field, educated in the capitalist spirit. Anyway, our opinion is that in the next interval, this percent should and will decrease, in favor of the other specialization, especially technical and medical sciences. We stated that the Romanian realities, especially now, in the context of economic crisis, affect in a very large measure all graduates. Jobs are less and demand is very high. Also, the wages in education and not only, are a problem in Romania. The motivation to learn for the young generation almost does not exist. In figure 2, we emphasize the net salary in different fields.

Figure 2. Net salary in different fields of activities in Romania (1 Euro=4,2 RON)



Source: data offered by *National Institute of Statistics*, Bucharest, 2008

The highest net wage gain is in financial intermediation (2622 RON=624.2 Euro in year 2007 and 2935 RON=698.8 Euro in year 2008). In education, the net wage gain is very low (1224 RON=291.4 Euro in year 2007 and 1557 RON=370.7 Euro in year 2008). These statistics put in evidence a sad reality. With such gains, far below the EU average, it is very hard to do performance.

In what is concerning the employment rate, by highest level of education attained - [tsdec430]; Tertiary education - levels 5-6 (ISCED 1997), we can see in the table below the percentage in some central and east European countries, including Romania. Employment rate, by highest level of education attained, Tertiary education - levels 5-6 (ISCED 1997), % of age group 25-64 years.

Table 3. Employment rate, by highest level of education attained; Tertiary education - levels 5-6 (ISCED 1997)

Year	2005	2006	2007	2008
Hungary	82.5	81.2	80.0	79.5
Latvia	84.6	86.9	86.9	86.9
Lithuania	86.3	87.8	88.1	87.7
Romania	84.0	86.1	85.8	85.7
Slovenia	86.6	87.8	87.5	87.5
Slovakia	83.2	83.9	83.1	83.8
Poland	81.1	81.7	82.8	83.7

Source: Eurostat

The obtained percent in Romania is not far from the average of the countries analyzed. But, if we have in consideration that the number of students per 1000 inhabitants is in Romania one of the lowest in Europe, the gap is still present. An eventual increase of the student number in the future, although welcomed, will face the limited possibility of absorption on the labor market, because of the low competitive economy (including the private sector), especially after the economic crisis. Only a very optimistic scenario could have in consideration that the employment rate, by highest level of education attained will remain the same or it will increase.

Comparison on innovation impact on productivity

The dates presented, sustain our appreciation that Romania could, with an appropriate strategy, to gain an important place and advantage between the countries with the highest rate in what is concerning the innovation possibility. In the table below are presented the proportion of the turnover from innovation in the total turnover in some countries in central and east Europe, including Romania.

Table 4. Turnover from innovation (% of total turnover)

Year	2004	2006
Hungary	7.0	10.5
Latvia	5.1	3.4
Lithuania	9.7	12.4
Romania	16.6	18.5
Slovenia	14.3	13.3
Slovakia	19.2	16.7
Poland	13.5	10.1

Source: Eurostat

The permanent need to adapt of our people, due the challenges faced in the last five centuries, have developed creative skills which should be used with no delay in producing prosperity. The fact that the innovations have an important role in economic growth, can be deduced from the following table, in which are presented the growth rate of labour productivity per hour worked in Romania and some central and east European countries.

Table 5. Growth rate of labour productivity per hour worked, % change over previous year

Year	2005	2006	2007	2008	2009
Hungary	3.8	3.5	1.5	1.9	-2.9
Latvia	7.1	8.0	7.5	-1.2	-2.3
Lithuania	1.7	6.8	5.7	1.6	-7.5
Romania	5.4	6.2	5.4	7.6	:
Slovenia	21.7	6.0	4.5	-1.2	:
Slovakia	3.2	6.8	8.4	2.3	2.0
Poland	1.5	2.9	2.3	1.6	:

Source: Eurostat

The positive trend of the labour productivity is an important gain for the Romanian economy, but it should be interpreted having in consideration the fact that Romania has one of the lowest levels in Europe in what is concerning this indicator.

Conclusions

We have highlighted in the present paper some characteristics of the Romanian tertiary education, and some indicators on its performance and we tried to highlight the fact that, although with an insufficient number of students and with many other unsolved problems (like the insufficient number of students in the mathematics, sciences and technologies fields), Romania prove its potential through positive results in what is concerning the employment rate, by highest level of education attained, turnover from innovation and growth rate of labour productivity per hour worked.

This situation makes us conclude that if Romania will increase the investment in human capital, we could hope for the future at economic growth and an increase of the standard of living. No matter how many funds the European Union or any other international financial institution allots us, without an understanding and a significant effort to increase the quality of educational system, and especially the tertiary one, Romania have no chances to improve its condition.

The example offered by Finland is relevant. There is no excuse for the lack of action in this field, as without it, the future is compromised. The benefits of investing in human capital are in the same time individual and general. This means that the governments should play without doubt the central role in the direction of forming and developing the human capital. A solid frame should be built in what is concerning the education, which should not limit the responsibility of us all in this direction.

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DE MINIMIS AID FOR LOCAL ECONOMY DEVELOPMENT

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Abstract: Considering the current particular economic situation but also the community regulations developed by the EU Commission to diminish the crisis effects, we believe that local institutions should still take into consideration measures to encourage investments and creating work places by supporting potential investors, which very often have to confront against difficulties in accessing funds. However, unlike large sized companies, small and medium sized ones are confronted to this issue of accessing funds. This global economic situation, not only affects severely the economic situation of most solid enterprises and their employees on short term, but it also has negative effects on long term. In this context we have to stress the fact that future investments from the common market of EU, especially those that concern the long term development and other strategic objectives from Lisboa, could be delayed or even cancelled.

Keywords: minimis aid, European Community, legislation, Council of Competition, fiscal benefit

JEL code: H71, O11, P25

I The content of de minimis aid for stimulating investments and creating workplaces in local economy

The minimis aid schemes for stimulating investments and creating new workplaces follow the criteria's and conditions provided by the EU Commission Regulation nr.1998/2006 regarding the minimis aid for the application of art.87-88 of the Treaty establishing the European Community, published in the OJ nr.379/5 since 28 oct 2006. These schemes are exempted from the prior notification of the EU Commission, according to art.3.E.C Regulation nr.800/6 aug 2008 that declares certain aid categories compatible to common market.

Through this scheme, the minimis aid is granted only if the criteria's of the EC Regulation nr.1998/2006 are respected and followed. This regulation mentions that a measure up to 200.000 Euros for a company over a period of 3 years does not represent a truly state aid. Therefore, the companies that invest more than 500.000 Euros (new buildings) and create workplaces in an area, can benefit of building tax reduction, accessing the minimis aid schemes for stimulating investments and creating new workplaces in that area. The scheme is approved by the Local Council in that area and it can be applied from that moment to a period of at least 5 years, and all the companies that invested and requested a tax exemption have to benefit of the scheme facilities. Such a minimis aid scheme has to provide the whole procedure of granting fiscal benefits in the form of building tax reduction.

The minimis aid scheme's objectives are:

- regional development;
- sustain the development of small/medium companies in that region;
- increase the rate of employment;
- stimulating enterprises which develop economic activities with profitable effects both economical and social.

The general objective should be the regional development in all the 3 main areas of local economy: industrial production, services, commercial activities and tourism.

That certain area can pursue, by applying this scheme, on the one hand a regional development attracted by fiscal facilities in the form of building tax reduction for the companies that invest more than 500.000 Euros, and on the other hand creates a certain number of workplaces. People who issue the scheme should estimate the budget on the whole period (ex.5 years), but also on each year, because granting fiscal benefits is based on 3 criteria's:

- the value of the investment;
- the number of employees;
- the profit of the enterprise.

As a consequence, according to the norms, the building tax reduction(fiscal benefit) varies based on the value of investment, the number of employees and the profit of the company. For example:

- Investments- for investments between 500.000-5.000.000 Euros the reduction is 15%, and for investments over 15.000.000 Euros the reduction can go up to 60%;
- Employees - for creating 20-80 workplaces the reduction is 5% and if more than 300 persons the reduction can go up to 20%;
- Production activity - 20% reduction in services, commercial activity - 5%.

For all the activities, the gathered minimum reduction percentages can go up to 25% and the maximum to 100% from the building tax for a period of at most 5 years.

Beside these 3 criteria's the investment has to be eligible, meaning it has to consist of building industrial hales or other buildings for placing the company's activity. The fiscal benefit solicitor has to invest over 500.000 Euros in building and create new workplaces as a consequence of the investment in a certain area, this being another eligibility condition .Worth mentioning is the fact that the whole value of the minimis aid granted to a company over a period of 3 successive years (2 past fiscal years and the current one),gathered with the value of financial allocation granted conform the respective scheme must not exceed the equivalent of 200.000 Euros, regardless the area of activity, and for the companies that activate in transport must not exceed 100.000 Euros. These limits apply to all minimis aid forms, regardless the objective pursued or the financing source (nation, communitary).The fiscal benefits provided by the minimis schemes are granted only for new buildings, regardless their economic purpose.

The aid provided by the scheme can be granted through the decision of the local council for each recipient, based on a request and a file completed with all the fulfilled eligibility criteria's/conditions.

II The minimis aid scheme's content for companies that place their activity inside industrial parks in an area

Through these schemes, minimis aid can be granted in the form of property tax exemptions provided in the art.250 line 1 point 9 and art.257 from Law nr.571/2003 regarding the Fiscal Code, upgraded, for the enterprises which place their activity inside industrial parks in an area. This aid is exempted from the prior notification of EU Commission, according to EC regulation nr.1998/2006 for the application of art.87-88 from the Treaty of establishing the European Community. The minimis aid is granted by such a scheme if the above mentioned minimis criteria are provided by the EU legislation are respected and followed.

According to OUG nr.117/2006 (Government decision) approved by Law 137/2007 regarding the state aid national procedures, the mayor of that area can issue a decision approving a regulation regarding state aid procedures, after receiving the prior notice from the Council of Competition. The above mentioned procedure is based on art.250 line1 point.9 and art.257, (1) Law 571/2003 regarding the upgraded Fiscal Code, where the buildings and lands subjected to tax exemption are established. In this sense, the real estates and sites part of industrial, scientific, technologic parks are mentioned.

This sort of fiscal benefits are state aid measures because they gather the necessary elements for state aid, transforming the economic and business environment because:

- they create an economic advantage;
- they are selective;
- they are granted by the state or administrative-territorial authorities from sources administrated by themselves;
- distort or threat to distort competition.

Therefore we can conclude that companies can benefit of fiscal facilities for the estates and terrains placed inside industrial parks, in the shape of state aid.

As a consequence, respecting the lines of art.1 (5) Law 571/2003 regarding Fiscal Code, “any fiscal measure that represents state aid is granted according to OUG (Gov. decision) nr.117/2006 regarding state aid national procedures, approved by Law 137/2006”. In this sense, art.3 line 3 from the above mentioned government decision says that “granting state aid measures involves the issue of state aid or individual state aid schemes.

1 Implementing the minimis scheme

The minimis scheme should contain the eligibility conditions but also the exact way of implementing the scheme. Therefore, according to chapter III from HG regarding minimis aid granting for the development and modernization on companies since 26 Nov 2007, only companies that fulfill all the eligibility criteria`s can benefit of special individual allocations, based on the minimis aid scheme. The eligibility criteria`s are:

- are registries according to Law nr. 31/1990 regarding small and medium companies (framed by Law nr. 346/2004);
- activate in the areas specified in the appendix nr.1 to HG regarding the grant of minimis aid in 26 Nov 2007;
- were granted minimis aid that doesn`t exceed the 200.000 Euros limit on a period of 3 consecutive years prior to the date of soliciting;
- have an investment plan which reflects the way the sums will be used
- are not in debts to the state (general budget);
- are not in the middle of bankruptcy, judicial reorganization, forced execution, operational closure
- do not find themselves in the “companies in difficulty” category, according to EC Communicaton - *lines on State aid for rescuing and restructuring firms in difficulty, published in OJ of EU - C244/2 since 1 oct 2004*
- no decision of recovering a state aid was issued or if it was, it has been executed;
- no illegal aid was received.

Therefore, the request of solicitor (company) for granting fiscal benefits completed by the justification documents is lodged at the Local Council of that area. In term of 10 working days all the requests go to Fiscal Direction from that area, to issue the file for each solicitor. After the evaluation of each case, a proposal is made, whether the solicitor should or not be granted this kind of facility. The facilities are actually being operated only based on the decisions of the leader of that Fiscal Direction.

To ensure a suitable transparency and an effective control of minimis aid, the local council, through the Fiscal Direction, communicates the scheme to the Council of Competition (applying this way the lines of O.U.G. nr. 117/2006 regarding the state aid national procedures) in term of 15 days since it was adopted.

The local council from that area, through the Fiscal Direction, as a state aid supplier, communicates each year the Council of Competition a report regarding the implementing of the granted minimis scheme. At the same time the allocated budget for that certain scheme is but also the content of “The minimis aid scheme” that all the companies that place the activity inside the industrial parks of that area can benefit of, compulsory published on the local council`s site.

As a consequence, the agents of the Inspectorate of Competition, together with the agents from the Fiscal Direction from that county can organize work sessions for ensuring professional assistance to find best ways of granting such fiscal facilities from local financial sources. For example, these would consist of building tax reduction over a period of 5 years, starting right from 1st January 2010, that would generate an intense economic growth and fulfill all the conditions and criteria's established by the approved minimis scheme. *We have to outline the fact that we, the people who started this project have to participate too, as well as the agents of the special direction of the Council of Competition, who can make observations about each structure of the scheme.*

In this context, the Council of Competition can mention its attitude and position if such a minimis aid scheme is the right option or not in the current economic context of granting fiscal benefits.

Moreover, for implementing a minimis aid scheme, the agents of the business environment should be taken into account. This way, through the minimis aid scheme which pursues to create workplaces in that county, the investors bond tight with the local administration, because the estate tax is very high, and the effective reduction of this tax gives the investors a positive signal, at the same time being found solutions for the economic and financial crisis. Nevertheless, this is not either the first or the last measure adopted by the local administration in order to attract investors.

This kind of initiatives should be intensely brought up in the local media, because minimis aid schemes for stimulating investments and creating new workplaces, should be known by those interested in order that all the economic activities influenced by the local administration, contributes to the diminishing of economic crisis effects and improve the standard of living of the population living in that county.

2 EU's economic straightening proposals

Beside the "traditional" state aid instruments, The European Commission decided, in the context of global economic crisis, to make the conditions for granting certain state aids more flexible. In this context, at the end of 2008 (26 nov), the EU Commission adopted the "*Temporary Framework for State aid measures*" (Communication from the Commission — Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis OJ – C.O.16 din 25 feb 2009). This legislation frame purses to allow state members to grant state aid to firms who are confronted with difficulties in accessing funds.

The state aid that can be granted based on this temporary framework are:

- a) state aid in the form of 500.000 Euros/firm;
- b) state aid in the form of guarantees;
- c) state aid in the form of interest rate subsidy;
- d) interest rate subsidies to loans for investing in ecological/green products.

1) State aid in the form of 500.000 euros/firm

This aid is considered compatible with the common market by the EC if the following conditions are cumulated:

- the aid is granted in the aid scheme form;
- the aid must not exceed 500.000 Euros/firm;
- the aid is not destined to export or privilege intern products over imported ones;
- the aid scheme does not apply to firms that activate in primary production of agricultural products and those from fishing;
- before granting the aid, the supplier asks for a declaration from the firm regarding any minimis aid and any aid granted according to this measure in the current financial year and checks if the aid will not lead to the raise of the total value of the aid received between 1st January 2008-31st December 2010 that can exceed the limit of 500.000 Euros;

-the aid can be gathered to other aids granted according other schemes .notified or exempted from notification, with the condition of respecting the intensities provided by this scheme.

II) State aid in the form of guarantees

This aid is compatible with the common market if the following conditions are cumulated:

-a small or medium enterprise can be granted an up to 25% annual prime reduction that has to be paid for the new guarantees according to the level of safe-harbor provided in the appendix to the temporary framework;

-large enterprises can be granted an annual prime reduction up to 15% calculated on base of the same prime;

-the maximum value of the loan must not exceed the salary annual cost (included the budget obligations) of the recipient for 2008. In case of firms established after 1st January 2008, the maximum value of the loan must not exceed the estimated annual cost with salaries for the first 2 years of activity;

-the guarantee must not exceed 90% of the loan, the whole period of the loan;

-the guarantee applies to investment loans but also for work capital loan;

-the guarantee prime reduction applies only on a perios of maximum 2 years since the guarantee grant.

d) interest rate subsidies to loans for investing in ecological/green products

Communitarian regulations provide that this type of state aid is compatible to common market if the following conditions are cumulated:

-interest reductions are granted only to loans for investments destined to financing projects that pursue the production of new products that improve significantly the environment protection

-this aid is granted not only for starting a new project but also for an existent one, if its progress is necessary, taking into account the special economic situation;

-the financed projects consist of fabricating products that imply the anticipated adjustment to future community standards and the investment should start before 31 dec 2010 and the new product should come out on the market at least 2 years before the standard;

-the loans can cover investments costs in tagible and intangible fixed assets;

-the loans should be granted until 31 dec 2010;

-the interest rate reductions can reach 25% for large firms and up to 50% for small/medium firms, being taken into consideration the risk factors of the company;

-the subsidies interest rate applies for a period at most 2 years since the grant of the loan

In the context of economical-financial crisis, the banking system plays an important part. Concerning the state aids that can be granted to banking sector, a high authority from the General Direction of Competition of EC, said that the “banking stability is the most important element to limit the extension of negative effects of financial crisis over real economy”. The banking system was in danger of crashing but EC activated the article that allows state aid grant in crisis situations and permits the regulation of problems in state members.

This context includes also capitalizing of CEC Bank with the sum of 900 million lei and Eximbank, with the sum of 170 million lei, taking part in the anticrisis measures program included in the Romanian budget in 2009. The CEC Bank and Eximbank funds will be used mainly to ensure co financing and granting projects accomplished from European funds and financing small and medium firms.

Moreover, “Prima Casa” (First House) and “Rabla” (Wrecked car) programs (the recipients are physical and legal persons) initiated by the Romania Government are a successful example according to official sources. The Council of Competition collaborated with the Government, Finance Ministry, banking sector so as to find the most acceptable solutions for these programs so that no more competition problems, and the program is as quick as possible operational.

Another example: EC authorized for Romania through Decision 467/2009, the state aid scheme for supporting investments in extending and modernizing the distribution lines of electric energy and natural gases notified by Romania authorities.

The total budget of the scheme is 28.400.000 Euros, and the state aids will be granted in form of non-reimbursable financial allocations from EU and national funds. This state aid scheme, initiated by the Economy Ministry, will be implemented in applying the proprietary Axe 4 "Raising the energetic efficiency and the security of supplying in the context of climate change" in the frame of Sectorial Operational Program "Raising the economic competitiveness".

As a *conclusion* to the above information, we can affirm the fact that granting fiscal benefits is, usually the creditor's attribute, but unfortunately, there are some exceptions provided in the Fiscal Code, that, in our opinion, are not necessary. For example, *it is not natural for a creditor (ministry) to grant fiscal benefits on behalf and on the account of other creditor (local public authority)*. In this case, fiscal benefits related to local budget obligations should be granted only by the administrator of the local budget (The Local Council) through its documents. Proceeding the modification of the norms of Fiscal Code, the local autonomy principle would be exactly respected, a main principle in the context of EU integration. Thanks to these legislative modifications, the local public administration is offered the possibility of guiding better the local economic life, including with this fiscal aid. The fact that the state is the only competence to promote fiscal policy is acknowledged but, at the same time, respecting all the constitutional principles is necessary.

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THE FOREIGN INVESTMENTS IN THE ECONOMIES AFFECTED BY THE WORLDWIDE FINANCIAL CRISIS

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The direct foreign investments are related to the real investments and represent an investments undertaking in an economical object or in a services activity, which functions on the territory of another country. The resources for the direct investments can materialize in material or un-material assets, and offer the right or direct control over the economical agent where the investment was made.

Keywords: Direct foreign investments, portfolio investments, external financing, the capital offer and demand, portfolio investments oversea.

JEL Classification: G

Content

The modern economies, in the context of the worldwide financial crisis are more and more related of the international financial cash-flows which, in the context of global and economical integration actions, play at the same time the role of cause and of effect into these financial cash-flows.

In this situation, the foreign investments represent for suppliers and for paymasters, during this crisis period, an investment on long term oversea, and for users, these investments can be materialized in two ways: direct investments and/or portfolio investments.

The direct foreign investments are related to the real investments and represent an investments undertaking in an economical object or in a services activity, which functions on the territory of another country. The resources for the direct investments can materialize in material or un-material assets, and offer the right or direct control over the economical agent where the investment was made.

The foreign direct investments are considered a real industrially package, which contains: capital, technology, organization methods, managerially experience, marketing methods, modern financial instruments, etc, which allow to the paymaster to have the control over the funds users but, at the same time, creates premises for a sustained development, on performing coordinates for the direct investments users, even during this profound financial crisis.

The portfolio investments are related to the financial investments and represent found investments oversea, in securities (value papers, patent acts, programs, etc.)

They generally mean buying shares and bonds which are published by the public authorities (countries, local authorities), by economical agents with national or private capital.

In present, the financial market uses a lot of financial instruments related to the monetary market, but also to the capital market.

These foreign portfolio investments don't give to the funds suppliers the right to manage the activity of the value paper issuers, but they offer to the investors important incomes and/or financial wins specifically to the financial market.

Regarding the financing procedures, as forms of the most representative practices of international economical cooperation, the two big classes of foreign investments can be characterize:

- The direct investments, which can be realized by different ways:

co-production, under-production, mixed production or marketing capital companies, tripartite international cooperation, production on order, production licenses cession, common programs

and instruments of research, special technical assistance, international marketing specialization, common goods offer, mixed banks, international banking consortium, etc.

- The portfolio investments, financing by the capital quotation or extra-quotation market, futures contracts, options, international factoring (the financial technique), etc.

Despite the global present crisis, foreign investments can happen in all the economical domains: industry, exploration and natural resources exploration, infrastructure and telecommunications, civil, industrial and military building, scientific research and technological development, marketing, transport, tourism and banking and assurance services, as in many other activities.

But, in some domains are necessary prior advices (for example, for the foreign investments in telecommunications, is necessary the advice of the minister. For the military investments, is necessary the advice of the Defense Minister, etc), but there are also domains where is interdicted the creation of enterprises or companies with foreign or mixed capital, as for example the activities which represents country monopoly or in domains interdicted by the law, as the production and commercialization of drugs, occult activities etc.

By the aspect of the nature of resources in the external finance, there are the following classes of foreign investments:

- investments financed by the own available resources, mobilized by the foreign paymasters, which can be: big foreign economical agents, natural persons, entities or collectivities, foreign state;

- investments financed by the own available resources, mobilized by the foreign paymasters, which can be: big foreign companies, natural persons, entities or collectivities, foreign state;

- investments financed by the foreign banking and financial system from different countries, system which goes over an internationalization action;

- investments financed by financial international organisms;

Basically, the foreign investments are related to the capital offer and demand from the international financial market and it's possible to appreciate that, into the present international financial crisis, for any financial market it's impossible to ignore the international market, as well as, thanks to the present expansion of the financial transactions, a part of the financial assets available in a country are invested in an another country, and a lot of the funds needs of the economical agents of a country are covered by external resources.

The external capital offer is related to the strategy and to the international development strategy, to the external due problem, and, finally, to the global economical atmosphere. Hereby, the international development strategy from the 6-th development decade of the United States, which regarded the period 2000-2010, has established an economical growth with 7% on year, able to assure the employment, with acceptable salaries, at the same time with the creation of the necessary resources for the social protection and for the environmental protection. Particularly, the alimentary protection should have an annually growing rate of 4%, near the resolution of the demographical and environmental problems. In reality, these provisions could not have been accomplished in many countries because the external capital offer did not evolve to sustain the development, according to the ONU predictions. There is, in fact, a real vicious circle, because the under-developed countries need resources, but, because they are under-developed, they are avoided by the foreign capital.

Regarding the foreign capital demand, there are more ways to attract the capitals from the international market:

- the financing of direct investments;

- the contraction of external credits;

- financial assistance for development;

- investments of securities, offered by the economical agencies from a country, on the capital market of an another country, or on more markets;

- joining on other countries bourse with financial investments;

It's very important also the inverse economical action, the cash outflow, named "the running" of the financial funds from the countries considered politically and economically unstable, over international capital markets, so that sometimes, paradoxical, the "poor countries" offer more funds to the "rich countries".

In these economical-financial process are concerned at the same time the authorities of the poor countries, that don't assure the development of their own economies or can not control the illegal cash-outflows, and the rich countries which allow "the money wash" or accept illegal speculative operations.

The international cash-flows of the last years can be characterize by a lot of important divisions, regarding the geographical orientation, their volume and their destination in the developed economies, comparative with the under-developed economies or the economies which are in transition, namely:

- a) first, these cash-flows have place, usually, between the economical developed countries, resulting a marginalization of the countries or zones less developed;
- b) second, the volume of foreign investments had a permanent tendency to grow for the economies of developed countries, but a tendency to go down for the under-developed or transition countries;
- c) on the impact of the spectacular grow of the international financial markets, the destination of the international financial funds modified as rapport between the direct and the portfolio investments; hereby, in the developed economies occur every day huge capital transfers on the share markets and extra-share markets. On the other side, for the under-developed economies, the portfolio investments are insignificant. For example, Romania has a very small daily transaction volume.

Conclusions

The conclusions that result from these aspects show that:

- the international cash-flows and the creation of extern investments are an aspect of the modern economies which are open, dynamic and with a high organization and stability level;
- the growth of the international financial markets role in this period of serious economical crisis created an orientation overt portfolio investments, so that the financial market has a big influence over the amelioration of the economical activity in general, and also over the necessity of an investment activity specially on micro and macro economical level for the countries where this type of investment was made;
- the creation of economical marginalization for some countries, related to a specially orientation on the international flows, bring to the growth of the economical global differences and of the economical crisis of these countries;

The possibilities to stimulate a development of the foreign investments depend of international political factors, but also of the specific factors of every country, especially in the less developed countries.

The big transformations and political openings after 1989 confirmed the fact that the east-European countries have a lot of natural resources, a cheap and high qualified labor, enough elements to attract foreign paymasters.

But the reality shows that in the modern economies exists other condition to locate the available resources for investments.

The foreign paymasters run first over the strictly economical interests, so they prefer the economies which are already based on economical principles and are politically stable, proved by the level of efficiency of the investments.

Other said, the foreign paymasters don't agree the economies from countries with problems of political instability, because the solution of the intern problems of a country costs and has too big risks.

So, a country can not attire an investment as long as that country don't have political stability, an economy that can be modernized, which can assure important economical effects, and the efficiency of the investments can allow the recovery of the amounts allocated in a short time.

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PRICE FOR PRODUCTION

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Input markets is an important segment of the market. Inputs are purchased for the contribution they have to his business. Meet this market related inputs to entrepreneurs who need such items. The confrontation between supply and demand determines the price of each factor at a time on a certain market.

Keywords: input, buyer, market, marginal productivity.

Cod JEL lucrare : D2, D5

If this market is that demand specific inputs is a derived demand and also an independent application.

If the consumer buys the finished goods they produce them immediate satisfaction, the firm buys factors of production to achieve with their production and gain revenue. As the demand for finished goods products have greater success on the market, as demand curve for factors of production move to the right. For the analysis of demand for production factors to be fair, you must keep in mind that individual consumer demand determine demand for inputs. For this reason the application of factors of production is called derived demand. Production is the result of union and combination, factors of production. Factor productivity depends on the amount available from other factors that combine. Inputs interact. The input markets confirm buyers interests demand factors are the bearers of interests bidders.

Buyer base their request on the theory of marginal productivitatii input. Company acquires a factor of Proctor and increase their production to point of that last unit of variable factor used as much add revenue and costs. Adding to the total cost resulting from the employment of additional units is the cost factor again. The amount that a unit adds to the income factor is the amount that the unit adds to total production (marginal product) multiplied by income variation caused by the sale of additional units of production that is just the product price. Quantity result is the value of marginal product. As an expression of the law of non-proportional returns, marginal product value obtained by attracting additional amounts of a factor at first increases, reaches a maximum and then decreases. Is profitable for a company to buy quantities of an input to the point where the marginal product value curve ball crosses the right price. When the value of marginal product falls below the price is no longer profitable to increase the amount of input required.

In the field of equilibrium price of each factor is equal to the marginal product. A company to know how much a particular factor of production can be used to purchase the state in which pursues profit maximization must know the marginal cost is the cost factor of an additional unit of factor used. If perfect competition price, factor price equals marginal cost factor. Curve marginal cost factor is labor supply curve of work for that company and is perfectly elastic. It appears as a horizontal line at the market price. In determining the amount of work factor to be bought and used the company needed to know the effect of using it, that the marginal product based on which company should determine how these factors add the income is the marginal product value of the product. The use of increased quantities of factor marginal product value is obtained from increasingly lower. As long as the marginal product value is higher than marginal cost firm secures its profit growth by increasing the amount of factors used. When the price factor is greater than the value of marginal product is no longer profitable for the company to hire

and use a higher factor Cantiere. The firm level is obtained when the value of marginal product equals the marginal cost of the product.

Value of marginal product curve is the demand curve for that factor and its intersection with the price line is used in conditions of maximum profitability. Formation of price factors is a complex mechanism that occurs interdependent nature derived from the demand factor determining the demand for production is a more complicated process than for some items. In this case curve ultimo wax for a produys is given by the sum of individual demand curves for the product. If a branch in the factor of production is low wage work and effort as a result of increased supply and undertake a greater amount of work. The effect is to increase branch production and product price changes. Is a chain effect on firm demand and market demand for certain inputs.

Market demand for a simple multiplication factor is a firm demand and market demand curve is less elastic than the demand of each individual company. Elasticity of demand is influenced by several factors. First time. Elasticity is even greater as time is longer, which enables companies to adapt to changes in prices of production factors. Second, the weight factor in the total cost of production. If it is a factor with a low share price change influences its small size and the total cost is less elastic demand for it depending on price. If the factor has an important contribution in the production process and a greater share in the cost when a new purchase price adjustment has marked influence on the cost. Increase or decrease the price of a factor leading to increased or decreased demand for other factors when the possibility of their substitution. This is known as the substitution effect.

Changing factor prices may result in adjusting the production company that maximum profit is achieved. If the price increases the Q factor decreases and vice versa. They increase or decrease in production determine the effect on demand for production factors. If the effect on demand for production factors is greater than the substitution effect, then demand for a factor will decrease when the price increases of other fator. Similarly, lowering the price of a factor increases the demand for another factor, if actual production is greater than the substitution effect.

Determination of equilibrium price and quantity for a production factor does not pose special problem. Price factors of production are determined by market supply and demand interaction. Market demand is obtained by adding horizontally the individual demand curves for a given input. This procedure is valid for all inputs and is based on the value of marginal product to factor considered. The same operation is done for all job inputs. Accumulating cost factor gather all quantities offered on the market to gain market offer. Equilibrium price of an input form when offered and the required conditions are equal. If all units of an input should be identical and moves freely between all markets should be paid the same in terms of balance. Different units of any factor other remuneration obtained. Diferentede fiimpartite ready and can occur in two distinct types:

- the difference in situations of imbalance

-differences in conditions of equilibrium. Some differences in the factors reflecting a temporary state of imbalance in the market. They are determined by an industry growth and decline of another. Price differences lead to reallocation of factors. In turn reallocation of production factors resulting in the elimination of price differences.

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COMPETITIVE MARKET STRUCTURE AND COMPETITIVE BEHAVIOR

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Mechanism of market economy is a competitive mechanism. This means that within his face and through producers and consumers, bidders and buyers, but producers among them, consumers between them.

Keywords: competition, market economy, manufacturers, competitive behavior, market

Cod JEL lucrare : D11, G10,A11,O12,O16

To see who is competing with whom and in what sense it is useful to distinguish the behavior of individual firms and type of market where they operate. Usual sense of the word "competition" refers to competitive behavior. Competition means a situation where there is a clash free, complete and truthfulness among businesses both in supply and demand of goods and capital. Seen as an open process of confrontation, in which individuals learn through a process of "exploratory and error" to improve the situation, competition is valued by some economists, among them G. von Hayek as "the best way of meet the interests of everyone concerned to maximize profits for entrepreneurs and to maximize consumer needs are met. Effective competition, where it can be created, is a superior means of guiding individual efforts to achieve beneficial effect. " Competition is the battle between manufacturers for as large segments of the market to increase sales and achieve higher earnings and single. It expresses the specific behavior of economic agents in market conditions, fighting against some others, each against all. In the battle of competition, a number of entrepreneurs are continuously removed and others also appear. Through a filter of all severe individual activities, social competition that devote only those that respond to market demands. For the operation of competition, market economy dominated area must include the social organism. Competition is possible in the first place, when market prices are formed freely, making any buyer to be able to choose the vendor with the best prices. Secondly, competition is related to the existence of private property that ensure freedom of action of economic agents. Determine if private property and emphasized the autonomy of the producer, deepening division of labor specialization and development put businesses in a growing interdependence. To the extent that is open, loyal, regulation and surveillance, competition has several functions: a) the overall progress that stimulates innovation and creativity incite or b) differentiate businesses: favors the skilled, creative and others are eliminated c) lead to diversification, to reduce costs and possibly even reduce prices; d) allows the customer to find the best supplier interests, e) if not properly regulated and supervised as it can be a disadvantage on evolution consumer. Economic analysis refers to both the behavior of individual firms and the competitive market structure. The concept of market structure refers to all characteristics that can affect behavior and performance of firms in a market. Competitive market structure refers to the extent that individual firms have the power to influence price or terms on which the product is sold on the market. The more an individual form has less power to influence the market, the more competitive market. Extreme form of competitiveness occurs when the firm has no market power. This means that there is a market large number of companies and each must accept the price imposed by the forces of supply and demand. Firms may wish to sell as the market price which can not influence it. If the company ask for a higher price does not sell anything, there are enough firms that sell at market price. This extreme situation is called perfectly competitive market structure. According to this market structure, individual firms should not enter actively

competing with each other, because no company has no power over the market. Ability of firms to sell their product does not depend on the behavior of other firms. Traders operating on a market with perfect competition may not change the price by its own conduct. Competitive behavior is a concept that expresses the fact that companies are in active competition with each other. Companies that are actively competing each other is a market that is not perfectly competitive structure. Being small in number, they have some real power over their market. Each company should be able to raise prices and continue to attract consumers. Such companies have the power to decide, within limits imposed by customer preferences and prices of competing products, the price buyers will pay it. Unlike firms that are in active competition, the competitive behavior not believe the only way they can change prices is to adjust the quantity or cost. Companies that operate on competitive markets is not actively competing each other, while competing firms do not operate on an active market with perfect competition. In everyday language "industry" and "market" are familiar, but they have precise definitions. "Market" means a system or network of sales relationships, a "space" in which buyers and sellers can negotiate a good exchange. An industry consists of all firms that produce a well defined product or a range of related products. Distinction between market and industry is important to clarify the issues demand. Market demand curve for any product demand curve facing the industry that produces the good. When a firm decision to adopt production and sale should be aware that a good amount it can sell it, the different prices. Company's main concern is not market demand curve for product industry, but rather the firm demand curve for its product. If the company knows the demand curve that it faces, means that its sales have information about every price that might require and can calculate potential income. And cost if known, can calculate the profits associated with each level of production. With this information, the firm can determine the output that maximizes profits. Affecting behavior and performance characteristics of firms that sell in a market and define the market structure that determine the relationship between market demand curve for product and industry demand curve for a firm acting in a certain industry. The main theoretical structure of the market that are widely considered are perfect competition, monopolistic competition and oligopoly. In addition, space is given a bilateral monopoly and monopsony.

Markets, Competition, Prices

In the economy and the future market and will remain is the central institution around which revolves the economic life. Market appeared many centuries ago, when the economy instead frigid as a communication channel between production and consumption, between producers of specialized, autonomous and independent consumers. It has evolved over time, becoming a reality becoming more complex. Development process and increasing market complexity can be seen on several levels: - the operator of any activity through the market mechanism, (the share of input and output total) has increased enormously, while the depletion of self-production. Any institutional trader activity is dependent on increasing size of the other market mechanism, at the microeconomic level, the market mechanisms involved in GDP exceeds 80% in developed countries - in time, expanded into "width" by attracting the mechanisms them - supply, demand, competition, price-new and new territories, fields, etc.. If she initially realize the connection between production and consumption for a relatively small part of satisfactory and prodfactori (usually the material, substantial), now any form of human activity is involved in different proportion in market mechanisms. It has become a universal institution, embracing the global scale and within each country. This will be illustrated in the paragraph devoted to diversity and competition markets. But the reader can anticipate and submits some hostile reaction exaggerated expansion of the market appreciation synthesized as "we are for a market economy, so reject the idea and practice of a market society" - markets that have diversified due division of labor, sortotipo-dimensional range of economic assets has increased enormously, especially in the last half

century, we believe that in the microeconomic sense, there are so many types of goods and services that there are individual markets: The consumption and capital, financial assets, monetary and foreign exchange, trade and professional or occupational specialties. Markets and diversity can be seen in terms of a transaction forms: from the fairs and markets "classic" in modern supermarkets, to transactions by mail, by exchange, fax, internet (virtual market), etc.; - Linkages and interdependencies between different types of markets are more obvious today than ever, favorable situations or disturbances by generating one or more reactions on other markets. Defining a synthetic concise market is difficult due to its great complexity, diversity and elements. Because of this, there are many angles as can be seen, each being a partial definition, "all" offering a more contemporary meaning of the market close. In this sense it may be that the market is: a) the economic space they meet more or less direct and act in the interest buyers (as agents of demand) and sellers (as agents of supply), and in some cases various categories of intermediaries, b) the meeting place at a time (not meeting neat physics, but also indirectly through symbols: written orders, telephone, fax, booklets, books, etc. carini.) buyers desires and interests with those of producers, c) a set of communication means by which buyers and sellers to inform each other of what have, what they need and the prices required and proposed before the end and make transactions, d) all about relationship selling economic space in which they occur and what processes are related characteristics (demand, supply, competition, advertising, price, legal regulations, customary, moral, etc.).. Market and face meet buyers and sellers, supply and demand, each with specific interests, but which can only be made by "legarrea" and "coleziumea" partner interests, e) instead of showing the competition, the competition between agents with identical or similar interests. Competition, competition is present in all pores of a free economy, but it stands out, becomes perceptible "naked eye" in the market. In a capitalist market economy, regardless of type and degree of maturity and modernity, the market has several functions. Along with supply, demand and price competition is one of the variables defining the market, an essential feature of the market. Competition is particularly interested behavior of the subjects of property, to sell its objectives, enter into relations of cooperation and confrontation with others. It is a manifestation of free enterprise. From this definition follows several defining elements to understand the content of the competition. It is a race, meaning a confrontation, but cooperation between economic agents in order to obtain better conditions of production, sale, purchase of consumer goods, by making cash transactions, foreign exchange, financial and so it is a competition obtain benefits (or at least reduce the likelihood of risk). In this competition, each participant works of interest. For example, the buyer "run" to find vendors with lowest price, best quality, most favorable delivery terms etc.. Sellers compete among themselves for "client money" to attract as many buyers, with high economic force, established in acquisitions, responsive to price and other favorability. From this competition, and that usually the best rule out winners. As market competition had a different magnitude in time and space. Extent of competition is influenced by many circumstances, that:

- the number of agents and economic power and supply and demand;
- degree of differentiation of supply and preferences (needs)
- degree of market transparency; -
- the extent to which society, economy, social, political, cultural, are able to stimulate initiative, creativity, risk, competitive spirit, but also cooperation;
- degree of substitutability and complementarity of economic assets; -
- revenue size and the mechanisms by which they are obtained;
- level of economic development, cultural, spiritual and moral members of society;
- any competition, and competition takes place based on certain rules.

In all countries the legal regulations are in effect doing the competition rules, the penalties applicable to those who inalcabodies empowered to supervise and to apply punitive measures. To the extent that is open, loyal, regulated, regulation, surveillance and prices based on free

competition has several functions: a) Stimulates overall progress: it incites innovation and creativity, which favors increasing efficiency, saving resources, satisfacerea needs better. b) Differentiate traders: favors the creative, skilled, entrepreneurs, remove them or shifting them to other areas on the real estate agencies, conservative, salubritatea economic life. c) sometimes leads to differentiation and diversification, to reduce costs and even the sale price. d) Allows the customer to find the best supplier with goods and more eficienta and stimulates or compel the producers to find solutions to broaden their market. e) When it is inappropriate regulated and supervised, it can become competitive or otherwise: generates waste of resources, lead to excessive concentration of economic forces, can weaken the quality of goods freight, it unfavorable to the consumer lead to monopoly, which is essentially a denial of competition. During the competition using various means that have evolved along with the market and competition. They are presented in various forms of market and competition. As general and synthetic, they can be presented as tools (means) economic and extraeconomic. Stands of economic means to reduce costs, increase quality, diversification and renewal of assortment, advertising, granting benefits to buyers, and in some cases even reducing prices below those of competitors. The key factor is innovation. Among the instruments used in the competition extraeconomice are common: getting information on competitors activities, sponsorship of social-cultural, economic espionage, and in limiting cases, corruption, blackmail, boycott or open violence

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SUB-SECTION: BUSINESS ADMINISTRATION

SOME ASPECTS REGARDING THE PERFORMANCE INDICATORS USED IN THE MANAGEMENT OF A COMPANY

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To assess the economic performance of an enterprise four indicators are commonly used: return on investment, residual income, economic value added and profitability of sales.

The performance analysis is a constituent of any managerial control system. Strategic planning and control decisions require information on how different subunits of the enterprise worked. To be efficient, performance indicators and remuneration have to motivate the managers and the employees from all enterprise levels and to make sustained efforts to implement strategies and to attain business objectives.

Key words: performance, profitability, economic value added, investments

JEL classification: M, M2, M21.

1. Introduction

Although it is a frequently used term, the concept of performance is seldom defined clearly, its meaning being considered as implicitly known .

A definition, translated from English, explains the term "performance" as, among other things, "the proportion/extent to which an investment is profitable⁵⁷⁵."

Extending this definition, one can consider that firm management is efficient if it is able to generate profits or it is advantageous, useful, noting that profit does not necessarily mean a financial plus, but meaning a gain, a benefit, or the converted form of capital gains, that is to say that it can be of various kinds: financial, social, human, environmental, etc. Therefore, performance can be interpreted as the gained profit, namely the result of the action and performance evaluation as the realized gain assessment.

The information about the performance of an institution is needed in order to assess potential changes of the economic resources which the entity will be able to control in the future, to anticipate the ability to generate cash flows with the present resources, to formulate judgments about how efficiently it can engage and use new resources.

In practice, financial performance information is provided primarily by "the profit and loss account", respectively by the budget execution account, but things are not as simple as to reduce them to the synthetic data in a particular periodic reporting form because it would be a pity to ignore the information in real time the account book provides. Performance is more important than money. Money reflects a possession, performance expresses the ability to capitalize the possession.

2. Performance measurement from financial perspective

Performance measurement is part of any managerial control system. Strategic planning and control decisions require information on how different subunits of the company worked. To be efficient, performance indicators and remunerations should motivate the managers and the

⁵⁷⁵ Judy Pearsall, *The Concise Oxford Dictionary*, Tenth Edition, Oxford University Press, New York, 1999, p.1060.

employees at all business levels and make a sustained effort to implement the strategies and to achieve the business objectives.

A variety of performance indicators are based on internal financial information. Businesses supplement more and more the internal financial indicators with indicators based on:

- external financial information (eg. the stock);
- internal non-financial information (eg. Product fabrication time, the number of new patents, the rate of flaws);
- external non-financial information (market share, customer satisfaction).

These indicators are often compared to those registered in other subunits of the same companies or other businesses.

In some companies financial and non-financial performance indicators registered by their subunits are presented in a single report called balanced scorecard. In the balanced scorecard⁵⁷⁶ the enterprises record various elements, but most scorecards include:

- indicators of profitability;
- customer satisfaction indicators,
- internal indicators of efficiency, quality and time;
- innovative indicators.

Some performance indicators, such as the number of patents, have a long-term time horizon. Others, such as efficiency deviations of direct raw material, have a reduced time horizon. In this article we will refer to the most commonly used performance indicators, covering a medium to long-term time horizon. They are internal financial indicators based on accounting data of an enterprise.

To assess the economic performances of an enterprise four indicators are commonly used.

Some companies record high levels of the profit made from operating, but the question is whether they are the most advanced.

The main weakness of making comparisons on the sole basis of profits from operating is that this way one ignores the differences between the volumes of investment in each firm. Investments refer to resources or assets deployed to achieve profits. There is no question of how much is the profit made from operating, but how much is the operating profit compared to investments made to obtain it.

Three of approaches regarding performance measurement include also an indicator of investment: return on investment, residual income and economic value added.

The fourth approach, the profitability of sales, does not include an investments measure indicator.

2.1. Return on investment

Return on investment (ROI) is a book value of profit divided by a book value of investments:

Return on investment (ROI) = Profit/ Investments

Return on investment is one of the most common ways to measure performance, and this for two reasons:

- combines all the elements of profitability - revenue, costs and investment - into a single indicator;
- can be compared with the rate of return opportunities from other parts.

ROI is also called accounting rate of return or cumulative accounting rate of return. Managers usually use the term "ROI" when assessing the performance of a subunit and the term "cumulative accounting rate of return" when an ROI indicator is used to evaluate a project.

⁵⁷⁶ C.T. Horngren, S.M. Datar, G. Foster, *Contabilitatea costurilor, o abordare managerială*, Ediția a 11-a, Ed. Arc, 2006, p.858.

Some companies prefer to use operating profit in the denominator, others prefer to focus only on assets financed by a long-term debt, using total assets minus current liabilities.

Businesses may increase ROI through increasing revenue or through lowering costs, through reducing investments. ROI can clearly define the performance issues when it is determined by its components:

$\text{Profit/investments} = \text{Profit/income} * \text{Income/investments}$

or

$\text{ROI} = \text{Return on investment} \times \text{number of investment rotation}$

This approach is known as DuPont method of profitability analysis. This method identifies the two basic ingredients in making a profit: increasing the proportion of profit from each leu income and mobilizing assets to generate higher revenues. Improvements in a component without changing the other component will generate an increase in ROI.

ROI sets out clearly the benefits the managers can obtain by reducing assets investment or fixed assets investments. Some entrepreneurs are aware of the need to increase revenue or reduce costs, but pay little attention to reduce the investment base. Reduction of the investment base means good credit management, reducing the amount of idle cash, setting appropriate levels for stocks and the mobilization with high attention to the long-term assets.

2.2. Residual income

Residual profit (RP) is an accounting measure of profit minus a value expressed in lei of the required return on investment.

$\text{Residual profit (RP)} = \text{Profit} - (\text{Required rate of investment} \times \text{Investment})$

By multiplying the required rate of return on investment to investment value is obtained imputed cost of investment. The imputed costs are costs identified in certain situations which usually are not reflected in financial accounting systems.

Some companies prefer RP, because managers will focus on maximizing the absolute value, such as RP expressed in RON and not on a percentage, as the ROI. The objective of maximizing the RP means that, while a subunit records a return that exceeds the required rate of return on investment, that subunit activity should be extended.

The objective of maximizing the ROI might determine the very profitable subunit managers to reject the projects which, in company's view as a whole, should be accepted.

Matching goals (ensuring that division managers are working towards achieving company goals) is more easily achieved using PR and not ROI as an indicator of the division manager performance.

2.3. Economic value added

Attaining the major objective of the company, maximizing the overall value can not be achieved, but by creating value within firms. The overall performance is defined according to the company's ability to create value to its holders of interests, eg. shareholders, creditors, employees, suppliers, local community etc. Of course, company shareholders prevail, who are in fact the owners. Managers appointed by these must constantly seek to achieve this objective by permanently creating value.

Performance indicator most commonly used for assessing the growth in value of the enterprise is the economic value added.

Normally, a company should not reinvest the net profit, but if its future investment projects are capable of generating a higher return rate than the rate of fructification of capital market for comparable risk projects.

Otherwise, the net profit should be distributed as dividends to shareholders or redemption of own shares. Investors will be able to capitalize the amounts received at the obtained market return from the financial assets of similar risk.

As the main problem of any performance indicator of a title based on the issuer profit, beyond a possible "creative" handling, is not taking into account the cost of capital used by the firm in the analyzed period, a more accurate measure could - be considered to take account of this element, comparing it with the return obtained.

The concept in this way is called Value Based Management (VBM). Accepting the assumption that business value is directly dependent on the future financial flows generated by the firm, conceptual VBM, becoming in time a real philosophy of doing business, acknowledges that a company generates value in excess in time only if its capital investments will have a higher return than the cost of capital.

VBM is used by many leaders of companies as a way of managing them and through which to generate an additional value for shareholders

VBM appeared initially and experienced a tremendous development in the United States, giving rise to a managerial philosophy which enforces the managers for un the companies so that the shareholder wealth (whose first constituent is the amount of shares) to increase over time. So it is put emphasis on the interests of business owners unlike some earlier approaches, common in many European countries, according to which the interests of employees, customers, suppliers and the public ones were considered at least as important. The harsh reality of capital markets globalization, evidenced by international corporations access to formerly protected markets, the more increasing competition in high technology and resource control, the major acquisitions, takeovers and mergers between leaders of economic sectors have led to rapid spread of this philosophy in Europe too, it being understood, accepted and required in Western Europe economies. Based on this philosophy running a company it have been developed various concepts and methods to allow detection of capital gains made in past times and to provide valid criteria for selecting investment projects for horizontal or vertical development.

The best known alternative concept, based on the central idea that there is no real income if one does not exceed the cost of capital used, is that one launched by U.S. firm Stern Stewart: Economic Value Added, in short EVA.

“EVA” - *Economic Value Added* or economic value added is the most famous and one time, the most publicized performance indicator in the speciality press.

The economic value added has become in the decade 1990 - 2000 a quality standard of company's total, a performance indicator of the management team, a reference in foundation and assessing the efficiency of decisions.

The reasoning underlying this indicator is simple and logical: equity, like borrowed capital, has a specific cost. Unlike the cost of borrowed capital, which appears explicitly in the profit and loss account, the cost of capital, expressed by compensation set to investors, has a different accounting treatment.

To create value, the company must earn enough to cover both the cost of financial debt and the opportunity cost of capital. Also, bear in mind that pay equity must be at attractive rates, in any case higher than that the investor could obtain in case of a risk-free investment. Economic value created by an enterprise during a period should take into account not only the amount recorded in the accounts, but also the opportunity cost of capital.

Cost of capital is a concept useful for management company helping it in the selection of alternative investment projects and allowing the development of strategies to optimize the financial structure of the company, respectively the optimal proportion between the medium and long-term, the capital consisting of preference shares and ordinary share capital formed. Optimization goal is to minimize the cost of capital of the business used on the market and to perceive profitability of the capital providers and company specific risk and, ultimately, the firm's accessibility to different forms of financing. Minimizing the cost of capital used by the firm has a direct impact on maximizing business value through minimizing input regarding the financing operations carried out.

Economic value added is a specific model calculation of residual profits which lately gained considerable importance. Economic value added (EVA) is equal to operating profit after tax minus the weighted average cost(after tax) of capital multiplied by total assets minus current liabilities.

Economic value added = Operating Profit after tax - [weighted average cost of capital x (Total Assets - Current Liabilities)]

Economic value added substitute the following figures in residual income calculations:

- profit is equal to operating profit after tax;
- required rate of return equals the weighted average cost of capital after tax;
- investment equals total assets minus current liabilities.

Total assets less current liabilities may also be calculated as:

Total Assets - Current Liabilities = Fixed assets + Current assets - Current liabilities = Current assets + Working capital

Where:

Working Capital = Current Assets - Current Liabilities

Economic value added, and residual profit, are costs associated with investments in long-term assets and working capital. The value is created only if the operating profit after tax exceeds the cost of capital investments. To improve the EVA, managers should:

- record operating profit after tax higher with the same capital;
- to raise less capital to achieve the same operating profit after tax;
- the capital to be invested in projects with high profitability.

Managers of firms use the estimated impact on EVA to take certain decisions. The division managers consider EVA useful because it allows them to use the cost of capital to take decisions at the division. The comparison between the actual and estimated EVA is useful for performance evaluation and for obtaining feedback on performance managers.

2.4. Return on sales

The relationship between profit and income (or sales), also called return on sales (RS) is a financial indicator of performance. RS is a component of the ROI in DuPont profitability analysis method.

Some companies record high levels of RS, but their performances are considered to be lower than other companies performances using indicators such as return on investment, residual income and economic added value.

3. Conclusions

The role of financial management consists in the task it has to use various instruments which ensure an adequate protection against risks At the same time, financial management aims at maximising the company value, not only with reference to its own capitals, but also to the future investment and projects which the company's equity will be engaged in.

The wealth accumulated by a company at a given moment is only one of the elements that allow for the appreciation of its value. We must also take into account the results expected in the future, as a result of using the accumulated equity.

Consequently, the company value is a value anticipated in that it takes into account the current value, which is correlated with the forecast future revenues obtained from the company's activities. For this reason, the company value cannot be separated from the quality of the projects its equity is engaged in.

Mastering all the means and tools in achieving the major objective of financial management, namely to maximise the company value, based on its performance, emphasises the important role played by financial management at company level.

To assess the overall performance, return on investment indicators, residual income and economic value added are more suitable than the profitability of sales because these take into account both the profits made and the investments.

ROI identifies the investment with the highest profitability. The EVA and RP indicators help solve problems of matching the goals generated by the ROI. Some managers prefer EVA, because it takes into account tax issues, while RP before tax does not include these considerations.

Other managers prefer RP before tax, because it is easier to calculate and because, in most cases, leads to the same conclusions as EVA.

Taking into account the practices of companies, it is noted that companies use multiple financial indicators to evaluate performances.

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CRIMINAL LIABILITY FOR CERTAIN ECONOMIC ACTIVITIES-TAX EVASIOAN

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Evasion is equivalent to the offense or crime, and what is civil or criminal depending on the seriousness and rufnesse. Reasons for this phenomenon in Romania is difficult to quantify and are prevented complex and numerous, among them may be mentioned: many imperfections and speculiarities in the tax laws, the business tax accounting method, not using the national macroeconomic record, massive tax evasion carried out by various interest groups and economic agents only appear to take advantage of loopholes laws lack of a tax code, the principle of confidentiality.

Key Words: taxes, evasion, economical, illicit, budget, law, taxpayer, strategies

As the development of capitalism the technique of settlement and collecting taxes has also continuously improved, but was not able to ensure the universality of imposition because it remained in practice in one form or another to circumvent the imposition of the taxpayer.

Evasion is a form of circumvention of the tax effects together with the repercussion.

Tax evasion is at present an economical and complex social phenomenon. It is imperative for all the world, that the result of this phenomenon have to be limited, reduced, to lose the scale, where it became clear to everyone that they can not be eradicated. Tax evasion has a direct and instant effect on the levels of tax collections, which leads directly to imbalances in market mechanisms and the enrichment, in illicit ways, of the practitioners of this method of deception affecting the state and ultimately each of us , honest taxpayers. There are many interpretations and names of this phenomenon, so it is normal for it to be hard to define. There are used phrases like "fraud, illegal fraud, international evasion, legal fraud, fraud by law, the underground economy". Terminology is not the only element of confusion, but also the ambiguous law, the boundary between licit and illicit being very fragile.

The Law no. 87 of 18 October 1994, published in the Official Gazette nr.299 of 24.10.1994, in its first article, considers tax evasion as "circumvent by any means, in whole or in part, from taxes, fees and other amounts due to state social insurance budget and special extra-budgetary funds by individuals and legal persons of Romanian or foreign ...".

Evasion is the flight from taxation, which means that trough the tax evasion the state loses, the amount that should get in its cashiers. Depending on the relationship with the phenomenon regulations, tax evasion is of two kinds: non-fraudulent and fraudulent.

In Romania you can not say that tax evasion was imported, but this phenomenon is a result of the economic situation, the passiveness of the authorities, interest groups that pursue their own affairs under the endorsement of past or present governance, the living standards of most citizens, the degree of civilization, culture and civic consciousness, and especially the aggressive fiscal policies, and even exaggerated sometimes taken by the authorities. Not for nothing was found, over time, through experience, that a tax system is not effective or appropriate in light of the big revenue, but the extent to which it is accepted by the taxpayer, whether natural person or legal entity. In time there have been developed numerous ways to circumvent the payment of tax liability, but those who use them can be divided into two categories: those who exploit the shortcomings of the normative acts in the field and those who use illegal methods. Legal tax evasion is an action by the taxpayer to circumvent the law, recourse to an unforeseen combination of law and therefore "tolerated" by the slip of memory. The legal support that is given to the principle is that what the law does not forbid is allowed. Art.983 of the Civil Code

Romanian example states: "Conventions should be interpreted in the sense most favorable to the debtor."

Non-fraudulent evasion occurs in two situations, when there is such an organization of tax collection and settlement that allows certain categories of taxpayers to not pay or pay less tax. Carefully studying the law, some taxpayers may find the shortcomings and use them to remove the subject of a tax matter fully or partially. By non-fraudulent evasion, the law is not violated. Non-fraudulent evasion, involves interpretation of the favorable tax laws, so cases of legal tax avoidance, for example:

1. The formation of the depreciation funds or reserves in an amount greater than what is justified from an economic point of view, lowering the taxable income.
2. Family associations and societies of his wife and children and the entrepreneur. The result of such maneuvers is imposing separate their income distribution associated with each leading to lowering the tax burden. By such solutions there are speculated the legal provisions governing the tax rate or lower set of reductions or exemptions for income tax up to a particular ceiling.
3. The use within certain limits of legal proceedings on philanthropic donations, whether they occurred or not, lead to the unlawful removal of part of the revenue realized from taxation.
4. A taxpayer has the option to opt either for income tax of individuals, either for the applicable income taxes of legal persons (system comprising numerous tax incentives).
5. The decrease in taxable income of the protocol costs, and advertising services, whether made or not.

If the second form of tax evasion - fraudulent evasion - taxpayers violate legal provisions on taxation or falsely stating not certain amount of income which means that the wrong therefore rule against them take very serious. Some of the forms of tax fraud, like the preparation of false statements, preparation of documents for fictitious payments, setting up accounting books unreal, non-tax matter, the declaration of taxable income below the actual register double record, a real copy another fictional, made without a sales invoice, falsifying balance sheets.

Evasion is equivalent to the offense or crime, and what is civil or criminal depending on the seriousness and rufeness.

Reasons for this phenomenon in Romania is difficult to quantify and are prevented complex and numerous, among them may be mentioned: many imperfections and peculiarities in the tax laws, the business tax accounting method, not using the national macroeconomic record, massive tax evasion carried out by various interest groups and economic agents only appear to take advantage of loopholes laws lack of a tax code, the principle of confidentiality, etc.

Forms banks to eliminate tax evasion:

- Among the measures that may be taken or items that might be contained in future acts in the field can apply: The correlation of the fiscal system with socio-economic realities and appropriate tax strategies for at least 4 years, the period for which the word order to be stability.
- The application of a differential tax, adapted to each sector of economic activity, also under the strategy, this measure is very useful in terms of lack of initial capital.
- Following these strategies under the principle of publicity, to be followed the development of each area of social interest, by application of low levels of taxation for that area.
- Decrease the number of non-deductible expenses when calculating taxable profit, gradually.
- Resizing tax base in terms of contributions to special funds that currently creates difficulties in targeting tax reform, because they are numerous and do not take into account the economic situation of the payer.

- The use of more efficient modalities for the reimbursement of VAT for sales of goods and services for non-individuals.
- Elimination of preferential treatment regarding payment obligations to the state budget and any other tax liability.
- Distribution of the payment of excise duty between producers and retailers of alcoholic beverages and cigarettes, so that final traders are more responsible when it comes both on the origin of products sold and the payment of contributions to the state.
- Organizing an integrated information system on taxpayers of any kind and their history (including previous employment, wages, taxes paid, the tax staff).
- Introducing the same information system able to link the activities of fundraising by the treasuries, the preparation required to implement file tax for individuals, all these measures will lead to discourage undeclared work.
- Cancellation facilities for real or so-called revolutionaries.
- Providing a system of punishment/reward for all those working in state tax and a payroll system and sufficient enough to remove the temptations.
- Establishment of an administrative body, under the supervision of Parliament, who has sufficient powers and logistics so that it can detect and send directly prosecute anyone has done a fraud.

As a measure to eliminate tax evasion, since 1 January 2005, was introduced single tax rate, tax on such companies' profits will be reduced from 25% to 16%, and the system overall, the income tax individuals will be replaced with a quota of 16%. People have more jobs they will hold a tax of 16% of income (after less social contributions), without the need to complete statements of income in 2006 for income earned in 2005. To not be registered losses by employees as a consequence of flat, a deduction system, whose value depends on the number of persons in the maintenance and salary. Deduction amount will increase if the number of dependents within is greater, and will decrease as salary increases. Personal deductions will be granted once only for income derived from salaries to workplace rules.

In conclusion, adoption and implementation of a modern legal framework and transparent, with enhanced motivation of personnel in these institutions would lessen the harmful effects of the true economic scourge of the contemporary world and to create preconditions for better cooperation with the taxpayer but also for the development of civic consciousness in the obligations to which the State must charge him as a protector and not as a despoiler.

Criminal liability is one of the fundamental institutions of the criminal law. It's a form of legal liability, along with civil, administrative, and disciplinary patrimony. Criminal liability is the most serious form of legal liability. It consists in the obligation of people who break the rules to bear the criminal legal consequences of criminal deed sale. Criminal liability as long time as she could for effective recovery and referral of offenders.

The activity of criminal liability is not carried out at random, but is organized by specialized organs. These bodies act according to rules established in advance, called rules of procedure. Based on these rules to the discovery of acts of crime, identifying perpetrators, to determine culpability and criminal liability for them. Activity is integrated in what is called a criminal process.

In order to analyze the criminal liability of legal person, believe it is necessary first to give it a notion.

Legal person is a matter of law, is subject to collective right, meaning a group of people, meeting the conditions required by law, is the proprietor of subjective rights and civil obligations. By a legal person means being an abstract, intellectual fiction created by law in a social and in a purpose of public utility, having a great heritage, capable of rights and duties. Only the legislature has the right to create such persons for any fiction can not exist without law, because only by will

power, which only by laws, institutions and establishes rules to prescribe public order, morality and defend the general interests society.

Criminal liability of legal persons is not a new problem, it goes back to their origins in ancient right, then returns to the end of the XIX century the attention of European criminal doctrine, that today reach one of the central themes of scientific and legal approaches .

The question whether a legal person may see their criminal responsibility engaged in the consideration of its actions or inaction of the subject of a dispute that has marked criminal doctrine throughout the last century. Criminal liability of legal person constituted in the framework of international studies, articles, notes and monographs, devoted to this problem, over time, doctrinal confrontations between partizanii and opponents of this idea.

Legal persons shall enjoy legal recognition capacity in most branches of law, as a patrimony own separate assets which comprise members have rights and obligations distinct from those of members, so their existence is a reality both in the social , and plan juridic118.

Also, people enjoy legal recognition capacity liabilities, including in the sphere of criminal law. When a crime is directed against a legal person, is widely accepted that it is subject to liabilities of the crime, and can act as a party in criminal proceedings by means of its organs. It would be bizarre to at least consider that the person is a legal reality when he was prejudiced in his rights as a result of a crime, but that same person is an imaginary entity, fictional, when it violates the very rights to others.

Taking into account the provisions of international conventions in criminal matters to which Romania became a part, which establishes criminal penalties apply in case of legal persons, as well as commitments made by our country in the negotiations for accession to the European Union has drafted the Law no. 278/2006 - on criminal liability of legal person. Juridical person, except state, public authorities and public institutions to criminal liability in cases stipulated by law for offenses committed in the name or legal interest. The criminal liability of legal person does not exclude criminal liability of the person who participated in committing the same acts.

For crimes and offenses committed, the legal person and may apply penalties and punishments main components.

System of legal punishments include, besides the main penalty fine and penalty complements. Additional penalties are:

- Dissolving the legal person - can be pronounced when the legal person was constituted for the purpose of crime was committed or when the object or activity was diverted for the purpose of crime was committed and has the effect of the opening of winding-up proceedings.

- Suspension of activity or activities of a legal person for a period from one year to three years - is to ban the activity or activities of the same legal person in the exercise of which the crime was committed and can be applied over a period of one year three years.

- Dissolution and suspension can not be applied to political parties, trade unions, employers, religious denominations or organizations of citizens belonging to national minorities, established by law, can not be applied to legal persons who exercise their activity in the press or broadcasting, and also work in press or broadcasting can not be suspended.

- Prohibition to participate in public procurement for a period from one year to 5 years - consists in the prohibition of participating, directly or indirectly, to the procedures for awarding public contracts, provided by law for a period of from one year to five years.

- Prohibiting access to some funds for a period from one year to five years - is to ban to get funds from credit institutions or financial institutions for a duration from one year to five years.

Additional penalties may be applied in a cumulative manner, wholly or partially. Displaying the decision of conviction or disseminate them in the Official Gazette of Romania, through the press or by means of audio-visual communication is achieved at the expense of the legal person

convicted, these charges can not exceed the amount of fine imposed punishment legal. Court may order the display or distribution, in whole or extract a decision of conviction and establishes where and when, can not exceed a period of two months. The identity of the victim or his legal representative shall not be disclosed without their consent.

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ENTREPRENEURIAL MOTIVATIONS: ARE WOMEN DRIVEN BY DIFFERENT MOTIVATORS THAN MEN? (I – THE LITERATURE)

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The present article has the goal to reveal the (eventually) differences between entrepreneurial motivations between men and women, in the case of EU and Romania. In the first part, we make a brief research into the literature related to this subject, and in the second part we shall reveal the facts and figures in the EU and Romania.

Key words: entrepreneurship, women entrepreneurship, motivation for business start-up

JEL code : M13, G32

1.Introduction

The present article has the goal to reveal the (eventually) differences between entrepreneurial motivations between men and women, in the case of EU and Romania. In the first part, we make a brief research into the literature related to this subject, and in the second part we shall reveal the facts and figures in the EU and Romania.

2.Motivations for entering into the entrepreneurship

Analysing the literature on factors determining people to start a business and become an entrepreneur we find a variety of reasons for this issue.

An empirical research carried by Shane, Kolvereid, and Westhead (1991) on the basis of a questionnaire

identified four factors: labeled recognition, independence, learning, and roles. Birley and Westhead (1994) instead identify seven factors: need for approval, need for independence, need for personal

development, welfare considerations, perceived instrumentality of wealth, tax reduction, and following role models. On the basis of these findings, Carter, Gartner, Shaver and Gatewood (2003) have developed five categories of entrepreneurship reasons: innovation, independence, recognition, roles, and financial success, adding self-realization as a sixth factor.

A very useful taxonomy is achieved by The Global Entrepreneurship Monitor, an international research consortium covering survey type research in 43 countries (2008) on three directions: entrepreneurial attitudes and perceptions, entrepreneurial activity and entrepreneurial aspirations. The GEM proposes two categories of entrepreneurs according to their motivations:

- the “opportunity entrepreneurs”, who start a business based on finding a good opportunity on the market⁵⁷⁷, and
- the “necessity entrepreneurs”, who start a business rather because they have no better choice or to avoid unemployment.

The GEM taxonomy is related to the “pull-push” factors approach. The “opportunity entrepreneurs” are driven by classical pull motivations, such as: the perception and exploitation of a market opportunity, of a better solution than the existing ones, the emergence of a new or

⁵⁷⁷ Entrepreneurial opportunities are “situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than the cost of their production” (Shane, S., & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25(1), p. 220)

innovative idea, the recognition of an existing network he or she could try to exploit etc. (see McClelland, 1961; Shane et al., 1991; Birley and Westhead, 1994, cited by Caliendo and Kritikos, 2009a⁵⁷⁸). The usually enjoy a better development According to the taxonomy suggested by Carter et al. (2003), other pull motivations relate to motivations such as:

- independence and willingness to be free of any control or to become one's own boss;
- recognition and gain of acceptance and appreciation by other people (Nelson, 1968);
- self-realization, achievement of the entrepreneurial goals (Fischer, Reuber, and Dyke, 1993);
- financial incentives, the desire to gain more and achieve financial success (Birley and Westhead, 1994).

On the other hand, people's willingness to pursue entrepreneurial opportunities depends on factors such as: their opportunity cost (Amit, Mueller & Cockburn, 1995), their stocks of financial capital (Evans & Leighton, 1989), their social ties to investors (Aldrich & Zimmer, 1986), and their career experience (Carroll & Mosakowski, 1987; Cooper, Woo, & Dunkleberg, 1989)⁵⁷⁹.

The "necessity entrepreneurs" are driven by push factors and their main motivations are:

- lack of other or better alternatives to unemployment (Evans and Leighton, 1990, Storey, 1991, Clark and Drinkwater, 2000, Masuda, 2006);
- lack of other income option in the case of unemployed persons facing the end of their unemployment benefits;
- advisement from other parties of the unemployed people to try self-employment as an alternative option to wage-employment and unemployment (see Caliendo and Kritikos, 2009b⁵⁸⁰).

Unlike "opportunity entrepreneurs", whose businesses enjoy better development, "necessity entrepreneurs" may suffer a high risk of failure (see Carrasco, 1999, Pfeiffer and Reize, 2000, or Andersson and Wadensjo, 2007), or, if they survive, they may produce only marginal businesses (Vivarelli and Audretsch, 1998), invest insignificant amounts of capital (Santarelli and Vivarelli, 2007), fail to create further jobs (Shane, 2009), and earn minimal incomes (Hamilton, 2000, and Andersson and Wadensjo, 2007)⁵⁸¹.

A model of the factors motivating the entrepreneurial process was achieved by Shane et al. (2003):

⁵⁷⁸ Marco Caliendo, Alexander S. Kritikos (2009). "I Want to, But I Also Need to": Start-Ups Resulting from Opportunity and Necessity, Discussion Paper No. 4661, December 2009, IZA

⁵⁷⁹ Scott Shane, Edwin A. Locke, Christopher J. Collins, "Entrepreneurial motivation", *Human Resource Management Review* 13 (2003) 257-279

⁵⁸⁰ Caliendo, M. and A. Kritikos (2009). "Start-Ups by the Unemployed: Characteristics, Survival and Direct Employment Effects", forthcoming in: *Small Business Economics*, cited in Caliendo and Kritikos, 2009a

⁵⁸¹ Caliendo and Kritikos, 2009a, p. 2

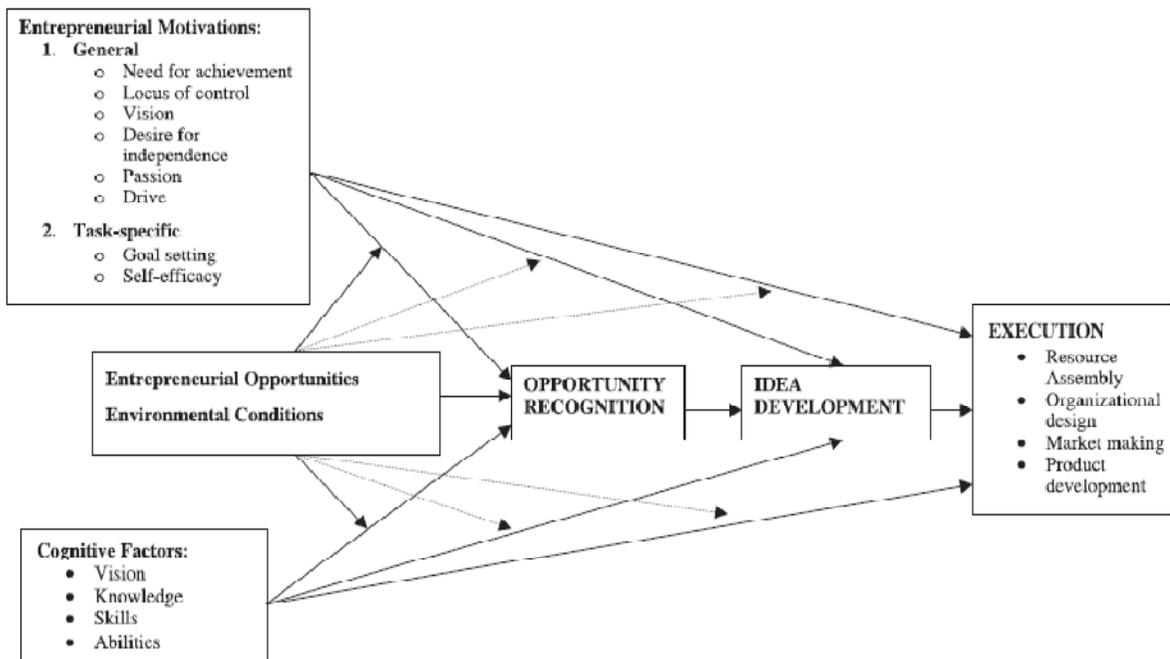


Fig. 1. Model of entrepreneurial motivation and the entrepreneurship process.

Source: Shane, S. et al (2003), p. 274

3. Are there gender differences about motivators?

Since the pioneering article on women's entrepreneurship of Eleanor Brantley Schwartz⁵⁸², the literature on entrepreneurs' motivations enriched considerably. There were plenty of researches studying the main motivators for women versus men entrepreneurs and trying to identify classes of homogenous factors and their effects on the survival and the performance of the entrepreneurial firms.

Eleanor Schwartz founded in her above mentioned article that the main motivators of female entrepreneurs are the same as previously identified in the case of male entrepreneurs (Collins & Moore, 1964)⁵⁸³, namely: the need for achievement, job satisfaction, economic payoffs and independence. She found differences in the operated sectors (the predominance of service based businesses in the case of women) and discrimination regarding the access to financing.

Goffee and Scase (1985), analysing the women entrepreneurs' motivations in UK, proposed a typology of female entrepreneurs based on their relative attachment to conventional entrepreneurial ideals and their willingness to accept conventional gender roles, often subordinate to men. Four types of female entrepreneurs emerged in this taxonomy:

- 'conventional' entrepreneurs who were highly committed to both entrepreneurial ideals and conventional gender roles;
- 'innovative' entrepreneurs who held a strong belief in entrepreneurial ideals but had a relatively low attachment to conventional gender roles;
- 'domestic' entrepreneurs who organise their business life around the family situation and believed very strongly in conventional female roles and held low attachment to entrepreneurial ideals;

⁵⁸² Schwartz, E. (1976). "Entrepreneurship: A new female frontier". *Journal of Contemporary Business*, 5 (1), 47-76

⁵⁸³ Collins, O. F. & Moore, D. G. (1964). *The Enterprising Man*. East Lansing: Bureau of Business and Economic Research, Graduate School of Business Administration, Michigan State University

- 'radicals' who held low attachment to both, often organising their businesses on a political, collectivist basis.

Hisrich and Brush (1986) continued these research trends, describing the 'typical' female entrepreneur as: the "first born child of middle-class parents ... After obtaining a liberal arts degree, she marries, has children, and works as a teacher, administrator or secretary. Her first business venture in a service area begins after she is thirty-five" (Hisrich and Brush, 1986, p. 14). The main factors motivating women to start-up a business were reported to be the desire for job satisfaction, independence and achievement.

However, some other researchers studying the women's motivations for starting-up new businesses founded gender differences between men and women. Scott (1986)⁵⁸⁴ founded that men were concerned by the issue of independence and the desire to be their own boss, while women were concerned by personal challenge and satisfaction.

Empiric research carried on a national basis reported gender difference in the start-up motivations (Ljunggren & Kolvereid, 1996, Shabbir & D'Gregorio, 1996) and also the similarity across countries of women's motivations⁵⁸⁵.

We can conclude that, overall, most studies consider that the motivations for start-up there are similar in the case of women and men entrepreneurs. People – male and female – enter into entrepreneurship and start-up businesses motivated by the desire to achieve job satisfaction, independence and financial payoff. The literature reported however differences in terms of growth motivation, women having lower growth ambitions than men (Carter, 1997, Wiklund, Davidsson & Delmar, 2003). The results are stable across industries and over time.

„Women tend to self-select from self-employment because they do not perceive that they have the competence needed to start and manage firms, that entrepreneurship is often perceived and portrayed as a male occupation. The lack of perceived competence will also diminish the motivation of women as the perception of competence and motivation are closely related to each other. If they decide to start firms they will to a higher degree choose to start more part-time and home-based firms in order to balance professional responsibilities with family responsibilities. Saying this, it is also necessary to remember that individual women may well act differently, that is some women will always behave in a non-typical way, resembling men in their pattern of behaviour" (OECD 2004)⁵⁸⁶.

Karen Hughes⁵⁸⁷ uses a taxonomy grouping the motivations into three classes:

- Classic entrepreneurs – motivated, as men, by: desire for greater independence, challenge and self-fulfillment, „own boss" desire, financial independence;
- Forced entrepreneurs ('necessity based') – driven by unemployment, job loss, lack of work opportunities;
- Work-Family entrepreneurs – motivated by: work-family balance, flexibility. These factors are especially important for women (see Brush 1992; Stevenson 1986, 1990). Lee-Gosselin and Grise (1990) underline the role of family-based motivations, noting that for some women "starting a business may be an adaptive

⁵⁸⁴ Scott, C. E. (1986). "Why more women are becoming entrepreneurs". *Journal of Small Business Management*, 24 (4), 37-44

⁵⁸⁵ Greene, Patricia et al., *Women Entrepreneurs: Moving Front and Center: An overview of Research and Theory*, USASBE, 2003, <http://usasbe.org/knowledge/whitepapers/greene2003.pdf>

⁵⁸⁶ *Women's Entrepreneurship: Issues and Policies*, 2nd OECD Conference of Ministers Responsible for Small and Medium-Sized Enterprises (SMEs) Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Towards a More Responsible and Inclusive Globalisation, Istanbul, 3-5 June 2004, <http://www.oecd.org/dataoecd/6/13/31919215.pdf>

⁵⁸⁷ Hughes, Karen, *Does Motivation Matter? Women's Entrepreneurship and Economic Success*, http://www.allacademic.com/meta/p_mla_apa_research_citation/1/0/4/5/4/p104549_index.html

response to the demands of the parent and spouse/partner roles, which are very important to them”⁵⁸⁸.

D. P. Moore and E. H. Buttner (1997)⁵⁸⁹ suggested that women started their own businesses from a desire for self-determination and for career challenge, and that they expect the corresponding respect, recognition, and self-esteem that both self-determination and challenge provide. For some women, high unemployment rates, and divorce force them into entrepreneurial activities⁵⁹⁰.

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⁵⁸⁸ idem

⁵⁸⁹ Moore, D. P. & Buttner, E. H. (1997). *Women entrepreneurs: Moving beyond the glass ceiling*. Thousand Oaks, CA: Sage.

⁵⁹⁰ Susanne E. Jalbert, *Women Entrepreneurs in the Global Economy*, 2000

ENTREPRENEURIAL MOTIVATIONS: ARE WOMEN DRIVEN BY DIFFERENT MOTIVATORS THAN MEN? (II – SOME EVIDENCE FOR EU AND ROMANIA)

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The present article has the goal to reveal the (eventually) differences between entrepreneurial motivations between men and women, in the case of EU and Romania. In the first part, we make a brief research into the literature related to this subject, and in the second part we shall reveal the facts and figures in the EU and Romania.

Key words: entrepreneurship, women entrepreneurship, motivation for business start-up

JEL code : M13, G32

1.Methodology

In order to reach both the primary objective of finding the motivation driving women to enter the entrepreneurship, and the second one, of identifying similarities or differences between female and male motivators, in Romania and in the EU, we used the dataset “Enterprises managed by the founder - broken down by gender of the entrepreneur”, available in Eurostat database. We select from this database the data regarding the start-up motivation available for Romania and European Union (aggregate changing according to countries available), NACE: Industry and services excluding public administration and management activities of holding companies. Available data are for the year 2005.

First, we select the data for the EU, broken by the gender of the founder and manager of the firm and search to arrange the motivation starting with the most important, e.g. more nominated by the respondents. Second, we did the same thing for the data available for Romania, sorting them by relevance. Third, we tried to make some comparison between:

- Male versus female entrepreneurs in EU
- Male versus female entrepreneurs in Romania
- EU women entrepreneurs versus Romanian women entrepreneurs.

Finally, we will conclude and emphasize some implications of the findings.

2.Discussion

The main driving forces motivating women to enter into entrepreneurship is the desire for independence, with the answer “desire to be one’s own boss” indicated among main motivators by 73.7% of the female entrepreneurs. The second motivation, indicated by 70.6% of the respondents, is the prospect of making more money, which expresses the desire for financial independence and payoff. The third motivation is the desire for new challenges.

It is remarkable the pre-eminence of full factors, generating the classical, opportunity entrepreneurship, and also motivation directly related to the Schumpeterian-innovative approach: realizing an idea for a new product or service. Besides the classical factors, it is to note the relatively great importance of the push factor “avoiding unemployment”, indicated by 54.8% of the female entrepreneurs. Another push factors, indicating the extension of the necessity entrepreneurship, are: getting away from unsatisfactory work situation; only possibility to carry out profession.

As expected, motivations related to work-family balance are present: “combining work and private life” indicated by 49.5% and „children are big enough” indicated by 22.6%. The last motivation indicates the women previously forced to be involved in family and child care activities, activities which had not left them enough time for work (self-employment or wage-employment).

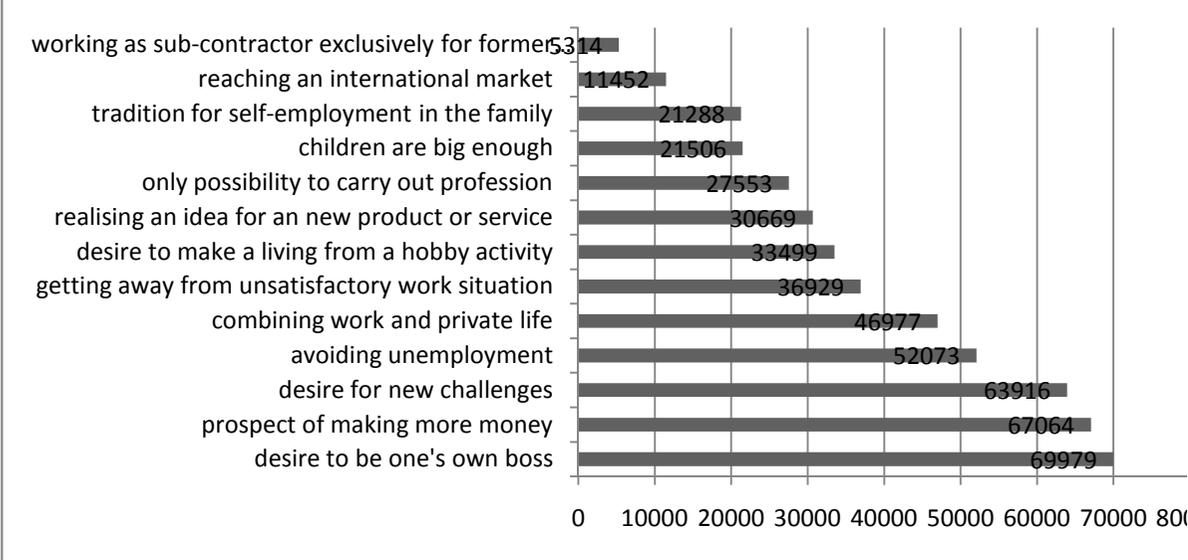


Chart 1. The motivation for start-up of the enterprises founded by the manager – EU 2005, women

Source: own calculation based on Eurostat database

Male entrepreneurs bring out mainly the same motivations, the top 3 indicated motivators being the same. The desire for independence, more money and new challenges motivate men to start up a business. The pull factors are the most important drivers, but there are also present the push factors, such as: avoiding unemployment, getting away from unsatisfactory work situation.

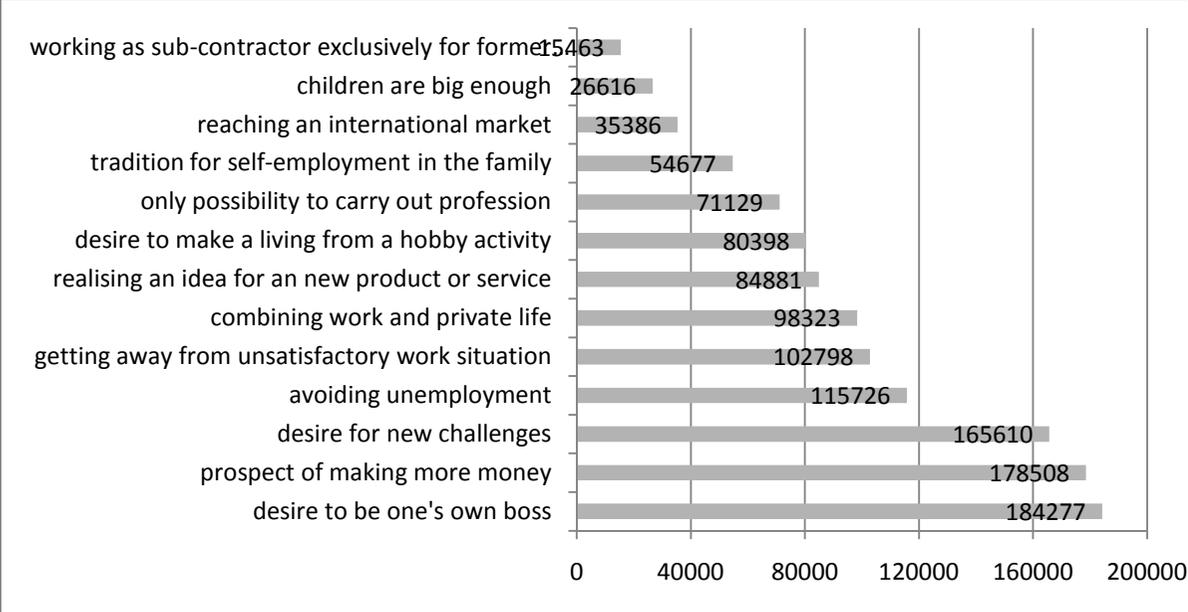


Chart 2. The motivation for start-up of the enterprises founded by the manager – EU 2005, men

Source: own calculation based on Eurostat database

A brief comparison between females and males reveal that the motivations are basically the same. Nevertheless, some differences can be drawn:

- The “children are big enough” motivator was indicated by 22.6% of the women, twice the proportion of 11% of the males; this fact is a major difference, indicating that child carrying is still a women activity, and gender matters a lot when it is about to factors inhibiting the economic participation of females;
- The “combining work and private life” motivator was nominated by 49.5% of the females but only 40.5% of the males; the work-family balance (including the children carrying issue) is a more concerning problem for women than for men;
- “avoiding unemployment”, motivator indicated by 54.8% of the women versus only 47.6% of the men, testify that unemployment is usually a problem affecting women more than men, and thus the concern has a gender dimension;
- The last motivation indicated in a greater measure by women than by men (but with not a big gap) is “desire to make a living from a hobby activity”; this can be related with the fields of services, arts etc., field and profession more associated with women than with men, and where female entrepreneurs tend to operate rather than males.

The other motivations were rather indicated by men than women, but the differences are far not to be as important:

- desire to be one's own boss (75.8% males versus 73.7% females)⁵⁹¹;
- prospect of making more money (73.5% males versus 70.6% females)⁵⁹²;
- desire for new challenges (68.2% males versus 67.3% females)⁵⁹³;
- getting away from unsatisfactory work situation (42.3% males versus 38.9% females)⁵⁹⁴;
- realising an idea for an new product or service (34.9% males versus 32.3% females)⁵⁹⁵;
- reaching an international market (14.6% males versus 12.1% females)⁵⁹⁶;
- working as sub-contractor exclusively for former employer (6.4% males versus 5.6% females).

Virtually with the same frequency among men and women there are: “only possibility to carry out profession” and „tradition for self-employment in the family”. The complete picture is shown in Table 1.

Table 1. Start-up motivations: females versus males, EU versus Romania (2005)

Start-up motivation	Nominated by ... % of the females (EU)	Nominated by ... % of the females (RO)	Nominated by ... % of the males (EU)	Nominated by ... % of the males (RO)
prospect of making more money	70.6	81.6	73.5	86.5
desire for new challenges	67.3	76.3	68.2	79.1
desire to be one's own boss	73.7	62.5	75.8	68.7

⁵⁹¹ Are men willing and loving freedom and independence more than women?

⁵⁹² Are men more money-oriented?

⁵⁹³ Are men more adventure and change oriented?

⁵⁹⁴ Are men suffering more in the case of unsatisfactory work? Are women more resigned?

⁵⁹⁵ Are men more innovative or more self-confident? Do the prevalence of their technical education play a role?

⁵⁹⁶ Are men more desiring of adventure, more open to unknown, or simply more self-confident?

Start-up motivation	Nominated by ... % of the females (EU)	Nominated by ... % of the females (RO)	Nominated by ... % of the males (EU)	Nominated by ... % of the males (RO)
combining work and private life	49.5	56.7	40.5	55.7
avoiding unemployment	54.8	54.1	47.6	54.1
desire to make a living from a hobby activity	35.3	35.7	33.1	37.8
getting away from unsatisfactory work situation	38.9	30.7	42.3	28.5
children are big enough	22.6	24.8	11.0	20.4
only possibility to carry out profession	29.0	22.5	29.3	22.6
tradition for self-employment in the family	22.4	21.0	22.5	24.0
realising an idea for an new product or service	32.3	18.0	34.9	21.9
reaching an international market	12.1	13.2	14.6	19.6
working as sub-contractor exclusively for former employer	5.6	6.3	6.4	6.9

Source: own calculation based on Eurostat database

The second problem we try to answer holds of a eventually national determination, e.g. are there or not noticeable differences in the motivations of female versus males entrepreneurs in Romania. In order to draw the picture, we use the same database, available for the year 2005, for Industry and services excluding public administration and management activities of holding companies. Mostly, females are driven into entrepreneurial activities by the need for money. It is hard to say if this motivator is a pull or a push factor, given the low income level of the majority of the households. Other motivations indicated were the desire for new challenges, the desire for independence, the work-private life balance and the avoidance of unemployment. The other factors are mentioned at a considerable distance (see Chart 3).

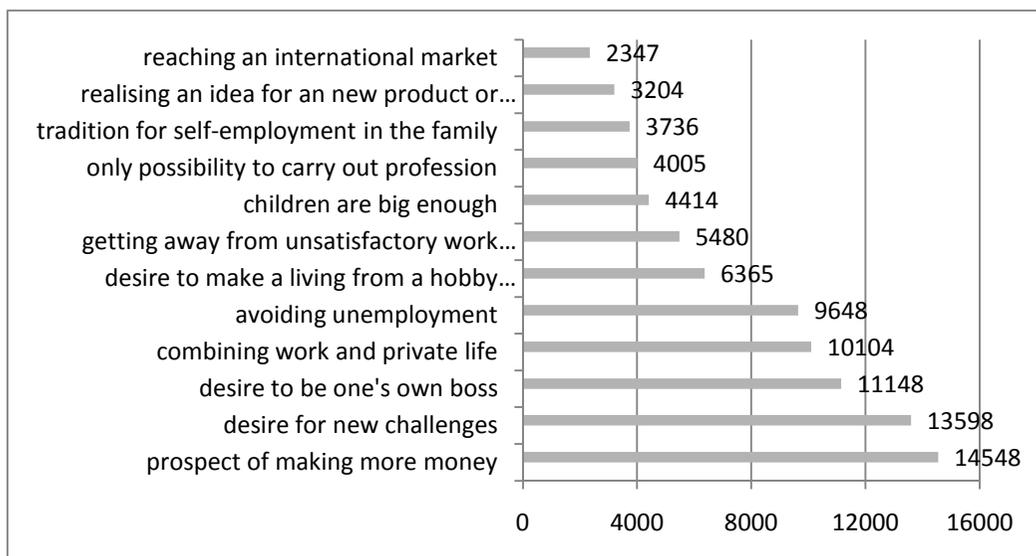


Chart 3. The motivation for start-up of the enterprises founded by the manager – Romania 2005, women

Source: own calculation based on Eurostat database

About the Romanian male entrepreneurs, the first 7 out of 12 indicated motivators are the same. The need and desire for independence, financial payoff, new challenges, but also the necessity factors related to family-work like, unemployment, and also the desire to change either activity or unsatisfactory work are mentioned (see Chart 4).

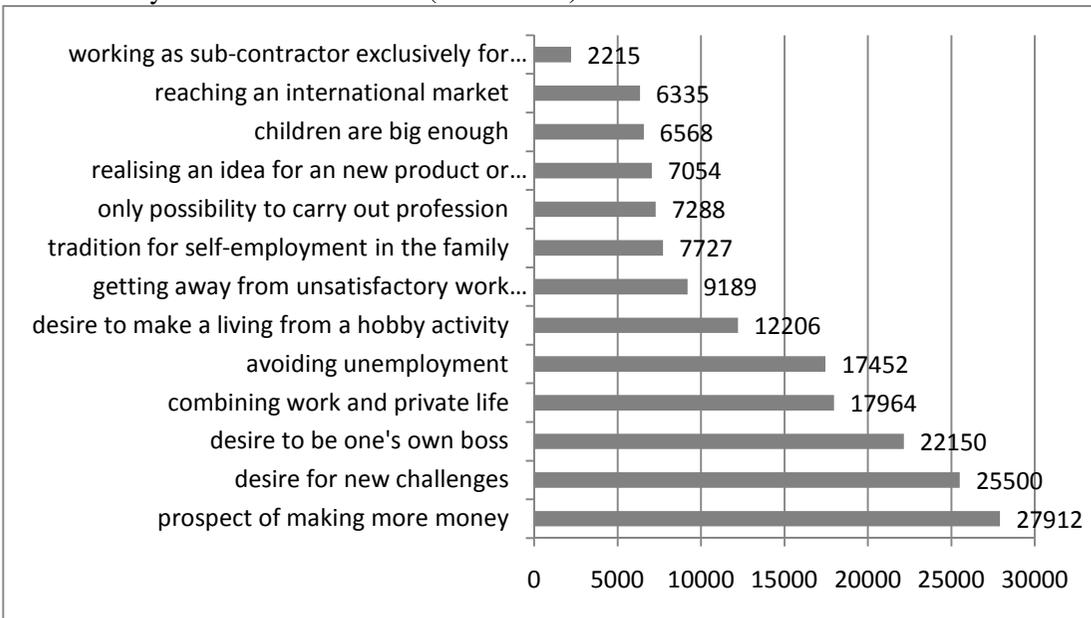


Chart 4. The motivation for start-up of the enterprises founded by the manager – Romania 2005, men

Source: own calculation based on Eurostat database

As was the case with the EU dataset, the only relevant difference is related to the family issues. The more “feminine” motivations (see Table 1) are:

- children are big enough: 24.8% of the females indicated this motivation, against 20.4% of the males;
- getting away from unsatisfactory work situation (30.7% of the females versus 28.5% of the males);
- combining work and private life (56.7% of the females versus 55.7% of the males);

Women appear to be less money oriented, less willing for independence and new challenges, the prospect of making more money motivating –motivated, less motivated by tradition factors, innovative ideas or international dimensions. Briefly, Romanian women entrepreneurs appear to be more conservative than man, more oriented to family and children carrying issues, an less motivated by money making than men. Virtually the same role irrespective to gender have the push factors: avoidance of unemployment, the entrepreneurship as the sole possibility to carry out profession etc.

3.Concluding remarks

Finally, putting together all motivations indicated by females and males in EU and Romania, we conclude (see Table 1) that:

- the prospect of making more money is a greater motivator for males than for females, both in Romania and EU, but the strength of the motivator appears to be

more obvious in Romania compared to the EU average; this fact can be related with the reality of more opportunities to make profit on the Romanian market, full of shortages and thus with better prospects for rapid gains, but it also can be related with the lower level of well-being and the higher level of poverty in Romania, factors that strongly motivate people, and also create great expectations regarding the entrepreneurial profits;

- The desire for new challenges is considerably a stronger motivator for the Romanians entrepreneurs; however, surprisingly, “getting away from unsatisfactory work situation” motivated considerably less Romanian as other EU citizens;
- The desire for independence is also not as strong for the Romanian entrepreneurs, largely habituated with the employee role;
- “Combining work and private life” and “children are big enough” are stronger motivators for the Romanian entrepreneurs; this fact can be related with the traditional cultural models, but also with the insufficient child care services and facilities etc.
- The motivation of realising an idea for an new product or service is considerably less motivating for Romanian entrepreneurs; its nomination is nearly half in the case of women;
- The motivation of avoiding unemployment is mentioned in the same measure by Romanian women and men and EU women entrepreneurs; only EU male entrepreneurs appear to be less concerned about that possibility
- It is interesting that tradition for self-employment in the family is nominated in very similar measures by male and female in Romania and Europe; that means that there are already functioning the entrepreneurial family models, but it could also mean that the presence of entrepreneurial models in the family acts not so strong as motivator.

The final conclusion is that there are no outstanding differences between entrepreneurial motivations between men and women, with the exception of those related to the family-work balance. This conclusion holds also for the analysis in terms of EU male entrepreneurs versus female entrepreneurs, but also in the case of Romanian male versus female entrepreneurs. It appears also that there are several difference on a international basis comparison, revealing enhanced motivators for Romanian entrepreneurs than in case of other countries: the prospect of making more money, the desire for new challenges, combining work and private life. In the same time, Romanian are considerably less motivated as entrepreneurs by the desire to be one's own boss, by getting away from unsatisfactory work situation, and especially by realising an idea for an new product or service. More necessity and less opportunity and innovation entrepreneurship appear to characterise Romanian entrepreneurs' motivations.

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TOTAL REWARD CHALLENGES IN THE ROMANIAN EMPLOYMENT MARKET

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Joining the European Union meant that the employment market had to align to EU requirements. Recovering after the financial crisis will keep on putting financial constrain on many organizations in the next 2 years. This alone demonstrates that the reward strategy will be of high importance in the years to come in Romania.

This paper aims to analyze the concept of total reward, financial and non-financial remuneration with estimated trends on the employment market in Romania.

Keywords: Financial remuneration, Non-Financial Remuneration, EU Integration, Employment Market

JEL Classification: J30, J31, J33

Introduction

Starting with the 1980 there was a general understanding that financial reward is a big motivational factor. Most of the human needs can be satisfied by buying and in order to be able to buy, people need money. Therefore, money can be a huge motivational factor but not the only one.

Wallace and Szliagy (1982) concluded that money can support several reward function such as:

- Acting as commun purpose for people who work with different levels of involvement;
- Can ofer valuable results;
- Can be a symbol which indicates the value of an organization;
- Can act as reward and therefore can directly motivate.

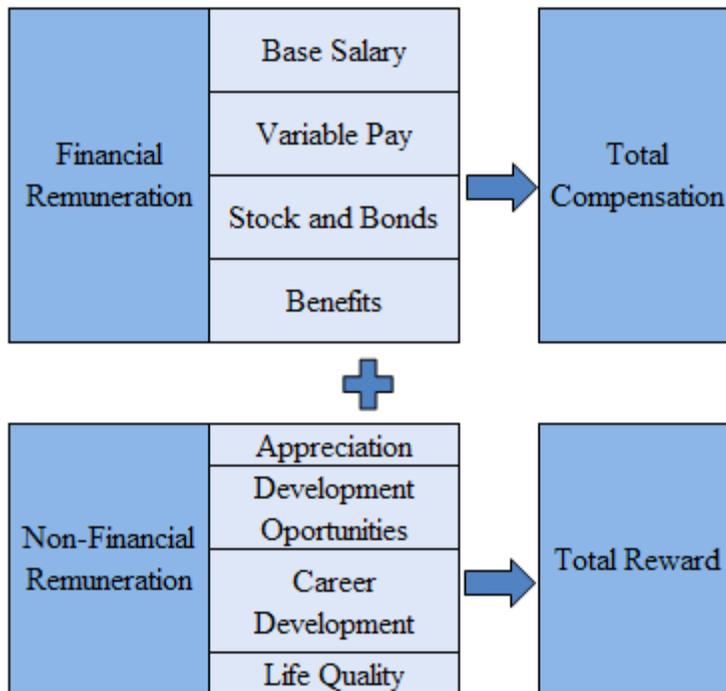
In contrast, the economist Kohn (1993) believes a financial motivation of employees is doomed to failure. He believes that the more you use reward in order to motivate people, the more these looses their interest in what they have to do in order to obtain their financial remuneration.

Five years later, Gupta and Shaw (1998) reinforce the symbolic power of money as a motivational factor. The financial remuneration concept is analyzed through his direct utility: buy a bigger house, a more powerful and modern car, trendy cloths, healthy food, more exotic holidays, etc.

In 2010, after two years of turmoil generated by the financial crisis, the financial recompensation is more important than ever. Many organisation were unable to provide pay rises in the last 2 years, redundancies reached high levels, bonuses were frozen and contribution to private pension schemes were reduced.

What does Employee Reward mean?

Armstrong and Brown (2001) define Employee Reward as a balanced combination of Financial Remuneration and Non-Financial Remuneration.



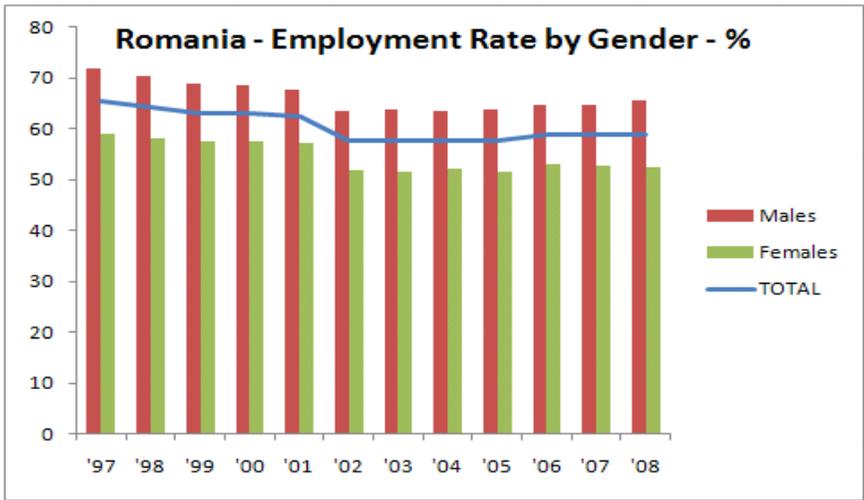
Picture 1. New Dimensions of Reward Management

The above figure indicate that **financial remuneration** is defined by base salary, variable pay (bonuses and incentive payments), long term payments (stock and bonds) and employee benefits. The **non-financial** compensation is harder to quantify and it introduces elements such as appreciation and recognition at work, development opportunities, lateral career movements and promotions as well as life quality by achieving a work – social life – family balance.

Since 2001 to present the value of non-financial compensation has grown, even in Romania. In the light of joining the European Commission where the work culture focuses just as much on the non-financial compensation Romania had to adapt. Organizations, especially international ones started to offer new packages with more career development opportunities.

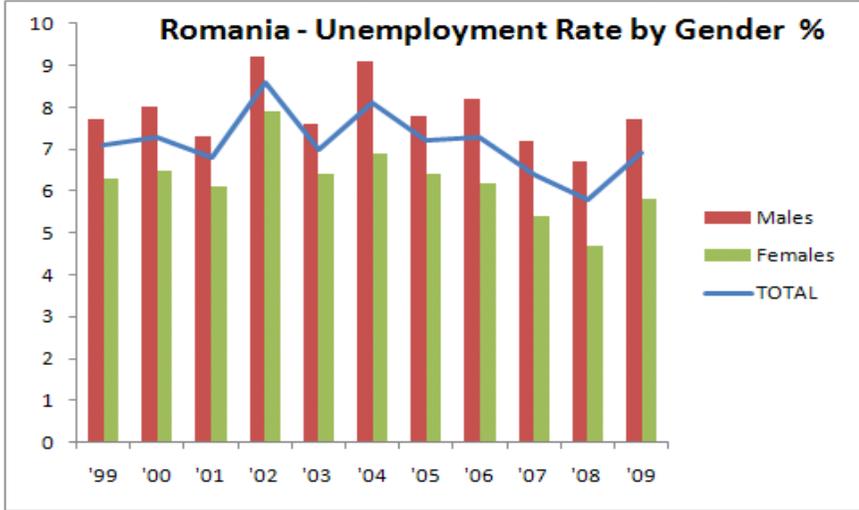
Employment market in Romania

In the last few years the Romanian employment market was affected by the recent changes: firstly joining EU and aligning to the EU requirements and the financial crisis. However, the employment rate was rather constant since 2002, reaching its peak 59% in 2008. The below chart also indicates that there is a higher rate of employment in Romania among the male population – a difference of 13.2% in 2008.



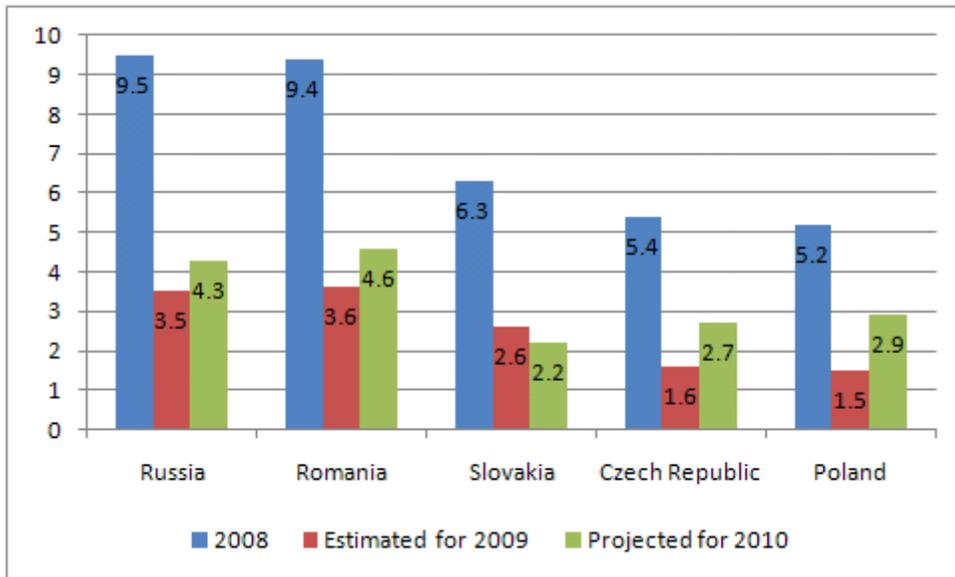
Picture 2. 1997 – 2008 Employment Rates in Romania
 Source: <http://epp.eurostat.ec.europa.eu>

The unemployment rate started to increase again in 2008 with almost 1.1% increase.



Picture 3. 1999 – 2009 Unemployment Rates in Romania
 Source: <http://epp.eurostat.ec.europa.eu>

According to the Radford consultancy firm, Romania is doing much better in terms pay increases as percentage of salary in comparison with its Eastern European neighbours.



Picture 4. Pay rises as percentage of salary

Source: Radford ISSIT – September 2008 and September 2009 – General pay rises

In 2008, Romania had some of the highest increases reported almost as high as Russia (9.4% increase in Romania, 0.1% less than Russia). Despite the financial crisis, Romania had the highest estimated increase at 3.6% for 2009 and should still lead the market with 4.6% increase projected for 2010 while most of the Eastern European countries are considering an increase of 2%-3%.

Trends and conclusions

It is a known fact that Europe's largest economies have emerged from recession already: France and Germany where the first ones followed by United Kingdom. Other countries are also showing a frail recovery.

The reward strategy will be of high importance in the years to come in order to adapt the employment market to the new rules designed post recession, tax changes introduced and the ongoing redundancies.

Romania will have to adapt as well. The inflation rate will continue to grow in 2010, discretely affecting salary budgets and employee benefits. Most of the companies will still have their salaries frozen as in 2009 (two thirds of salaries frozen salaries in 2009 according to Radford consultants) and there will be new challenges: the ongoing uncertain economical environment, low and reduced budgets to manage, high expectations of employees, management and clients and developing alternatives ways of employee recognition.

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ROMANIA'S TRANSITION IN THE CENTRAL EUROPEAN CONTEXT

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The Eastern bloc countries have been under communist leadership for almost fifty years. After the 1989 collapse of communist leadership, new regimes have been installed. The roads from socialism to capitalism, from totalitarianism to democracy have been extremely difficult and tested both the people and the leaders. The present paper takes a look at the first years of Romania's democracy and its economic reforms. Although democratic elections have been organized and some reforms have been undertaken, compared to other states Romania might not have done enough.

Keywords: socialism, capitalism, democracy, Eastern Europe,

JEL code: P21, P51

Introduction

1989 was a year of revolt in Eastern Europe. Poland, Hungary, Czechoslovakia and Romania won back their freedom by eliminating their leaders peacefully, in the case of the first three or violently in the case of Romania, as "Nicolae Ceausescu, was the one Communist despot who was determined to shed blood rather than relinquish power"⁵⁹⁷. The most representative moment of the year was the dismantling of the Berlin Wall which started in November.

All the above mentioned countries had to go through massive and painful reforms to change their economies, political and social life from socialism to capitalism and democracy. But the process was different from country to country. White⁵⁹⁸ considers two main types of change: transition from below (the case of Poland, Romania and Czechoslovakia) and transition from above (Hungary, Bulgaria and USSR)

In the case of Poland, the Solidarity was considered the most powerful symbol of liberty in the communist world⁵⁹⁹. Its leader, Lech Walesa had a major role in 1989 and became the first elected president in 1990. The change of power was peaceful and based mainly on round-table negotiations between the leaders of the Communist Party and the leaders of Solidarity.

In Hungary, the democratic breakthrough between March and June 1989 consisted in a considerable shift from a dichotomy between officialdom and the opposition towards a growing self-inclusion of party hardliners into the opposition. It continued in October, when the Communist Party Congress decided to form a European-style Hungarian Socialist Party, committed to democratic socialism and mixed economy. The elections in the spring of 1990 were won by the Democratic Forum, and together with their allies they formed the new government, thus eliminating the old communist leadership of the country.

The change of regimes in Czechoslovakia was known as the "Velvet Revolution", which stands for the peaceful mass gatherings that toppled the Czechoslovak government in November 1989. While the notions "velvet revolution" or "soft revolution" referred only to the mass protests in November, they soon came to signify the whole process of the demise of communism⁶⁰⁰. The process of change ended in June 1990, when Vaclav Havel was elected president.

⁵⁹⁷ Muravchik, J. (2002) *Heaven on Earth: the rise and fall of socialism*, Encounter Books, San Francisco p.306.

⁵⁹⁸ White, S. (2001) *Communism and its Collapse*, Routledge, London, P.52.

⁵⁹⁹ Wydra, H. (2006) *Communism and the emergence of democracy*, Cambridge University Press, UK, P.205.

⁶⁰⁰ Wydra, H. (2006) *Communism and the emergence of democracy*, Cambridge University Press, UK, p.206.

The political perspective

Romania became a republic again after the communists won the 1946 elections and forced King Mihai I to flee the country the next year. In the case of all the Eastern Europe the original transition to socialism did not arise by organic development: “the socialist system does not originate spontaneously from the intrinsic, internal forces of the economy. Instead, the socialist system is imposed on society by the communist party with brutal force, when it gains power. It liquidates its political opponents and breaks up any opposition. The communist party that comes to power has a vision of what society, economy and culture it wishes to create: a system that eliminates private property and the market, replacing them with state ownership and planning”⁶⁰¹. All the above mentioned characteristics could be observed in Romania’s evolution during 1946 and 1989.

More than forty years later, in December 1989, Romanians fought and won back their freedom. The repression of demonstrations for democracy in Timisoara, when the security forces, the hated Securitate⁶⁰², shot dead 71 on the weekend of 16–17 December⁶⁰³, sparked off mass protests in Bucharest. Ceausescu, and his wife Elena, refused to budge and ordered the mobilization of the Securitate, and the army, to put down the demonstrators by whatever means necessary.

The army hesitated, as did a section of the Securitate. In face of continuing intransigence, and growing popular opposition (Ceausescu was heckled by the protesters in Bucharest when he appealed to them to go home on 21 December), long hidden opponents within the Party, headed by Ion Iliescu, army officers and even some Securitate leaders, organized to overthrow him. Arrested as they tried to flee the country, Ceausescu and his wife were executed on Christmas Day, an execution seen on television by a global audience

The exact nature of the events of December 1989 in Romania has long been the subject of intense speculation, it is still unclear whether the events constituted a revolution or some other form of irregular political challenge such as a coup d’état or popular uprising. The overall conclusion is that although a revolutionary situation arose in the country in 1989, a revolutionary outcome is not yet assured⁶⁰⁴. There are critics that argue that Ion Iliescu and NSF took advantage of the chaos in order to stage a coup. It is still not clear if it was thought in advance or whether it was a pragmatic action of an elite group who took advantage of the situation. What is without doubt is that because of his ruthless politics, Ceausescu was abandoned by numerous officials of the Government, the Party, the Army and his secret police⁶⁰⁵.

After the events on December 1989, Romania became a democracy again and it organized its first free elections in May 1990. The big winners of the elections were, as expected the National Salvation Front and its leader Ion Iliescu. The National Salvation Front was a coalition of former communists which took over the functions of the government after the overthrow of Ceausescu in December. It later split into the Social Democrat Party, led by Iliescu and the Democratic Party, led by Petre Roman, and later by Traian Basescu.

Ion Iliescu was a former member of the Politburo – considered by many the future leader of Romania, after the death of Ceausescu. Iliescu did not have the “revolutionary’s aura” of Havel or Walesa, but he still won the 1990, 1992 and 2000 elections.

Unfortunately, 1990 was a year marked by violence as coal miners “visited” Bucharest to stop anti-communist demonstrations organized by the political and social opposition of NSF. One of

⁶⁰¹ Kornai, J. (2000) *What the Change of System from Socialism to Capitalism Does and Does Not Mean*, The Journal of Economic Perspectives, Vol. 14, No. 1, p.31.

⁶⁰² Secret police, similar to STASI in East Germany, Gestapo in Nazi Germany and GPU in Russia.

⁶⁰³ Kowalski, R. (2006) *European Communism 1848 – 1991*, Palgrave Macmillan, New York, p.222.

⁶⁰⁴ Siani-Davies, P. (1996) *Romanian Revolution or Coup d’etat?*, Communist and Post-Communist Studies Vol. 29, No. 4, p.453.

⁶⁰⁵ Tilly, C. (1993) *European Revolutions: 1492-1992*, Blackwell publishing, Oxford p.248.

the greatest discontents of the demonstrators was the implication of the second level activists of the Communist Party in the new structures of Power⁶⁰⁶.

The new Government, led by Petre Roman wanted fast reforms and established new relations with the EU and USA. Roman's failure to explain adequately both the purposes and the consequences of genuine liberalization and stabilization fueled the resentment of precisely those constituencies to whom the NSF owed its May 1990 electoral victory. So, in 1991 Petre Roman was replaced with Stolojan, the finance minister.

The 1992 elections were won again by Iliescu who made an alliance with the nationalist parties and the party of the former communists. Although the composition of the Parliament and government changed, the domination of Iliescu and the presidency continued⁶⁰⁷. Vacaroiu was named prime-minister and the goal of the new Government was to "slow down market reforms that might favor foreign business interests"⁶⁰⁸. The 1992-1996 period was marked by privatization scandals and frauds made by the people in power, determining the halting of progress and reforms needed at that time.

Economic perspective

There is a debate regarding Romania's economic situation. Some argue that as Romania entered the 90s, the country was in many ways in a better position to pursue economic restructuring than other East European countries. In December 1989, Romania had almost no foreign debt and maintained a current account surplus of \$2.8 billion and foreign exchange reserves of \$ 1.7 billion. Other economic indicators (current account balance, debt-to-GDP ratio and hard currency holdings) were better than any other East European country⁶⁰⁹. Others consider that Romania started its transition to a market economy at a serious disadvantage, with significantly worse initial conditions than those prevailing in the leading reform countries. Romanian policy makers have had less room to maneuver in taking the painful political steps necessary to liberalize Romania's formerly Stalinist economic system. Apart from the reduced level of investment, growth possibilities were also impaired by a sharp reduction in imports of machinery and equipment from the West. The heavy overtaxation of domestic consumption, which took place during this period in order to meet external debt obligations, resulted in lower growth rates of production, reduced welfare (consumption), and bigger domestic imbalances, both visible and hidden⁶¹⁰.

Privatization moved slowly in the first years although the legal framework was set up to sell of 55% of state equity. The state maintained its control in strategic areas as energy, transport and telecommunications. In selling equity 30% was to be allocated to Romanian citizens, leaving the rest for foreign and domestic investors. The allocation to the citizens was done through vouchers, but the system proved its limitations because of inflation, speculation and public apathy.

In 1992, industry was still 90% controlled by the state and registered a continuous fall to score a cumulative decline of 54% over 1989⁶¹¹.

The macroeconomic data for 1993 and 1994 would seem to suggest an unanticipated level of success for Vacaroiu's policies. The decline in GDP was reversed (with 1.5 and 3.9 percent gains, respectively), and industrial production increased (with increases of 1.3 and 3.3 percent, and with overall industrial productivity jumping to 9 and 14.7 percent, respectively)⁶¹². However,

⁶⁰⁶ Cesereanu, R. (2003) Fenomenul Piata Universitatii 1990, Revista 22, 12 mai 2003.

⁶⁰⁷ Roper, S. (2005) *Romania, the unfinished revolution*, Harwood Academic Publishers, Amsterdam, p.75.

⁶⁰⁸ Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.228.

⁶⁰⁹ Roper, S. (2005) *Romania, the unfinished revolution*, Harwood Academic Publishers, Amsterdam, p.88.

⁶¹⁰ Daianu, D. (2004) *Fiscal and Monetary Policies*, published in "Romania since 1989" (ed. Henry Carey), Lexington Books, Oxford, p.394.

⁶¹¹ Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.227.

⁶¹² <http://www.insse.ro/cms/files/pdf/ro/cap16.pdf>

due to high inflation and further price liberalizations, real wages fell by 16.7 percent in 1993 (with a marginal 0.4 percent recovery in 1994).

Table 1.

Selected economic indicators of Romania's economy (1990 - 1997)

Indicator	90	91	92	93	94	95	96	97	98
Unemployment (%)	1	3	8.2	10,4	10,9	9,5	6,6	8,9	10,4
Inflation (%)	5,1	170	210	256	136	32	38	154	59
GDP (%)	-5,6	-12,9	-13,6	1,3	3,9	7,1	4	-6,6	-7,3
Foreign debt (billion. \$)	1,14	2,13	3,24	4,24	5,51	6,64	8,3	9,5	9,8

Source: http://www.indexmundi.com/romania/gdp_real_growth_rate.html, <https://statistici.insse.ro/ipc/>, <http://www.insse.ro/cms/files/pdf/ro/cap3.pdf>

Moreover, the Vacaroiu government's decision to continue subsidies to state enterprises increased the budget deficit to 4.4 percent of GDP in 1994; and despite the National Bank's reluctance, the money supply was increased by 500 percent during these two years, resulting in inflation of 256 and 136 percent respectively, for 1993 and 1994 (Table 1.).

Critics asserted that while temporary improvement in some areas had been reported, it was largely at the expense of, rather than due to, genuine economic reforms. The World Bank's comparative analyses of transitional economies (1995) found Romanian liberalization and private sector development near the bottom of Group 2 (which, in addition to Romania, included Bulgaria, Albania, the Baltic countries, and Mongolia).

Bacon is trying to find out why did the macroeconomic data reflect so dramatic a recovery? He considers the data on the state budget's deficit as a proportion of GDP are enlightening. While the deficit was 2.6 percent of GDP in 1993, the transitional year, it had risen to 4.2 percent in 1994. Despite the attempts by the National Bank to institute a tight monetary policy, the government, out of the political need of their voters, continued to pursue a policy of "soft credit"—heavily subsidizing indebted and inefficient state economic units, directing the state's fledgling commercial banks to provide negative (1993) and low-interest (1994) loans to loss-making enterprises and state farms⁶¹³.

In 1994, the private sector accounted for only 35 per cent of the economy, a low figure when compared with 55 per cent in Hungary and Poland and 65 per cent in the Czech Republic.

1995 was an even more favorable year. GDP grew 7.1 percent, and industrial output grew by 9.4 percent, while inflation fell to 27.8 percent⁶¹⁴. Real income, "electorally the most fungible indicator, rose 12.5 percent"⁶¹⁵. However, the budget deficit remained at an unacceptably high 4.1 percent of GDP. The expansion of the GDP, which should have enabled the economy to "grow" out of indebtedness, had been realized. However, genuine reform within the framework of the "Washington consensus" remained inconsistent⁶¹⁶.

An unexpected energy crisis began in 1996, a year of discontent for Romania. After some delays, the government was obliged in May 1996 to raise prices for basic consumer goods, including energy, after a sharp devaluation of the forced its hand. The annual inflation rate, projected by the government to be 20 percent for the year 1996, soared to nearly 60 percent by year's end (Table 1.). To add to the uncertainty, two Romanian banks, Credit Bank and Dacia Felix, became illiquid due to massively nonperforming loan portfolios, incompetent management, endemic cronyism, and corruption. The National Bank, already overextended by a looming increase in

⁶¹³ Bacon, W. (2004) Economic Reform, "Romania since 1989" (ed. Henry Carey), Lexington Books, Oxford, p.377.

⁶¹⁴ http://www.indexmundi.com/romania/gdp_real_growth_rate.html

⁶¹⁵ Bacon, W. (2004) Economic Reform, "Romania since 1989" (ed. Henry Carey), Lexington Books, Oxford, p.378

⁶¹⁶ Cojanu, V. (2007) *From Washington Consensus to Lisbon Agenda: What Lessons for Economic Models in Romania?*, Romanian Journal of European Affairs, Vol. 7, No. 4.

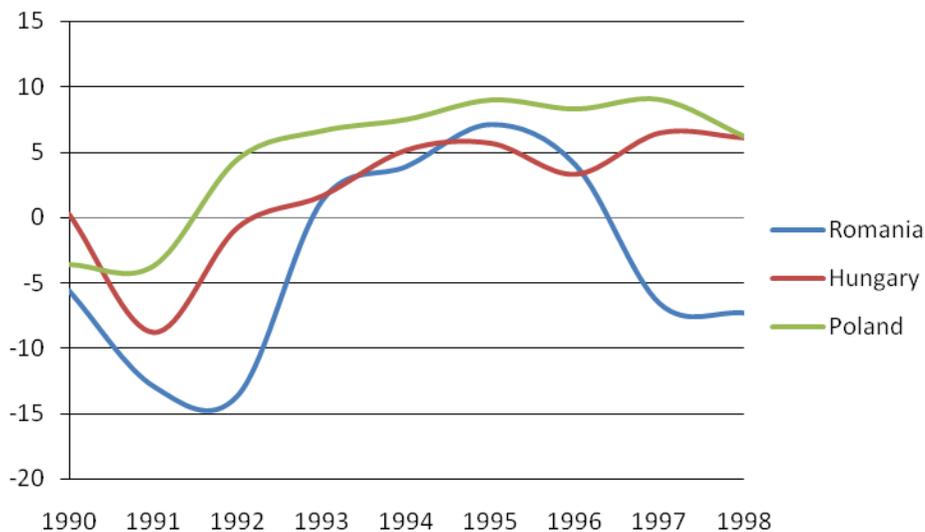
foreign and domestic debt, had to bail out the banks, all the while trying to counter the government's spendthrift ways.

Conclusions

Romania's transition has been a long and strenuous road. According to Crowther, there have been two significant turning points in Romania's transition: 1) the events in December 1989 which displaced the Ceausescu dictatorship and 2) the 1996 transfer of power to the liberal opposition parties which initiated a second phase of reform.⁶¹⁷ Although the 1989 events brought change and democracy, the elites of the old Romanian Communist Party, or at least a sizable number of them, were actually the beneficiaries of the revolution. In fact, one could easily argue that they have taken full advantage of the transition to the "free market," using their inside knowledge, political power, and control of state resources to *privatize* their power over the Romanian economy, transforming, quite legally, the political domination of the old nomenklatura into the economic domination of a new oligarchy⁶¹⁸.

Figure 1.

Economic growth of Romania, Hungary and Poland 1990-1998 (%)



Source: http://www.indexmundi.com/romania/gdp_real_growth_rate.html, http://www.indexmundi.com/poland/gdp_real_growth_rate.html, http://www.indexmundi.com/hungary/gdp_real_growth_rate.html

Compared to the progress of Poland, Hungary and Czechoslovakia, Romania has and is still lagging behind. A proof of this lag is the date of joining the EU, which the first three countries have achieved three years faster than Romania.

Turnock considers that in Hungary privatization moved also slowly, but the Government was able to privatize faster than Romania its main industries and services and also established numerous joint ventures with Austrian, German and Swiss companies⁶¹⁹.

In Poland's case, we have to take into consideration the unions. After 1989, the reform program adopted by the new government sought to stabilize the macroeconomic environment and to begin moving the country toward a market economy. Although initially the economy went into a deep

⁶¹⁷ Crowther, W. (2010) *Contemporary Romanian politics*, Communist and Post-Communist Studies No.43, p.1 .

⁶¹⁸ Gabanyi p.353

⁶¹⁹ Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.194

recession, by 1992 growth resumed. “By the end of the decade the Polish economy was one of the fastest growing in Europe, with an average rate of growth of 6.5 percent between 1995 and 1997 and 4.5 percent between 1998 and 1999, and Poland was seen as the most successful of Central European countries that had embarked on similar political and economic transitions in 1989”⁶²⁰.

From a political perspective, one notable difference when compared to other former communist states is the background of the post-revolutionary leaders. In Poland, Czechoslovakia and Hungary the number of former communist leaders in the new governmental apparatus was rather low. Two decades after the December Revolution, it is still unclear if it had been a transition to democracy: communist party figures are still influential⁶²¹, property has been privatized but allowed to accumulate in the hands of a small group of oligarchs, and although there were free elections, there had been “only a partial move to a form of limited and accountable government that was based on the rule of law”⁶²².

We can conclude that the political will for real reforms did not exist. Most of the decisions were populist, and in spite of this regimes changed every four years. One excuse could be the avoidance of popular unrest which could have led to civil war.

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THE TOURIST PERCEPTION OF THE HOSPITALITY INDUSTRY: ROMANIA VERSUS EUROPEAN UNION

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Automatically when we talk about tourism, tourism industry and hospitality industry we refer to the term also increasingly mentioned. Through this work we describe the hotel, restaurant business and other travel related activity services, which since 2008 have been continuously developed and represent a source of benefit to the economy of any country. The paper aims to assess the perception of tourists based on a questionnaire about the quality of hospitality services in Romania compared to European Union countries.

Keywords: hospitality, hotel industry, restoration, perception

Cod JEL lucrare: L, L8, L83

Concept Clarification

Oxford English Dictionary defines hospitality as "receipt and maintenance of guests, visitors and foreigners with generosity and kindness". Hospitality includes all services which provide accommodation and/ or food and beverages to persons who are not resident in the area, regardless of how long they will spend away from it, including a wide range of business such as small guest houses, fast food, pizza house and related services. Public accommodation and catering are different due to service quality, to the people who receive them and due to the targeting customer segments, and they are different by the comfort and quality offered as part of a wider group of activities grouped under the name of tourism.

Hospitality Industry in Romania and the European Union

Hospitality Industry

Systematic analysis of tourism service quality and taking the necessary measures are top priorities in the current period to transform the hospitality industry in a cost-effective resource with high share in GDP, as there are countries with a tourism well developed, such as Spain, Italy, Greece, Switzerland. The creation of a culture of quality in this area, where they have established for decades some inappropriate practices takes time in order to professionally and ethically train all staff and change its mentality.

Tourism professionals say that it should be smiles, courtesy and decency to be part of a quality system. Such a system was launched in Spain, where the number of stars appears with a Q, symbolizing of a system showing the highest degree of service quality Star alleged.

In the Romanian hotel sector, although we can still find obstacles, however, we see significant changes in legal law, in the state economy which shows a financial jam and also the leadership characters involved in tourism that began to change their mentality and understand the need for quality tourism.

The first major trend is the increase in service quality and enhance the facilities offered to tourists, so often met in hotel units integrated into large hotel chains (e.g. Hotel "Mara", Sinaia), in hotels under joint ownership with foreign investors (e.g. hotel SOFITEL-Bucharest) and in other hotels that have passed from public ownership to private ownership (e.g. most of the hotels in Mamaia). The second trend is the realization of investments aimed at building new hotel units. Another trend, but a negative one for Romanian tourism is due to increasing prices charged for hotel services which was not always consistent with the quality of the offered services, which resulted in loss of both foreign and Romanian tourists to other holiday destinations such as Turkey Greece, Croatia, Spain, etc.

Restoration Industry

In collective and commercial consumption the major trade groups increasingly make their presence felt. Comparable levels of collecting revenue for food and trade leads to the assumption of equal relative intensity of expression of horizontal concentration. Moreover, we see the same group both carrying out the activities of collective food and catering business activities (e.g. ACCOR group).

In France, Sodexho Group has 1714 restaurants, serving over 145 million customers annually. From the total number of restaurants, 30% work in education institutions, 43% in enterprises, 27% in health institutions and in asylums.

Across Europe, the rule is held by Mc'Donalds' Corporation. In the context of commercial food, chain fast-food restaurants have the most spectacular results and it's expected that in the future development potential of the fast-food formula will be considerable. Thus, an American spends on fast food restaurants over 10 times more than in a French one and 100 times more than in an Italian one.

Restoration or catering and housing activity are an extremely complex component. Restoration must be distinguished from so-called "commercial" and "collective", which concerns mainly: restaurants, hospitals restoration, restoration of prisons, restoration of the military, school canteens, university restaurants, holiday villages, settlements, social restoration. The first restaurant franchise type McDrive opened in Romania in Braşov in 1998, and the only KFC restaurants opened in Bucharest in 1997. Since 1994 works in Bucharest first Pizza Hut unit, other units operating in Constanta and Cluj-Napoca, Timisoara.⁶²³

Research method and interpretation of data related questionnaire

An inquiry based on a survey questionnaire it was conducted on the situation of the hospitality industry covering tourism accommodation services in Romania in comparison with services in EU countries. It was chosen in random a sample of 30 respondents of different ages.

Following analysis of survey data on tourists who have traveled to Romania, highlights the following:

- All respondents have traveled to other cities in Romania than the residence one until that moment and only 27 of 30 respondents traveled in Europe.
- Highest weight is for visiting relatives or friends 38%, sightseeing (24%), recreation and spending a holiday both with a share of 14% and with 5% are business an treatments.
- On average tourists spent more than 10 days (47%).

Following analysis of survey data on tourists, who have traveled to countries in the European Union, highlights the following:

- A 10% have traveled outside the border, and on the other hand a 90% crossed the borders of Romania in a certain period of time.
- At the question that refers to the highest weight for travel, it is visiting friends or relatives 30%.

⁶²³Băbăiță Carmen – *Cateringul ca afacere*, Editura Mirton, Timișoara, 2010

- Tourist attractions in European countries accounted 23% to 24% for sightseeing in Romania. This means that Romanians still expect changes in tourism, with further opportunities for Romanian tourism. Spending a holiday in European countries has a 20% share compared with 14% against Romania. Consequently, the Romanians still choose to spend their holiday abroad than at home, for various reasons. Other purposes for travel abroad are conferences, school projects or Work and Travel Program with a rate of 17% and business at a rate of 10%.

- Average foreign tourists spent over 10 days.

Agreement/disagreement with several statements about the services in the hotel units in Romania. Note that at the professional competence the highest score was obtained in Agreement - 8 points, followed by neutral category where the score was 6 points. The difference between the two is rather low, which means that respondents are not fully convinced of the competence of workers in tourism and from the hotel units in our country. Employee courtesy is rated equally between agree and neutral with 10 points each. The tourism industry needs people with knowledge in tourism and which are passionate about working with people in this area. They need to have the desire to satisfy all customers requests with courtesy and kindness.

The agreement/disagreement with several statements about the services of the hotel units in Romania. Note that if professional competence achieved the highest score at the Acord Hotel - 8 points, followed by neutral, category which obtained 6 points. The difference between the two is rather low, which means that respondents are not fully convinced by the competence of workers in tourism and hotel units in our country. Employee courtesy is rated equally between agreement and neutral with 10 points each. The tourism industry needs people with background knowledge in tourism and be passionate about working with people in this area. They also need to have the desire to satisfy all customers with courtesy and kindness.

In respect to the employees' seriousness, respondents gave a score of 9 to neutral and 7 points to disagree. This should give thought to those who have major influence on tourism, which should take into account customer feedback in order to avoid losing them. The high standard of services received the highest score in neutral-10, followed by totally disagree with 9 points. Services clearly need improvements and also need valuable people who have certain essential qualities for those in hospitality, in order to have credibility with customers.

The agreement/disagreement in respect to the hotel units in Europe. Professional competence in Europe received 18 points from respondents, meaning that tourists appreciate the professional competence of workers in European housing units, implicitly the managers who deal with their management. In respect to the courtesy most employees received 20 points, as all respondents agree that foreign employees are very friendly and respect the rules of conduct imposed by the hospitality industry, having a professional conduct. The seriousness of employees was awarded 17 points and 10 points in total agreement. The seriousness of the staff is very important for the guests, who spend a holiday in the tourist accommodation units and who need to feel confidence and reliability from those who attend them. Standard services received a score of 19 points in total agreement and 5 points in the agreement, and only 3 of the respondents gave 3 points to neutral.

Data analysis indicates that respondents had to assess service hotel units in Romania and Europe. Thus, solving the problems arising and professional competence was quoted by the mark 3, although it would be situated in the middle of the chart, compared with hotel services in Europe. Almost the same situation applies to the quality of service and culinary products which have all received a 3, as a mark. In respect to the cleanliness of the room, the mark received was 4, close to maximum, which means that those who take care of cleanliness of the rooms are doing their job thoroughly and seriously. Respondents marked with 3 the technical state of the facilities offered by the rooms and the hotel. Hotel managers should pay more attention to the equipment used in hotel, in order to be able to provide the best conditions to those who cross the threshold and have the confidence to spend a holiday there. The courtesy of the staff was noted with almost

the maximum score, i.e. 4, which is very beneficial for those working in the reception area, in contrast with waiters, who received a score of 3. Managers of hotel units should have some criterion by which staff is elected, in order to avoid certain future issues.

Advantages of hotel services in Romania, as listed by the interviewed people:

- diverse landscape, attractive and different services;
- some hotels offer low-cost accommodation and food packages, meeting a good quality-price ratio;
- other people consider that Romanian hotels have good managers, that show respect for both their business and visitors;
- good food and special dishes, also trying to provide international menus;

Listed disadvantages:

- complaints are perceived as insults, showing lack of professionalism;
- some hotels charge more than they offer for their services, thus the visitors are dissatisfied;
- some hotels are careless in terms of room and hotel cleanliness, there are still issues regarding the staff and their daily duties;

Profile of the interviewed people: 57% women, 43% men. Age: the largest percent is made up of people under 30 years old, then people aged between 30-40, 40-50 and only 3% over 50 years old.

Recommendations: Romanian hotels and their managers should take more advantage of our diverse landscape in order to offer flawless services and attract more visitors, offering a proper quality-price ratio. The hotel staff should be trained accordingly and speak at least one foreign language. Room cleanliness should be done in accordance with the star classification. Hotel owners should be more polite and provide more facilities and information regarding their services. Most of the answers refer to the professional behaviour of the staff and their availability, the fact that they should have the necessary education in order to do this job, the cleanliness in the rooms. More quality services should be provided, according to European standards, at a fair quality-price ratio, as well as more free time activities.

Conclusion

As a consequence of all the facts presented above, one can strongly claim that the hospitality industry, tourism in general, is an important factor in a country's development, from economic, social and cultural standpoint. Tourism can turn an unknown country into a popular, thriving one. In Romania, the hospitality industry is still developing, especially if we consider the fact that Romania has to comply with the EU regulations.

According to our questionnaire, Romanians think that there are differences between the services provided in Romania and Europe, especially regarding the professional skills, availability and professionalism of the employees. In order to reach European level, we have to pay more attention to the staff, because it is the image of a particular hotel and represents indirectly the quality of the services offered.

A person working in the tourist industry should have communicative skills, be able to interact immediately with people, being trustworthy from the first minutes of the conversation. He/she should be able to solve any problem properly and in a nice manner and at the same time be an expert in the services provided.

The quality of the offered services must also be improved, at an excellent quality-price ratio and, as far as entertainment goes, more free time activities should be developed.

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COMPETITIVENESS THROUGH SUSTAINABILITY AND FINANCIAL EFFICIENCY OF SPA TOURIST DESTINATIONS

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In the specific literature, success may be achieved by two important attributes: competitiveness and sustainability. Competitive advantage represents an essential criterion for surviving on the tourist market and defines the ability of one destination to use these resources effectively and in the long term. The paper work continue a study begun last year by the same authors about tourist perception of attractiveness of the two tourist SPA destinations (Buziaș and Băile Felix) on a different market segment (18-35 years old people). This time, we undertake an analysis on SC Turism Felix SA in order to determine and underline the tourist competitiveness through sustainability and financial efficiency (tourism performance indicators evolution, market share, turnover, investment volume, financial returns and costs).

Keywords: Competitive advantage, financial efficiency, sustainability, SPA

Cod JEL: L, L8, L83

A certain destination may be considered successful if it offers its visitors a similar or better experience compared to other destinations. Therefore, all that a destination offer to a potential visitor in terms of information, images, impressions, must be appealing and interesting. Thus, the destination may be competitive on the market.

Competitiveness in tourism defined as “the level a nation, under the circumstances of a free and honest market, can provide competitive goods and services increasing its citizens’ real income”⁶²⁴, competitiveness is therefore a challenge available not only to nations but also to worldwide regions and cities/ resorts.

Tourism companies should be aware of the fact that, nowadays, they operate on powerful competitive markets, and they have to come up with those specific elements in order to obtain profits considering their consumers’ needs, thus distinguishing themselves from the other companies. Hence, one can define tourism competitiveness as” *the ability to cope with competition efficiently and productively*”.

Although the issue of competitiveness of tourist destination has been approached by many researchers, such as M. Porter, who put into practice the diamond pattern for tourism, Crouch and Ritchie have designed a pattern being named after them a.s.o., at the moment there is no singular pattern. However, the existing patterns have many common elements, which have different names.

⁶²⁴Kotler Philip - *Marketingul locurilor*, Teora, București, 2001, p. 232

The concept of sustainable development has been set during years, within scientific debates worldwide and has been awarded specific political connotations within the globalization process. Sustainable tourism is a new approach for tourism and entertainment development in a country, region or tourist destination. This approach considers the main principles of sustainable tourism and embraces concerns for social equity and quality of life, environmental protection, cultural diversity and local economy of the host region. The relationship among these three pillars is represented by a concept called “*sustainability triangle.*” According to this pattern, a society is divided into three main groups called “dimensions”:

- *Social dimension*: elements concerning health, education, training, culture etc.;
- *Environmental dimension*: natural resources, quality of environment, biodiversity, etc.;
- *Economic dimension*: technology, fixed assets, financial means etc.;

The purpose of sustainable development is to maintain a balance among these three dimensions, both locally, nationally and internationally. Lately, there has been added a fourth dimension, concerning the preservation of cultural heritage and traditions.

Purpose of the paper and research directions:

This paper undertakes a study to determine and underline the tourist competitiveness of a major tourist destinations, spa resorts S.C.Turism Felix S.A.

We have taken into account *three research directions*:

- tourist competitiveness through activity’s financial performance: 2005-2009
- evolution of tourism performance indicators (average level (days) and number of tourists, turnover)
- an analysis based on quality services and corelation between staff competency (according to their training in tourism) and tourist satisfaction.

Research methods and results

The resort’s competitiveness based on the growth of the activity’s financial performance

The financial performance of the activity intends to highlight the efficiency ratio between the profit effects and the efforts needed to obtain them.

$$r = \text{Effect/Effort} * 100$$

The measurement of the financial performance is made taking into consideration the size used to create it and is made throughout a number of rate.

- Profitability rates; they are build as a ratio between profit and income results and expenses.
- Rentability rates: they are build as a ratio between the profit results and the actives or capital.
- Stock return rates: they track the stock investment efficiency.

The building of the financial performance rates, generally reports a profit result, either to a workflow or to a stock, intending to best characterise the economic performance of the company. The different rates used have different information power, reflecting the efficiency of different sides of the whole activity.

The rates that are build taking into consideration the advanced capital express the investors interests, while the rates build on the consumed resources express the managers interests.

In this article we will analyze the comercial pofitability rate and the consumed resources profitability rates, by using the available information.

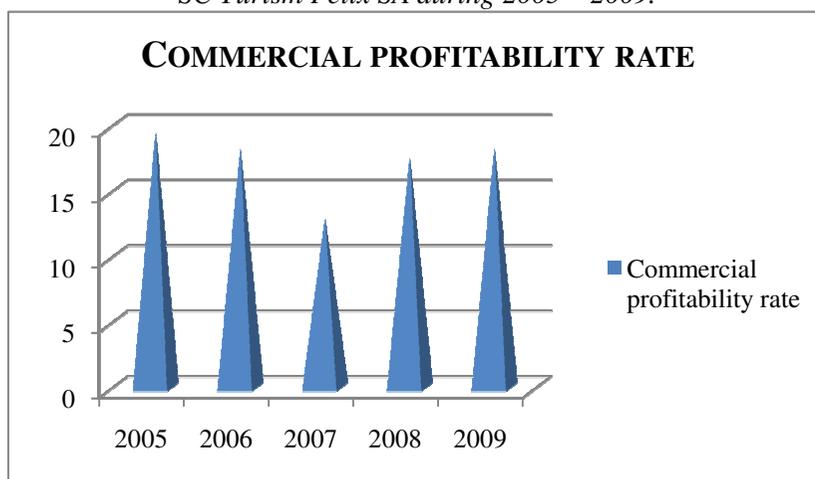
Tabel no.1 Profitability rates analysis for SC Turism Felix SA

Specificati on	Period of time					U M lei
	2005	2006	2007	2008	2009	
Gross result form exploitatio	6.891.218	6.838.223	5.650.000	8.460.000	9.755.000	

n						
Business revenue	35.374.369	37.494.458	43.918.000	48.300.000	53.300.000	lei
Exploitation expenses	29.121.774	32.829.832	39.760.000	41.250.000	44.945.000	lei
Commercial profitability rate	19,48	18,24	12,86	17,52	18,30	%
Consumed resources profitability rate	23,66	20,83	14,21	20,51	21,70	%

The commercial profitability rate characterise the commercial policy efficiency (supply, store and sell) and te competition between the company’s products reflecting especially their price policy. The commercial profitability rate is determined by reporting the result of exploiting to the result of the business revenue . Thus we evaluate the company possibility to generate a certain level of profit for a given size of the business revenue. In the economic practice it is considered that a commercial profitability rate of 5 to 20% is acceptable. If the company achieves a great sales volume, this rate will decrease without threatening their market position.

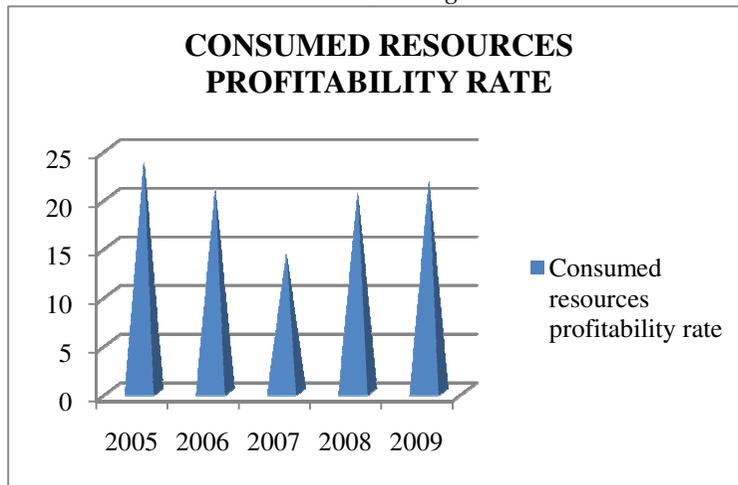
Figure no 1. The commercial profitability rate evolution at SC Turism Felix SA during 2005 – 2009.



In the case of SC Turism Felix SA we observe the fact that the commercial profitability rate register an ascending trend, reaching a minimum value for those 5 years of 12,86%, in 2007 reaching then the value of 18,30% in 2009.

The consumed resources profitability is established by reporting the business revenue result to the entire cost of the sold production. This rate is also known as the standard model for the profitability rate and it measures the capacity of the activity to generate profit through costs. The recommended level of the consumed resources profitability rate is between 5% and 20%.

Figure no 2. The consumed resources profitability rate at SC Turism Felix SA during 2005 – 2009



The case of SC Turism Felix SA, the consumed resources profitability rate, as the commercial profitability rate registers a minimum value of 14, 21 % in 2007, with an ascending tendency in 2009, to the level of 21, 70%. The growth reserves of the commercial profitability rate as of the consumed resources profitability rate refers to: improving the structure of services, in the way of growing the shares of those with high commercial profitability rate. Also rising prices; increasing the power to negotiate with the suppliers and obtaining good prices; sales increase (high occupancy of the hotel's rooms)

The evolution of performance tourism indicators: 2006 - 2008

We took into account for this study performance indicators as average level (days) and number of tourists, turnover (See table no 2)

As you can see from the table below the average level of accommodation inregistered a continuously growth from 6,77 days in 2006 to 7,16 in 2008 although the number of tourists during the analyzed period has decreased (66.136 tourists to 60.644 tourists). The continuously growth of the average level of accommodation determined an increase of the turnover from 37.494.458 RON in 2006, to 55.448.042 RON in 2008.

Table no 2. General Tourism Indicators SC Turism Felix SA

Year	Average level of accommodation (days)	Turnover (RON)	Number of tourists(persons)
2006	6,77	37.494.458	66.136
2007	7,05	43.341.563	62.569
2008	7,16	55.448.042	60.644

Source: data where processed by the authors.

Data where collected from SC Tourism Felix SA

Analysis based on employee competency and tourist satisfaction.

From the table (Table no 3) below you can see the level of qualification of employees to SC Tourism Felix SA. Tourism professionals say that the staff must have a training or faculty tourism background, qualification but it also must have a smile on their face, courtesy and decency in order to be part of a quality services system.

Table no 3. Staff Skills and qualification SC Turism Felix SA

Year	Highly qualified staff with a BA in Tourism	People attending training courses	Total	Staff skills and qualifications (%)
2006	9	19	794	3,53
2007	7	49	845	6,63
2008	10	30	844	4,74

Source: data where processed by the authors.

Data where collected from SC Tourism Felix SA

Tourist perception about staff competency in Felix is (Staff is highly qualified – 45%, Employees display a professional behaviour-51%).The recommended measures would be: to select qualified people or business graduates (for management positions) and employees who followed professional training courses. We can say that overall the tourists are pleased of services and staff behaviour.

In a previous study accomplished in April - May 2009, we point out that Buziaş SPA recorded a higher degree of staff qualification than in Felix SPA (Staff is highly qualified 67%, Employees display a professional behaviour - 69%). We also developed a *competitiveness polygon* of the two touristic enterprises for 2006, 2007 and 2008.

Another tourist perception regards reasons why Felix SPA is avoided: no programs and special offers for students, lack of information, advertising concerning the offered services, lack of attractiveness, high tariffs, poor services, poor infrastructure, and bad condition of buildings. Thus, it may be useful designing some tourist packages for young people (students) and using aggressive advertising to promote them, embracing new price policies suitable both for older and younger segment.

The advantage of Băile Felix is the fact that, it has European acknowledgement, being visited by Hungarian and German tourists. 45% have admitted its regional competitiveness and 25% admitted its international competitiveness.

Conclusions

For higher level of services, managers must hire persons who graduated a faculty of tourism or persons which have a qualification diploma (waitresses, chambermaids, etc). Also, managers must take care of soft skills (how to act in a urgent or critical situation, how to make a good day for your client etc) and abilities, and must offer to their employees trainings on this kind of needs. According to the Development Strategies of SC Tourism Felix SA 2007-2011, since 2006 it has begun the modernization of many pleasure, entertainment activities (for eg: swimming place Apollo and Felix). It also is under construction an AquaParc valued at 12 millions euro in Felix. Total value of investments program is about at 285 millions RON.

Overall we can say that a tourism enterprise performance do not depend only of its higher financial results. It also dependes on importance given to employee involvement in professional development programs. They are those who are in direct contact with tourists and they know that a satisfied customer is a reliable source of positive publicity. The employers are those who bring added value services.

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GUEST SERVICES QUALITY ASSESMENT IN TOURISM, USING AN ATTRIBUTES SCALE

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It is considered that a weakness of the Romanian tourism offer is the quality of guest services. In this paper we established as an objective to examine in detail the importance given by the consumers to the components of guest service quality and their perceived performance, based on the three pillars of service quality: the material base (equipments), staff training and staff behavior. The emphasis is on the investigation regarding staff training and behaviour, taking into account the multiple attributes SERVQUAL scale. On the basis of this work lies a survey done in March-April 2010 on the population of Oradea, on a sample of 1060 people. Results confirm the importance granted to staff in ensuring quality of tourism services and their perceived relatively weak performance.

Key words: service, quality, tourism, evaluation, Romania

JEL Classification: M21, M31

1. Introduction

Human resources in tourism has a key role in ensuring the quality of tourism services. Interaction between employees and consumers of services is recognized as a critical factor in determining consumer satisfaction⁶²⁵. Interaction time is the moment of truth. Of meeting the consumer's expectations depends its retention and loyalty, reason why this is one of the important sources of competitive advantage of a destination.⁶²⁶ The pleasure to be served completes and sometimes overcomes the pleasure of the actual products consumption³.

2. Challenges of guest services work

Service staff has a major role in ensuring service quality.

- The most important difference from the productive sphere is that among the duties of service workers is the interaction with customers⁶²⁷.

The contact between employees and customers is a co-participation in the service experience. The employee must not only be task oriented but also able to interact, to oversee the customer while he is consuming the services. Thus, the employee must be able to motivate the client to assume the role of co-producer of the service, to instruct and to correct, to monitor and help the consumer to assess their own performances⁶²⁸.

Employee relationship with customers is an interpersonal experience⁶²⁹, with everything it implies: communication, knowledge, relationship.

⁶²⁵ Suprenant, C.F., Solomon, M.R., 1987, *Predictibility and personalization in the service encounter*, Journal of Marketing, 51 (April), 86-96.

⁶²⁶ Cejas-Martin, R.R., 2005, *Tourism service quality begins at the airport*

⁶²⁷ Bowen J., Ford, R.C., 2002, *Managing Service Organizations: Does Having a Think Make Difference?*, Journal of Management, 28(3), 447-469, p.460.

⁶²⁸ Idem.

⁶²⁹ Idem.

- A specific aspect of the service employees is that in the definition of the ideal employee, positive personality has a dominant role. A category of service positions requires specialized training and high-class preparation, but for the majority emphasis is on personality, energy and employee attitude. Selecting a suitable employee for customer interaction is „like a casting for a movie”⁶³⁰, because it means hiring for various roles.
- Service employees may be harder to follow when interacting with customers. Intervention in the interaction between employee and customer would disrupt the service process on one hand, and on the other hand, the employees have freedom to find specific solutions for specific problems.
- Working in the first line of service involves a certain emotions management. Emotions management means the effort of controlling the body language, to build a side that conveys the desired message. An employee in guest services should be a perfect actor (no matter how cynical this sounds). If he is not a good actor he is not a good professional. The way in which a doctor delivers a diagnosis is more important than the healing prognosis. A teacher must show interest in a student, in his needs for knowledge.
- The employee in guest services, who is in direct contact with consumers is called front-line staff because he is in the conflict zone. The employee is the interface between the company and the client and any complaint, any unsatisfied expectation is transmitted to this staff, although it usually has little power of decision. This employee receives all complaints though is often not empowered to resolve them. Depending on consumers' exaggerated claims, the causes of conflict are: unreasonable customer requests, claims against company policy, unacceptable treatment of employees, violation of social norms, particular needs of clients and drunk clients⁶³¹.
- Front-line employees can reinforce and promote the company offers and the company itself or - on the contrary - they can undermine it, there is no middle option.
- The perception of service employees on the organization working climate influences consumers' perception of service in regards to the services they received⁶³². By this we understand that the working environment/climate is leaving a mark on the employees, which is reflected in their work.

3. THE SERVQUAL INSTRUMENT- research and applications

Quality in guest services is evaluated from two perspectives, namely the quality standards of the service provider and the consumer's quality standards. The quality of service will be given by the extent to which service providers offer meets consumers' expectations. Lewis and Booms say that: "service quality is a measure of how well the service level delivered matches customers' expectations".⁶³³

Researches on service quality have been focused initially on the way of offering high quality services.

The studies conducted by Parasuraman et.al in 1985, 1986 and 1988 resulted in a quality assessment tool. This instrument called SERVQUAL is a scale with multiple attributes that allows measuring expectations and perceptions of service quality⁶³⁴.

SERVQUAL was initially applied in banking and later on it was applied in tourism services⁶³⁵.

⁶³⁰ Idem, p.52.

⁶³¹ Fitzsimmons, J.A., Fitzsimmons, M., J. (1994), *Service Management for Competitive Advantage*, McGraw-Hill, Inc., pp.168-169.

⁶³² Baker, D.A., Fesenmaier, D.R. (1997), *Effects of service climate on manager's and employees' rating of visitor's service quality expectations*, *Journal of Travel Research*, 36(1), pp.15-22.

⁶³³ Lewis, R. , Booms, B. (1983) , *The marketing aspects of service quality*, in Berry, L., Shostack, G., and Upah (eds), *Emerging Perspectives of Services Marketing*. Chicago: American Marketing, pp.99-107.

⁶³⁴ Parasuraman, A., Zeithaml, V.A. and Berry 1988, L.L., *SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality*, *Journal of Retailing* , 64, Spring, 12-37.

⁶³⁵ Fick, G.R., Ritchie, B.J.R. 1991, *Measuring Service Quality in the Travel and Tourism Industry*, *Journal*

The assessment of service quality is made by comparing the expectations regarding the service quality and the perceptions regarding the performance of received services (importance-performance analysis). When expectations exceed perceived performance, services are assessed as having low quality and performance, but when expectations are exceeded by the perceived performance, the level of service is considered high. A critical point of service consumer satisfaction represents the construction of expectations that through reality-check do not subclass the reality. Initially, in 1985, SERVQUAL had 10 categories of attributes, which were then reduced to five categories with 22 items.

The five dimensions of service quality, SERVQUAL scale components are⁶³⁶:

Tangibles: Physical facilities, equipment, and appearance of personnel;

Reliability: Ability to perform the promised service dependably and accurately;

Responsiveness: Willingness to help customers and provide prompt service;

Assurance: Knowledge and courtesy of employees and their ability to convey trust and confidence;

Empathy: Caring, individualized attention the firm provides its customers.

SERVQUAL experienced improvements in several directions made by the creators themselves⁶³⁷. Thus they attempted to clarify further their conceptualization regarding satisfaction as a component of quality service.

Carman was among the first researchers who gave a reply to SERVQUAL and proposed improvements and adjustments in order for the instrument to be applied in retail.⁶³⁸

Fick and Ritchie⁶³⁹ extend the use of SERVQUAL instrument in tourism services, for four categories of services. It regards services provided by: airlines, hotels, restaurants and ski slopes.

4. Empirical research study for quality tourist services

During March-April 2010 a survey was conducted among the population of Oradea, Romania. The sample was composed of a total of 1060 people, sampling method chosen was the stratification method⁶⁴⁰ (margin of error of 3%). The criterion used was age. Distribution criterion was chosen as follows: 150 people aged 18-24 years, 234 people aged 25-34 years, 208 people aged 35-44 years, 192 people aged 45-54 years, 152 people aged 55-64 years, 124 people aged 65-80 years. The respondents were persons who received accommodation services at least once since 2007 till presently.

Research goal was to investigate the level of Oradea inhabitants satisfaction, with the quality of tourism services and the performance of service personnel.

The research instrument was a questionnaire with 21 questions, plus some questions related to socio-demographic aspects.

The respondents were investigated on three dimension of tourist services quality, respectively: the material base (equipments), staff training and staff behavior. It was investigated the importance given to these dimensions and their perceived performance for tourist services in Romania.

and Travel Research, 30, 2.

⁶³⁶ Parasuraman, A., Zeithaml, V.A. and Berry, op.cit.

⁶³⁷ Zeithaml, Valerie A., A. Parasuraman, and Leonard L. Berry (1990). *Delivering Quality Service*. New York: The Free Press.

⁶³⁸ Carman, J.M. (1990), *Consumer perceptions of service quality: An assessment of the SERVQUAL dimensions*, *Journal of Marketing* 665(1), pp.33-35.

⁶³⁹ Fick, G.R., Ritchie, B.J.R., op.cit.

⁶⁴⁰ Studiu realizat în colaborare cu ActiveJob Consulting

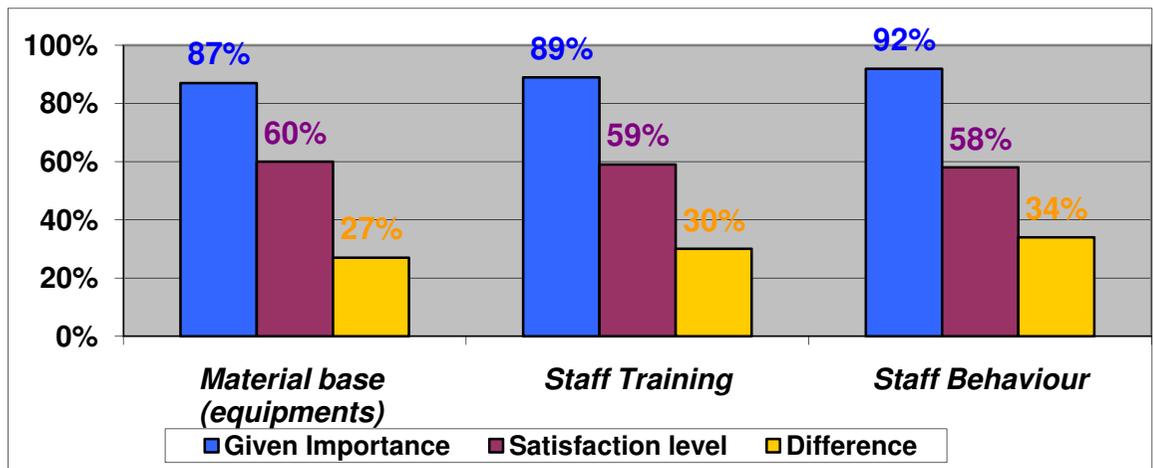


Figure no.1 Importance / performance dimensions of tourist services quality and their relationship

The results reflect that out of the three dimensions of service quality the utmost importance is given to staff conduct, which is also evaluated at the lowest level in terms of performance. A discussion should be the extent to which high expectations lead to a more severe performance evaluation. Zeithaml, Berry and Parasuraman argue that expectations are dependent on the consumer's background experiences⁶⁴¹, therefore a richer experience leads to more realistic expectations. Next place as level of importance is the *Staff training*, also on second place as perceived level of performance.

Guest services staff in general, but tourism staff in particular has a crucial role in ensuring quality of provided services.

There were 19 attributes chosen for tourism staff, in correspondence with SERVQUAL, for which it was done the analysis of the importance given by respondents and the analysis of the perceived performance of the staff from Romania (Table no.1). A scale with five steps was used in this research, from "unimportant" to "very important".

The results show that a great importance is given to all attributes. Situated on the first places, with values over 4.5 are attributes of Staff Kindness (Courtesy) and Responsibility, Communication and Timeliness. Also, from another study by Ban⁶⁴² among customers of six hotels situated on the Black Sea seaside, it resulted that the characteristic Politeness of staff is the most important from clients' perspective. The lowest values were obtained by the attributes Anticipation and Enthusiasm of staff, the reason being maybe the insufficient definition of these attributes or misinterpretation. (Figure no.2)

In assessing the performance it was observed a decrease for all attributes. The best values, although all were average level, were obtained for *Physical Appearance* and *Staff Communication*.

Interesting correlations were highlighted by identifying the links between the education of the respondents and the importance given to *Staff Kindness (Courtesy)*, the education of the respondents and the importance given to *Professional Knowledge* of staff and education of the respondents and the importance given to *Communication*.

⁶⁴¹ Parasuraman, A., Zeithamal, Berry, L. (1993), *The nature and determinants of customer expectations of service*, Journal of the Academy of Marketing Science, 1-12.

⁶⁴² Ban Olimpia, *Synthetic measure of the quality of service taking into account the client s perspective in the hotel industry*, Economia Aziendale Online-International Business Review, N. 1/2008, Special Issue ISSN 1826-4719 Reg. Trib.Pavia-n.685/2007 R.S.P., pp.1-7, www.ea2000.it.

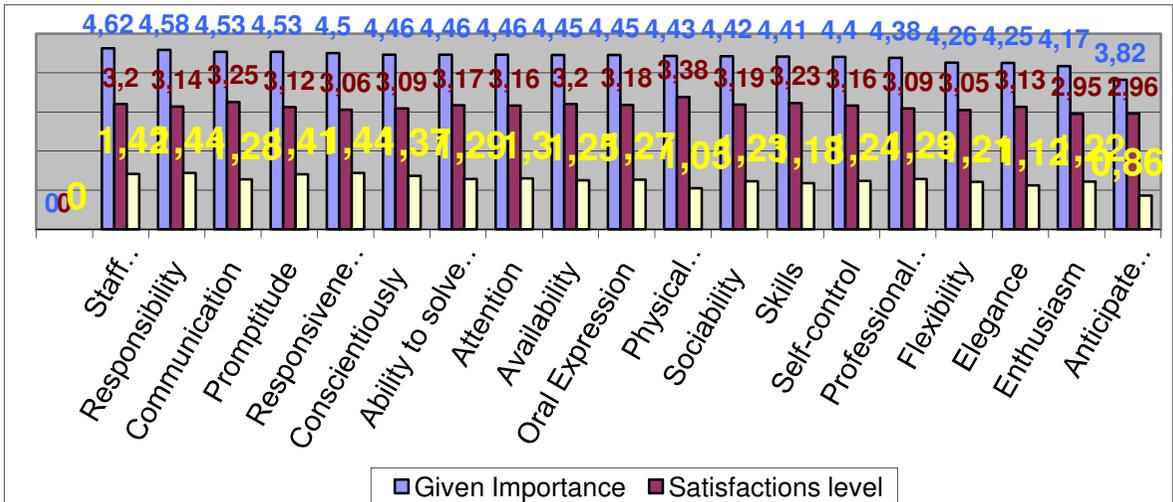


Figure no.2 Importance / performance of the attributes of tourism personnel and their relationship

An analysis of the investigated attributes, divided into groups, as proposed by SERVQUAL, shows that Oradea inhabitants are giving the highest importance to *Trust* and *Responsiveness* categories. Highest level of satisfaction was expressed for the *Tangibles* category. (Table no.1) In research done by Fick and for all four categories of services provided by: airlines, hotels, restaurants and ski slopes, resulted that it is given utmost importance to *Confidence* and *Assurance*.⁶⁴³

Table no.1 Correlation between service quality dimensions (SERVQUAL) and the studied aspects

Nr.crt.	Service quality dimensions (SERVQUAL)	Studied service quality dimensions	Given Importance
1.	Tangibles	Appearance and hygiene of personnel Elegance	87%
2.	Reliability	Conscientiousness Skills Responsibility	90%
3.	Responsiveness	Attention Promptitude Availability Responsiveness to problems Staff Kindness / Courtesy	90%
4.	Assurance	Professional knowledge of staff Ability to solve problems Self-control Communication Oral expression	89%
5.	Empathy	Anticipate desires	83%

⁶⁴³ Fick, G.R., Ritchie, B.J.R., op.cit.

		Flexibility Sociability Enthusiasm	
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If we analyze the histogram for the importance given to *Confidence* and the histogram for the importance given to *Elegance* of staff, we observe a relatively large dispersion, suggesting a relatively broad range of responses.

5. Conclusions

Tourism service staff has an essential role in ensuring quality of tourism services. Research done on Oradea population showed that between the three components of quality of service, the utmost importance is given to staff conduct, and then staff training and material base (equipments). This view is reinforced by the important attribute of tourism staff located on 1st place: *Staff Kindness/Courtesy*. Staff Kindness is an attribute which is difficult to define and standardize, however service quality is often measured by Staff Kindness by the Romanian customers. After Staff Kindness, *Responsibility* is much appreciated by the Romanian tourism consumers. We can see there is need of (re)gaining trust in the tourism services employees in România.

In regards to the perceived performance, evaluations reflect an average level of consumer satisfaction, the most appreciated attributes being *Appearance*, *Communication* and *Staff Skills*. Divided into the five dimensions of service quality, according to SERVQUAL, we see that Romanian consumers give the utmost importance to *Confidence*, followed by *Receptivity*.

We observe a sensitivity of the Romanian tourism consumer towards service staff behaviour, also because of some negative past experiences.

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DERAPAGES DE L'ECOTOURISME DANS LA CONCEPTION D'ANNE VIGNA

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The paper has three parts:

Introduction wich has the following sub chapters: 1.1. Tourism a double faceted activity and 1.2 OMT and ecotourism. The second part, Ecotourism failures, structured on the following sub chapters: 2.1.A list of disgrace, 2.2. The archaeological site of Mirador, 2.3. Paraiso del Mar, 2.4. Micos Beach, and the last part Conclusions and Bibliography. The paper is meant to define ecotourism, especially its failures in Central and South America, famous tourist destinations, natural sites and lanscapes, spectacular and vergin teritories. These future destinations are becoming an easy prey for „human sharks“, careless of natural and social environment. They hide themselves under the magic word „ecotourism“

Keywords: ecotourism, OMT, El Mirador, Paraiso del Mar, Micos Beach

Cod JEL: O13

1. Introduction:

1.1. Le tourisme: activite a double visage

À partir surtout du XX ème siècle, le tourisme est devenu un secteur majeur de l'économie mondiale et un phénomène social incontournable. Souvent présenté comme un flux de personnes et de capital, le tourisme est, avant tout, un vecteur d'interaction entre les visiteurs et les composantes sociales, économiques et d'environnement des espaces visités. Vu de cet angle, le tourisme se présente comme un secteur qui façonne les territoires, crée des dynamiques d'acteurs du secteur, confère un nouveau sens a des facettes oubliées de notre milieu naturel et humain, ou meme il en modifie les caractéristiques.

Le tourisme constitue donc un élément dynamique du développement, mais egalement une raison du renforcement de la dépendance des pays. Et comme il modifie profondément la société dans laquelle il s'exprime, **le tourisme est une activité à double visage, en meme temps structurante et destructurante, productive et dégradante, facteur de liberte et instrument de dépendance.**

Il y a 20-30 ans on tirait le signal d'alarme sur la massification du tourisme, qui a toutefois permis d'initier un nombre croissant de personnes dans la pratique récréative et des voyages, massification qui crée des dégats à la nature et à l'environnement, facteurs majeurs de l'attrait des sites, et qui n'est pas toujours positivement accepté par la population concernée. On parle de plus en plus de biopiraterie, d'incidences négatives du tourisme, de requins du tourisme, comme les appelle Anne Vigna⁶⁴⁴ dans un article du Monde diplomatique.

Liliane Bensahel et Myriam Donsimoni⁶⁴⁵, soulignent elles aussi le fait que l'image de marque du tourisme n'est pas toujours flatteuse ou bien fort positive. Les deux auteurs dénoncent, et pour de bonnes raisons, le tourisme sexuel, la dégradation des cohérences familiales, sociales, écologiques, patrimoniales et culturelles, des couts du tourisme qu'il ne faut pas ignorer lorsqu'on parle du role du tourisme dans le développement d'une société. Ce sont toujours elles

⁶⁴⁴ Anne, Vigna, juillet 2006. L' ecotourisme frelate. *Le monde diplomatique.*

<http://www.monde-diplomatique.fr/2006/07/VIGNA/13608>

⁶⁴⁵ Liliane Bensahel, Myriam Donsimoni, 2009. *Le tourisme, facteur de developpement local.* PUG, coll. Debats

qui soutiennent l'idée de l'information et de la protection contre les excès et les dérapages du tourisme.

1.2. L'OMT et l'idée de l'écotourisme

L'Organisation Mondiale du Tourisme⁶⁴⁶ a promu, il est vrai, l'idée de l'écotourisme⁶⁴⁷, en a donné la définition, ou plutôt les définitions, mais dans certains cas et certains pays il s'avère être un simple mot, très alléchant pour les touristes conscients de la nécessité de protéger le milieu naturel et social. Malgré les signaux d'alarme tirés par des ONG (comme le Tourism Concern britannique), ayant pour objet l'étude de l'impact du tourisme sur les gens et leurs milieux, la promotion d'une activité propre et honnête dans le tourisme, malgré les discussions sur une éthique du développement, terme développé par Amartya Sen⁶⁴⁸ (prix Nobel d'économie), on maintient dans le tourisme, surtout dans les pays en cours de développement, d'importantes et visibles disparités entre un secteur riche et bien fourni et le maintien d'une zone de pauvreté importante et pratiquement irréversible.

Tout le monde a adopté l'idée d'un tourisme sain, propre, vert, tourisme-nature, d'un écotourisme respectueux des sites et des gens, mais dans certains coins de la terre, comme par exemple en Amérique centrale, du sud, en Afrique, en Asie, les objectifs financiers des requins du tourisme ne tiennent pas compte du patrimoine, des réserves protégées, du sort des populations, certaines obligées de délocaliser ou de s'enfoncer dans une plus grande pauvreté.

Et tout cela malgré l'intensification des lois de préservation de la nature, de l'environnement, tout un arsenal législatif que les faux promoteurs de certaines zones à potentiel touristique réussissent à éluder, avec l'aide, certes, des gouvernements des pays concernés, des conseils locaux, des présidents mêmes.

2. DERAPAGES DE L'ECOTOURISME

2.1. Liste de la honte.

De tels exemples on peut avoir en Europe aussi, mais là, quand même, les lois s'appliquent et des sites menacés par la massification ou la voracité des promoteurs se voient aujourd'hui protégés par la loi et la conscience des touristes. Et pourtant...

Le magazine britannique Wanderlust publie chaque année une liste de la honte, **Threatened Wonders List**⁶⁴⁹, une liste des merveilles en danger. On y a mis huit destinations les plus menacées: en Jordanie, Wadi Rum⁶⁵⁰; Yangshuo⁶⁵¹, un village de Chine qui attire plus de trois millions de visiteurs par an, par-dessus la capacité d'accueil; viennent ensuite: Tulum⁶⁵², au Mexique, le site néolithique Stonehenge⁶⁵³, en Grande Bretagne, Machu Picchu⁶⁵⁴, sites incas piétinés chaque jour par 2500 touristes! N'oublions pas Jaisalmer⁶⁵⁵, Timbuktu⁶⁵⁶, les 30 km de plage de Bay of Fires... Les causes? trop de touristes, mauvaise organisation et faible surveillance.

On s'est arrêté sur trois pays de l'Amérique centrale (Le Guatemala, le Mexique, le Honduras) parce que là des choses touristiques assez louches se font sous le couvert du mot écotourisme ou bien tourisme vert. Et parce que, 60% des touristes actuels recherchent à tout prix des zones de nature vierge, des endroits pas encore vus ni visités. Et des fois, la voracité et l'inconscience des promoteurs sont à même de détruire l'équilibre écologique pour toujours car très fragile dans ces

⁶⁴⁶ http://fr.wikipedia.org/wiki/Organisation_mondiale_du_tourisme

⁶⁴⁷ <http://fr.wikipedia.org/wiki/%C3%89cotourisme>

⁶⁴⁸ http://en.wikipedia.org/wiki/Amartya_Sen

⁶⁴⁹ http://www.wanderlust.co.uk/article.php?page_id=3135

⁶⁵⁰ http://en.wikipedia.org/wiki/Wadi_Rum

⁶⁵¹ http://en.wikipedia.org/wiki/Yangshuo_County

⁶⁵² <http://en.wikipedia.org/wiki/Tulum>

⁶⁵³ <http://ro.wikipedia.org/wiki/Stonehenge>

⁶⁵⁴ http://en.wikipedia.org/wiki/Machu_Picchu

⁶⁵⁵ <http://en.wikipedia.org/wiki/Jaisalmer>

⁶⁵⁶ <http://en.wikipedia.org/wiki/Timbuktu>

coins-la. On a d'ailleurs l'exemple du Galapagos⁶⁵⁷, dont le système écologique, fragile par lui-même, se voit dangereusement bouleversé par les activités touristiques. C'est pourquoi, on a mis cette zone sous protection par l'UNESCO, elle fait partie du Patrimoine mondial de l'humanité. Les décideurs de la zone n'y ont même pas participé.

2.2. Le site archéologique du Mirador⁶⁵⁸

Bien que l'OMT ait promu l'idée d'un tourisme écologique, bien que ce soit un mot qui sonne bien aux oreilles de certains touristes consciencieux, dans l'absence d'une définition précise, des gouvernements et des groupes privés mettent ce label au front de leurs projets très peu écologiques et même antisociaux. Anne Vigna⁶⁵⁹, dans l'article "*L'écotourisme frelate*", présente le site du Mirador, situé au nord du Guatemala, comme la plus importante aire protégée de l'Amérique Centrale. Le site était un vrai bijou gardé par les forêts l'entourant. Il n'y avait que les archéologues et les gens du site qui étaient au courant de l'existence des 26 cités maya, de la période préclassique et antérieures à d'autres sites comme Palenque, Copan et Tikal. Il y a là les pyramides les plus hautes de l'Amérique (147m). Jusqu'au jour où un archéologue américain, Richard Hansen⁶⁶⁰, a vu dans ce patrimoine une mine d'or, un potentiel touristique de premier choix pour le Guatemala, combinaison unique de forêt tropicale et des sites archéologiques uniques. Le projet El Mirador prend contour avec l'appui du président du pays, Oscar Berger, et d'une longue liste d'institutions qui ne jurent que sur la conservation et la protection du milieu naturel et social, mais en réalité l'impact de ce projet aura un effet tout à fait contraire.

2.3. Paraiso del Mar⁶⁶¹

Au Mexique, l'offre des plages croît, il y a 142 projets en cours visant l'enlèvement des plages dans du béton. Les décideurs de ces pays (un peu moins le Costa Rica) se rendent compte que la nature se vend bien. Mais le plus souvent, les projets qu'ils qualifient d'écotourisme n'impliquent pas la participation des habitants à la définition et à la gestion du projet, pas d'aménagements écologiques qui puissent réduire la dureté de l'impact. Le président mexicain, Vicente Fox, a soutenu dès le début un projet catastrophique pour l'environnement: **l'exploitation du dernier aquarium mondial**, dans la Basse Californie, zone d'une biodiversité marine unique au monde et lieu de reproduction de la baleine grise et du requin-baleine. Transformer donc 244 îles, très sensibles à la pollution sonore et chimique, en zones touristiques pour les bateaux de plaisance américaines (il y a de la place pour 50 000 embarcations privées), voilà ce que le projet Mar de Cortes (dont fait partie Paraiso del Mar) pense faire car ils attendent cinq millions de touristes jusqu'en 2014! Ils n'ont pas encore obtenu les autorisations nécessaires mais ils prévoient la construction de 1500 villas, 2000 chambres d'hôtel, terrains de golf, parc de distractions, deux hôpitaux... UNESCO⁶⁶², pour essayer de sauver ce coin paradisiaque a classé les îles dans le Patrimoine de l'humanité, en 1978. Malgré cette classification, l'UNESCO a les mains liées car elle ne peut intervenir que si le gouvernement du pays l'exige! (Gonzalo Halffter)⁶⁶³.

2.4. Micos Beach⁶⁶⁴

⁶⁵⁷ <http://ecoturism-ro.blogspot.com/2009/03/turismul-distruge-insulele-galapagos.html>

⁶⁵⁸ Anne, Vigna, juillet 2006. L'écotourisme frelate. *Le monde diplomatique*.

<http://www.monde-diplomatique.fr/2006/07/VIGNA/13608>

⁶⁵⁹ <http://mondediplo.com/Ane-Vigna>

⁶⁶⁰ http://en.wikipedia.org/wiki/Richard_D._Hansen

⁶⁶¹ Anne, Vigna, juillet 2006. L'écotourisme frelate. *Le monde diplomatique*.

<http://www.monde-diplomatique.fr/2006/07/VIGNA/13608>

⁶⁶² <http://whc.unesco.org/>

⁶⁶³ <http://whc.unesco.org/>

⁶⁶⁴ Anne, Vigna, juillet 2006. L'écotourisme frelate. *Le monde diplomatique*.

<http://www.monde-diplomatique.fr/2006/07/VIGNA/13608>

Micos Beach représente un projet écotouristique du Honduras sur la plus belle partie de la cote des Caraïbes. Le pays avait déjà vendu aux nord-américains ses îles pour la pratique de la plongée sous-marine, et des terres agricoles pour l'ananas à une compagnie américaine. Pour le projet *Micos Beach*, le Ministère du tourisme du pays a exproprié 300 hectares et en 2004, il a vendu cette partie du littoral (19 millions de dollars) à une société privée qui s'était constituée en vue du projet. un terrain de golf de 25 hectares, 2000 chambres d'hôtel, 170 villas...L'attraction principale étant le Parc national ou devraient avoir lieu de nombreuses activités, un terrain de golf de 25 hectares, 2000 chambres d'hôtel, 170 villas...

3. Conclusions:

Tous ces projets dont on a parlé ignorent ce qui est le plus important: l'environnement, le milieu naturel et social, la nature est vendue et exploitée, ce n'est que le profit qui compte. Ils vont faire de ces coins de paradis ce qu'ils avaient fait, il y a quelques dizaines d'années, avec la superbe baie d'Acapulco. Les méthodes sont restées les mêmes: corruption des autorités, informations floues, indemnités ridicules ou même inexistantes pour s'approprier les terres des gens, et, qui plus est, faire tout sous le si joli label écotourisme! À l'origine de ces projets, les mêmes requins du tourisme, les mêmes investisseurs à la recherche des derniers coins vierges, intacts de la terre. Il y a, certes, un code mondial de l'éthique du tourisme et des tas de déclarations sur l'écotourisme, mais nulle part une stricte définition de l'écotourisme ni des lois qui puissent forcer les gouvernements à s'engager sur la voie honnête d'un tourisme sain et respectueux de la nature et des gens. Il faut, certes, continuer à mettre en valeur et à valoriser le patrimoine de chaque pays mais également, et surtout, faire en sorte d'assurer aussi, en même temps, sa conservation.

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THE BUSINESS PLAN – A PREREQUISITE OF FEMALE ENTREPRENEURIAL SUCCESS IN THE WESTERN PART OF ROMANIA

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It is more and more obvious that a proper planning of various activities/actions is a key of long-term success of a business organization. Writing a well grounded business plan is not easy, but nobody says that. What we can state is the fact that is worth it! Certainly no business plan guarantees success, but at least reduces the risk. And so the vulnerability can and should be reduced and kept under control. My research topic is integrated within the framework of the project called "The Entrepreneurship and the Equality of Opportunities. An Inter-Regional Model of Entrepreneurial School for Women (AntrES)", implemented in 6 counties situated on the Western border of Romania. The main objectives of my paper were to explore the chances for success of the futures business delineated in the business plans and to prove that these business plans represent a resource of the female entrepreneurship in the Western part of Romania.

Keywords: *business plan, correlation coefficients, female entrepreneurial success*

JEL Code: M13

Introduction

Today, the topic on the agenda is the crisis! More or less knowledgeable, but more numerous are those who complain of excessive consumption, lack of entrepreneurial spirit and culture of winning. Romania's entrance in the second project of modernity, the European integration process involves: 1. To break the blockage on periphery condition; Romanians to be otherwise and Romanians to be someone else, to internalize the culture of democracy and entrepreneurship 2. To leave the logic of loss, represented by the fact that modernity has not been treated first organically, the formula for importing institutional recipes was preferred, of change from top to bottom, in the absence of standards regarding consistency and time horizon of transformation⁶⁶⁵. Paradoxically, as the world is economically integrating and as the global economy becomes more and more open, more important are small businesses⁶⁶⁶. Spirit of democratic capitalism, which has led to development was to encourage individuals, based on the understanding that it represents the main source of economic and social power⁶⁶⁷. Learning a new culture of the area located far enough from habitat of forms without substance, focusing on proactive attitude and the direction change from the bottom up, is conditioned in our opinion by the definitely desertion of what the team of researchers led by Polish sociologist Piotr Szompka called the "culture block". It is a cultural background acquired over four decades of socialist regime characterized by: the predominant orientation towards the sphere of private life against the public one, to the detriment of future past, to a rather fatalistic attitude to the detriment of the individual acting power, by utility at the expense of truth⁶⁶⁸. If traditionally men were those in the leadership of a company and dealt with assertiveness, often exclusive, their professional career, in the present context the chances of women to develop a successful career substantially increased, to occupy leadership positions, to set up their own businesses. Of vital importance for a successful business is apart from confidence in your own strengths, a more careful planning and more realistic. An

⁶⁶⁵ Dinu Marin, Globalizarea. Modelul explicativ, a supplement of the journal Economie teoretică și aplicată, seria Sinteze, p.63, 70

⁶⁶⁶ Naisbitt John, Global Paradox, Avon Books, New York, 1995

⁶⁶⁷ Novak Michael, The Spirit of Democratic Capitalism, New York: Simon and Schuster, 1982

⁶⁶⁸ Cf. C. Mereuță, L. Pop, C. Vlaicu, L. Pop, Culturi organizaționale în spațiul românesc. Valori și profiluri dominante, Editura Expert, 1998, pp. 31-34

indispensable tool designed to increase chances of success of any entrepreneur is the business plan. Writing a well grounded business plan is not easy, but nobody says that. What we can sustain is the fact that is worth it! Besides rationality, intuition plays an important role for an entrepreneur. Businesses are not built with dreams. But neither without them! It is estimated that women are inclined to a more careful and prudent analysis regarding business risks, which emphasizes the role of the business plan by the effects of an increased clarity and a greater realism. Certainly no business plan guarantees success, but at least reduces the risk. And so the vulnerability can and should be reduced and kept under control. It is crucial to become able to identify and recognize the challenges imposed by new risks for what they really are: opportunities for defining new directions to stimulate renewed activity in the context of our aspirations for growth and social reality⁶⁶⁹.

My research topic is integrated in the framework of the project called “The Entrepreneurship and the Equality of Opportunities. An Inter-regional Model of Entrepreneurial School for Women (AntrES)”, implemented in the Western border of Romania in the follows counties: Bihor, Timiș, Arad, Maramureș, Caraș-Severin, and Satu-Mare.

My main objectives were to explore the chances for success of the futures business delineated in the business plans and to prove that these Business Plans represent a resource of the female entrepreneurship in the Western part of Romania.

Materials Studied and Methodology Approach

The study was conducted based on two questions: “Why do most business plans developed by students concern the services sector?”, “What is the value of their business plans for female entrepreneurship in western Romania?” So have emerged two working hypotheses:

- First case: the services sector is generally dominated economy, the economy in western Romania in particular, as demonstrated by the number of viable SMEs in this sector which is “a guarantee” for female entrepreneurs in western Romania;
- Second case: a lot of business value lies in its founder's mind, and because business plans are drawn up in a very special asset, although you will need to study and learn more about the importance of intellectual capital and on unaudited values.

The Business Plans - 360 were issued during July 1 to December 31, 2009, of the 360 graduates of the Entrepreneurial School organized at the level of 6 Territorial Centers: Bihor, Timis, Arad, Maramures, Caras-Severin, and Satu-Mare (144 female managers, ages 20-66, monthly income – 2611 lei; 144 women wishing to start a business, ages 19-58, monthly income – 1197 lei; 72 women-formators who recently graduated Economics). In the 6 months that were conducted business school courses, the 360 students developed, based on identified business idea and developed gradually over the 6 issues: a business plan for starting a business or for business growth which they already have. Developed business plans include information on: business, products and services, marketing, sales strategy, customers, competitors, location, management, personnel, financial issues.

AntrES general objectives aim on one hand side, the development of entrepreneurial and managerial skills of women in counties located along the western border of Romania (Maramures, Satu Mare, Bihor, Arad, Timis, and Caras-Severin), the improvement of the current performance and their training, the development of the entrepreneurial spirit and the generation of an increasing number of businesses, both rural and urban; on the other hand, the promotion of equal opportunities in entrepreneurship by encouraging women's involvement generally, rural women in particular, the initiation and development of their own businesses in the context of sustainable development of communities in the counties located along the western border of Romania.

⁶⁶⁹ Giarini Orio, Stahel Walter, *Limitele certitudinii. Înfruntând riscurile în noua economie a serviciilor*, ediția a II-a revizuită, Editura Edimpress-Camro, București, 1996, pp.110-111

The research based on theoretical documentation, analysis of documents prepared in the Territorial Centre 6: Bihor, Timis, Arad, Maramures, Caras-Severin, and Satu Mare and on collecting data from the participants, allowed the analysis of business plans and testing the two working hypotheses.

Results and discussion

Out of the 360 business plans developed by women in the 6 counties located on the western border of Romania, 314 business plans, or 87.23% have a business idea based on the services sector. By counties, the order is: Arad (95%), Caras-Severin (91.66%), Satu Mare (90%), Bihor (86.66%), Timis (83.33%), and Maramures (76.66%).

Business Plans distribution on major sector activities – Western Part of Romania

SECTOR	Business Plans developed BIHOR		Business Plans developed TIMIȘ		Business Plans developed ARAD		Business Plans developed MARA MUREȘ		Business Plans developed CARAȘ-SEVERIN		Business Plans developed SATU-MARE		Business Plans developed in the 6 counties	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Agriculture, forestry, fishing	5	8.33	3	5	1	1.66	8	13.33	-	-	1	1.66	18	5.00
Industry, energy	3	5	6	10	2	3.33	4	6.66	5	8.33	5	8.33	25	6.94
Construction	-	-	1	1.66	-	-	2	3.33	-	-	-	-	3	0.83
Services	52	86.66	50	83.33	57	95	46	76.66	55	91.66	54	90	314	87.23
TOTAL	60	100	60	100	60	100	60	100	60	100	60	100	360	100

Source: author's calculations based on data provided by partners: Bihor, Timiș, Arad, Maramureș, Caraș-Severin, Satu-Mare

In developing the 360 Business Plans, 60 for each territorial center, the Entrepreneurial School graduates had in mind the opportunities of the area: the favorable geographical location, close to the borders of western markets, economic development top the national average, business friendly environment, skilled labor and business opportunities in areas as services, tourism, trade, agriculture.

Several SMEs are operating in the 6 counties, whose number and distribution sectors are presented below:

Number of active SMEs as the sector in western Romania, 2007

SECTOR	Business Plans developed BIHOR		Business Plans developed TIMIȘ		Business Plans developed ARAD		Business Plans developed MARA MUREȘ		Business Plans developed CARAȘ-SEVERIN		Business Plans developed SATU-MARE		Business Plans developed in the 6 counties	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Agriculture, forestry, fishing	518	2.88	718	3.22	698	5.68	504	2.75	349	3.79	342	4.19	3129	3.54

Industry, energy	2082	11.59	2443	10.96	1593	12.97	2314	12.63	1181	12.84	1151	14.11	1076	12.20
Construction	1583	8.81	2236	10.03	1116	9.09	1645	8.98	952	10.35	1241	15.23	8778	9.95
Services	1377	76.72	1688	75.77	8867	72.24	1385	75.64	670	72.98	542	66.47	6550	74.28
TOTAL	1795	100	2228	100	1227	100	1831	100	919	100	815	100	8817	100

Source: Statistical Yearbook Romania, 2007 and author's calculations based on statistical data: Bihor, Timiș, Arad, Maramureș, Caraș-Severin, Satu-Mare County Directorates of Statistics, 2007.

In the 6 counties researched, the number and structure of employment are as follows:

Primary data on employed population, absolute and per cent values – Western Part of Romania, 2007
thousands of persons

EMPLOYED POPULATION 2007	Employed population in BIHOR		Employed population in TIMIȘ		Employed population in ARAD		Employed population in MARA MUREȘ		Employed population in CARAȘ-SEVERIN		Employed population in SATU-MARE		Employed population in The s counties	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Agriculture, forestry, fishing	87	31.28	74.1	22.09	47.5	22.45	73.2	37.18	42	34.26	56.1	37.25	381	29.34
Industry, energy	71.6	25.75	92.8	27.66	68.6	32.42	46.2	23.26	27.4	22.35	38.6	25.63	345	26.6
Construction	14.5	5.21	20.9	6.23	10	4.71	8.5	4.28	7.1	5.79	7.9	5.25	68.9	5.31
Services	105	37.76	148.	44.02	85.9	40.51	71.0	35.32	46.5	37.60	51.4	31.87	508.	38.75
TOTAL	278	100	336	100	212	100	199	100	123	100	154	100	1303	100

Source: Statistical Yearbook Romania, 2007 and author's calculations based on statistical data: Bihor, Timiș, Arad, Maramureș, Caraș-Severin, Satu-Mare County Directorates of Statistics, 2007

Research links (interdependence) between business plans developed by industry sector (y) and the number of active SMEs by sector (x₁) that the number of employed population by sector (x₂) was performed using the Simple correlation coefficient (or statistics), denoted by “r”⁶⁷⁰:

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}}$$

Where:

x_{1,2} - independent factor, x₁ - the number of active SMEs by sector, x₂ - the number of employed population by sector
y - dependent factor;

The Simple correlation coefficient “r” can take values belonging to the interval (-1,1). The symbol “r” shows us the meaning of relationship and the value of “r” shows the intensity of the link.

⁶⁷⁰ Ionciță Maria (coord.), Probleme-Proiecte-Teste, Editura Uranus, București, 1997

When “r” is positive, between x and y factors, there is a direct link, and when “r” is negative, the link between the two factors is indirect. If:

$r \in (0-0,2)$ there is no connection between the two factors;

$r \in (0,2-0,5)$ between the two factors exists a weak link;

$r \in (0,5-0,75)$ between the two factors exists a link of medium intensity;

$r \in (0,75-0,95)$ between the two factors exists a strong link;

$r \in (0,95-1)$ between the two factors exists a very strong link (deterministic relationship between the two factors).

Correlation Coefficients for the six counties analysed, separate and cumulated – Western part of Romania, 2007

Correlation Coefficient Value (r)	BIHOR	TIMIȘ	ARAD	MARAMUREȘ	CARAȘ-SEVERIN	SATU-MARE	Cumulated (from the 6 counties)
Correlation between y and x_1	0.98	0.99	0.98	0.98	0.98	0.97	0.98
Correlation between y and x_2	0.75	0.85	0.74	0.76	0.70	0.60	0.73

Source: author’s calculations based on data provided by partners: Bihor, Timiș, Arad, Maramureș, Caraș-Severin, Satu-Mare

Interpretation of results:

- The positive signs of the two coefficients indicate a direct link between the indicators measured;
- The values of two coefficients shows that there is a strong link between the business plans by sector and the number of active SMEs by sector and a moderate link between the business plans and the number of employed population by branch.

In our opinion, the results show that:

1. in developing business plans for expansion / development of business owned, for starting a business, respectively, the female managers, respectively women who want to start a business have taken into account general trends and examples of success. We can assume that they have been strongly influenced by the specific examples that they saw nearby: functional service companies, business owners in this domain, “entrepreneurial success stories” etc. There were no differences by county. At this point we can launch the assumption that the 360 graduates of the Entrepreneurial School at local level in western Romania have “carefully weighed their chances of success and have opted for services because it is a sector with potential and can provide some security”;
2. the factor, the existence of a skilled workforce was considered to a lesser extent in developing business plans for expansion / development of business owned, respectively for those starting a business by the 360 graduates of the Entrepreneurial School at local level in western Romania. The results are more different by counties, the intensity of the relationship between the two indicators in a decreasing order are as follows: Timis (0.85), Maramures (0.76), Bihor (0.75), Arad (0.74), Cara- Severin (0.70), Satu-Mare (0.60). We state that the majority of the employed population is working in trade, industry dominated by the big players with a large number of workers per commercial unit.

Conclusions

Therefore, the first working hypothesis is verified: the services sector generally dominates the economy, the economy in western Romania in particular, as demonstrated by the number of viable SMEs in the sector and the share of employed population in services, which represents “a guarantee” for the 360 women-manager, respectively women who want to start a business, and have pursued rationally and intuitively to reduce the risk of failure.

Long-term success of a business organization considers Harrington & Harrington⁶⁷¹, is determined by three main categories of factors: 1. proper planning of various activities / actions: 2. proper implementation of various plans / strategies, 3. luck/chance or non-chance in a given context (but the chance never comes to an unprepared mind). Results to confirm this second hypothesis, namely: “a lot of business value lies in its founder's mind, and therefore developed business plans are drawn up in a very special asset although we will need to study and learn more about the importance of intellectual capital and monetary values / unaudited”. What entitles us to say this?

First of all, the fact that developing a business plan is a first step towards success in business because in its development, the female-entrepreneur will have to find answers to many different questions that will allow better knowledge of the business. This will receive a shape/form and *anything with shape can be defined and everything that can be defined can be defeated*⁶⁷². Work remains unrewarded because it changes the entrepreneur who: is able to avoid some mistakes because she has already overcome the mind, gains the skills to plan a business and thinks on a long-term, gains confidence in her managerial capacity to initiate and conduct business effectively, develops her skills to be persuasive in presenting ideas on which the business is based. And *running a business is not just something in terms of improved production, improved quality control, improved labor relations, (and) improved management of creative personnel, but it is management that improves the person involved and improves the world*⁶⁷³.

Second of all, the business plan becomes a resource. Resources are everything (good, service, idea etc) that can be used in a business. Currently, traditional resources are added to others. The Business Plan presents the characteristics of resources: by its appropriate use we may gain profit, it appears as an expense and therefore has value and price, it can be replaced and supplemented with other resources, and in some ways it can be mobilized (put on moving). The great advantage of this resource, other, is the fact that it depends almost exclusively on the female-entrepreneur and can be “certified” in accordance with her own objectives and abilities.

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MEASURES AND INITIATIVES ADOPTED TO MANAGE AND DEVELOP TOURISM ACTIVITY IN THE UE MEMBER STATES

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Remtours

Abstract

The paper presents measures adopted to manage and develop tourism activity by the UE member states as: Croatia, Germany, Greece, Hungary, Denmark, Italy, Ireland, Malta, Spain and Romania.

Key words: measures, seasonality, demand, tourism activity

JEL Classification: M29

Current position of tourism in the World and Europe

Latest data from UNWTO was presented; in 2009 to July, we have seen a 7% decline on 2008 in worldwide tourism, whereas Europe has seen a 9% decline.

The UNWTO Resilience Committee is focusing on three main areas: market intelligence, stimulus measures and the green economy. It was noted that the downturn has identified the underlying weaknesses and threats which should be tackled if we are to ensure the long term competitiveness of tourism in Europe. In particular, we need to undertake work on product development, sustainability and to increase the marketing of tourism towards Europe⁶⁷⁴.

Measures taken in tourism to reduce the seasonality of demand

Croatia

One of the key problems of Croatian tourism is seasonality. In the period from June to September 86% of total overnight stays are realised and 62% in the two peak summer months. The reasons for outstanding seasonality are focusing to the one main product 'sea and sun', adverse structure and quality of tourism offer and its concentration in the coastal region of the country. Steps to ease seasonality are mainly connected to raising the quality of tourism supply and thus higher usage of accommodation, focusing on diverse segment of tourist's demand as well as to diversification of tourist products that are not closely related to the summer period such as spa and wellness tourism, urban tourism, wine roads and traditional dishes, excursion routes and national parks etc. Relevant documents are: The Development Strategy of Croatian Tourism by 2010 and Ordinance on Classification and Hospitality Facilities Categorization.

Germany

The Federal Government's Commissioner for Tourism advocates staggering the school summer holidays in the Länder, in order to bring about a broader utilisation of available capacity in the hotel and restaurant sector.

Greece

An important purpose of the Ministry of Tourism is to mitigate seasonality in tourist demand. In order to succeed, it seeks to enrich and diversify the tourism product through special forms of

⁶⁷⁴ UNWTO, Eu Tourism and the Economic Downturn: new Opportunities for a Sustainable Prosperous Future?, 8 th European Tourism Forum, Brussels / Belgium 9 th October 2009.

tourism. The Ministry aims in particular at nine sectors of specialised tourism products (Seaside, Sea, Cultural, MICE, Rural, Health and Wellness, Luxury and “City Break” Tourism). The overall aim is to offer a variety of options concerning the Greek tourism product, penetrate into as many and different markets as possible as well as set an influential tourism pattern, confirming the country’s capability to meet the expectations of visitors with varied motives and multiple demands.

This differentiation of the tourism product aims at the sustainability of enterprises which have completed 12 months of operation. The main objective is to improve quality in all domains (services, tourist infrastructure, visitors) which will help upgrade the international presence of Greece (new markets, enhancement of traditional markets) and will guarantee the conditions for bigger investments.

Hungary

In the National Development Plan until 2013 1.197 billion EUR can be spent for tourism development as indicated in point 2.5, mainly for tourism attraction development, accommodation development and for the establishment of destination management system. The developments contribute to the establishment of high quality tourism services and widening the tourism offer throughout the whole year.

In the priority tourism product development areas detailed substrategies are established outlining the major aims and development measures. A substrategy has been already elaborated in health and spa tourism, ecotourism and equestrian tourism development. A cultural and a youth tourism one is under development. These strategies serve partly quality development of the main tourism products, partly to decreasing the seasonality through widening the product offers throughout the whole year. It gives guidelines to the evaluation of applications for funding of developments and supports co-operation between the governmental bodies and industry organisations.

One of the main objectives of the Hungarian National Tourist Office is to reduce the seasonality of inbound and domestic demand in order to help the sustainability of the sector. Some major marketing actions in co-operation with the service providers also contribute to decreasing the seasonality. In the field of inbound tourism, the most successful measure has been the Budapest Winter Invitation campaign that aims at inviting tourists to Budapest off the high season: between the 1st of November and the 31st of March. This is the third year of this campaign that attracts more and more visitors to the Hungarian capital while more and more hotels and other service providers join the campaign. What refers to domestic tourism, the Hungarian National Tourist Office has several initiatives with the regions and service providers (for example 2=3 or 3=4 nights in hotels) to help reducing seasonality in the framework of the so called thematic years (2006: the Year of Gastronomy, 2007: the Year of Ecotourism, 2008 the Year of Water tourism, 2009: the Year of Cultural Tourism, 2010: the Year of Festivals). Through thematic year promotions the HNTO promotes a specific product through the whole year by this generating demand towards certain tourism products all over the year.

The promotion of off-season mega events like Budapest Spring Festival also contribute to decreasing seasonality. The HNTO also stimulates the utilization of the holiday cheques for domestic travelling which also contributes to decreasing seasonality. The HNTO has developed the national tourism database as a united source of tourism information to public and professionals which makes the all year round events available.

The first results of developments can be measured as regards the seasonality. Even though the average stay of tourists did not change in 2007, the share of the first 4 months in the total demand increased by 5 %.

Denmark

In 2006 VisitDenmark initiated the project “All-year tourism” with the aim of developing strong tourist destinations and attracting more tourists off-season. The project is supposed to support innovation, co-operation and growth in Danish tourism and focuses on product development (accommodation facilities, attractions, general tourism offers and experiences, tourism service infrastructure etc.) and branding. Seven destinations through-out the country have been chosen as “all-year destinations” and a few might be added. VisitDenmark is responsible for the project management, including the planning of workshops and seminars, study tours etc. In January 2009 the seven destinations have finished their implementation plans for their development 2009-2015. The project will continue throughout 2009 with a focus on strategic organisational development (DMOs), target group oriented product and experience development and strategic marketing.

Italy

Face to the current economic downturn, the Secretary of State for tourism signed in January 2009 a decree on “holidays vouchers” to benefit low income families. Vouchers can be used from the 6th of January until the first week of July, and from the first week of September until the 20th of December. The amount granted covers between 20% and 45% of the average family expense for holidays, calculated according to several criteria, such as annual income and number of persons in the family.

Ireland

The tourism agencies have been working with industry for a number of years to encourage tourism in the non-peak season, in particular by offering good value packages at these times. A National Conference Centre is due to open in 2010. A number of conferences have already been secured in the off-peak season and strategies are being implemented to grow this business. A new Cultural Tourism Initiative should encourage visitors outside of the peak season.

Malta

One of the main objectives of the National Tourism Policy is to reduce seasonality, though it is acknowledged that tourism activity is by its own nature seasonal.

Product improvement projects are being developed aimed at encouraging tourists to visit and experience the different localities during their stay on our islands. This will help to achieve a fairer distribution of income and increase employment throughout the islands whilst alleviating some of the pressure off the more visited sites and locations.

Cruising – Government will continue its efforts at promoting Malta as a ‘cruise and fly’ destination. Cruise passenger visitors are potential tourists. Investment in artistic projects will be undertaken to ensure the possibility of providing a local art experience to the tourist. The sister island of Gozo may be promoted with operators of clippers (small cruise ships carrying less than 1000 visitors). These will visit Gozo and Malta. Travelling in smaller numbers but providing a higher yield, these tourists are more attractive for Gozo. Government will make the necessary investments in order to have offshore berthing facilities.

Strengthening short breaks – Government will continue to maintain and promote a national calendar of events. Various measures are being taken aimed at attracting low cost airlines to operate to and from Malta thereby increasing the number of short-stay holidays in Malta. Government will continue supporting events that add value to the visitor’s stay in Malta.

Relaxation – In the last couple of years a number of hotels have invested in health and spa facilities in order to market Malta for this emerging market. These facilities provide an added-value for short break holidays.

Medical Holidays – Government will continue supporting private institutions interested in developing this niche. Private hospitals are working with international organizations in order to

obtain permits to be able to carry out medical procedures on their behalf. Marketing efforts are underway to support these initiatives.

Wedding Holidays – The related product and services are continuously being refined to offer a memorable experience to the growing number of foreign spouses who are deciding to get married in Malta.

Our policy is to ensure that marketing, product development, human resource development and quality assured initiatives are well co-ordinated and integrated to ensure that the identified segments continue to develop and result in a positive economic and social contribution to Malta and Gozo.

Spain

The model of action used in most tourist destinations has hitherto been marked by a two-pronged approach of standardisation and diversification. These concepts must be replaced by specialisation and differentiation in response to the new challenges facing the sector. This will inevitably have an impact not only on the setting of priorities for action but also on the content of the actions to be implemented.

Actions to support the design and planning of tourism products

The aim of developing the reference methods for designing and planning tourism products is to provide support to the tourist destinations that need it, so that actions can be appropriately defined and implemented in order for these destinations to be able to achieve the required level of specialisation and differentiation.

The most important actions that will be carried out or promoted relate to the following areas:

- The planning, organisation and management of the specialist product.
- A manual for the specialist tourism product.
- The creation of a specialist product club and/or specialist tourism association at national level.
- A tourism product observatory - scorecard.
- Comparative analysis with the leading international specialist destinations.
- Fostering innovation with regard to tourism products.
- Destination specialisation
- A model signposting system – homogenisation.
- Marketing and commercialisation of the specialist tourism product.
- Marketing and commercialisation model for the specialist tourism product.
- Guidelines on the image and positioning of the specialist tourism product.
- Customer service and information model for dealing with tourists in the destination.
- Internet presence and online marketing.
- Loyalty to the specialist demand.

Romania

There are 3 programmes developed for extending the season by offering low price tourist packages for holidays taken in spring and autumn: “The Sea Coast for Everybody”, elaborated by ANAT - the National Association of Travel Agencies and Tour Operators, “A Holiday in the Countryside” elaborated by ANTREC - the National Association for Rural, Ecologic and Cultural Tourism, and a “A Week of Recovery in Spas” and the “Spa Decade”, elaborated by OPTBR -the National Association for Spa Tourism.

Conclusions

This meseures provides Member States with an opportunity to outline specific initiatives and policies that are or are going to be adopted to manage and develop tourism activity in ways which respond to the key challenges of the Agenda and which fall within the six main aims of the Agenda itself.

1 Economic prosperity

To ensure the long term competitiveness, viability and prosperity of tourism enterprises and destinations.

To provide quality employment opportunities, offering fair pay and conditions for all employees and avoiding all forms of discrimination.

2 Social equity and cohesion

To enhance the quality of life of local communities through tourism, and engage them in its planning and management

To provide a safe, satisfying and fulfilling experience for visitors, available to all without discrimination by gender, race, religion, disability or in other ways.

3 Environmental and cultural protection

To minimise pollution and degradation of the global and local environment and the use of scarce resources by tourism activities.

To maintain and strengthen cultural richness and biodiversity and contribute to their appreciation and conservation.

Due to the crisis, competitiveness of the industry has come more into the picture. Different elements such as sustainability, branding or diversification strategies receive more attention than before the crisis.

Improving competitiveness has to be achieved, firstly, by improving price/quality standards and, in a second stage, by implementing sustainable development process.

Emerging markets (e.g. China, India) constitute new market opportunities for the european tourism and hospitality sector. However, the current visa policies should be facilitated. Training is being organised to facilitate the hosting of these new giests with different cultures.

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SOFTWARE DEVELOPMENT BUSINESS MOVING TOWARDS A UNIFIED COLLABORATIVE SYSTEM IN IT. SAAS MAY BE THE NEW ORIENTATION.

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In this paper we will present an alternative way of programming. Our opinion is that, in the next few years, software development business will suffer serious changes. Software vendors will adopt SaaS (Software as a Service) as the new way of selling their products. We will try to guide you through the basic concepts of this relatively new domain. The article also includes a brief description of an application, developed indoor but using SaaS applications for some of its modules. In the end we want to make an SWOT analysis of the opportunity of using SaaS.

Keywords: Software as a service (SaaS), informatics, business, vendors, new technology.

Introduction

Application to be described in this article is a dynamic site which aims to create a mode of communication between lawyers and those who need advice on legislation. Thus users are both those who need answers to various questions related to legislation and those that will provide answers and are able not only to advertise through this site but also to gain something from their involvement in this business.

The basic idea of the application is relatively simple and can be summarized as follows: A client, a user who needs legal advice in the legislative field, will post a question on this site and lawyers who are willing to provide information, will establish a supply response. The supply response means that they will set a price they are willing to answer the question posted. The customer will decide based on reputation and offer which lawyer will offer the answer that he needs. The application will download from the customer's account the amount of the transaction and will transfer it in to the lawyer account (90%) and the remaining 10% in to the webmaster account.

As will be seen in this paper we will debate whether the use of free tools that can be found on the Internet and integrate them into an application is or isn't a good idea. We will elaborate on this process in what follows.

Not everyone can post their questions on the site, only those customers who have made an account in advance, and more, have uploaded their budget with a certain amount of money. In a classical way, the work on this application begins by creating an account. To access all the features of the site, a visitor will need, whenever he visits the site, to login. This procedure is valid for lawyers as well. The procedure is a standard for most online applications. Using logging is clear an opportunity, whereas it provides some security in terms of users but, also to prevent overloading the application with non-human users, or so called robots.

Applications Description

For creating this application we have chosen to use PHP and MySQL. The system is built using our own set of code and, where needed, using outsource services. This paper goes on to explain how the site works and which the innovative elements of our application are.

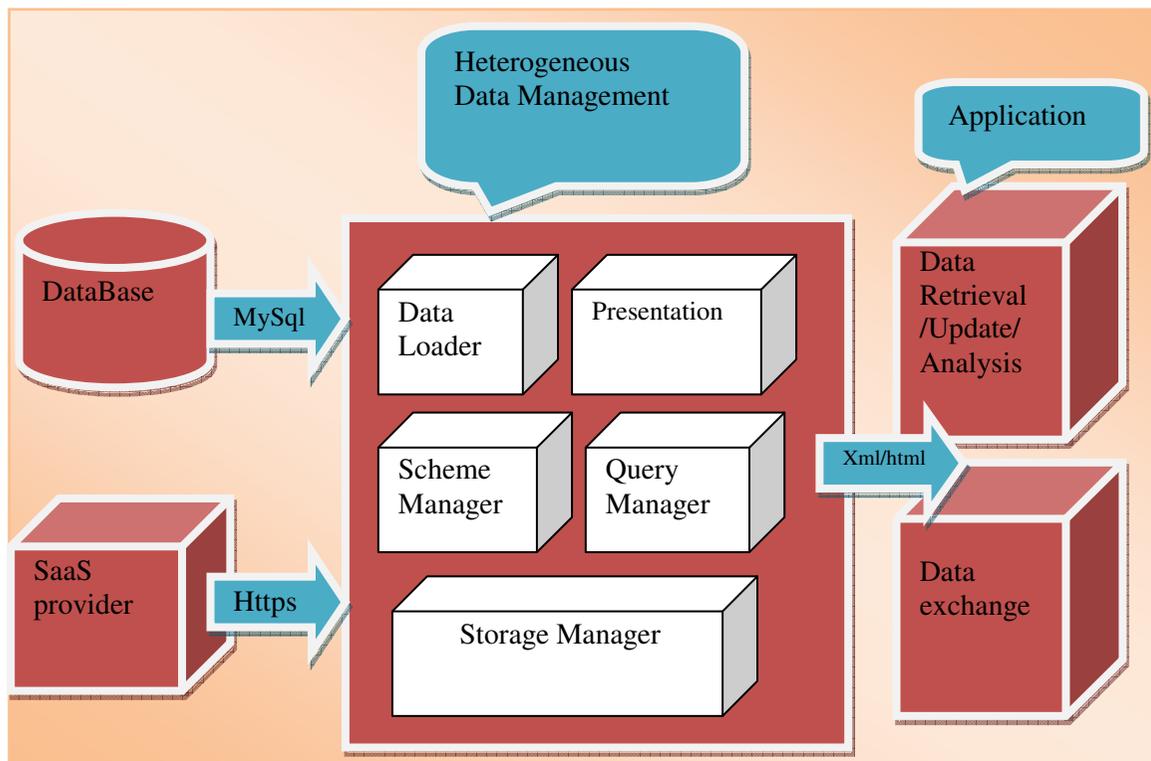


Fig.1. Applications Architecture

Virtual communities are one of the most important developments in Internet history. Due to rapid exchange of information, they have brought major benefits in almost all areas of everyday life. Legal advice is not an exception. Thus both lawyers and clients can meet and make exchanges of information using the digital advantages of having quick information, eliminating bureaucracy and endless queues.

We have inserted a virtual community in this site using a forum application, named Simple Machine Forum (<http://www.simpleremachines.org/>). This choice is understandable as it is easy to use, secure and relatively high positioned compared to the popular PHPBB. For more enjoyable browsing of the site we chose to integrate the forum using an iframe. This allowed us, as programmers to save a lot of time and hard work. This forum is the first free source that we used to sustain our idea that one does not have to reinvent fire when he develops an application.

So, the site has a forum that allows stakeholders to communicate. Access is allowed from the outset and does not require prior authentication. This is because we consider that a new visitor must be able to pursue such discussions and know how other users use the application, and thus be motivated to create their own account and to commence their activity. About the economic side will discuss later in this article.

What is SaaS?

“Quite simply, Software as a Service (SaaS) is a service that allows you to outsource the technical aspects of your business. By finding a good SaaS provider, you can eliminate the worry about purchasing, installing and maintaining software or hardware, and focus on managing and expanding your business. The SaaS model is expected to become an important alternative - especially during a financial crunch - not only for larger companies but also for small and medium businesses with low budgets for IT. Since a traditional IT budget is made up of an IT team, SW licenses, and equipment such as servers, SaaS offers a significantly reduced TCO (total

cost of ownership). This is due to low cost of deployment, no expensive equipment purchases, and the ease and speed of implementation. As SaaS is often put into service on a pay-per-use basis, or subscription based on usage, this further reduces corporate expenditures. The right SaaS provider offers a business approach to ease your decision-making regarding IT and will reduce your budget. Implementing SaaS also eliminates the time spent for upgrades and maintenance.” (Galor Systems & Software Development, March 2009, content cannot be changed).

Types of SaaS

SaaS must be defined depending on the type of its users. So software as a service can be considered an:

-On-demand software purchasing where clients purchase applications using the Internet. For software providers, this type of SaaS represents a cost-effective sales channel and software delivery mechanism. Another asset for vendors is the fact that they would no longer have to think about a licensing protocol. For users, it provides a fast and easy way to obtain software, information and all this at a very cheap price, comparing with buying software traditionally.

-On-demand IT service-oriented architecture (SOA) where an application or software is created using exchanged information between programmers. A SOA offers a flexible approach to application development that encourages service re-use and reduces the need to build point-to-point connections for data and application integration.

-On-demand application services where individual users or organizations pay external third-party providers for the use of their application services. The objective of this type of SaaS is to trim software and hardware costs, and to reduce IT staffing and skill requirements. This approach may also be used as an interim step before bringing application software in house.

Some industry analysts describe the on-demand application services model as SaaS 2.0, because it extends the capabilities of earlier SaaS initiatives. An on-demand application services vendor may, for example, support a SOA for providing easier access to the services it offers. (Colin White, 2010)

SaaS- the end of classical IT business

Software as a service could turn out to be the end of classical business in software providing world. Customers would have a lot of benefits from using these alternatives: They can have access to sophisticated technology without up-front expenses or the hassles associated with the installation and maintenance of traditional software. For providers, SaaS could mean the opportunity to challenge new markets, to break down classical frontiers and no more headaches concerning software licensing.

So a great thing concerning SaaS providers is that they offer their application with their obligation to maintain it and to host it on their servers. As it can be seen this alternative could turn out to be very cheap for a user as his costs with maintenance and hardware requirements would be minimal.

Like any new concept, SaaS has its own shortcomings. The fact is that not even today theoreticians agree on a definition, as SaaS still experience a perpetual process of evolution. At a global level, people are still reluctant to use such services as there is a lack of trust to save data bases outside an organization’s firewall. We couldn’t help but wonder: Could you run a business entirely on hosted offerings? The answer is not clear but even so IDC said that in 2009 people all over the world spent \$10.7 billion on SaaS.

In my opinion healthy enterprises need to develop their own unique applications, and any modern IT infrastructure needs to be fully integrated in a manner that cannot be achieved with SaaS solutions today. But an urgent need to stop piling cost and complexity on IT is sowing the seeds of change. Although enterprises may not be replacing effective, large-scale systems with SaaS alternatives, the SaaS option suddenly becomes perfectly viable when it comes to adding new

functionality. And, as Salesforce.com discovered, SaaS can be particularly successful at replacing in-house or off-the-shelf software that has failed miserably.

As I have mentioned SaaS has some deficiency. One of them is the lack of trust providing, so that an organization to use only outsource software. Indoor software still seems more reliable and efficient in a manager's eye. In my opinion this happens, not because SaaS is not the best alternative, but because the infrastructure all over the world is not allowing an exclusive usage of this kind of services.

SWOT analysis for SaaS

<ul style="list-style-type: none"> -Domain knowledge -Low cost -Infusion of investors -Customer relationship -Web API scanning -Pay per use model 	<ul style="list-style-type: none"> -Customer understanding -Quick deployment -Uses existing solutions -High growth -DB scanning -VMware capability 	<ul style="list-style-type: none"> -Server level management -Low transparency -Small research team -Operations cost -Infrastructure -Low access -Lower security -Small support team -Web-centric sales -User experience
<ul style="list-style-type: none"> -New markets -New distribution channel -technological development -Integration with 3rd party blocking technology -Higher profit opportunity 	<ul style="list-style-type: none"> -Greater market share -3rd party experience 	<ul style="list-style-type: none"> -Lot of competitors -Address weaknesses -Big players already on the market -Company acquisition -Lack of trust -Alternative technologies -Malicious impostors

What to look for in a SaaS provider?

There are a number of elements to consider when evaluating a SaaS provider:

1. Industry expert – When deciding on a software provider it is logical to try to find the one that is most familiar with your industry. Familiarity with your specific vertical market ensures the solution that is tailored to your needs.
2. Experience – it is one of the most important criteria as an experienced provider could offer you a plus of value and security.
3. Team – ensure the team who will be servicing your business knows the ins and outs of your industry.
4. Support – make sure your SaaS provider includes implementation support, help desk, and training in your agreement.
5. Security – always check security services are included. This includes backup, recovery, encrypted data, firewalls, and unique ID and password access

Electronic payment

PayPal is an online electronic payment system recognized worldwide for its benefits to the electronic trading methods. Recently this system has entered the Romanian market with a fairly high success, given that Internet commerce status in Romania is at a relatively low level, compared with other EU countries. It is a safe (secure) application for e-payment, bringing many benefits to the protection of user data.

PayPal provides a powerful tool for automatic creation of HTML code for its integration in virtual shops. HTML code is defined by a series of specific parameters. Beside this, in the website we had to integrate and sequence PHP code to manage the database.

Thus each client after authentication will be given the possibility of loading the budget account. This will be possible by accessing the load account page. Once the page is activated, it will generate a payment process through PayPal. Through a secure connection, the client is returned to that page Avocat.NET and the amount of money enters in the sites circuit. This will refresh the account values.

The database contains the client identification code, time and date of loading account. Note that the load transaction does not charge commission. All administrators can withdraw the amount available under its credit card account registered at any time.

A counsel may request a withdrawal. Its request is processed by an administrator who will send the Advocate a transaction confirmation message. Money circuit in Avocat.NET system is described in the following scheme:

Step1: The client account on Avocat.NET loads using PayPal.

Step2: Following the transactions between clients and lawyers a fee of 10% of transaction value is passed into administrators account and the rest of 90% is transferred into the lawyers account. The total amount is deducted from customer's account. It represents the questions price. This operation takes place within the site.

Step3: Attorney may request the withdrawal amount from his account. The request is being processed by the administrator manually. Once satisfied the transaction, the administrator will notify the lawyer by a confirmation email.

Why PayPal

We have chosen PayPal for our payment facilities as we consider that it is very easy to use by the applications clients, the provider is accomplishing the criteria mentioned above, and last but not least is very easy to integrate in our web-site. More than that PayPal has a pay per use type of pricing, consisting on a \$0.30+ 1.9-2.9% of the transaction value. It's by far the cheapest solution on the net.

Conclusion

One of the biggest problems in informatics is the tendency of the designers to reinvent fire. When developing an application, most programmers don't pay attention to the solutions that already exist on the market. They just start creating. If we analyze all e-commerce applications we would observe that most of them have a similar structure. A lot of their modules have same functionality, but each one of them was created by different people. Isn't that a waste of time?

Unfortunately, comparative with other industries, in informatics, there is still a lack of standardization and work efficiency. In the Microsoft Visual Studio 2010 Conference that took place on 15 February 2010 in Cluj-Napoca, Ciprian Jighici said that an IT project has no more than 20% chance to succeed. Another 60% of the projects are starting for a reason but turn out to be something completely different. The last 20% are totally failed. If we compare informatics with the airline transportation industry, for example, the statistics are really frightening. Lets imagine what would be if we would have to leave from an airport and the chances to arrive to our destination to be only 20%; in 60% to go elsewhere; and in 20% of the departures to be sure we won't land at all.

This issue is debated by theoreticians since the explosion of Dot Net technologies. The question everybody asks is how could we make programming process more efficient? How could we share our work to help others and gain something of it? The first intention to respond to this question was represented by ASPs (application service providers) and now the domain concerned to give answers to these questions is SaaS (software as a service). The promoters of this type of services thought to give designers an alternative to programming. A designer can decide to implement a service for a module that has a common functionality. Having this into consideration, we have implemented in our application the PayPal service for the online payment. We consider that

developing an on-line payment mechanism is time consuming, very expensive and the final result isn't at all secure. PayPal, on the other hand, is a service that is cheap and easy to use. One needs only 6-7 hours to transform his marketing site into a veritable e-commerce application only by using the PayPal's service.

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EIGENSTÄNDIGE PRÄ- UND NOTFALLKLINIK ALS ZENTRALES RETTUNGSZENTRUM FÜR DIE REGION 10

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The German health care system has been undergoing many reforms. The introduction of the DRG-financing system, as one of the major changes for the German hospital setting in the last decades, had huge impact on the evolution of the hospital resources and capacities, economic situation, organization, structure, processes and average length of stay. In this context, the optimal organization and structure of emergency departments is becoming a strategic factor of success for hospitals. This paper presents briefly the present situation with regard to the organization and structure of emergency care in Germany and describes the strategy, goals and expectations when establishing a new interdisciplinary emergency department for Region 10 in Germany.

Keywords: Notfallversorgung, eigenständige Notfallklinik, Rettungszentrum.

JEL Classification Code: I10 M10 L20

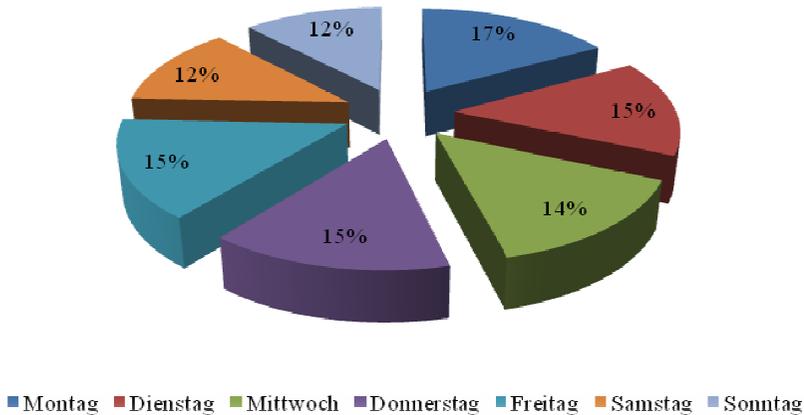
1.Einführung

Die ambulante und stationäre Notfallversorgung im Klinikum Ingolstadt war seit den achtziger Jahren so organisiert wie in allen deutschen oder europäischen Kliniken. Ärzte der verschiedenen Fachabteilungen wurden entweder bei eintreffenden Notfällen alarmiert und aus den Fachkliniken tagsüber abgezogen und zu den Notfällen entsandt oder nachts wurden die im Hause tätigen Bereitschaftsdienste der Fachabteilungen informiert einen aufgenommenen Notfall zu behandeln. Das System zeigt schon ganz zu Beginn seine Schwäche! Die Leitstellenkraft oder die Pflegekraft taxiert und bewertet den Notfall nach Schwierigkeit, Komplexität und Dringlichkeit und alarmiert die Hausdienste der Fachabteilungen? Diesem Alarmierungsruf geht somit eine „erst Diagnose“ durch genannte Personen voraus, die eigentlich dazu weder ausgebildet noch in der Lage sind. Die Dringlichkeit des Falles konnte überdies durch den reinen „Piepser ruf oder das Telefonat „ nicht vermittelt werden. Oft waren die Diensthabenden auch durch und an ihre geplanten Routinen der Fachabteilungen gebunden und nur mit zeitlicher Verzögerung abkömmlich. Zeit ist Qualität zumindest in der Notfallversorgung, dies erkannte man zunehmend oft. Ein weiteres Problem das offensichtlich wurde war die Qualität der entsandten Mediziner die sich mit den Notfällen beschäftigen sollten – Ärzte in Weiterbildung, oft am Anfang ihrer Medizinerlaufbahn mussten sie sich mit den schwierigsten und kompliziertesten Fällen im ersten Zug beschäftigen. Manchmal dauerte es sehr lange bis sie sich fachärztliche Kompetenz der eigenen und oder anderer Abteilungen zu Rate zogen oder gar den Fall an diese abgaben. In einem ersten Schritt hat man vor Jahren teilweise eigene Schichtbesetzungen und vor Ortbesetzungen in den Notfallzentren etabliert ohne dabei auf die Struktur oder Qualität zu achten und man sich nicht wirklich mit dem Fallaufkommen und den Strukturen beschäftigt - die medizinische Versorgung blieb auch in der Notfallaufnahme ein Teil der Fachklinik und war zu sehr „spezialisiert“ und am üblichen Aufnahmeverfahren orientiert.⁶⁷⁵

⁶⁷⁵ Für ergänzende Literatur siehe auch: Hogan, Barbara, *Veränderung in der Versorgung von Notfallpatienten in den Notaufnahmen deutscher Krankenhäuser – ein Paradigmenwechsel?*, in: das Krankenhaus, 2010, Nr. 4, S. 304- 312.

Erst als sich die Notnahmefrequenz erkennbar änderte und die Häufigkeit der Aufnahmen stieg und die Bevölkerung sich mit den tradierten Klinikstrukturen zunehmend wenig identifizieren konnte war man in der Ärzteschaft und im Pflegedienst bereit neue Strukturen an zu denken und um zu setzen. Nachfolgende Graphiken verdeutlichen das Aufnahmespektrum, die Aufnahmestruktur und die fachliche Diversifikation für das Jahr 2009.

Notfallzentrum - Fallzahl je Wochentag

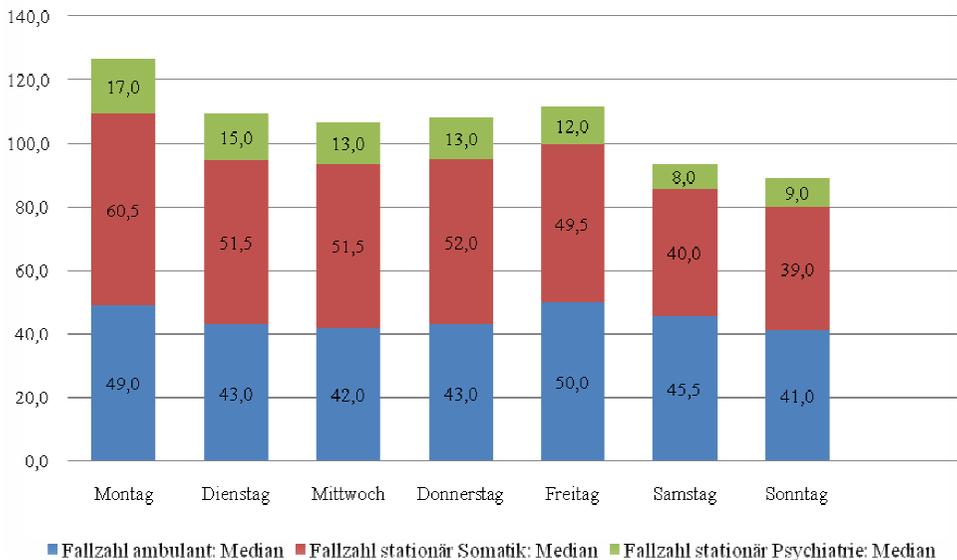


Graphik 1: Notfallzentrum- Fallzahl je Wochentag in 2009

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

Das Klinikum Ingolstadt hat sich fortan mit diesem Thema beschäftigt und die unternehmerische Leitentscheidung getroffen eine eigenständige Prä- und Notfallklinik als Rettungszentrum für die Region mit eigenständigem Personalkörper und verantwortlichen ärztlichen Leiter(Chefarzt) ein zu richten.

Notfallaufkommen: Median

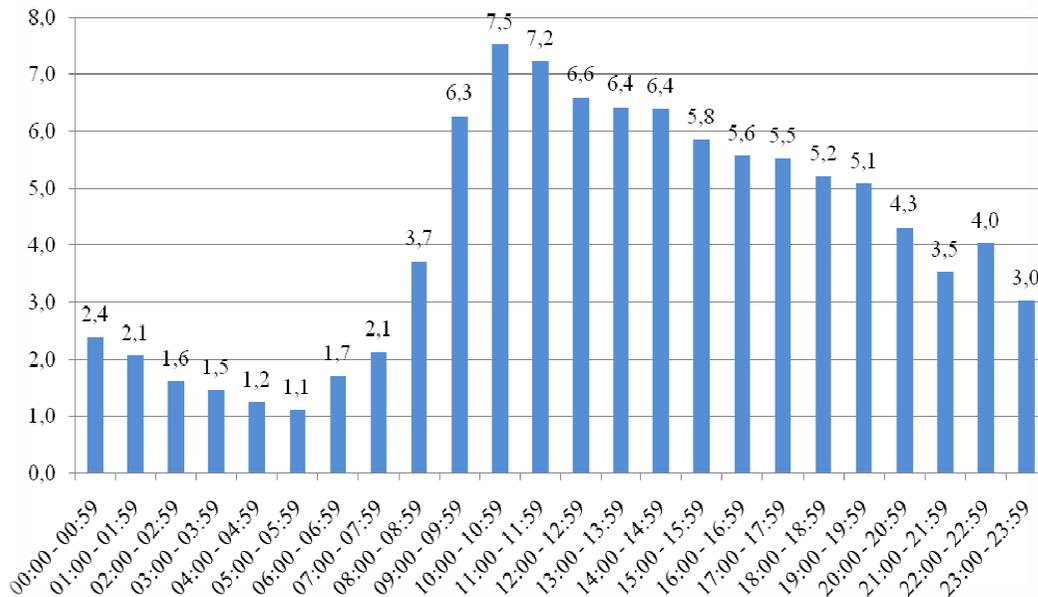


Graphik 2: Notfallaufkommen: Median (2009)

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

Dieses Thema wurde auch in der deutschen Fachliteratur analysiert und beschrieben.⁶⁷⁶

Notfallaufkommen je Zeitintervall (%)



Graphik 3: Notfallaufkommen je Zeitintervall (%) in 2009

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

2.Strategie und Organisation

Im Klinikum Ingolstadt soll eine Klinik bautechnisch eingerichtet werden, die in der Lage ist alle Notfälle aufzunehmen und kompetent und zuverlässig die Erstversorgung garantiert. An einer Stelle soll die ambulante und stationäre Versorgung gewährleistet und abgebildet werden. In einem Triage-System soll dabei ohne großen Zeitverlust (grün – gelb –rot) der Patient im Hause ohne es selbst zu merken von den noch rechtlich getrennten Systemen einheitlich und prozessual Zusammenhängend versorgt werden. Dabei muss das KI die baulichen Voraussetzungen schaffen und die Anfahrtswege zwischen und für leichte und schwerverletzte Patienten trennen und eigene zu diesem Zweck notwendige Behandlungseinheiten schaffen.

Das inhaltliche Ziel war dabei:

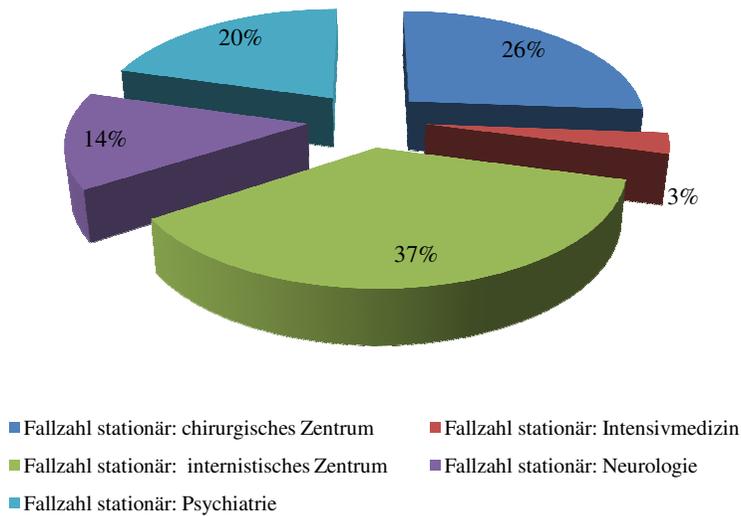
- Notfallpraxen für Erwachsene und Kinder ambulante Notfälle betrieben durch die Niedergelassenen im Klinikum Ingolstadt in einem abgestimmten Schichtsystem inhaltlich kommunikativ vernetzt;
- Notfallzentrum für stationäre Patienten;
- einheitlicher Gemeinsamer Aufnahmebereich technisch und logistisch vernetzt;
- Polytrauma- und Schockzentrum;
- Rettungszentrum;
- ambulante und stationäre Notfallversorgung psychisch Kranker (Erwachsene und Kinder);
- Stationierung sämtlicher Rettungsdienste incl. der Notärzte in dieser Klinik und in diesem Team

⁶⁷⁶ Siehe auch z.B.: Bey, T.A.; Hahn, S. A., Moecke, H., *The current state of hospital-based emergency medicine in germany*, in: Int J Emerg Med, 2008, Nr.1, S. 273-277 und Hogan, Barbara; Fleischmann, Thomas, *Interdisziplinäre Notaufnahme – Konzeption und personelle Besetzung*, in: Krankenhaus Umschau, 2008, Nr. 2, S. 30- 32.

- einheitliches und abgestimmtes Screeningverfahren;
- abgestimmte Prozessabläufe;
- eigener Personalkörper mit den relevanten Facharztgruppen und hochspezialisierten Pflegekräften.

Die eigenständige völlig selbstständige Klinik mit chefärztlicher und pflegerischer Leitung wird Schwerpunktmäßig die relevanten Fachärzte in einem 24-Stunden Schichtsystem beschäftigen. Überdies sollen ausgewählte Notärzte auch die Rettungsfahrzeuge besetzen und die Patienten vor Ort versorgen, in die Klinik transportieren und dort zunächst die Übergabe, Weiterversorgung und Sicherstellung der Datenübergabe gewährleisten. Flache hierarchische Organisationsstruktur mit Schicht-Blockmodellen und dem Auftrag der echten Notfallversorgung (Sicherung der Vitalfunktion, Prozess beschleunigend etc.) zur Weiterversorgung in den Fachkliniken.

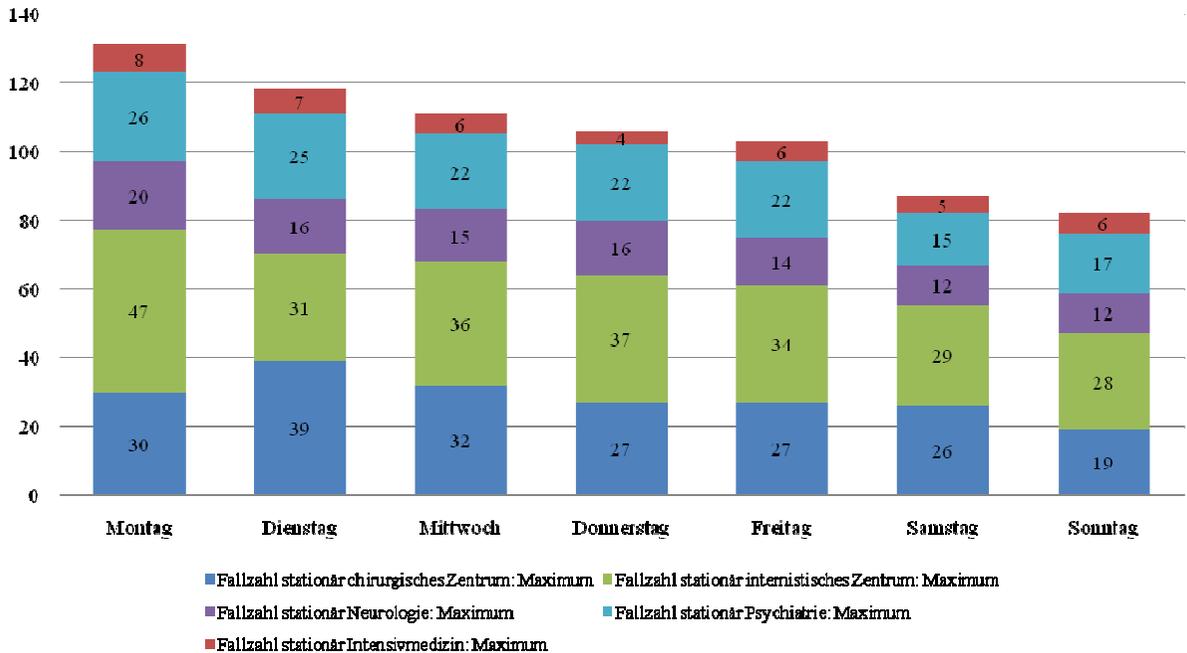
Notfallaufkommen je Schwerpunkt (%)



Graphik 4: Notfallaufkommen je Schwerpunkt (%) in 2009

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

Notfallaufkommen: Maximum



Graphik 5: Notfallaufkommen: Maximum (2009)

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

Dies führt zu einer besseren Versorgung der Patienten und mehr Zufriedenheit bei den Mitarbeitern da Sie inhaltlich, organisatorisch und prozessual in der Patientenkrise stark standardisiert arbeiten und handeln können.

3. Prozess- und Qualitätserwartung

Zeit ist Qualität - ist Leben und Gesundheit! In dieser Klinik muss im **Triagesystem** eine klare Vorgabe bestehen wie mit Patienten um zu gehen ist. Innerhalb klarer Vorgaben muss der Arzt Patientenkontakt in einem entsprechenden Zeitfenster stattfinden. Der Patient ist und wird im Prozess permanent begleitet und über den Sachstand seiner Behandlung informiert. Erhobene Daten dienen in einer Eskalationsstrategie zunächst der Erkennung der Krankheit (Screening) und dann der Vorbereitung der Weiterbehandlung in den Organzentren. Die Fallsteuerung erfolgt durch den Arzt und alle notwendigen diagnostischen Bereiche sind in dieses Verfahren integriert – Weisungsrechte in alle Bereiche macht der Weg schneller. Vorhandene Daten aus Vorbehandlungen (stationär, ambulant) stehen genauso zur Verfügung wie Daten aus der akuten Anlieferung im NAW. Der Patient einmal im System aufgenommen ist permanent in Begleitung und Betreuung bis er entweder an die Fachabteilung abgegeben wird oder wieder entlassen wird. Polytraumen, Infarkte und Geburten haben in diesem System nochmals eine andere und eigene Wertigkeit und werden verkürzt und direkt an die Fachabteilungen übergeben.

Die Etablierung einer eigenständigen Notfallklinik hat klare Qualitätsziele, die im Folgenden Bereichen liegen:

- Qualität der Berufsgruppen (Qualifikationsmix bedarfsadaptiert, z.B. Facharztstandard, Fachpfleger);
- Zeit, Inhalt und Ablauf der Behandlung;
- Team- und Arbeitsstrukturen, Teamstruktur Notfallversorgung;
- Arbeitszeitstrukturen;
- Professionalisierung des Screeningverfahrens (Notfälle, Alter, Infektionen u.a.);

- SOPs abgestimmt mit den nach- und weiterbehandelnden Organzentren.
- klare und abgesprochene Fallsteuerung zwischen dem ambulanten und stationären Bereich mit beschleunigter Übergabe aus den Sektoren und unter Nutzung der bereits erhobenen Daten.

In einem **eigenständigen Rettungszentrum** werden alle Notfälle Hand in Hand mit den ambulant tätigen niedergelassenen Ärzten, mit den Rettungsärzten aus den NAW und aus dem Rettungshubschraubern in einem Zentrum in örtlicher und räumlicher Nähe versorgt. Alle Datensysteme sind ebenfalls miteinander vernetzt und innerhalb dieses Notfallcampus ist der Patient in einer dauerhaften und organisatorisch abgestimmten Begleitung und Betreuung. In diesem Zentrum soll es ausschließlich um die Erstversorgung, um die Vitalfunktionen gehen und es soll jede Art von notwendiger Weiter- und Nachbehandlung vorbereitet werden auf der Grundlage zwischen allen Beteiligten abgestimmter SOP mit der notwendigen und richtigen Diagnostik. Der Erfolg der Behandlung ist zu evaluieren (Zeitliche Abläufe, Synchronisation, Arbeitsweise der Mitarbeiter nach SOPs). Ein weiteres Tätigkeitsfeld der Notfallklinik wird die sich aus der Behandlung heraus ergebende „**Kurzliegerstation**“ sein. Solange der Notfallpatient als solcher nicht abgeklärt ist und solange nicht klar ist ob er wirklich stationär aufgenommen werden muss, bleibt der Patient in der Notfallklinik, jedoch maximal bis zu 2 Tagen. Damit werden die Kernkliniken von häufigen, manchmal unnötigen Aufnahmen befreit und entlastet. Im Klinikum Ingolstadt sind dies jährlich rund 3000 Patienten. Dazu wird die Notfallklinik neben der Holdingarea eine über eine eigene Bettenstation mit 17 Betten verfügen, die in den Betriebsablauf und in die Routinen zu integrieren ist.

4. Schlussfolgerungen

Das Klinikum Ingolstadt versucht mit der Einrichtung und Etablierung einer eigenständigen, cheffärztlich geleiteten Prä- und Notfallklinik ein anerkanntes Rettungszentrum zu schaffen. Ziel dieser Klinik ist ausschließlich die Erstbehandlung und die Sicherung der Vitalfunktionen. Damit verlässt das Klinikum Ingolstadt den Weg den man in Deutschland über Jahrzehnte hinweg ging und selbst in der Notaufnahme mit der Spezialisierung der Medizin begann ohne zu wissen ob diese in dieser Art richtig und notwendig ist. Andere Länder gehen diesen Weg seit längerer Zeit und haben zwischenzeitlich im ärztlichen Bereich die Notfallmedizin zu einem ebenfalls eigenständigen „Facharztbereich“ gemacht. Diese Entwicklung wird sich wohl auch in naher Zukunft abbilden. Solange dies aber nicht der Fall ist, wird man in unserem Hause entsprechend der Falldichte und –schwere immer die Disziplinen vorhalten müssen die vermutlich am häufigsten oder am ehesten gebraucht werden. Die Vernetzung der Sektoren ambulant und stationär, die Vernetzung der Notfälle im Hause über die Fachabteilungen hinweg, das einheitliche und abgestimmte Triage-System wird in kürzester Zeit erfolgreich sein und auch ökonomisch wirken. Standards geben Sicherheit, helfen Prozesse zu beschleunigen und lassen sich gut planen. Standards in der Notfallversorgung und standardisierte Notversorgung geben den Akteuren vor Ort die Zeit die wirklich schwierigen und komplexen Fälle dann auch außerhalb der Standards mit der emotionalen Intelligenz anzugehen wie es im Bedarfsfalle auch erforderlich ist.

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BUSINESS PLANNING IN THE CONTEXT OF THE ECONOMIC CRISIS

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Abstract:

During the economic crisis, a successful business is the one which answers to the tangible needs and produces benefits. Any business must offer practical solutions for the society problems. In the context of the economic crisis, it is vital to pay a special attention to the planning stage in order to diminish the risk and to eliminate the fail.

Keywords: economic crisis, business planning and management

JEL Classification: M21 - Business Economics

Business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. The term business refers to all such efforts within a society or within an industry.

A person who risks his or her time, effort and money to start and operate a business is called an entrepreneur. To organize a business, an entrepreneur must combine four kinds of resources: material, human, financial and informational. Material resources include the raw materials used in manufacturing process, as well as buildings and machinery. Human resources are the people who furnish their labor to the business in return for wages. The financial resource is the money required to pay employees, purchase materials and generally keep the business operating. Information is the resource that tells the managers of the business how effectively to the other resources are being combined and utilized.

The business efficiency consist in the using way of the resources, thus the business manager must obtain the most economical results using the engaged or available resources currently⁶⁷⁷.

Generally, the business can be of three types. Manufacturing business are organized to process various materials into tangible goods, such as delivery trucks or towels. Service business produce services, such as haircuts or legal advice. And some firms – called middleman – are organized to buy the goods produced by manufacturers and then resell them. For example, a company that produces some things, these products may be sold to a retailing middleman, who then resells them to consumers in its retail stores. Consumers are individuals who purchase goods or services for their own personal use rather than resell them.

All three types of business may sell either to other or to consumers. In both cases, the ultimate objective of each of them must be to satisfy the needs of its customers. People generally don't buy goods and services simply to own them; they buy products to satisfy particular needs. People rarely buy an automobile to store it in a garage; they do, however buy automobiles to satisfy their need related to transportation.

When firms lose sight of their customer's needs, they are likely to find the going rough. But when the business that produce and sell goods and services understand their customers' needs and work to satisfy those needs, they are usually successful.

Normally, a business receives money from its customers in exchange for goods or services. It must also pay out money to cover the various expenses involved in doing business. If firm's sales revenue is greater than its expenses, it has earned profit.

⁶⁷⁷ Peter Drucker – „Despre profesia de manager – A Harvard Business Review Book”, Meteor Press, 2006, p. 70.

The profit earned by a business becomes the property of its owners. So in one sense profit is the return, or reward, that business owners receive for producing goods and services that consumers want. A business that cannot earn a profit is very likely to fail, in which case the owners lose money, effort, and time they have invested. For business owners, the challenge of business is to earn a profit in spite of these risks.

When starting a business, a lack of planning can be as deadly as a lack of money to the new enterprise. Planning is important to any business, large or small, and it should never be overlooked or taken lightly. A business plan is a carefully constructed guide for the person starting one's own business. It also serves as a concise document that potential investors can examine to see if they should invest in or assist in financing a new venture.

The business person, who constructing a business plan, should strive to keep it easy to read, uncluttered, and complete. Officials of financial institutions just don't have the time to flip through pages of facts and figures.

A great amount of time and consideration should go into creating a business plan. The plan will probably end up saving time later.

Generally speaking, for initiating and developing a business, it is important to plan the business. Moreover, when we talk about a crisis period, it is vital to pay a special attention to the planning stage in order to diminish the risks and to eliminate the fail.

So, planning will help us to organize the ideas, to have an objective and critical analysis of the future business taking into consideration the ways of functioning and the estimated results.

After studying the market and identifying the opportunities, the most important problem for an entrepreneur to solve is to identify and mobilize the financial, human resources and also the intangible assets. For a person with entrepreneurial spirit, this issue doesn't represent an obstacle but a challenge.

During an economic crisis, the entrepreneur must have a strategically thinking studying the social and economical environment of which the business will be initiated, identifying the available assets and defining the ways to get in their possession, identifying the potential financiers and mobilizing the necessary human resources to start the business.

Moreover, if the business addresses to particular needs which were clearly defined, the access to the resources will be easier because all the involved people will be more trustful in their success and chances to obtain adequate benefits.

For planning and starting a business in a crisis period, it is important to have a strategic approach because this ensures not only the establishing of goals on long term but also defines the modalities to achieve these goals, how and when the resources will be allocated in order to effectively reach the estimated objectives.

No matter the business concerns, the strategic thinking can't be applied without planning the activities which must be correlated with the demand as the market economy requests. This is why, the researches on demand lead to a planning which has the aim to efficiency the production meaning to product or commercialize the requested products or services. For sure, this strategic thinking will ensure the estimated profit.

A strategic thinking can't be considered complete until the success or failure isn't measured and also the results compared with the expectations. If all or mostly part of these coincides, this means that the expected objectives were achieved.

The planning is the essence of a good management. It represents a process based on analysis which requests involvement and engagement towards the objectives determining results and communication at external and internal level⁶⁷⁸. Having in mind that the most efficient objectives suggest a competition, the plan – a instrument for the planning process, represents the description and rationalization of a vision and, also, a base for communication.

⁶⁷⁸ I. Ciochină, L. Gherman, S. Dugan – „Managementul proiectării și derulării afacerilor”, Ed. Independența Economică, Pitești, 2009, p. 55.

The plan, not only presents the future policy of the enterprise, but also has the aim to precisely quantify the predictable effects of the future decisions. It facilitates the description of the enterprise's future based on hypotheses regarding the patrimony analysis, the financial structure, the means that allow the strategies implementation. Forecasting the financial results including the earning capacity determine the base for the decision-making process regarding the investments volume, possible solutions that ensure the profit and the business success.

A role, not less important, of the business plan refers to communication at all levels: internal communication, the business plan having the advantage of overall image on goals, means, results; communication with business partners, associates, clients, suppliers - the business plan indicating the position of every single participant involved in business, their competences and responsibilities and also the organisation and management of the relations between them; the communication with the financial institutions, the business plan representing a way to justify the financial requests and their appropriate management. The setting-up of the business plan will determine positive effects if this instrument is based on reliability, competency and realism.

The business plan represents a complex system based on interaction and expresses in an easy manner the business idea and its evolution in time.

Its role is not only to demonstrate the fact that the business worth being financed, but also to guide the entrepreneur beginning with the first operational year of the business. Its implementation means control and adaptation depending on the actual evolution. This control carried out during the business implementation will point out all the important elements of the economic entity (stocks, production costs, quality control, the sales, the payments etc.)

Entrepreneurs need to have not only the capital to open a business but also the money to operate it in its possibly length start-up phase. One cash-flow obstacle often leads to others and a series of cash-flow predicaments usually leads to a business failure. An entrepreneur can have two separate sets of credit difficulties: he might be pressured into selling on credit, causing cash-flow troubles, or might rely too heavily on credit, these becoming overwhelmed by bill collectors.

The companies have difficulties due to decreasing sales intercompany debts and higher credit margins. Only companies with multiple profiles can survive, which are not fully dependent on large projects or state businesses, so they can manage their costs.

Many entrepreneurs lack the management skills required to run a business. The management is one of the most challenging and rewarding of professions. The persons who manage business firms play an important part in shaping the world we live in.

Money, time and personnel all need to be effectively managed if a business is to succeed. A frequently asked question in the business planning stage is: "firstly to find a business idea and then to set-up the company in order to implement the idea or firstly set-up the company and then to find out the business idea"?

Our opinion is that the idea is fundamental for setting-up a business. An idea might not be good from the start but there are cases when ideas can be developed, otherwise they remain only ideas. This is why, you can say that the idea must be correlated with a plan in order to facilitate its implementation. An idea is innovative when it is linked with an opportunity because setting-up of a business must answer to the economic needs, in efficiency conditions. The novelty and originality aren't mandatory in setting-up a business, but there are necessary for taking advantage of the existent opportunities and for having a profitable activity.

Frequently, entrepreneurs with initially successful business make the mistake of overexpansion without taking into consideration the crisis conditions, but fast growth often results in dramatic changes in a business.

To administer a crisis can be considered an "art" but also a "science" of management taking into account the unexpected situation and the unusual measures. The international economic business management represents the concepts, methods and instruments needed to identify the business

opportunities.⁶⁷⁹ The taken measures must comply with the Romania's actual needs such as: creation of the appropriate conditions for an extended social and geographical mobility in order to facilitate the employers' access to jobs unequally distributed from the point of view of professional structures and geographical areas. Some of the measures should be focused on the financial support of the disadvantaged categories or regions.

Every day, people plan or actually open new business. Many of these may not succeed. Others represent well-conceived ideas that are developed by entrepreneurs who have the expertise, resources and determination to make their business succeed. A real business is the only who solves the material or spiritual needs and that in this process it produces financial returns⁶⁸⁰. As these well-prepared entrepreneurs pursue their individual goals, our society benefits in many ways from their work and creativity.

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⁶⁷⁹ Alexandru Puiu – „Management în afaceri economice – Tratat, vol. I, Ed. a V-a, Ed. Independența Economică, Pitești, 2008, p. 20

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A RENEWED TOURISM POLICY

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The paper disseminates the results of National Research Project: STUDY REGARDING THE OPTIMIZATION OF THE NATIONAL TOURISTIC POTENTIAL DEVELOPMENT STRATEGY AND THE IMPROVEMENT OF ROMANIA'S IMAGE AS A TOURISTIC DESTINATION, PCE 375/2007 (CNCSIS), Research Manager - Assoc. Prof. Ph.D.Gruescu Ramona.

Tourism is a complex phenomenon on account of the wide variety of factors which determine its shape, organization and development. Some of the numerous factors interacting with tourism merit close attention: tourists, employment, businesses, social cohesion, stability, culture and heritage, accessibility to persons with disabilities, the environment, peace and solidarity, and the roles of the various players.

Although tourism is not directly part of common EU policy, a number of European institutions are engaged in measures and actions which affect tourism because of their horizontal nature, or which rely on tourism in order to achieve a range of major EU objectives, including sustainable development, employment, economic and social cohesion, etc.: in other words, a better quality of life for European citizens.

Keywords: tourism, policy, development, sustainable, employment

Cod JEL lucrare: L83, L11

1. Introduction

Developing tourism has a direct impact on economic, social and environmental conditions; consequently, it can and must be an important means of enhancing European citizens' quality of life and must be used as such. However, in order to ensure that this potential is effectively harnessed in the longer term, tourism must meet sustainability requirements which all the players involved - public and private bodies, businesses and users - must in turn observe.

Tourism is widely recognized around the world - and especially by the European Union and its institutions - as an area of economic activity of strategic importance in achieving a range of objectives which lie at the very heart of the EU's existence, its policies, and its desire to create a better Europe for present and future generations.

It is important to point out that the only reference to tourism in the EC Treaty, as consolidated at Nice, and following the revision and expansion of certain protocols, is in Part One: Principles, Article 3(u), which reads as follows: "For the purposes set out in Article 2, the activities of the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein: (...) measures in the sphere of energy, civil protection and tourism."

Several Commission and Council documents have attached importance to tourism as an instrument for generating employment, but it may readily be agreed that tourism nevertheless has

a very low profile among European policies as a whole, and that it should perhaps be strengthened and expanded in line with the universally accepted strategic importance of tourism at present and, most probably, in the future. A higher profile for tourism in the activities of the EU and of its various institutions and, more clearly, the coordination of all Community policies affecting tourism have been both called for and predicted. For this to happen, more and better data on all aspects of tourism and the way it ties in with other sectors must be available in the future, so that tourism's contribution to the quality of life and social cohesion can be accurately evaluated in both economic and social terms.

Careful attention should also focus on determining the future role of tourism in shaping the Europe which will emerge from the European Convention. There must be initiatives to ensure that tourism and tourism policy are given full recognition in terms of their economic importance and capacity to create employment, their potential contribution to culture and mutual understanding among the peoples of the world, and as a tool for creating a Citizens' Europe.

New forms of tourism which are sustainable in economic, social and environmental terms, and which all parties seek, will be determined by this set of conditions. The special contribution made by sustainable tourism to achieving the strategic objective of the Lisbon summit - "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" - is generally recognized and must be emphasized.

Against a new, less dynamic economic backdrop in which fewer jobs are being created, the Brussels Council of 20 and 21 March 2003 sought to turn words into actions and ensure that the Union and the Member States live up to their undertakings - "we reaffirm our strong personal commitment to the timely and effective delivery of reforms across the three pillars of the Lisbon strategy - economic, social and environmental".

The Brussels Council established new priorities which, in practical terms, mean giving fresh impetus to entrepreneurship and innovation and strengthening the internal market as a means of enhancing competitiveness and placing it centre stage both within the economy in general and tourism in particular.

Tourism is widely agreed to be of great importance not only economically, but also socially and environmentally, in the European Union and worldwide. Where tourism is already well developed, people count on it to continue being what it has been in the past, a source of wealth creation, high employment and a high quality of life, while people in less-developed areas look to tourism as a potentially crucial means of escaping from poverty, securing economic progress and social development and meeting convergence objectives.

The tourism industry in the European Union comprises some two million businesses, mostly SME's, which account for about 5% of both GDP and employment. This figure varies from 3% to 8% depending on the Member State. Tourism also generates a considerable amount of activity in other sectors, such as the retail trade and specialized equipment, to a level of around one and a half times that of tourism itself. In terms of turnover, over 80% of the tourism undertaken by Europeans concerns individuals or families. The remainder is business tourism, in the broad sense. It varies, depending on the country, from barely 15% to over 30% of the total volume, the highest proportion relating to Nordic Countries. EU households earmark around one eighth of their personal expenditure for tourism-related consumption, a figure which varies relatively little from country to country.

Community tourism is largely domestic. 87% of tourism activity recorded is attributed to its own citizens with only 13 % to visitors from non-member countries. As for the tourism of EU citizens, three-quarters remain within the ED, the remaining quarter going to other parts of Europe and the world.

Tourism is one of the sectors of the European economy with the best outlook. Forecasts indicate a steady growth of tourism in Europe, stronger than the average economic growth. This is due to

factors such as the increase in time for leisure activities and its social importance, together with global economic growth (Beerli, A., & Martin, J. D., 2004).

Over the past few years 100,000 jobs a year have been created in Europe in the hotel and restaurant sectors alone. Europe, with the greatest diversity and density of tourist attractions, is the most visited tourist region in the world. Despite having a lower growth rate than the world average and than certain up-and-coming overseas destinations in particular, the volume of European tourism is expected to double over the next 20 to 25 years, with a net increase, in terms of expenditure and yield, of around 3% per year. Employment will rise by about 15% over the next ten years."

Although tourism is not directly part of common EU policy, a number of European institutions are engaged in measures and actions which affect tourism because of their horizontal nature, or which rely on tourism in order to achieve a range of major EU objectives, including sustainable development, employment, economic and social cohesion, etc.: in other words, a better quality of life for European citizens.

Tourism is a highly complex phenomenon on account of the wide variety of factors which determine its shape, organization and development. Some of the numerous factors interacting with tourism merit close attention: tourists, employment, businesses, social cohesion, stability, culture and heritage, accessibility to persons with disabilities, the environment, peace and solidarity, and the roles of the various players.

2. Tourism and Tourists

Clearly all economic and social activity needs to focus on the individual. Tourism, like any economic activity involving personal, individual and collective relations between peoples, must above all meet the needs of people, as citizens of a nation, European citizens and, ultimately, citizens of the world.

The tourist, as consumer, must be both the beneficiary of services and the source of demand under conditions favorable to the sustainability of tourism and its availability to all (Leiper N., 1990). Various initiatives can be adopted with a view to designing a form of tourism for the future which will meet these requirements.

3. Tourism and Employment

Various large-scale studies have repeatedly highlighted the enormous current impact and the extraordinary potential of tourism as a source of jobs. But in order to turn this into reality, in socially and economically sustainable terms, various conditions have to be met. The fact that tourism is an economic activity fundamentally based on personal services means that any new tourist activity generates new jobs, but tourism can only be high-quality and sustainable if it generates high-quality jobs.

Various initiatives could be adopted with a view to ensuring that in the future tourism is able to generate more and better jobs in tourist enterprises and areas.

3. Tourism and Businesses: Entrepreneurial Competitiveness and Social Responsibility of Businesses

Tourism is fundamentally a complex economic activity, a group of economic services and sectors governed by market rules and based on companies seeking competitiveness, wealth creation, and which ultimately create employment and quality of life for ordinary people, both as users and as workers in the sector (Gross, M. J., & Brown, G., 2006). If this economic activity is to be sustainable, now and in the future, a number of conditions have to be met which can be underpinned by various initiatives.

4. Tourism and Social Cohesion: Impact and Social Balance of Tourist Activity

Tourism is a powerful means of promoting contacts between different peoples, while at the same time generating economic and social well-being in tourist areas. Often, however, social relations in the local population have been affected by a perceived loss of the traditional balance, in the face of an influx of visitors exceeding several times over the number of local residents, and a consequent trend to standardization in products, including tourism products, and in social relations. Developing the potential of tourism in a positive way and reducing the risk of social or cultural disruption is the basis of socially sustainable tourism.

Maintaining socially sustainable tourism, from the point of view of the social cohesion of local areas and people, requires that a number of conditions be met by means of various initiatives.

5. Tourism and Stability: Reducing Seasonal Bias

The seasonality of tourism has been described as the sector's major outstanding issue, in that it is the cause of serious imbalances because it does not continue throughout all the potentially effective periods, with serious consequences for businesses, people employed in tourism, tourist areas, and ultimately tourism's proven capacity to generate wealth and prosperity. Seasonality first and foremost means under-utilization of physical capital (equipment, buildings, infrastructure etc.) as well as human capital, which is idle for much of the year (Smith V.L.). The result is clear: if there is no tourism, sector workers do not get paid and have to seek other activities or else join the ranks of the unemployed during the off-season.

In some cases this period of inactivity is long, in others short; in some cases it is during the winter and in others during the summer, but in almost all cases it will have damaging consequences throughout the year. In all cases the stability of employment, which is a precondition for the quality of employment, is under threat, and in other cases companies' profitability and competitiveness will be compromised by seasonality and consequent loss of revenue, which is a grave threat to the sustainability of employment and to the whole of tourist activity (Hodge R. A., 1996).

6. Tourism, Culture and Heritage

The rich cultural heritage of towns and rural areas throughout Europe is undoubtedly a major attraction for tourists and travellers. The diversity of customs and traditions of Europe's rural areas is also a source of intangible, but very real wealth, which tourism can help preserve and exploit. Some of these intangible cultural values such as craftsmanship, music, oral traditions, customs, languages, dances, rituals, festivals, traditional medicine and remedies, cuisine etc. can form an integral part of some new forms of socially sustainable tourism. Similarly, sporting events are ideally suited to tourism and to the exchange of different values between peoples (Goodwin, H.J. et al., 1997). There are two possible approaches to the relationship between tourism on the one hand and culture and heritage on the other: 1) exploiting the various aspects of this culture and heritage, with tourism as a means of maintaining, preserving and improving them, or 2) destroying these assets through irresponsible consumption. The first option is sustainable, and the second is socially unsustainable.

7. Tourism and Accessibility for People with Disabilities

Tourism has become an extremely important social phenomenon involving millions of people throughout the world, especially in Europe; not only is it an unprecedented force for wealth creation and economic progress, but also a crucial factor in improving knowledge, communication, human relations and mutual respect between different peoples. Tourism is of major benefit to society and should be within everyone's reach, with no sector of the community being excluded whatever their personal, social, economic or other circumstances. People with disabilities - 10% of the total ED population - are becoming more integrated socially and economically and hence participating more and more in tourist activities despite all the

impediments and difficulties which continue to prevent them from accessing tourist facilities and services on a regular and normal basis.

Removing and lessening these barriers is not only a must on grounds of equal rights and opportunities and non-discrimination, as championed by the ED and its Member States, but is also an effective way of including new groups of people in tourism-related activities, thus contributing to the growth of an economic sector which, especially in the southern European countries, has a direct impact on the creation of wealth and jobs in the interests of society as a whole.

8. Tourism and the Environment

In the recent past tourism and the environment have been seen as mutually antagonistic: the wealth generated by tourism was at the expense of the environment, exploitation of the best sites, preferably by the coast or in the mountains, without consideration for such factors as biodiversity, the resources already there, scale or the capacity to absorb development (Dale A., & J. B. Robinson). Faced with a difficult choice between two factors which were - wrongly - presented as mutually exclusive, the general response can be clearly seen from the situation we find ourselves in today: we opted for growth, wealth-creation, even if it meant damaging the environment. And this, paradoxically, in an activity which is based on preserving the attractiveness of nature. This undoubtedly stems from two different ways of looking at things: the short-term vision of immediate real estate profits and the long term vision of a sustainable and competitive industry (Farrell, B. H., 1992). Once again we face the need to establish conditions and initiatives conducive to new forms of environmentally sustainable tourism.

9. Tourism, Peace and Solidarity

Tourism is just the opposite of war. War means the invasion of one country by another, aggression, the destruction of nature and heritage, the humiliation and even death of human beings. Tourism on the other hand means a welcome, interaction, getting to know a place, conserving the environment, wealth - in short, peace and friendship between people. If we only love what we know, tourism, as a means of bringing people closer together, is a force for harmony and peace between nations, cultures, religions and individuals. Democracy and political and socio-economic stability must certainly contribute to this objective, in the countries tourists come from and those they visit.

Understanding between peoples and the promotion of ethical values are at the root of sustainable and responsible tourism; solidarity between peoples can grow from acquaintance as tourists.

10. Tourism and the Players in the Sector

The vast range of stakeholders involved in tourism makes it advisable to differentiate the role each plays in this complex task of defining new forms of sustainable tourism. It is the responsibility of political and institutional policymakers to define the appropriate framework in which new forms of sustainable tourism are possible and can be promoted by means of the full range of instruments at the disposal of the public authorities. The political priorities of this strategy of accessible and sustainable tourism must be geared towards ensuring that tourism is taken into account in all horizontal policies and in all relevant common policy areas.

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MAIN DESTINATIONS AND TOURIST FLOWS ON THE YOUTH TRAVEL MARKET

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Global tourism has seen an explosion since the ‘60s due to the post-war global economic growth and over the past two decades it recorded a significant increase, youth travel being the main component of this growth. According to experts, this type of tourism is in full evolution, young tourists representing an increasingly important segment of the global tourism market.

Many experts in the tourism industry think youth travel is the fastest growing market segment, and the provisions of the World Tourism Organization estimate that in the near future youth travel will tote up 25% of the worldwide tourism market. On one hand, this phenomenon can be explain through the cultural motivation of the young people in practicing tourism, and on the other, through the relatively low or acceptable costs of transportation, especially for the youth in well developed countries.

Keywords: youth travel, tourist flows, tourist destinations.

JEL codes: L83

More and more young people travel abroad for their vacation, to visit their friends or relatives, to study, for business or for other reasons. For many of them these travels represent their first incursion in foreign countries and are a real adventure. This movement of young people from their residence country towards various tourist destinations generate at global level a multitude of tourist flows that represent the most substantive expression of the tourism activity. Firstly, tourist flows imply a temporary movement of young people in accordance with the size of the demand, the tourist potential of that region, the distance to the chosen destination, the accessibility and prestige of the reception region.

It is difficult to identify the main countries that constitute a travel destination. While statistics for international arrivals are very well documented by the W.T.O. (World Tourism Organization) and by the majority of national tourism organizations, there are very few data about the age of the travelers. The favorite destinations of the youth must be defined by taking into account the worldwide trends in youth travel and the strategy that each country has for its tourism.

According to the W.T.O., Europe and America are the most sought after destinations by the worldwide youth, but despinde this, destinations like Asia, Africa and the Middle East have a growing market share.

According to the 2003 International Student Travel Confederation (I.S.T.C) and Association for Tourism and Leisure Education’s (A.T.L.A.S.) study regarding youth travel „*Today’s Youth Travellers: Tomorrow’s Global Nomads. New Horizons in Independent Youth and Student Travel*” in their „tourist career” youth and students visited many regions all over the world, more than half visited Northern and Southern Europe and over 40% traveled through North America and Eastern Europe.⁶⁸¹ This general situation changed slightly in the last 5 years, so in 2007,

⁶⁸¹ Richards, G., Wilson, J., *Today’s Youth Travellers: Tomorrow’s Global Nomads. New Horizons in Independent Youth and Student Travel*, International Student Travel Confederation, Amsterdam, 2003.

when a study⁶⁸² on the youth travel market was conducted by the World Tourism Organisation in collaboration with the World Youth Student & Educational Travel Confederation –WSYE TC, a modest decrease in the importance of the visited European destinations was recorded, this was largely due to the extension of the surveyed respondents at world-wide level (see figure no. 1). The regions that recorded a significant growth in the number of tourists, such as Southeast Asia and Australasia, probably benefited from a larger global distribution of the respondents in the year when the study was conducted.

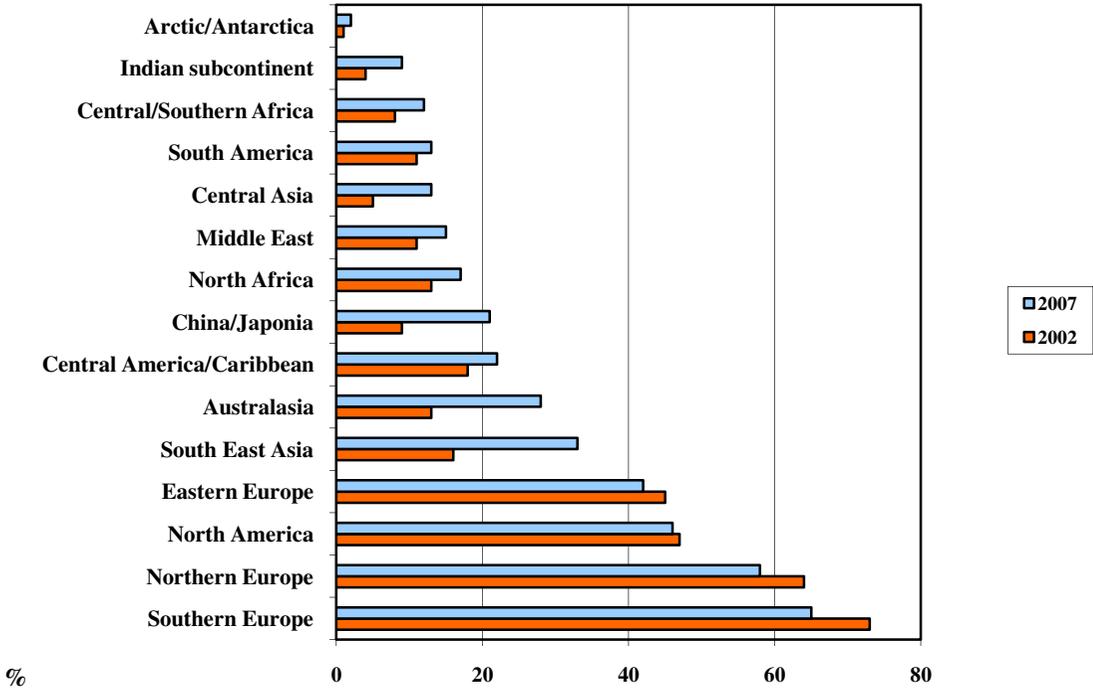


Fig. no. 1 Visited destinations during the “tourist career” in 2007 compared to 2002
 Source: World Tourism Organisation, *Youth travel matters – Understanding the Global Phenomenon of Youth Travel*, Madrid, 2008.

The regions preferred by young people as main destinations in the last major trip taken in 2002 were Northern Europe (30%), South Europe (16%), North America (16%) and Western Europe (8%), followed by Southeast Asia and Australasia (see figure no. 2).

⁶⁸² World Tourism Organisation, *Youth travel matters – Understanding the Global Phenomenon of Youth Travel*, Madrid, 2008.

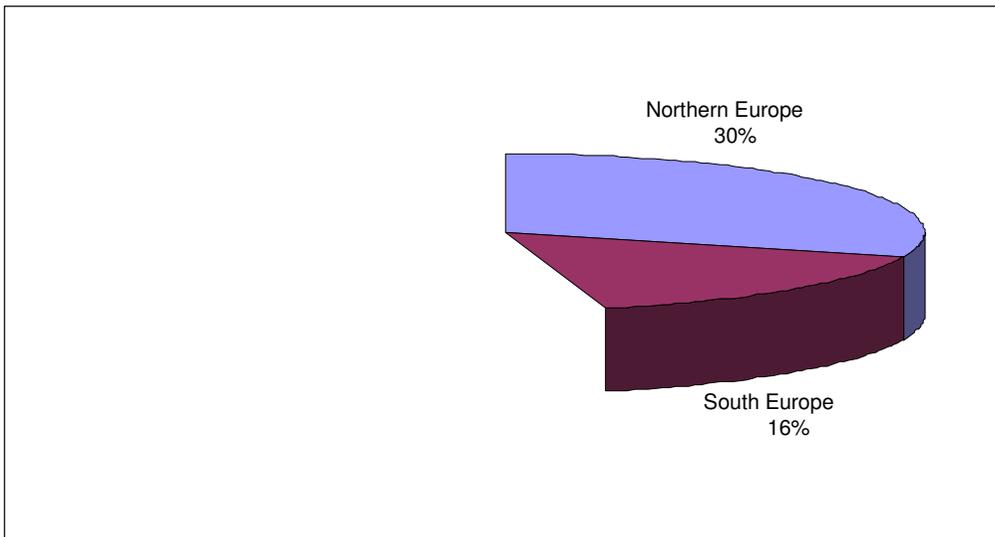


Fig. no. 2 Main tourist destinations preferred by young people in the last major trip taken in 2002

Source: Richards, G., Wilson, J., *Today's Youth Travellers: Tomorrow's Global Nomads. New Horizons in Independent Youth and Student Travel*, International Student Travel Confederation, Amsterdam, 2003.

Youth usually go back to certain tourist destination, in North America the number of tourists who visit this continent for the first time is lower than the number of tourists who return, and over 70% European regions are visited several times. The other tourist regions have a high number of tourists who come for the first time in these countries, especially in the Indian sub-continent (60% come for the first time), South America, South-Eastern Asia and Australasia (approximately 50% of the young travelers come here for the first time). These are destinations that must be seen at least "once in a life time".

The regions that are visited by a larger number of tourists with ages over 26 are South and Central Africa (44%), South and Central America (25%), the Middle East (21%) and South-Eastern Asia (20%) (see figure no. 3). These regions are considered "difficult", and this explains why experienced travelers prefer these destinations, while most young people prefer Europe and North America.

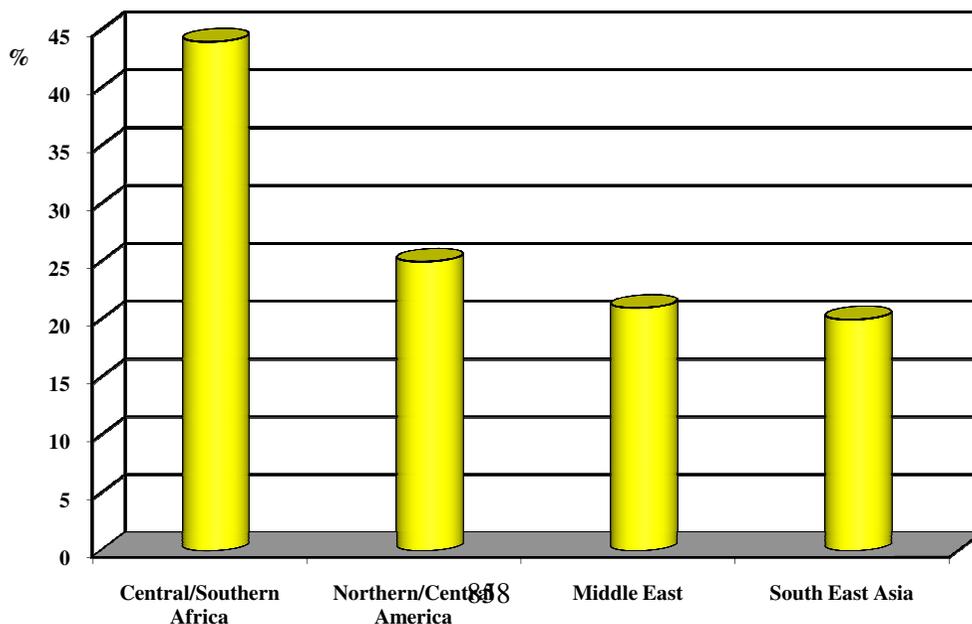


Figure no. 3 Regions frequented by young people over 26 years old

Source: Richards, G., Wilson, J., *Today's Youth Travellers: Tomorrow's Global Nomads. New Horizons in Independent Youth and Student Travel*, International Student Travel Confederation, Amsterdam, 2003.

The desire for more travel is among the most important benefits obtained by young people who visit regions with more “difficult” and more “exotic” tourist destinations, such as Southeast Asia, the Indian sub-continent, Central and South America and Central and South Africa, and *discovering other cultures* represents the least important gain of those who visit Europe and Northern America, which is due to the fact the culture of these regions is among the most globalized and familiar in the world.

Countries considered the most popular destinations on the youth travel market are Australia, United States of America and France, all being visited by over 10% of tourists, followed by Spain, Italy, Germany, Great Britain and Thailand, each with approximately 6% of the youth travel demand. These figures are correlated with statistics regarding international tourist arrivals issued by the World Tourism Organisation, which mentioned France as the main destination of 2006, USA being third.

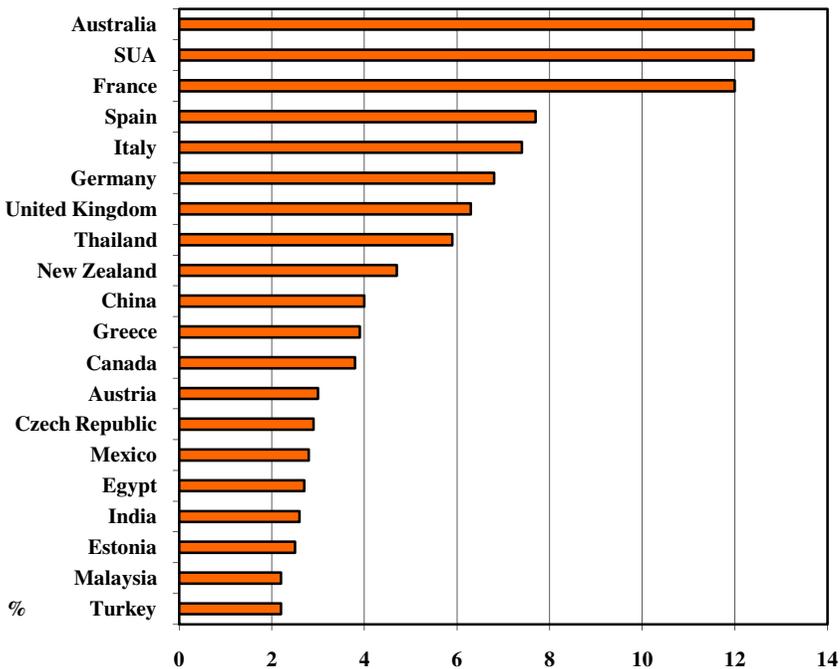


Figure no. 4 The main 20 destinations visited in the last major trip

Note: one trip can cover more than one tourist destination.

Source: Richards, G., *New Horizons II – The Young Independent Traveller 2007*, WYSE Travel Confederation, Amsterdam, 2007.

As mentioned in the paper „*Today's Youth Travellers: Tomorrow's Global Nomads. New Horizons in Independent Youth and Student Travel*”⁶⁸³, some tourist destinations tend to attract certain types of tourists more than others (there are three segments of tourists established on the youth travel market: backpackers, travellers and tourists). Destinations like Southeast Asia,

⁶⁸³ Richards, G., Wilson, J., *Today's Youth Travellers: Tomorrow's Global Nomads. New Horizons in Independent Youth and Student Travel*, International Student Travel Confederation, Amsterdam, 2003.

Australasia and South America are dominated by backpackers, while in North America and in Canada the number of travellers is higher than the number of backpackers, which could be determined by the fact these hikers are integrated in a particular group during their travel.

Among the most popular tourist destinations in 2007, Thailand, New Zealand and Australia are the main destinations for backpackers, who generally chose the ones with well developed infrastructure for youth travel. In contrast, classic tourist destinations from South Europe, such as Turkey, Spain and Greece, tend to attract more young tourists and fewer backpackers. An interesting European destination is Estonia, but because this country recently joined the European Union, it can still be perceived as an adventurous destination for some.

There seems to be a close connection between the development stage of tourism and the travelling style. Relatively “mature” destinations from Northern America and Europe record a lower number of backpackers, while new destinations have a larger number of backpackers. This could be an indicator of the “pioneer” function of young travellers, who are trail blazers for other travellers and young tourists. Backpackers also tend to visit as many countries as possible during their trip, more than any other type of traveller. In the last major trip, a backpacker visited an average of 2.4 countries, compared to 1.8 for hikers and 1.7 for tourists. *At an intra-regional level*, youth visit more different countries, thus: South-Eastern Asia (with 2.4 visited countries), Northern Europe and South America (both with 2.3 visited countries) occupy the first places in youth tourism.

As the tourist’s experience grows, people tend to travel more. Therefore, those who visit Northern Europe have previously made only five major trips compared to the eight made by those who visit Australia, China, Japan, South and Central Africa, and the over ten trips made by those who visit India and South America. This sustains the idea of a „tourist career”, Europeans usually travel first inside Europe, and then to Australasia which is considered their first inter-regional journey and then continue with less known destinations from Asia, Africa and Latin America. Young people build a “tourist career” by starting from “easy” destinations, with the most developed infrastructures for individual tourism, then go to more “adventurous” destinations. In 2007, among the destinations that attracted more experienced tourists were countries like Vietnam, Morocco, South Africa, India and Argentina, while less experienced travellers chose destinations in Europe. Although it is easier to travel to destinations to which there are flight connections or other types of transport, most young people want to avoid “the beaten track” and travel to non-tourist areas. Backpackers tend to travel especially to less visited regions, and travellers try to separate themselves from tourists through their activities at the destination.

The unsafe climate of the last years in certain regions favored some changes in the tourism industry in general and implicitly in youth travel, favoring the *development of new destinations*. For example, in 2008, overall, all the regions recorded positive results, with the exception of Europe, which saw a stagnation in the number of international arrivals. The best results belonged to Middle East (+11%), Africa (+5%) and the two Americas (+4%)⁶⁸⁴. The evolution of the “number of arrivals” indicator was negative in the last six months of 2008 both in Europe (-3%) and Asia (-3%). The two Americas (+1%), Africa (+4%) and Middle East (+5%) recorded positive results even in the second half of 2008, although the increase was much slower compared to the January-July period. The negative trend in international tourism, which manifested in the second half of 2008, grew in 2009 under the impact of the global economic crisis combined with the effects of the A(H1N1) epidemic that started in the spring of 2009. Based on the preliminary statistics collected from 140 countries of destination, compared to the same period of last year, it is estimated that world-wide international arrivals dropped by 7% in

⁶⁸⁴ UNWTO, *International Tourism Challenged by Deteriorating World Economy*, Tourism Directory 05/10/2009, <http://www.directorytourism.com>. (last accessed in 13.01.2010)

the January-July 2009 period⁶⁸⁵. In absolute terms, the global number of international arrivals reached 500 million in the first seven months of 2009, dropping from 540 million in the same period of 2008, placing this indicator at the level recorded in 2007 and 2006.

Solitary young travelers chose non-traditional destinations and are known as pioneers in this field, while youth groups tend to be more conservative when choosing a destination. They go to traditional regions, especially for their international travels, and are attracted to new destinations only through an organized event. Since estimating that these young travellers represents up to 25% of the total travelling population, the growing interest regarding new tourist regions partially reflects the spreading of the models determined by young tourists.

The tourism market is also confronting with growing competition on the global youth travel market in the sense that if established western European markets like Spain, France, Germany, Great Britain, etc., have always been preferred by young people, in the 1990-2000 period, new destinations appeared, such as Australia and Thailand, as leaders in the preferences of young travellers around the world. After 2000, new destinations, like Brazil and England, launched aggressive promotional campaigns directed at young people, which have impressive results.

A recent study of the Quebec University identified five countries as the main destinations in youth travel: Australia, France, New Zealand, Thailand and England⁶⁸⁶. All these countries identified young travelers as being an essential market segment, one that brings an important income. *Australia*, one of the leaders in youth travel, organized aggressive integrated marketing campaigns combined with other initiatives, like introducing a unique visa for the “work & travel” programs which led to attracting young people to Australasia. *New Zealand* and *England* also attract a large number of solitary young travelers with the help of promotional campaigns like: adventure tourism, cultural tourism, rest and relaxation tourism, offering accommodation services at a reasonable price and flexible work/study/travel programs. *France* successfully promoted cultural experiences and youth hostels, especially through-out young people in Europe. *Thailand* makes efforts to promote itself as a safe destination for solitary travelers, stimulating organized groups to discover the Thailand’s culture. Experts consider Germany, U.S.A and Canada as important destinations for youth travel, but none of these countries have launched marketing campaigns for the youth travel market.

The fastest growing segment on the youth travel market is represented by the young people who combine traveling with working. The majority of these young tourists take advantage of governmental programs and/or of flexible visas that allow them to work in the countries they visit, with the purpose of covering some of the expenses. United States of America are the favorite destination of most students that work and travel, followed by Australia, England and Canada.

Tourist destinations are influenced by the tourist’s country of origin, because it is clear that people usually travel first in their own country. Europe is visited by 50% of the Europeans, North America by almost 50% and the other regions by less than 20%.

As to the geographical distribution of the international youth travel, there is a concentration in the northern countries that are well developed. There are significant differences in the tourist flows, thus:

- *Canadians* visit Northern Europe and Northern America, representing also the largest number of tourist who visits Central America;
- the main destinations for young people from *South Africa* are almost exclusively North America and South Europe, with the exception of a small part who visits the Indian sub-continent and their region of residence;

⁶⁸⁵ UNWTO, *UNWTO World Tourism Barometer*, Volume 7, No. 1, January 2009, Madrid.

⁶⁸⁶ Regroupement Tourisme Jeunesse, *Étude de produits et de marchés - Le tourisme jeunesse au Québec*, Montréal, 2001.

- *English* people usually travel inside Northern and Southern Europe, but also to North America; they are among the youth that visits Central and South Africa, China and Japan;
- *Swedish* people visit in a high number destinations from Northern Europe, Southern Europe and North America, but they also visit the south-east part of Asia and Western Europe;
- the young people from *Hong Kong* more and more tend to visit Northern Europe, but also China and Japan; they also record a high number of visits to Australasia because of the geographical proximity of these two regions.

The youth travel market is still dominated by the industrialized countries in Europe, North America and the Southeast Asia, and countries like India, China or the ones in South America have a great potential to develop this form of tourism, although the development of these markets seems to be rather slow.

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ICT ADOPTION – A NECESSITY FOR ROMANIAN SMES

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In today's global economy the use of ICTs technologies is key for achieving growth and competitiveness. Business can use ICT in their relationship with suppliers or customers, to process accounts, to manage the internal processes or to file taxes. Our paper is concerned with studying the use of ICT in Romanian companies in general and especially in Transylvanian SMEs. We conducted a survey among the Transylvanian SMEs with regard to their level of endowment with computers, the number of staff working full-time in IT, the activities that imply computers, the ability to process information, to plan and solve problems using computers.

Keywords: ICT, SMEs, Romania, Transylvania

JEL Classification: M15

1. Introduction

Information and communication technologies (ICT) are changing the whole perception of development, pushing forward the frontiers of communications, medicine, agriculture, energy and sources of growth which altogether are enhancing productivity and competitiveness of nations and helping them achieve higher living standards for their people. The use of ICT and technology has affected every aspect of business, transforming not only the way that business is conducted but also creating new business sectors and jobs.

There is a large consensus among scholars and policymakers that the adequate use of information and communication technology increases the competitiveness of employees and strengthens the position of companies in the global economy [8]. Due to advances in computer technology, the declining cost of systems and improved software and technological sophistication of the workforce, no longer are adaptations reserved for the technologically elite, which results in opportunities for innovation in the small firm. Also, the more flexible managerial capabilities of SMEs dictate the extent of success of IT adoption and the resulting positive effects on financial performance [5]. For this reason, smaller firms should be able to more effectively utilize IT to exploit newer technologies than their larger, less agile competitors [13].

2. ICT adoption in EU and Romanian businesses

The number of EU enterprises (with 10 or more full-time employees) that accessed the Internet using a broadband connection registered a significant growth of 37% up to 83% from 2004 to 2009. In Romania the percentage of enterprises using broadband connection to Internet was at 50% of the EU average with a 41 % in 2009. 73% of Romanian enterprises had access to the Internet in 2009 when compared to European Union countries where the percentage was 94%. The highest percentage growth of firms that had access to the Internet between 2004 and 2009 was recorded in the range of small businesses from 45% to 69%. However this percentage is below the EU average by 25%.

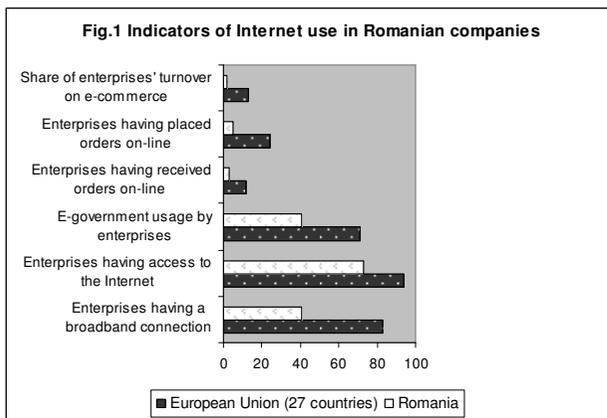
Around three quarters (71%) of EU enterprises used e-government services: the majority to obtain information and to download forms (65 % and 64 % respectively), while 55 % of

enterprises returned filled-in forms using e-government services. In 2009, in Romania, 41 % of the enterprises used e-government services mainly to obtain information (40%).

Between 2007 and 2009, in the EU, the percentage of enterprises that received orders online, decreased from 15% to 12%. In Romania this indicator maintained it's value at 3% well below the European average during this three year period. The proportion of enterprises that used the Internet to place orders to purchase goods or services decreased registered a 5% decrease to 24% between 2007 and 2009. Across the Member States, the general pattern shows a considerably higher proportion of enterprises have made purchases online, when compared to those that have received orders online (probably reflecting the greater complexity of setting up an online selling system as compared with making purchases). Romania is an exception from this pattern, the proportion of companies that have purchase goods via Internet being only with 2% higher than the percentage of enterprises that have received order online.

In 2009, in the EU, the proportion of total turnover accounted for by e-commerce via the Internet equated to 13 %. The percentage of enterprises' total turnover from E-commerce via Internet, in Romania was only 2.

The total value of the ICT market in Europe was EUR 785.7 billion in 2007, representing 6% of total GDP. The IT market (hardware, software and services) amounted to EUR 355.3 billion, while the telecommunications market represented a total value of EUR 435.6 billion.



According to a study made yearly by the Swiss organization, World Economic Forum, which evaluates how well prepared a country is to participate in the network economy by benefiting from the ICT advantages, Romania ranks for 2009-2010 at 59th position in the world, among a total of 133 countries. The Network Readiness Index is formed by points awarded for market environment, telecommunication infrastructure, law and regulations, availability and usage of Information technologies by individual

users, companies and government and public institutions.

The main motives for this low level of Romanian's Index are effectiveness and efficiency of legal framework, availability of latest technologies, companies spending on R&D and insufficiently developed infrastructure.

If we take into account that 99% from the total firms are SMEs results from this report that they are not competitive mainly due to IT infrastructure. It is obvious that Romanian SMEs are ignoring the advantages offer by new technologies or do not investing in this direction. Also the impact of the new technologies on sales still represents an insignificant percentage [23].

Some Romanian researchers identified that the most SMEs apply to small extent IT infrastructure to run business, being also a problem of mentality at managerial level and behavior culture at human resources [7]. The most purchased computer software products and applications by SMEs are those for accounting, financial and remuneration activities, those related to sales, purchasing, etc. are less implemented. Even in situations when SMEs buy IT systems for the entire departments or activities, share applications of integrated Enterprise resource Planning (ERP) is very low.

3. Research method and results

3.1. Research method

Our paper is concerned with studying the use of ICT in Romanian companies in general and especially Transylvanian SMEs. In order to describe the use of ICT by Romanian companies when compared to the countries of European Union we used secondary data from Eurostat.

For a better understanding of the Transylvania SME's attitude regarding the use of ICT we developed a quantitative study and utilized a survey research design. A structured questionnaire was developed to obtain information about SMEs ICT usage between November-December 2008. Data were collected by way of a self-administered questionnaire with the study sample comprising a number of 350 SMEs from Transylvania Region, which has been chosen using the lists of the Chamber of Commerce and Industry. The firms chosen varied by size, field of activity and number of employees. A total number of 257 completed and usable questionnaires were obtained, indicating 73.43% rate of response.

3.2. Sample characteristics

The descriptive analysis of the demographic characteristics of the SMEs is presented in Tabel 1. By size almost 14% from the firms are micro enterprises and an equal number come in the other two categories small and medium enterprises with 43 ponder.

A percent of 49.8 of the SME's are production enterprises, 25.68 % are service companies and 24.52 % are commerce enterprises.

Table 1 The structure of enterprises based on activity and number of employees

Number of employees	Main field of activity		
	<i>Production</i>	<i>Services</i>	<i>Commerce</i>
1-9	1.6%	30.3%	20.6%
10-49	39.1%	31.8%	63.5%
50-250	59.4%	37.9%	15.9%

The vast majority of the investigated SME's were founded in 1992-1996 regardless they were micro, small or medium enterprises.

3.3. Results

We start analyze with investigation about usage behavior of ICT in different aspects of their routine business activity. The results of the study show that SMEs did not developed internal technological systems for communication, 60% of the enterprises do not have Intranet network, due to their small number of employees which give the opportunity of face-to-face communication. The ICT infrastructure is well developed if we take into account the average number of work places equipped with computers of 7.33

An average of 34 % of the internal and external correspondence is conducted via E-mail.

Table 2 Mode of conducting the correspondence

	Minim	Maxim	Mean	Std. Dev.
Percentage of internal and external correspondence is done traditionally	0	100	70.723	28.97
Percentage of internal and external correspondence is done by E-mail	0	100	34.192	29.60

Investigated companies use most information technology in domains such as: accounting and financing (32%), administration (16%) and sales (14%). The less application of IT is surprisingly in R&D. This may be an explanation for the low development of this kind of activities for the SMEs. Also the number of R&D employees working full-time in IT is very small (Mean=0.81). One-way ANOVA was conducted to examine whether average number of employees in IT field differ significantly by main field of SMEs activity.

The ANOVA Test showed that there was no significant difference between the average number of employees in the IT field based on business ($F=1.033$, $p=0.357 > 0.05$).

Knowing that ICT field has a rapid rate of development and obsolete we questioned the companies whether they can keep up with the most advanced technical/technological trends regarding the application of information technology. More than 60% of the SMEs declared they use an average level technology and only 9% use advanced IT technologies. While services SMEs are the ones that use advanced IT technologies the less advanced technologies are used in production sector.

The results show a statistically significant link (Chi Square = 47.648, $df=6$, $p=0.000 < 0.1$) about average intensity (Contingency Coefficient = 0.395, $p=0.000 < 0.01$) between the main field of

activity and the level of IT technologies adopted by the enterprises. That means SMEs from service field are more orientated toward ICT novelty comparing with those activated in production. We also investigate the correlation between firm size and development level of IT technology used. Small enterprises are the ones that use more leader technologies while the micro companies use a low level IT technology (Chi Square = 12.405, $p=0.015 < 0.05$) but was not identified a correlation (either positive or negative) between the two variables (Spearman $\rho = -0.108$, $p=0.131 > 0.05$).

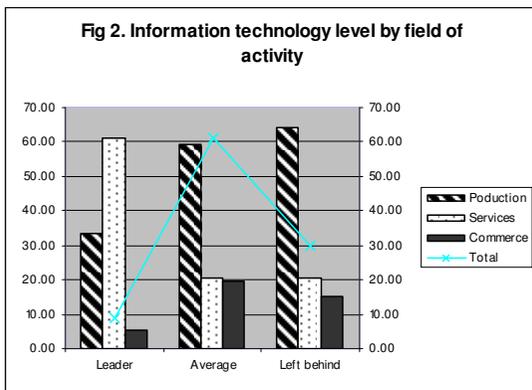


Table 3. Information technology level by company's dimension

	Leader (%)	Medium (%)	Left Behind (%)
Number of employees			
1-9	4.17	41.67	54.17
10-49	13.79	57.47	28.74
50-249	5.75	70.11	24.14

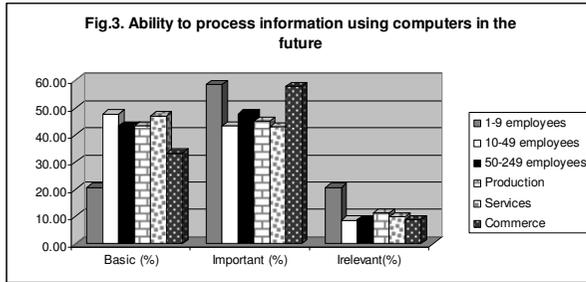
Regardless the SMEs capacity to meet the modern and actual need to process information with the help of computers resulted for more that 58% at satisfactory level. This result gives us the idea of an IT infrastructure that enables employees to be more productive and accomplish easier their work tasks due to computer using technology in data gathering and analyzing. We tested the correlations between level of this capacity of SMEs and field of their activity and size. It was not finding any significant links between, but results a higher ponders of unsatisfactory level for micro enterprises.

Another important advantage for SMEs related to computer using is the ability to plan and solve strategic aspects in their business activity coordination. Regarding to this ability the ponder of satisfactory level it is of 51%, that means only half of the firms consider that their IT technology infrastructure is appropriate for planning their business activities.

Table 4 Ability to plan and solve problems using the computer

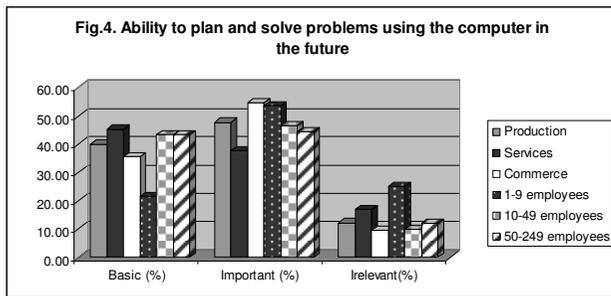
Number of employees	Satisfactory (%)	Partial (%)	Unsatisfactory (%)
1-9	37.50	25.00	37.50
10-49	52.27	32.95	14.77
50-249	54.65	33.72	11.63

However it was identified a link between company's ability to plan and solve problems using the computer and it's size (Chi Square=9.511, $p=0.049 < 0.05$) without being able to establish a correlation between the two variables.



Both micro enterprises and medium firms consider the ability to analyze information using computer important from the perspective of the future. Small firms consider this skill as a basic one. Most companies that consider these skills important for the future of the company are those in trade, while this ability is considered a basic one by most services

firms. Most companies that consider it irrelevant are acting in the field of production.



The ability to plan and solve problems using computer is considered a basic one by the companies in the field of services and by the small and medium enterprises and an important one by commerce firms and by the most of micro-enterprises. The most companies that indicated this ability to be irrelevant are services companies and micro firms.

The analysis of collected data revealed the existence of a very strong direct correlation between the ability to use computers in planning and solving problems level of modernity and the importance given to these skills in the company's future prospects (Spearman Correlation =0.543 > 0.5 , approx sig = 0.0 < 0.05). Also a direct correlation of the average intensity has been identified between the ability to process information with the help of computers level of modernity and the importance given to this skill in the future company's perspectives (Spearman Correlation =0.493, approx sig = 0.0 < 0.05). This implies unfortunately that the companies that consider these abilities level of modernity unsatisfactory also consider them to be irrelevant in the future.

4 Conclusion

ICT adoption is likely to stimulate the extensive and intensive development of both production and services companies. Regarding the extensive development, ICT offers an opportunity for Romanian companies to access new markets, regionally and globally, and to promote and sell products and domestic services electronically. Intensive development consists in lower production, administration and sales costs, due to the use of ICT, which can result in a significant increase of productivity of the factors used. The use of ICT affects firm performance primarily when accompanied by other changes and investments and without these, the economic impact of ICT

may be limited, so complementary investments in skills, organisational change and innovation are key to making ICT work,

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L'AUGMENTATION DE LA RESPONSABILITÉ SOCIALE DES ENTREPRISES DE TOURISME DANS LE CONTEXTE DE LA CRISE ECONOMIQUE MONDIALE

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Corporate Social Responsibility has become a key concept in modern corporate culture. This paper presents the results of an exclusive consumer survey on the willingness to pay for CSR, as well as best practices from other industries and precise suggestions for the implementation and monitoring of CSR in the travel industry. The concept of CSR was introduced in Germany in the mid-1990s. Since then, the idea has prolifically developed in all directions and enjoyed a rapid rise in popularity. Measures to improve the situation at the holiday destination were also strongly supported. As regards the services on offer, guests turned their attention mainly to security in hotels, information for guests about travel safety as well as monitoring the security situation in the country of travel.

Mots clé: responsabilité sociale des entreprises, responsabilité sociale du secteur touristique, la crise économique

JEL Classification: L83, M14, L21

1. Introduction

La responsabilité sociale des entreprises, a maintenant atteint le tourisme. La responsabilité sociale des entreprises est devenu le concept-clé d'une nouvelle culture de l'entreprise. La responsabilité sociale des entreprises, tel est le plus petit consensus commun pour le terme anglophone complexe que les économistes ont forgé aux Etats- Unis il y a plus de 50 ans pour décrire les concepts du comportement responsable des chefs d'entreprise. Mais ce n'est que dans les années 90 que le terme RSE a également été introduit en Allemagne. Depuis, „il prolifère dans toutes les directions" (comme l'a publié l'hebdomadaire allemand Die Zeit) et a rapidement fait carrière. Il y a deux ans encore, une recherche sur Google ne livrait «que» 1,3 million résultats pour «Corporate Social Responsibility», actuellement il y en a 20,5 millions.

Dans son livre vert de 2001, la Commission Européenne donne la définition suivante: „La RSE est l'intégration volontaire par les entreprises de préoccupations sociales et environnementales à leurs activités et leurs relations avec leurs parties prenantes (stakeholder)". La Commission Européenne souligne non seulement la nature volontaire mais aussi la focalisation sur les activités principales d'une entreprise. De plus, c'est un consensus, à quelques détails près, que la RSE ne doit ni remplacer les dispositions légales et les conventions collectives de travail, ni libérer l'entreprise de son obligation de respecter les normes internationales, comme les Droits de l'homme ou les normes de travail de l'Organisation Internationale du Travail.

2. La responsabilité sociale des entreprises et la crise mondiale

La vague RSE a été mise en branle et a entraîné la création de réseaux d'entreprises, comme ecosense et le Forum du développement durable de l'économie allemande. L'Association fédérale des organisations patronales allemandes et l'Union fédérale de l'industrie allemande ont fondé le portail Internet csr-germany.com. Les rankings et les classements mesurent l'engagement des entreprises en matière de RSE. Mais ce ne sont pas seulement les entreprises qui participaient aux débats concernant la RSE, mais aussi les acteurs de l'Etat, des syndicats, de la science et de la

société. Le ministère fédéral du Travail a par exemple constitué récemment un forum avec 40 représentants des groupes socialement importants, dans l'objectif de conseiller le gouvernement fédéral pour toutes questions concernant le développement d'une stratégie RSE nationale. Par ailleurs, des organismes s'engagent dans le réseau CorA (Corporate Accountability) pour qu'il y ait des régularisations étatiques obligatoires.

De nombreuses entreprises ont un chargé RSE et publient des rapports de durabilité ou relatifs à la RSE. L'éventail de l'engagement va du sponsoring d'événements culturels et sportifs jusqu'aux projets pour les enfants de la rue en passant par la plantation d'arbres pour la protection du climat, par les dons et les galas de bienfaisance. Les critiques considèrent que de telles activités reflètent certes l'engagement en matière de citoyenneté d'entreprise (corporate citizenship) mais ne touchent souvent pas les activités principales. Si l'engagement RSE devait être plus qu'un simple instrument de marketing astucieux et ne pas seulement servir à améliorer l'image et la réputation d'une entreprise, alors une politique RSE crédible – selon le ministère fédéral allemand de l'Environnement, de la Protection de la nature et de la Sécurité des réacteurs – devrait englober les champs d'action suivants: „la protection de l'environnement au sein de l'entreprise, la prise en considération des intérêts des salariés, le respect de la protection de l'environnement et des conditions de travail conformes à la dignité humaine dans la chaîne de sous-traitance, une politique de produits intégrée et la protection des consommateurs". La RSE repose sur la combinaison de la compétence technologique et de la compétence sociale. Grâce à des véhicules attractifs qui consomment peu d'énergie, nous contribuons à la mobilité durable". Le dialogue avec les parties prenantes (stakeholder) fait également partie de la stratégie RSE. Outre des questions sur la définition et la stratégie, on se pose aujourd'hui des questions sur la responsabilité sociale des entreprises. Et certaines entreprises sont confrontées avec l'opinion publique parce qu'elles négligent leur responsabilité sociale (corruption, changements climatiques, travail des enfants). Les gouvernements, les médias et les organisations de citoyens font pression sur ces entreprises qui subissent des baisses douloureuses de leur chiffre d'affaires et la dégradation de leur réputation.

A cause de ces expériences et vu la crise financière actuelle qui a énormément troublé la confiance des citoyens portée aux entreprises et aux élites économiques, ce sont „outre des motifs philanthropiques et communicatifs, de plus en plus des questions stratégiques de la minimalisation des risques sociaux résultant des propres activités qui sont au premier plan" pour la gestion pratique RSE au sein des entreprises (étude des agences de conseil Pleon et IFOK). La RSE est logiquement aussi une gestion du risque, parce que celui qui pratique la prévention des risques doit développer une politique stratégique RSE, il doit construire un 'système de radar' pour repérer les futurs risques écologiques, sociaux et politiques.

Qu'en est-il maintenant de la responsabilité sociale du secteur touristique? Suite à la discussion sur les changements climatiques d'un côté et le commerce équitable de l'autre, de plus en plus d'entreprises proposent des „voyages durables" et promettent d'agir „socialement" et „écologiquement" avec responsabilité. A qui les clients peuvent-ils faire vraiment crédit? Comment peuvent-ils reconnaître les offres véritablement durables? Comparé à d'autres secteurs, le thème RSE, telle est l'estimation de tous les experts, est à quelques détails près encore terra incognita dans le secteur du tourisme. Jusqu'à présent, les stratégies de la RSE sont plutôt exceptionnelles, les rapports RSE probants sont une denrée rare, et ce sont plutôt des actions ad hoc isolées qui sont vendues comme des bonnes actions, et des projets sociaux et écologiques comme des mesures RSE. Mais la RSE dans le tourisme devrait signifier que les activités principales des entreprises touristiques soient socialement et écologiquement responsables et qu'elles soient transparentes pour que l'on sache comment et à quelles conditions le produit „voyage", qui est un assemblage de nombreux éléments d'une chaîne de valeur complexe, est réalisé. Il ne s'agit pas seulement de savoir si une entreprise réalise des bénéfices, mais surtout à quelles conditions ces bénéfices ont été gagnés.

La RSE joue un rôle décisif dans le développement durable pour une stratégie d'entreprise axée sur le rendement qui tient compte des exigences écologiques et sociales. Cela signifie, qu'outre la motivation et la promotion du personnel ainsi que le dialogue continu avec les parties prenantes, qu'il faut utiliser en personne responsable les ressources naturelles et l'environnement de nos sites et des destinations touristiques, développer et améliorer sans cesse des systèmes de gestion écologique, intégrer la qualité écologique et la qualité du produit. Dans les grands groupes industriels, ce sont les départements du marketing qui rédigent les rapports de la RSE. Le grand désavantage est qu'il n'est pas possible de comparer les rapports relatifs à la durabilité et qu'il n'existe pas une autorité externe pour en contrôler les contenus.

Le Forum Anders Reisen et tous les membres de FAR se sont certes engagés à respecter le tourisme durable avec un catalogue détaillé de critères. Par conséquent, aucun voyageur n'est en mesure de respecter tous les critères dans la pratique. C'est surtout pour le „critère vol" qu'il y a toujours des écarts (par exemple, pas de vol de plus de 2 000 kilomètres pour un séjour de moins de 14 jours). Les conséquences: des conflits au sein de l'association, pression venant de l'extérieur, diminution de la crédibilité. Pour le Forum Anders Reisen, il n'y a qu'une seule solution pour sortir de ce dilemme: doit livrer la preuve du travail de durabilité par des critères mesurables et vérifiables. Tout d'abord, les entreprises membres relèvent elles-mêmes des données relatives à toute leur chaîne de prestations, ces données sont ensuite représentées et notées dans dix indicateurs principaux; ces indicateurs-clés sont par exemple les émissions de CO₂ par hôte/jour, le taux de la chaîne de valeur locale, l'index de satisfaction des coopérateurs ainsi que l'index de durabilité des hébergements et des agences partenaires. Un expert externe indépendant examine le rapport RSE qui contient un programme d'amélioration constitutive (mesures pour améliorer les performances de durabilité). Si le résultat est positif, le voyageur obtient le certificat de qualité „CRS certified tourism" décerné pour la responsabilité de l'entreprise. Les premiers certificats RSE seront décernés pendant l'ITB Berlin 2010 à 20 membres du Forum Anders Reisen. La certification externe n'est pas seulement un instrument de marketing et un gain pour l'image de l'entreprise, mais surtout une caractéristique positive pour se distinguer des autres organisateurs qui simulent leur durabilité.

Le Forum Anders Reisen a décidé que le rapport RSE sera obligatoire avant l'année prochaine pour tous les membres. Ensuite, il y aura assez de valeurs empiriques pour effectuer une analyse comparative RSE (benchmarking) ce qui permettra de comparer les entreprises avec les indicateurs Benchmark spécifiques au secteur. En ce qui concerne la responsabilité sociale dans le tourisme, les organisateurs de voyages déjà certifiés ont beaucoup d'avance sur les autres entreprises du secteur. Mais on ne peut actuellement pas prévoir si la preuve de la durabilité apportera l'avantage compétitif espéré et des avantages sur le marché.

Le rapport RSE standard pour les organisateurs de voyages est le premier standard de ce genre dans le tourisme. En ce qui concerne les structures et les indices, l'équipe de spécialistes a misé sur les standards des systèmes de gestion internationaux EMAS et ISO, en ce qui concerne les renditions de comptes RSE elle a misé sur la Global Reporting Initiative. Mais quelles sont les chances pour que les grandes entreprises acceptent ce procédé? La conseillère de la RSE met en évidence que le rapport RSE n'est pas seulement limité aux petites et moyennes entreprises. Les grands consortiums comme TUI, Thomas Cook et REWE Touristik pourraient eux aussi y être soumis, car ces voyageurs avec leurs grandes équipes qui ont déjà la certification EMAS ou une gestion de la qualité, possèdent pour cela les capacités en personnel et financières.

Naturellement, la RSE dans le tourisme a également une dimension internationale, par exemple dans la protection des enfants. Dans le monde entier, 800 entreprises touristiques (voyageurs, chaînes hôtelières, agences réceptives) ont jusqu'à présent signé le code de comportement visant à protéger les enfants de l'exploitation sexuelle dans le tourisme. Cependant, il est difficile de faire une évaluation régulière et sérieuse des rapports annuels des entreprises participantes. La protection des enfants soit intégrée comme critère dans les deux plus importants livres de normes

internationaux de la responsabilité sociale: dans les préceptes de l'OCDE pour les entreprises multinationales et dans le Pacte Mondial (Global Compact) des Nations Unies.

Et les consommateurs? On dit dans le secteur touristique que les vacanciers s'intéressent de plus en plus aux impacts de leurs voyages sur l'environnement et sur la société. Mais est-ce que c'est vrai? Quelle importance a la responsabilité sociale des organisateurs de voyages ainsi que l'écocompatibilité et la compatibilité sociale des offres touristiques pour les vacanciers?

L'application des standards sociaux et écologiques par les organisateurs de voyages, par les compagnies aériennes et par les hôtels est un critère de qualité important pour les consommateurs.

Les vacanciers considèrent qu'un maniement précautionneux de l'environnement, la sécurité à l'arrivée et pendant le séjour, ainsi que la préservation des Droits de l'homme dans la destination, sont très importants.

Les mesures pour améliorer la situation dans les destinations ont également été très préconisées. Les mesures de protection de la nature et les actions contre l'exploitation et la prostitution des enfants dans les destinations, mais aussi le respect des standards de sécurité pour les employés des hôtels sont particulièrement importantes pour la grande majorité des vacanciers. Dans le secteur des prestations proposées, les touristes accordent beaucoup d'importance à la sécurité dans les hôtels, à l'information des voyageurs sur la sécurité des voyages ainsi qu'au contrôle de la sécurité des destinations. Aucun consommateur ne va réserver un voyage en raison des aspects de la RSE. Cependant, les mesures dans le secteur de la RSE peuvent tout à fait aider à faire son choix parmi les différentes alternatives et à se décider pour ou contre une destination ou un organisateur de voyages.

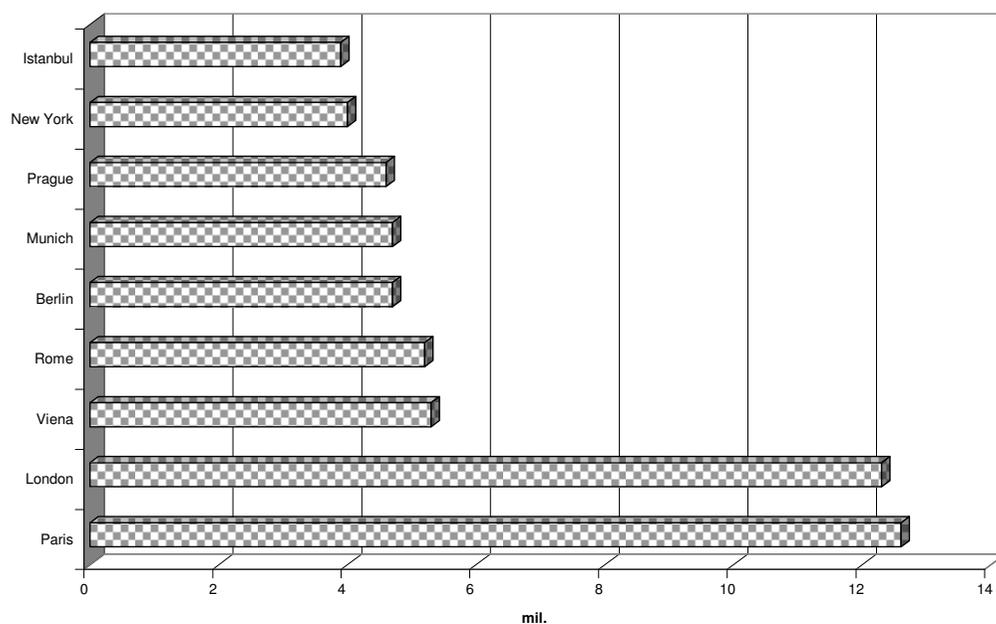


Figure 1. Les destinations favorites des européens (2009)

Source: IPK International, 2010

On parlera de la responsabilité sociale concernant les voyages d'affaires et d'agrément, elles sont devenues habituelles pour un bon nombre d'entre nous. Mais allons-nous encore avoir les moyens de nous payer des vacances demain?

Quels moyens de transport seront les plus touchés? Les touristes s'orienteront-ils ailleurs? Doit-on s'attendre à ce qu'ils renoncent à prendre l'avion? Où éviteront-ils seulement de faire des longs

trajets? Allons-nous bientôt connaître une nouvelle popularité du train et de l'autocar? Va-t-il y avoir une tendance vers l'automobile comme moyen de transport et des vacances dans des destinations proches? Les voyages en voiture vont-ils être l'ancienne/la nouvelle option de l'année 2010? Faut-il être pessimiste? Doit-on craindre que la mobilité sera sacrifiée et que la demande des produits touristiques s'effondre?

Telles sont les questions que se posent et des experts du secteur touristique discutent sur les conséquences qu'ont les prix volatiles du pétrole pour la mobilité.

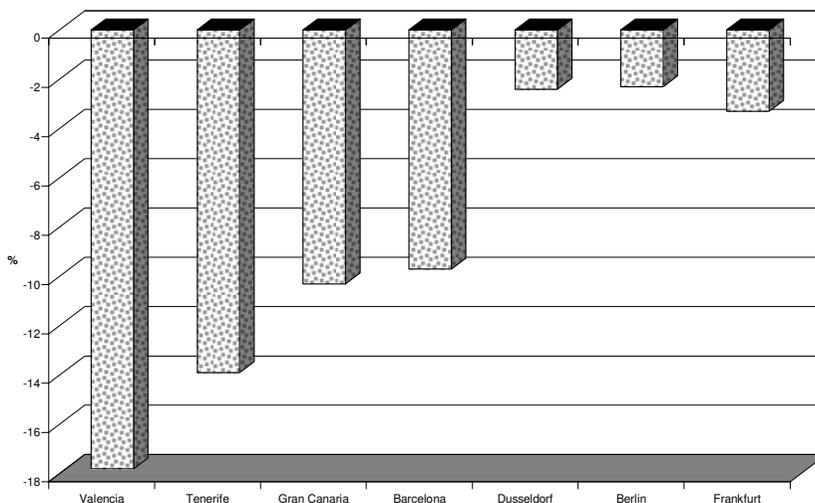


Figure 2. Quelques aéroports affectée par la crise mondiale

Source: IPK International, 2010

Actuellement, le monde traverse la plus grande récession depuis la seconde guerre mondiale et il ne veut pas risquer d'établir plus qu'une estimation prudente sur la fin possible de cette récession. Il est d'avis que les prévisions pour l'économie mondiale resteront sombres au moins jusqu'en 2010. 36 heures en septembre 2008 ont modifié le monde. Avec l'effondrement de l'Investment Bank Lehman Brothers, la raréfaction des crédits est devenue une crise financière mondiale. Cette situation est nouvelle pour tout le monde. Les modèles mis en place par les instituts financiers concernés ne garantissent cependant pas qu'ils seront rentables à moyen et à long terme. Il n'y a pas eu d'autres alternatives. Il a fallu agir tout de suite pour préserver la stabilité du système. Voilà la chronologie des faits comme suit: la crise financière a commencé avec la bulle de l'immobilier américaine; elle a éclaté et a entraîné l'industrie du bâtiment dans l'abîme. Puis la crise a englobé d'autres secteurs économiques, entre autres le secteur automobile et le secteur électronique. Entre-temps, les sous-traitants sont également touchés. Il n'y s'agit ici d'un phénomène passager et éphémère, au contraire nous sommes confrontés à un problème qui va durer. La récession va durer jusqu'en 2010. Le déficit de la demande mondiale est une conséquence de la crise du crédit. Là où la bulle du secteur immobilier a éclaté, cela va durer quelques années avant que les capacités actuellement excédentaires soient réduites. Il compte sur une période d'au moins trois ans pour les Etats-Unis. En Grande-Bretagne il faut compter plutôt sur cinq ans. Il faudra avoir encore plus de patience au Portugal et en Espagne à cause de la stagnation de la population.

Le Président américain Obama suivra une politique économique très keynésienne, et cependant l'économie américaine profitera de la nouvelle politique avec du retard. Le pays devra donc faire face on 2010 à une nouvelle année de récession catastrophique.

En Grande-Bretagne, les consommateurs ont tendance à être très prudents. C'est pour cette raison que le fisc ne devrait rembourser de l'argent que si cet argent est reversé dans le circuit

économique. En raison de la „situation keynésienne", c'est-à-dire vu le gros déficit de la demande, les Etats de l'Union européenne auraient dû prendre des mesures semblables. Ils peuvent le faire encore. L'économie japonaise représente un des grands problèmes. Le Japon traverse „une dépression". Comme le besoin des consommateurs japonais est saturé et qu'il n'est pas nécessaire d'améliorer l'infrastructure déjà très développée, il ne reste, comme moyen politique anticyclique, qu'à investir des deniers publics dans les pays en développement et les nouveaux pays industrialisés limitrophes pour que ceux-ci achètent des biens au Japon. Les jours de la globalisation et de l'économie de marché soient comptés.

Pour vraiment réactiver la globalisation, il faut rétablir la confiance et la paix entre les nations et les religions. Les consommateurs se doutent déjà de ce qui les attend dans la crise mondiale. Ils ont peur pour leur place de travail et leurs épargnes. Leur confiance dans l'économie est en train de faiblir. Jusqu'à présent, ce ne sont que les revenus supérieurs et moyens qui ressentent la tendance.

Dans de nombreux pays, le salaire n'est pas très élevé jouissent par contre de la protection de l'Etat. Dans certains cas, ils reçoivent même une aide disproportionnée du gouvernement. Ces personnes vont d'abord se demander, quand le chômage sera de plus en plus élevé, si elles peuvent vraiment se payer des vacances. Tandis que les Allemands sont prudents et mettent de côté environ dix pour cent de leur revenu, en Angleterre on aime bien vivre „à crédit".

Les dernières estimations pour 2010 renvoient à des taux de croissance réduits dans le secteur des voyages en avion. Certains marchés déclarent déjà qu'ils enregistrent des baisses dans ce secteur. L'année dernière certains vacanciers ont préféré prendre le train ou leur automobile au lieu de prendre l'avion ne signifie pas que nous avons à faire à un décalage modal. Il est plus probable que la tendance reflète seulement une baisse passagère des voyages. On doit garder d'interpréter les décalages temporaires comme tendances réelles. La même chose est valable pour le développement des différents segments touristiques. Les bons résultats obtenus pendant la saison hiver 2008/2009, suite aux excellentes conditions dues à la neige dans de nombreuses stations de ski européennes, ne sont pas une garantie que les affaires hivernales resteront robustes à long terme.

3. Conclusion

Le prix du pétrole aussi restera un facteur-clé pour la performance du secteur touristique en 2010. Les baisses radicales du prix du pétrole, depuis les valeurs de pointe de l'été 2008, ont tout d'abord permis aux compagnies aériennes à bas prix de mieux respirer. Tant que les prix n'augmenteront pas, ils seront ceux qui en profiteront – au moins à court terme. Les consommateurs vont sinon économiser en ne partant pas les week-ends et peut-être décider à long terme de ne pas prendre l'avion comme moyen de transport.

Il y a aussi trop de bureaucratie étatique et de protectionnisme national dans l'élargissement des réseaux ferroviaires. On ne peut donc pas supposer que les affaires avec les chemins de fer seront vraiment, à l'avenir, un facteur important. Dans la concurrence des compagnies aériennes, ce sera plutôt l'automobile qui gagnera face à l'avion. Surtout si de nouveaux règlements, comme l'acquisition obligatoire des certificats d'émission, entravent la croissance du trafic aérien.

En général, les Européens préféreront à court et à moyen terme réserver des voyages bon marché vers des destinations proches. A la fin de 2010, peut-être que le camping sera de nouveau populaire, ou les appartements de vacances et les auberges de jeunesse. Et pourquoi pas les voyages à bicyclette? Cette récession sera draconienne, elle va durer au moins jusqu'à la fin de l'année 2010.

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USING LEAN SIX SIGMA AS A MOTIVATIONAL TOOL FOR PROCESSES IMPROVEMENT

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The purpose of this paper is to demonstrate how business environment and performance can be improved in an organization that used and implement Lean Six Sigma methodology and who create an organizational framework auspicious for theirs employees. Lean Six Sigma can be a management approach of an organization focused on quality and continuous improvement, based on the participation of all it's employees which aims to ensure long term success. It's very important for a organization to believe in the capacity of work and intellect of their employees, to invest in them, so in this way they will feel useful and will became more self confident and will help the company to move one step ahead in this very competitive market we are facing today.

Keywords: Lean, Six Sigma, knowledge management, business transformation, organisational creativity, innovation

The article's JEL code: M16

1. Introduction

"Create, improve continuously and bring innovative elements or die." This has become a crucial and critical element which is required of managers and the organizations they manage, to survive in a changing market. In a dynamic world of global competition, organizations must continuously innovate and create new products and services and adopt new technologies to the marketplace and to cope with fierce competition. Now we are not only in a new millennium but in a new era, the era of knowledge. Long-term competitive advantage depends on the construction and operation of basic skills. Resource-based orientation of an organization defines a strategic asset as one valuable and nonsubstituibil. Knowledge is seen as a strategic asset that has the potential to be a source of competitive advantage for the organization.

2. Knowledge management in business enviroment

Typically, the ability to understand human creativity, employee's creativity, to combine ideas in a unique way or to make combinations and associations between them to generate innovative field to bring more organization it is defined as creativity. Therefore, organizations must create a climate to encourage and foster positive and creative thinking of theirs employees. In other words, they must seek to eliminate organizational barriers at work that could complicate and hinder creativity. Creative potential could be triggered when the employee organization shall be provided adequate resources to guide them in their work when their work is a challenge to the intellect, when presenting a high level of autonomy and control over his work (Politis, J.D. 2004). Large organizations are increasingly turning their attention on the importance and role of knowledge on the efficiency and competitiveness. The main reason for this is concern over the

knowledge management an idea that both knowledge and application of knowledge management systems are ways in which creativity and innovation can be promoted and the knowledges extracted so to increase performance organization overall, whether it is about public, private or nonprofit sector.

Economic theories treat knowledge as a crucial economic factor. It appears, at present the tendency to achieve a new synthesis between the various approaches to economic knowledge in the form of theories of organizations based on knowledge and knowledge-based society. According to these theories, knowledge is the main source of economic organizations and, therefore, knowledge management shows a paramount importance.

Today, acquisition of an organization's success is to exchange information quickly and efficiently. Long-term competitive advantage is not rooted in physical assets and financial capital but in effective channel of intellectual capital.

The characteristic of the knowledge society is not in that it has vast amounts of information, but that in it should always know more. And ability to get to know more calls on the subject knowledge to human beings. Thus information is something external, which is available to us. Knowledge instead, is an internal development, an advance made ourselves, a practical enrichment of our existence, a potency of our operational capacity.

Competitive advantages which it holds economic organization on market no longer can be maintained only by the parameters characterizing the products or services and any investment in new technology. Excellence that provides competitive nature depends mainly on how to tap talent, professional skills and knowledge labor organization by nurturing a new culture in that economic organization.

Fierce competition in international markets causes companies to want to be one step ahead of its competitors, in other words, be smarter ensuring that properly use all available resources, make the most value relevant or, apparently, minor competitive advantage.

3. Lean Six Sigma tool

The continuously changing and diversification of products and services during the last century, due mainly to constant increase of client requirements, as well as to industrial progress and competition intensification, led not only to relatively frequent modification of the quality concept definition, but also to a consistent development of concerns of different organizations supplying products and services of the quality of their production.

To obtain that competitive advantage for organizations, Lean Six Sigma may assist them by creating, improving continuously it's processes, but also by implementing new organizational structures and processes which bring that added the organization has need to differentiate from its competitors on market.

To create a common improvement methodology you must create an integrated system for managing projects rather than separate systems for Lean or Six Sigma projects. As Juran (1989) admonished us, "improvement happens project-by-project and in no other way" (Snee, R.D. 2010). The Juran quality management philosophy focuses on three components: planning, control, and improvement. These are known as the Juran Trilogy (Montgomery, D.C. 2010).

Management must play an active role in the selection of projects for the newly trained Six Sigma teams to focus on, and also ensure that all required resources are made available (Raisinghani, 2005).

Table 1: Lean Thinking

The Fundamental Objective provide perfect value to the customer through a perfect value creation process with zero waste in:	The Fundamental Insight
-Design (concept to customer)	-Focus on each product and its value stream rather than organizations, assets, process technologies, and career paths
-Build (order to delivery)	-Ask which activities are waste and which truly create value
-Service (order to cash)	-Enhance the value & eliminate the waste to optimize the whole

Lean Six Sigma management type refers, primarily, to a structured approach in which the heart is invariably "customer voice", considering that in any economic context, not necessarily a crisis, understanding customer requirements is vital for a company.

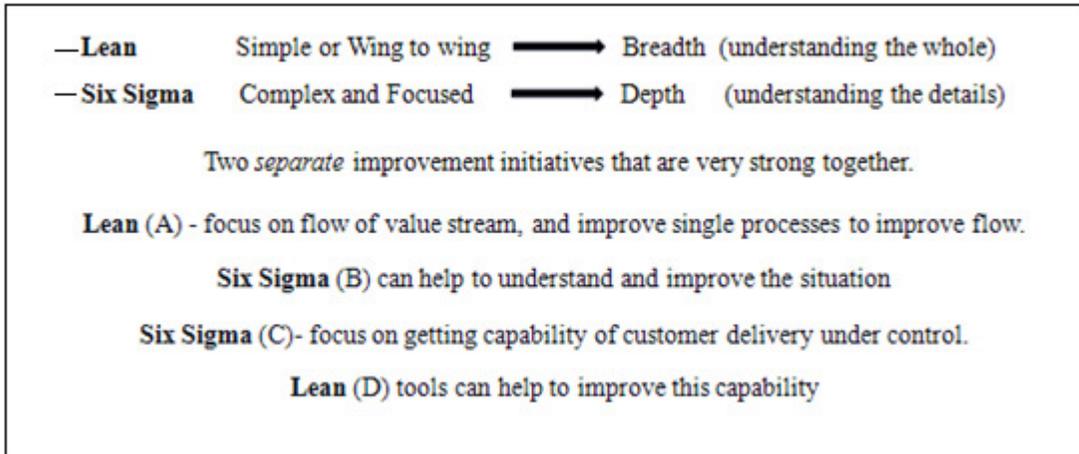


Figure 1: Lean Six Sigma interconnections

*Lean*⁶⁸⁷ (A) - Helps identify steps that **don't add value** and provides tools to eliminate them.

Lean (D) - Lean can help to improve the capability (improve phase).

*Six Sigma*⁶⁸⁸ (C) - Improves the capability of steps that do add value.

Six Sigma/Lean (B) - Lean identifies problems in **flow**. Improving the capability with Six Sigma can eliminate additional steps.

Lean Six Sigma is a methodology which is applicable both in manufacturing activity, as well as in services, and provide tools for solving a wide range of issues, whether we are talking about the speed processes, improve process's output or about cost reductions.

Although Lean and Six Sigma evolved independently, there are a number of encouraging articles discussing the use of an amalgamated approach. However, in order to drive a unified

⁶⁸⁷ Lean manufacturing extends the scope of the Toyota production philosophy by providing an enterprise-wide term that draws together the five elements of "the product development process, the supplier management process, the customer management process, and the policy focusing process for the whole enterprise".

⁶⁸⁸ The term "Six Sigma" refers to a statistical measure of defect rate within a system. Underpinned by statistical techniques, it presents a structured and systematic approach to process improvement, aiming for a reduced defect rate of 3.4 defects for every million opportunities, or Six Sigma.

methodology forward, a closer integration of the two approaches must be achieved, with significant scientific underpinning to provide a sound theoretical foundation (Pepper, 2007 cited in Pepper, M.P.J., Spedding, T.A. 2010).

4. Conclusion

The goal of any organization is to increase its customer's satisfaction by adapting services and products to new standards which are according with what clients want to receive. For that to come true they need both, Lean and Six Sigma working together in all its areas.

For a organization to adopt Lean Six Sigma is required quality improvement processes by integrating Lean principles with Six Sigma methodology as a holistic approach to continuous improvement for all the domains in which the organization operates.

To move forward to further visions such as agility and total supply chain integration, organizations will need to act as Lean as possible, providing transparency for the implementation of Six Sigma methods and techniques.

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THE INFLUENCE OF THE NUMBER OF ACTIVE ENTERPRISES IN SERVICES ON EXPORTS. THE CASE OF 25 EU COUNTRIES IN 2007*

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Services are the most important contributor to the GDP and also the most important job generator. Countries development, usually, is based on the services sector.

The present paper is aiming to highlight the influence of the number of active enterprises in services on exports. The paper is based on a model generated using data provided by Eurostat, for 25 EU countries and for 4 services categories. Generated in Eviews 4.1, the model is correctly specified, with a R-squared value of 0.65, and revealed a validated influence of the number of enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods and in Real estate, renting and business activities on exports.

Keywords: enterprise, services, exports, European Union.

JEL Classification: C30, C40, L81, L85, L91, M19

Introduction

The term of service is reflected in different forms, depending on the context: from intangible services associated to abstract elements, such as information or knowledge, to services that involve individual action, such as health or education⁶⁸⁹. Services are defined as a human activity, with a specialized content, resulting in useful, immaterial and intangible outcome allocated to satisfy a social need⁶⁹⁰. Services are characterized by: immateriality, intangibility, storage impossibility, simultaneous production and consumption of services, non-sustainability, inseparability from the provider and user, variability and heterogeneous. Moreover, Edvardsson, Gustafsson and Roos consider the characterization of services as inseparable, heterogeneous, intangible and perishable too simplistic and state that the difference between services and products is not always so well defined⁶⁹¹. In economics, services met an evolutionary path, from infrastructure services to their approach as an experience, having as intermediate stages the support services, recreational and leisure services, educational services and services that allow

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⁶⁹⁰ Ionciă, M., Minciu, R. & Stănculescu G., 1999. *Economia serviciilor*. Ediția a II-a revizuită și adăugită, București: Editura Uranus.

⁶⁹¹ Edvardsson, B., Gustafsson, A. & Roos, I., 2005. Service Portraits in Service Research: A Critical Review. *International Journal of Service Industry Management*, 16(1), pp. 107-121.

spare time saving⁶⁹². These particularities are the one that confer a certain degree of uniqueness and they support the services improvement process⁶⁹³. Because, products from primary and secondary sectors are associated with services, it is very difficult to demarcate each spectrum, highlighting the fact that services exceed the tertiary sector area, containing also intangible activities of the other two sectors (primary and secondary sectors). Lindberg and Nordin argue that the difference between goods and services is no longer clearly defined, precisely because both are given together, resulting on the one hand, products servicing, and on the other one, the services materialization⁶⁹⁴. At European Community level, the free movement of services involve the removal of barriers that hinder the free movement of people who develop independent activities, of employees, or of their families.

Methodology

Based on data provided by Eurostat, the model consisted of a multiple regression and it was generated using Eviews 4.1 program. The main purpose of the model is to emphasize a potential relation between the number of active enterprises in services and the value of exports of goods and services, for 25 EU countries. From the range of existing services, only the “Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods”, “Hotels and restaurants”, “Transport, storage and communication” and “Real estate, renting and business activities” categories were chosen for the model, as data only for these were identified. The analysis consisted only of 25 EU countries, namely Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and United Kingdom. Malta and Ireland, as European Union members, weren't taken into consideration, as no data were provided for them. The list of variables used for the model was composed of:

- dependent variable: exports of goods and services (expressed in current prices in millions of euros – notation Exporturi);
- independent variables: enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods (expressed in number of enterprises - notation COM), enterprises active in Hotels and restaurants (expressed in number of enterprises - notation HOT), enterprises active in Transport, storage and communication (expressed in number of enterprises - notation TRANSP) and enterprises active in Real estate, renting and business activities (expressed in number of enterprises - notation IMOB).

Descriptive analysis of series of data

The series of data were used exactly as they were provided by Eurostat; any processing did not occur on them. The paper is based on data from the 2007 year, with the authors' intention of expanding the research on other future years.

In what concerns the value of exports of the analyzed EU countries, its mean is 192374.6 and its median is 82318 corresponding to Finland. The series is relatively heterogeneous, taking into consideration the standard deviation that registers a quite high value (257050.2), in comparison with the mean's value of 192374.6. According to Jarque-Bera, residual values are normally distributed, because the probability registers a value lower than 0.05. The asymmetry coefficient

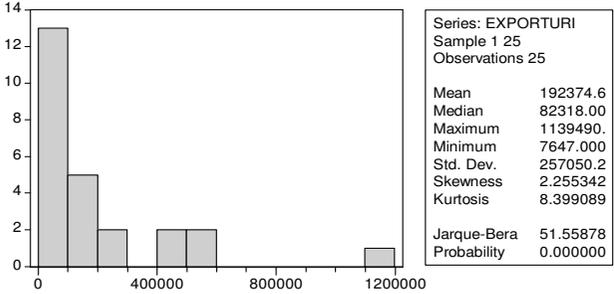
⁶⁹² Heineke, J. & Davis, M.M., 2007. The emergence of service operations management as an academic discipline. *Journal of Operations Management*, 25(2), p. 366.

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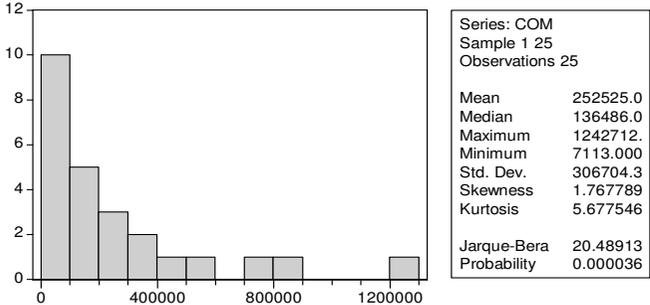
registers a value of 2.25 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 8.39 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 1)

Figure no. 1: Description of Exports series of data



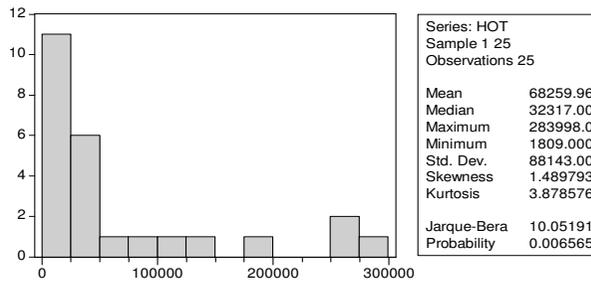
Taking into consideration the number of enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods from the analyzed EU countries, it can be appreciated that, its mean is 252525 and its median is 136486 corresponding to Belgium. The series is relatively heterogeneous, taking into consideration the standard deviation that registers a quite high value (306704.3), in comparison with the mean's value of 252525. According to Jarque-Bera, residual values are normally distributed for all the analyzed services categories, because the probability registers a value lower than 0.05. The asymmetry coefficient registers a value of 1.76 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 5.67 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 2)

Figure no. 2: Description of Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods series of data



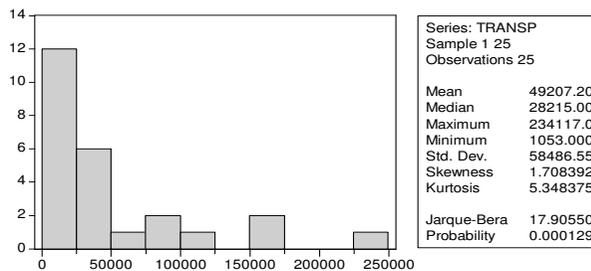
Considering the number of enterprises active in Hotels and restaurants from the analyzed EU countries, it can be appreciated that, its mean is 68259.96 and its median is 32317 corresponding to Hungary. The series is relatively heterogeneous, taking into consideration the standard deviation that registers a quite high value (88143), in comparison with the mean's value of 68259.96. The asymmetry coefficient registers a value of 1.48 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 3.87 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 3)

Figure no. 3: Description of Hotels and restaurants series of data



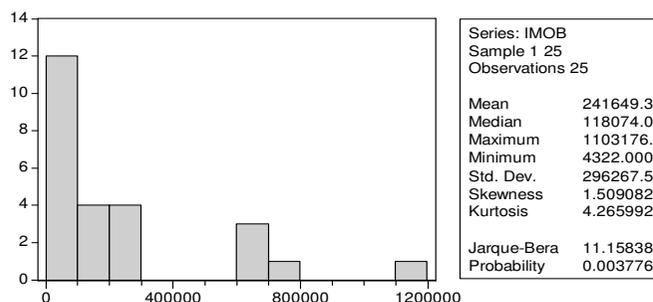
Referring to the number of enterprises active in Transport, storage and communication from the analyzed EU countries, it can be appreciated that, its mean is 49207.2 and its median is 28215 corresponding to Holland. The series is relatively heterogeneous, taking into consideration the standard deviation that registers a quite high value (58486.55), in comparison with the mean's value of 49207.2. The asymmetry coefficient registers a value of 1.70 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 5.34 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 4)

Figure no. 4: Description of Transport, storage and communication series of data



Taking into consideration the number of enterprises active in Real estate, renting and business activities from the analyzed EU countries, it can be appreciated that, its mean is 241649.3 and its median is 118074 corresponding to Belgium. The series is relatively homogeneous, taking into consideration the standard deviation that registers a value (296267.5) quite close to the one of the mean (241649.3). The asymmetry coefficient registers a value of 1.50 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 4.26 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 5)

Figure no. 5: Description of Real estate, renting and business activities series of data



Possible connections between active enterprises in services and exports

The model was generated using the OLS method and it was based on the following equation: $Exporturi = a + b*COM + c*HOT + d*TRANSP + e*IMOB + \epsilon$; all the variables being explained in the methodology part of the paper. Considering the results generated by the model and by substituting the obtained coefficients, the model's equation can be rewrite as follows:

$$Exporturi = 58109.75 - 1.027686*COM + 0.879749*HOT + 0.450289*TRANSP + 1.289356*IMOB$$

The results generated by the model are illustrated in table no. 1.

Table no. 1: Model's results

Dependent Variable: EXPORTURI				
Method: Least Squares				
Sample: 1 25				
Included observations: 25				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	58109.75	44866.17	1.295180	0.2100
COM	-1.027686	0.400772	-2.564268	0.0185
TRANSP	0.450289	1.370242	0.328620	0.7459
HOT	0.879749	1.277558	0.688617	0.4990
IMOB	1.289356	0.391242	3.295548	0.0036
R-squared	0.650292	Mean dependent var	192374.6	
Adjusted R-squared	0.580351	S.D. dependent var	257050.2	
S.E. of regression	166518.0	Akaike info criterion	27.06045	
Sum squared resid	5.55E+11	Schwarz criterion	27.30423	
Log likelihood	-333.2556	F-statistic	9.297660	
Durbin-Watson stat	2.004593	Prob(F-statistic)	0.000205	

The model has been based on two hypotheses for each coefficient, namely the null hypothesis (H_0 : the coefficient = 0) and the alternative one (H_1 : the coefficient differs significantly from 0).

In order to verify the estimators' significance, the t Student test has been applied.

For the free coefficient, the estimated value is 58109.75, with a standard error of 44866.17 and a t Statistic value of 1.295180. The marginal level of significance (p-value) registers a value higher than 0.05, namely 0.21 suggesting a confirmation of the null hypothesis, implicit of the fact that the free coefficient is null.

For the coefficient associated to the COM variable, the estimated value is -1.027686, with a standard error of 0.400772 and a t Statistic value of -2.564268. The marginal level of significance (p-value) registers a value lower than 0.05, namely 0.0185 suggesting a rejection of the null hypothesis according to which the coefficient is null. Therefore, it can be considered that the

coefficient associated to the COM variable differs significantly from 0 and it has an influence of -1.027 on the dependent variable.

For the coefficient associated to the TRANSP variable, the estimated value is 0.450289, with a standard error of 1.370242 and a t Statistic value of 0.328620. The marginal level of significance (p-value) registers a value higher than 0.05, namely 0.7459 suggesting a confirmation of the null hypothesis, implicit of the fact that the coefficient is null.

For the coefficient associated to the HOT variable, the estimated value is 0.879749, with a standard error of 1.277558 and a t Statistic value of 0.688617. The marginal level of significance (p-value) registers a value higher than 0.05, namely 0.4990 suggesting a confirmation of the null hypothesis, implicit of the fact that the coefficient is null.

For the coefficient associated to the IMOB variable, the estimated value is 1.289356, with a standard error of 0.391242 and a t Statistic value of 3.295548. The marginal level of significance (p-value) registers a value lower than 0.05, namely 0.0036 suggesting a rejection of the null hypothesis according to which the coefficient is null. Therefore, it can be considered that the coefficient associated to the IMOB variable differs significantly from 0 and it has an influence of 1.289 on the dependent variable.

Therefore, as a short conclusion of the estimators' analysis, it can be stated that, from the entire model, only two independent variables have a noticeable influence on the dependent variable. In the presented model, the value of exports of goods and services is influenced only by the number of enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods and in Real estate, renting and business activities.

Also, table no. 1 illustrates the value of the Fisher test. It can be observed that the value of F Statistic is 9.297660, with a marginal level of significance of 0.000205, suggesting a correctly specified model.

A qualitative indicator of the regression model is the determined coefficient (R-squared). A value close to 1, for this coefficient, illustrates the fact that the variable Exporturi variations are mainly explained, in this model, by the variations of the variables COM and IMOB. For this model, the R-squared value is 0.650292 outlining the fact that the model adjusts correctly the data from the panel. Therefore, it can be considered that this model has been correctly specified. Durbin Watson registers a value of 2.004593 (very close to 2) highlighting an uncorrelated model's errors.

Conclusions

Services are one of the most important means of a country development because of their influence in every sector and activity of a country. Exports are not an exception to the mention situation. The model generated using data provided by Eurostat, for 25 EU countries and for 4 services categories, generated in Eviews 4.1, revealed a noticeable influence of the number of enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods and in Real estate, renting and business activities on exports, while the number of enterprises active in Hotels and restaurants and in Transport, storage and communication had no valid p-value in order to be accepted as having an influence on exports. In order to bring more arguments and improve the presented model further data and tests are necessary.

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CORPORATE GOVERNANCE BASICS

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In a world of profound economic transformation, one must find the appropriate tools to ensure socio-economic development, in strengthen economy. One such tool is considered to be corporate governance. This concept refers to a set of customs, processes, laws, policies and institutions, which affect how a corporation is being managed, administered or controlled. It also implies the relationships among the stakeholders involved the targets of a corporation. The main stakeholders taken into consideration are the shareholders, the management and the board of directors and others, like: employees, customers, creditors, suppliers, regulators, and the community at large. Corporate Governance is a complex concept. An important theme is the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. Another important aspect is the economic efficiency, the shareholders' welfare.

Keywords: corporate governance, principles, mechanisms of corporate governance, cash-holding

JEL Classification: G30, G32, G38

1. Introduction

The concept of corporate governance is of high importance to the EU candidate and potential candidate countries, which want to attract investors, to enhance lender confidence, to improve corporate competitiveness. Strengthening corporate governance is essential in promoting the private sector as an engine of growth, reducing the vulnerability of developing and transition economies to financial crises, providing incentives for corporations to invest, to perform efficiently in a responsible way. The European approach is meant not only to help the accession process, but also the improve trade among the EU partner, attract investors and raise competition in the EU.

Corporate governance refers to the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management, and the board of directors. Other stakeholders include employees, customers, creditors, suppliers, regulators, and the large community.

Corporate governance is a multi-faceted subject. An important aspect of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. A related but separate thread of discussions focuses on the impact of a corporate governance system in economic efficiency, with a strong impact on shareholders' welfare.

A first step in building sound corporate governance is to design a code of corporate governance containing standards and best practices in the field. Sort of a guide when attempting to build such codes is the *Action Plan for Modernizing European Company Law and Enhancing Corporate Governance in the EU (2003)*. This document highlighted the main reasons for which a modernizing process was needed: financial scandals, cross-border operations, the integration of EU capital markets, the quick information exchange, the development of technologies and the increase of the Member States.

Some initiatives reveal the future actions whereas corporate governance is concerned:

- Better information on the role played by institutional investors;
- Proportionality between capital and control;
- The listed companies' choice between one-tier and two-tier board structures;
- enhancing the responsibilities for financial and key non-financial statements.

The European Commission issued two reports in 2007, in which it states that all Member States had issued corporate governance codes and most codes apply on a comply-or-explain basis. However, there are some areas where the EU Recommendations had not been properly followed.

In order to set the EU Corporate Governance Standards there have been identified the key players and the key outputs. The key players are the most important EU institutions: European Parliament, European Council, and Consultative Bodies in the field of Corporate Governance, the European Corporate Governance Forum, and the Advisory Group on Corporate Governance and Company Law. The Key Outputs are the main legal documents like:

- the Green Paper – a discussion document released by the EC intended to stimulate debate and launch a process of consultation, on a particular topic, at EU level
- Position Paper – views and information presented to the Commission in response to a consultation process
- Recommendation – nonbinding act which explains current EU policy and recommends further actions.
- Regulation – act of the Council or joint act of the Council and the Parliament which has direct and general application in Member States.
- Directive – the most common type of EU legislation, not directly applicable, but may have direct effect; preferred mean of harmonization.
- Decisions – are binding in their entirety upon to whom they are addressed.

The World Bank has issued a report on the topic of corporate governance in Romania in 2004. The report assesses the corporate governance policy framework, and the enforcement and compliance practices in Romania. The report highlighted strengths and weaknesses and some policy recommendations were made.

The major issues were considered to be the effort made by Romania to join the EU and the transformation of the capital markets. The corporate governance framework in Romania has gone through a process of improvement in the late years, whereas corporate governance framework. Laws were issued to protect the minority shareholders of publicly held companies. Further improvement is a requirement and recommendations were made in this direction: a clear CNVM mandate to protect shareholders rights and help in carrying out its mandate; protection of the shareholders rights for all publicly held companies; steps to create a Corporate Governance Institute; revising the Company Law, with focus on the shareholders rights and the boards of directors.

2. OECD Principles of Corporate Governance

The OECD Principles of Corporate Governance were designed in 1999 as a set of corporate governance standards and guidelines. They were also adopted as one of the Twelve Key Standards for Sound Financial Systems by the Financial Stability Form, by the IMF/World Bank. Corporate governance is a key concept which affects the relationships among participants in the governance system. The elements which affect the shareholders of a corporation influence also the corporate behaviour. The relationships among shareholders are subject, in part, to law and regulation and, in part, to voluntary adaptation and, most importantly, to market forces.

Good corporate governance principles include rather intangible characteristics, according to ones ethics general and to the business ethics in particular, like: honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization.

The OECD Principles of Corporate Governance are:

- Ensuring the Basis for an Effective Corporate Governance Framework
- The Rights of Shareholders and Key Ownership Functions
- The Equitable Treatment of Shareholders
- The Role of Stakeholders in Corporate Governance
- Disclosure and Transparency
- The Responsibilities of the Board

a) Ensuring the Basis for an Effective Corporate Governance Framework

“The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.”

The way a corporation conducts its businesses must abide by the law, by the norms and values it promotes and in perfect transparent way.

b) The Rights of Shareholders and Key Ownership Functions

“The corporate governance framework should protect and facilitate the exercise of shareholders’ rights.”

Organizations must respect the rights of their shareholders. Problems like asymmetric information and moral hazard should not manifest themselves. This is why it is important that the shareholders participate in general meetings where they can be informed with the issues they are concerned about.

c) The Equitable Treatment of Shareholders

“The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.”

All shareholders are equal in a corporation whereas rights and obligations are concerned.

d) The Role of Stakeholders in Corporate Governance

“The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.”

The board should be consisted of high-skilled persons capable of dealing with various business issues, who have the ability to analyze in critic way the management performance. The problem each corporation is confronted with is the appropriate mix of executive and non-executive directors, of the size and level of the organizational chart.

e) Disclosure and Transparency

“The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.”

A corporation must publicly inform all interested parties about the roles and responsibilities of the board and management, about all information concerning them and the corporation. The integrity of financial reporting must always be ensured.

f) The Responsibilities of the Board

“The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders.”

Ethical behaviour on behalf of the persons responsible for decision making is important not only for public relations, but is also a key factor when avoiding assuming high management risks and potential lawsuits. This is why a lot of companies design and promote their Code of conduct, because a company is bound with its staff integrity and ethics. It is important to acknowledge the risk a corporation is confronted with when it steps outside the ethical and legal boundaries.

3. Mechanisms of corporate governance

The governance mechanisms that have been studied can be characterized as being either internal or external to the firm. The internal mechanisms of primary interest are the board of directors and the equity ownership structure of the firm. The primary mechanisms are the external market for corporate control (the takeover market) and the legal/regulatory system.

3.1. Internal Governance Mechanisms

3.1.1. Boards of Directors

Corporations in most countries of the world have boards of directors. The board exists primarily to hire, fire, monitor, and compensate management, all with an eye towards maximizing shareholder value. While the board of directors is an effective corporate governance mechanism in theory, in practice its value is less clear. Boards of directors include some of the very insiders who are to be monitored; in some cases they represent a majority of the board. In addition, it is not uncommon that the CEO is also the chairperson of the board. Finally, the nature of the selection process for board members is such that management often has a strong hand in determining who the other members will be. The primary board-related issues that have been studied are board composition and executive compensation. Board composition characteristics of interest include the size and structure of the board: the number of directors that comprise the board, the fraction of these directors that are outsiders, and whether the CEO and chairperson positions are held by the same individual. Executive compensation research is concerned with the degree to which managers are compensated in ways that align their interests with those of their companies' shareholders.

3.1.2. Ownership structure

Ownership and control are rarely completely separated within any firm. The controllers frequently have some degree of ownership of the equity of the firms they control; while some owners, by virtue of the size of their equity positions, effectively have some control over the firms they own. Ownership structure is a potentially important element of corporate governance. It is reasonable to presume that greater overlap between ownership and control should lead to a reduction in conflicts of interest and, and, in this idea, to higher firm value. The relationships between ownership, control, and firm value are more complicated than that. Ownership by a company's management, for example, can serve to better align managers' interests with those of the company's shareholders. However, to the extent that managers' and shareholders' interests are not fully aligned, higher equity ownership can provide managers with greater freedom to pursue their own objectives without fear of reprisal; i.e. it can entrench managers. The ultimate effect of managerial ownership on firm value depends upon the trade-off between the alignment and entrenchment effects.

The shareholders other than management can potentially influence the actions taken by management. The problem in some corporations, with the widely-dispersed share ownership, is that individual shareholders own very small fractions of an individual firm's shares and, therefore, have little or no incentive to expend significant resources to monitor managers or seek to influence decision-making within the firm. Moreover, the free-rider problem reduces the incentives for these disparate shareholders to coordinate their actions. Individual shareholders who have more significant ownership positions have greater incentives to expend resources to monitor and influence managers.

As with ownership by managers, ownership by outside blockholders is not always a positive force from the perspective of the other shareholders. Blockholders can use their influence such that management is more likely to make decisions that increase overall shareholder value. These are the shared benefits of control; blockholders exercise them but all shareholders benefit from them. However, there are private benefits of control as well – benefits available only to block

holders. These private benefits can be innocuous from the perspective of other shareholders; e.g. a blockholder may simply enjoy the access to powerful people that comes from being a major shareholder. However, if blockholders use their control to extract corporate resources, the private benefits they receive will lead to reductions in the value of the firm to the other shareholders. The ultimate effect of blockholder ownership on measured firm value depends upon the trade-off between the shared benefits of blockholder control and any private extraction of firm value by blockholders.

In many countries of the world, the government is a significant owner of corporations. Government ownership represents an interesting hybrid of dispersed and concentrated ownership. If the government is viewed as a single entity, state-owned corporations have very concentrated ownership. Unlike private blockholders, government ownership is funded with money that ultimately belongs to the state as a whole and not to the individuals within the government that influence the actions of the firm. In this regard, the ultimate ownership of state-owned companies is, in fact, quite dispersed. Over time, there has been a trend away from state ownership of corporate assets. The conversion from state to private ownership, termed privatization, provides an interesting setting in which to examine the effects of ownership on firm performance.

3.2. External Governance Mechanisms

3.2.1. The Takeover Market

When internal control mechanisms fail to a large enough degree, that means for example when the gap between the actual value of a firm and its potential value is sufficiently negative - there is incentive for outside parties to seek control of the firm. Changes in the control of firms virtually always occur at a premium, thereby creating value for the target firm's shareholders. The mere threat of a change in control can provide management with incentives to keep firm value high, so that the value gap is not large enough to warrant an attack from the outside. The takeover market has been an important governance mechanism.

The takeover market has also its dark side for shareholders. In addition to being a potential solution to the manager/shareholder agency problem, it can be a manifestation of this problem. Managers interested in maximizing the size of their business empires can waste corporate resources by overpaying for acquisitions rather than returning cash to the shareholders.

3.2.2. The Legal/Regulatory System

La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) are sustaining that the legal system is a fundamentally important corporate governance mechanism. They argue that the extent to which a country's laws protect investor rights and the extent to which those laws are enforced are the most basic determinants of the ways in which corporate finance and corporate governance evolve in that country. This basic idea has spawned a growing body of research that examines differing legal regimes across countries. This research allows for comparative studies of corporate governance. Given the interrelationships among the various corporate governance mechanisms, it also has the potential to provide a more complete understanding of the roles of firm-specific corporate governance mechanisms such as the board of directors and equity ownership.

4. Corporate governance and the value of cash holding - Implication of corporate governance

Jensen (1986) argues that if left unmonitored, entrenched managers may waste free cash flows. This argument is extended in some studies to cash reserves and provide empirical evidence by examining the effect of governance on the value of excess cash. The value of a monetary unit of cash is substantially less if a firm has poor corporate governance. A well governed firm has its excess resources better "fenced in," and that firms with poor corporate governance dissipate excess cash reserves more quickly on less profitable investments than those with good

governance. In short, poorly governed firms waste excess cash resources and thus destroy firm value.

A large and growing literature sustains that governance improves firm value. But much less is understood about how governance enhances firm value that means how does governance work? There is a direct link between governance and the value of an important asset of the firm: cash holdings. Governance increases firm value by improving the use of cash holdings. The results also shed light on the role of governance in cash policy. Governance has a greater influence on the use, rather than the accumulation, of cash holdings. This implies that governance impacts operating and investment decisions (how to use cash) more than financing decisions related to cash policy (how much cash to amass). One conclusion with respect to cash policy is that it may matter very little whether a firm holds excess cash—if it is well governed.

5. Instead of conclusion...Systemic problems the concept of corporate governance faces

*Corporate governance is confronted with a series of problems which can affect its effectiveness like: **the demand for information** - it is important to the corporation to have significant voting groups which can manifest power when adopting decisions; monitoring costs – people must adjust to the fact that markets do not always function efficient, that people are affected by what is called bound rationality. The EMH (efficient market hypothesis) is no longer valid and corporations must act accordingly; **supply of accounting information** – external auditing must be promoted in order to avoid imperfections in financial reporting, with a direct effect on the effectiveness of corporate governance.*

In order to ensure that this concept is of use to the corporation the employees, the management, the board of director must not only embrace the theoretical aspects, but must promote also the practical uses of applying such a concept.

Company law and corporate governance are extremely important in the context of the late crisis. It is crucial for companies to work efficiently and transparently. If not...investment will diminish and unemployment will appear. Shareholders, employees, creditors and the public are in danger of losing their resources, their trust in the market mechanisms to solve problems. In order to ensure the public confidence in the financial markets a strong corporate governance model must exist. Unfortunately, the late crisis has proven the EU steps to be more theoretical than practical, given the damage caused by the crisis on all EU financial markets.

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THE IMPORTANCE OF TOURISM FOR SUSTAINABLE DEVELOPMENT IN ROMANIA

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The tourism and travel industry represents, worldwide, the most dynamic sector of activity and, at the same time, the most important job generator, as well as a source of recovering the national economies. Tourism is a complex activity because it generates the circulation of massive sums of money, thus contributing to the development of various economic activities which are favourable to the environment protection and to the globalization process emphasis. Tourism itself cannot be considered as a “positive” or “negative” action, but its very diverse consequences can be evaluated in this manner. In the process of sustainable development of tourism, it is necessary that an increased attention be paid to the quality of the touristic products, which should simultaneously offer “the taste of perfection” and “the perfection of taste”.

Keywords: touristic destination, sustainable development, touristic potential.

JEL Classification: L83, M19, Q01

Introduction

According to the unanimous acceptance, the tourism economic potential is impressive and the benefits which can be generated by a sustainable development cannot miss from any elementary calculation of a marketing planning which can minimize them, considering that tourism, a very strong instrument of development, possesses a natural synergy with the sustainable development concept.

Any research related to the tourism from a certain territory has to take into consideration the phenomenon of the markets' interdependencies. This phenomenon presupposes that no touristic market can be judged independently, without establishing connections with the other markets. The touristic research is under a permanent pressure, on the one hand because of the competition, on the other because of some circumstantial factors, with an economical character, but also extra-economical (inflation phenomena, of economic, political and geostrategic circumstance).

The economical, social, political context from Romania after 1990 has not contributed to the development of the Romanian touristic sector. Moreover, according to the conclusions of the specialists, the effects of the transition to the market economy have determined a decline in tourism, together with other sectors of the economy. Thus, the international tourism demand has registered a decreasing trend because of multiple causes, such as: the low-quality level of the offered touristic services, the lack of diversity in the touristic programs, the reduced possibilities of recreation, etc.

Analysis of the touristic destinations

Presently, the Romanian tourism is in a period of analysis and profound changes, which is motivated by the preoccupation of being competitive on the unique European market.

With the intention of increasing the quality of the tourism activity, the policies as well as the strategic objectives which will be adopted have to aim at the following:

- the continuous achievement of a touristic product of superior quality, which corresponds to the modern tourism objectives;
- the improvement in the activity of the tourism personnel and in the quality of the touristic services;
- the diversification of the leisure offer;
- encouraging the Romanian and foreign investments in the tourism activity;
- elaborating more aggressive marketing policies which would aim at creating a positive image of the country outside the borders of Romania;
- promoting a competitive Romanian tourism, comparative with the countries which have a developed tourism (Spain, France, Switzerland, etc.).

Romania occupied the 76th position out of 124, in the first world classification of tourism and travels, with a mark of 3.91 from a total of 7, between Azerbaijan and El Salvador, according to a classification made by World Economic Forum (published in March 2007), which measures the tourism development potential in various countries.

The touristic potential of Romania is composed of a variety of forms of relief, springs with mineral and thermal water, lakes used for recreation, swimming and sport fishing, a valuable hunting fund amassed in coniferous and broadleaf forests, diverse landscapes from the mountain peaks of over 2000 metres to the plains, to the seaside and the Danube Delta. The grouping of elements with touristic potential, the infrastructure and the development on the Romanian territory is the result of the connections established between man and nature along time, as a consequence of the historic and natural evolution, which has led to the separation of touristic provinces (regions, areas, centres, localities, etc.) each one reflecting a certain degree of complexity, as a touristic potential, infrastructure, as well as a way of performing the tourism activities. Consequently, the contour of touristic axes that go across various provinces, areas, centres, localities and objectives has been produced.

In this sense, there has been an individualization of the following regions: Maramures, Bucovina, Brasov, Banat, Apuseni, Buzău-Vrancea in The Carpathians and Curvature Subcarpathians, Argeş-Prahova, North Oltenia etc. within which there are areas, centres, and secondary touristic axes comprised in a certain touristic system.

Romania possesses a great variety of natural resources which form a large part of the “basic” touristic product. These include the Black Sea beaches, the Danube and the rivers, the Carpathians and other mountain chains and the Danube Delta Biosphere Reservation. There are 16 national parks and 13 natural reservations which cover 7% of the country’s surface. In Romania there is a vast biodiversity with many species of flora and fauna which are unique in Europe. Romania possesses the richest variety of large mammal species in Europe and it is a major passageway for the migration of birds. Their total surface is of 1,652,403 hectares. The tourist attractions can vary from hunting and trekking in the mountains to recreational walks and winter sports.

The Romanian structures of tourism aim at the following:

- seaside tourism;
- the Danube Delta;
- mountain resorts;
- spa resorts;
- the capital and the county capital cities.

The structures of tourism from the seaside benefit from the shortest season, open, in average per year, for less than three months. The touristic season in the Danube Delta also functions for less

than six months a year. As a tourist destination, Romania's strong points aim at the following structures: geography and environment, culture and cultural heritage, infrastructure, transport and communication.

The geography and the environment are the strong points in the natural tourism potential through: the Danube Delta biodiversity (the Biosphere reservation which belongs to the UNESCO world heritage); the diversity of the national parks and of the protected natural areas (7% of the surface of the country) with forests, lakes and unpolluted rivers; the seaside and beaches of the Black Sea; the Carpathian Mountains; the Danube River; a large number of caves; the flora and fauna diversity (large number of unique species or with the highest density in Europe, especially large carnivores); 35% of the mineral water springs in Europe and of mofettes which offer a wide array of spa treatments; temperate-continental climate; good natural conditions for tourism activities (ski, mountain trekking, equitation, cycling, water sports, etc.).

The assets in culture and cultural heritage are represented by: the diversity of the heritage objectives—convents, archaeological sites, fortified constructions, including seven objectives/areas which are included in the UNESCO world heritage; medieval citadels; rural settlements where the traditional lifestyle can be experimented; museums with various themes; impressive artistic programmes—classical as well as modern; a wide variety of festivals, traditions, folklore; legends—Dracula, etc.

From the perspective of the tourism potential in the mountains, the most imposing areas are the following: Bucegi-Postăvaru, Piatra Mare, Parâng, Cindrelul, Șureanu, Retezat – Țarcu –Muntele Mic, Semenic-Aninei, Bihor-Vlădeasa-Muntele Mare, Rodna, etc., the touristic resorts and complexes that offer great possibilities of valorisation for the winter sports, mountain trekking, cave tourism, mountain-climbing, hunting, and sport fishing, spa treatment, religious, cultural tourism, ecotourism, etc.

The spa-tourism potential is famous on the international market because of the natural treatment factors, such as: mineral waters, mud and therapeutic gases, saline bioclimate, ionised-air bioclimate, phytotherapy (herbalism), partially exploited in the national spa resorts (approx. 24) and the regional and local (or localities) spa resorts which are not certificated (approx. 36). In addition to these favouring elements, we mention the professionalism of the medics, as well as the variety of traditional Romanian spa treatments and medicines.

The touristic potential of the Black sea littoral constituted of the famous tourist resorts includes a wide array of elements, such as: the mineral waters from Mangalia, Venus, Neptun, Eforie; the sapropelic mud from Techirghiol and the peat mud from Mangalia; the chlorine-sodium filled water of Techirghiol lake; the marine bioclimate and other natural and cultural-historical tourist attractions, dissipated on approx. 70 kilometres between Capul Midia and Vama Veche.

The Danube Delta tourism potential is represented by its ecologic value, by the landscapes, fauna (ornithological and piscicultural), cruises and expeditions organised in special surroundings with cultural and economical traditions specific to the local Russian, Ukrainian and Romanian communities.

The tourism potential of the Danube River and the adjacent region impresses because of the attraction area preferred for tourism: the Danube gorge and the Iron Gates, Danube's lakes, etc.

Romania's fauna and flora potential, rich in scientifically interesting species, but also for hunting, with ecosystems unique in Europe, represents important premises for the development of the Romanian tourism.

The Romanian tourism industry is distinguishable for its speleological, hiking and climbing potential as well as for the extreme sports possibilities offered mostly by the mountainous area.

The modernization, revival and development of the Romanian tourism are influenced by the climate of Romania which favours tourism during the entire year because of the comforting thermal regime, the snowfall which allows the development of winter sports, the therapeutic value of the bioclimate being a mountain incentive.

Romania's touristic offer and programme are also favoured by the cultural-historical heritage, very representative for our county, because of the multi-millenary history of the Romanian people, crystallized due to the following:

- The existence of more than 680 values of cultural heritage of national interest, such as 197 churches and monastery ensembles, 36 monuments and architecture ensembles. 11 castles, mansions and palaces, 70 urban architectural ensembles (civil buildings), 20 historic centres and archaeological sites, etc. A large part of the historic and art monuments are values of the UNESCO World Cultural Heritage (fortified churches, churches with exterior frescos, Dacian citadels, Sighisoara citadel, etc.).
- The Romanian ethnographic and folkloric treasure of a great originality is represented by the popular architecture, specific to the Romanian villages (from Maramures, Bucovina, Oltenia, Dobrogea, Transilvania, etc.).
- The craft industry, woodwork, the art of decorating, fairs and the traditional cultural-religious manifestations also represent the offer of a touristic product with a decisive role in choosing destinations.

The revival and development directions of tourism aim also at the technical-economical potential of Romania, objectified through engineering works of art, bridges, dams, old stacks, salt mines and mines, old factories and railway station buildings, vineyards and studs, etc.

Its geo-touristic position offers Romania several advantages due to the following:

- the presence of three natural components characteristic for the landscape and the social-economical structure of the country, components of great value and entirely European: the Carpathian Mountains, the Danube River and the Black Sea;
- the touristic transit function, because Romania ensures the connexion between the countries of Central, Nordic and Eastern Europe with the ones from the southern part of the continent and from the Near and Middle East;
- the European roads network with the seven road arteries and European corridors North-South (IX) and East-West (IV), between the railroad route and the Danube River (corridor VII), that establish the connections between the countries of the continent and the Black Sea basin.

In comparison with other tourist destinations, Romania has a weaker performance especially caused by the infrastructure regarding the road transport, but also as a consequence of some precarious aspects concerning the human resources and the public perception about the importance and value of tourism.

In the analysis of the market segments and the visitors' profile it has been found that, presently, there is no data to allow the analysis of the market segmentation concerning the foreign visitors. The only source is represented by a series of ad-hoc studies, as well as the official statistic data related to the nights spent which are included in "statistic data regarding the Romanian tourism", various editions of the National Statistics Institute, only the 2002 and 2008 editions being analyzed. (Table no. 1)

Table no. 1 Tourists arrivals and nights spent by the foreign tourists, according to the location

Location	Tourists arrivals (number of tourists)			Nights spent (number of overnights)		
	2001	2007	% of the total for 2007	2001	2007	% of the total for 2007
Littoral	44469	58191	3.75	373106	346765	9.67
Spa resorts	26383	36252	2.34	149349	157594	4.39
Mountain resorts	87903	118706	7.65	212525	286323	7.98
Danube Delta	5552	20445	1.32	13543	33610	0.94
Bucharest and other	686078	1143916	73.76	1474670	2412456	67.27

county capital cities						
Other localities and tourism itineraries	64124	173447	11.18	167338	349691	9.75
TOTAL	914509	1550957	100	2390531	3586439	100

Source: National Institute of Statistics. *Romania's Tourism*, 2002 and 2008 editions

According to the analysis, a considerable increase in all the locations in the number of tourists arrivals, from 2001 to 2007, has registered; the most spectacular being registered in “Bucharest and other county capital cities”, namely 457838 tourists. In what concerns the number of overnights, it can be observed that, in general, it registered an increase in almost all the analyzed locations, exception to this situation being the littoral location. Here, the number of overnights decreased from 2001 to 2007 by 26341 units. Regarding the other locations, the most spectacular increase of the number of overnights has been registered in “Bucharest and other county capital cities”, namely 937786 units. An interesting variation in the visitation structures of the seaside resorts and of the mountain resorts, with a larger period of the stay registered at the Black Sea than in the mountain resorts, namely, almost 10 nights compared with almost 8 nights, for 2007, which suggests that foreigners who visit the seaside do it as part of their destination, while numerous visits to the mountain resorts belong to the circuit, along with other locations.

The “Bucharest and other county capital cities” and “Other localities and tourism itineraries” categories include not only the business or official visitors, but also the ones who get an accommodation on their way to other destinations and the foreign visitors who make short shopping trips, the ones who participate to events or who visit tourist attractions.

The qualitative research performed on the ANT staff (National Tourism Authority), on the Romanian hotel staff and on the travel organisers indicates the following main market segments for the holidays in Romania:

- *pretentious—elitist*: hunting, holidays with friends on Prahova Valley, Breaza – “Davos of Romania” and the golfing capital; Danube Delta biosphere reservation; wine tasting (Transilvania, Moldova, Crişana, Maramureş);

- *cultural tourism combined with ecotourism—young professionals*: Transilvania; Maramureş; Bucovina; Litoralul Mării Negre; Delta Dunării;

- *middle-class families*: Prahova Valley; Black Sea littoral; visits in the surrounding areas in order to spend time in nature, for example with the occasion of celebrating the 1st of May;

- *visits to see the parents* for Christmas and Easter;

- *the social category called “working class”*: Black Sea littoral; countryside vacation—either at relatives, or in guesthouses; visits in the surrounding areas in order to spend time in nature; visits to see the parents for Christmas and Easter;

- *older couples*: visits to see their children, to the city; social programmes (i.e.: “a week of recovery—a week at the Black Sea littoral”); visiting the monasteries (i.e.: Bucovina monastery); museums, castles;

- *young people—in groups*: the Black Sea littoral, especially Costinesti resort and Vama Veche resort; active tourism in the Carpathian Mountains; Danube Delta; camps (Eforie Nord, Năvodari, Cetăţile din Transilvania, Rânca –în Munţii Parâng, Bucovina).

There are major variations of the types of amusement trips, between rich people and poor people. The spa resorts clients is almost entirely internal, especially elders with low income, who go to these resorts with the help of treatment tickets offered by the social system.

The low-income clients have the tendency not to choose a hotel accommodation, because they cannot afford the costs. They rent apartments, guesthouses or camps.

The collection and arrangement of the data concerning the accommodations and the degree of occupation of the lodging spaces, classified on areas and accommodation type have to be improved. We consider that a new system of data collection regarding the visitors has to be

introduced consequently to Romania's accession into the European Union, considering that the traditional opportunity of counting the visitors at the border is no longer up to date. The optimal methodology to collect these data will be complex and will have to set standards of information in certain functional directions on the entire territory, and, at the same time, supporting the improvement of these systems at the level of areas and localities.

The tourist destinations have to offer a better evaluation of the general economical impact of tourism and to allow the comparison, from the perspective of performance, with other tourist destinations.

Conclusions

Considering that the following decades will bring about significant changes in the world demographic structure (average age, percentage of the ethnic and religious groups), the trends of the international tourism demand of tourism products/ travel arrangements will develop in all the meridians of the world. The population of the world will double in the next 50 years, the life expectancy and, implicitly, the average age of the population will grow, and the seniors (retired) will have more time and resources to travel. Therefore, the tourism products demand will be elastic and the increase in the interest for touristic programs/ holidays with possibilities of knowing the culture and history of the nations of the world will present a greater interest. Even if the interest is in novel experiences, the majority of potential tourists will want to be able to continue the healthy lifestyle when travelling and the quality of the tourism offer will influence the choice of a touristic destination.

Subsequent to this analysis, in the future it is compulsory to aim at achieving a more uniform distribution of the available accommodation capacity, at the level of the country and the regions, with the purpose of ensuring a better tourism activity.

The need of effort-coordination at a regional, as well as national level in order to accomplish grand projects in the domain of the infrastructure, especially of the transport and communication, which has to be correlated with the development process of the territory, which presupposes the coordination of all the projects with the spatial implications and solving the possible conflicts occurred in this context of profound transformations of the society. In this sense, an assessment, classification and identification model of the most appropriate and efficient ways of valuing the tourism heritage has to be established, using for this purpose a multi-criterion analysis of delimitating the touristic regions, together with a crystallization of the priority actions for each particular case. In conjunction with the touristic areas delimitation, the development of the territory and the appropriate policies in tourism, we have to find solutions regarding the protection of the environment from the tourism activities with a direct impact on the environment.

The starting point in establishing the strategy for improving the position of the destination competition is constituted by the determining elements of competition, which are mainly given by the resources (natural, cultural, of capital, of infrastructure, human), by the quality and structure of bidders, by the behaviour conditions of the demand and by the adaptation of the offer. However, all these have to be correlated with the provisions of the Declaration of Rio and with the enactment of Agenda 21, according to which the sustainable development of tourism represents the global strategic option for this century. The management and the sustainable development of tourism are applicable to all the forms of tourism, in any type of destination, including mass tourism, as well as other varied segments of tourism.

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QUALITY OF PUBLIC TRANSPORT SERVICES IN URBAN AREA OF ORADEA

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Intensification of public transport in urban areas due to increased mobility at regional and national levels, discrepancies among urban areas with same population and lack of statistical data related to performance and quality of public transport services are the main determinants of this paper. A separation line must be drawn between quality of services and performance indicators of public transport system. Service quality is a multi subjective outcome of an array of intangible variables. Service quality can be approached from four directions: consumer point of view, vehicle performance (including the human operator), specialized company in passenger transport, and the Government (local Councils). Availability, comfort and convenience are the two main indicators that must be evaluated by citizens as being with high grades for a good quality of urban transport services. The instrument used to gather data is the preference survey.

Keywords: service quality, performance indicators, availability, comfort, subjective outcome

L80, P46, R40

Introduction

Due to the intangible characteristics of services, defining service quality becomes an essential issue for some European countries. Quality appears as an abstract dimension, it leads to quality evaluation with specific approaches and instruments. The preference survey and the SERVQUAL method are used to gather data and evaluate quality.

The differences among public transport systems in European cities, evaluated from the point of view of number of vehicle in use and system lengths, are the starting point of this research. We consider three urban areas with approximately same number of citizens: Oradea (232.000, including metropolitan part), Graz (248.000) and Debrecen (246.000).

Oradea has a tram system on five routes; total length 37,14km double way, the mean length of a route being 7,14km. Bus network is made up by 9 routes with a total length of 54,53km. The urban transportation park includes 75 trams and 64 buses.

Grazer Stadwerke Verkehrsbetriebe AG operates 25 routes for buses, with 136 vehicles, 61 trams, and since 2005 the bus network uses bio diesel.

DKV Zrt.(Debrecen Közlekedési Zrt) is the main company responsible for the urban transport and encompasses a network of 1 tram line, 5 lines for cable buses, and 51 regular bus routes. The transportation company, member of an international holding, operates⁶⁹⁵ 21 trams, 30 cable buses, and 168 buses, on a network of 174,6km.

Data registered by the National Statistic Office of Romania shows worrying facts regarding the number of passenger transported at national and international level, and the preference for different transportation types.

Between January and September 2009 transportation decreased in subway transportation with 13%, a raise of 11,3% electric wire buses sector, decrease of 0,8% trams and 7,4% buses are noticed.

⁶⁹⁵ * * * Debrecen M. J. Város Önkormányzata, *Debrecen városi fenttartható városi közlekedési – fejlesztési terve, Tanulmányterv, p.31-32,*
http://portal.debrecen.hu/upload/File/Egyeb/dmjevKozlekedesfejlesztésiTerve_2.pdf

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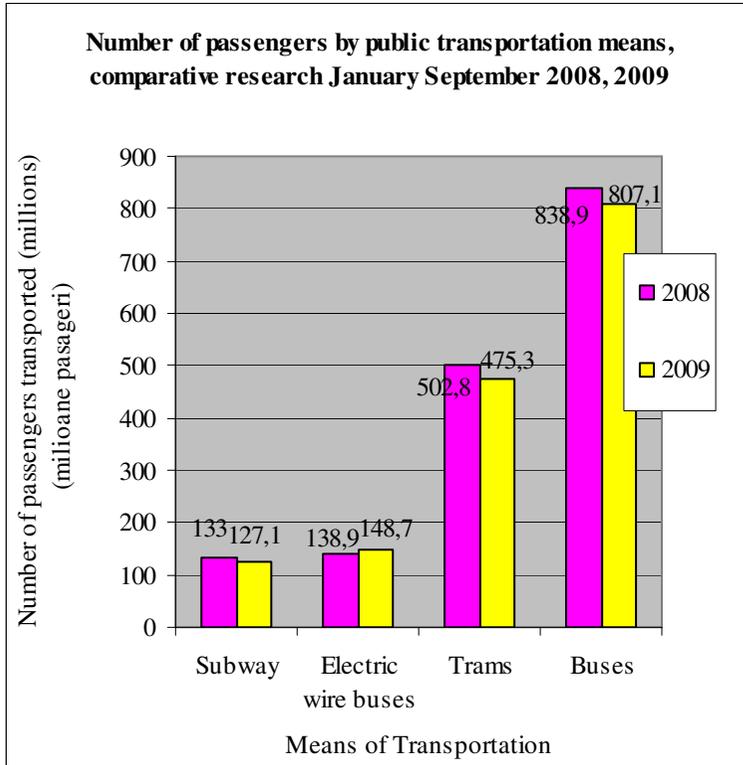


Figure 1 Number of passengers transported in public services, January-September 2008 and comparable with the same period in 2009

Since 1990, the number of passengers- intercity and international transport-decreased from 780666 thousands to 191127 thousands in 2002. 2003 and 2004 are years with stagnation somewhere between 216327 thousands and 216524 thousands passengers transported. 2005 is year of growth, 2006 an year when this number decreases, and goes up again in 2007, 2008 to reach the level of 296953 thousands passengers annually

transported⁶⁹⁶.

Data regarding quality and performance indicators of public transportation services are vaguely determined and practically inexistent.

Theoretic approach, explanation of terms

Among services rendered to population the public transportation services are taking a very important role. The public transportation of passengers is a type of transportation operation which is realized with the help of urban transport vehicles, including subway, within the administrative and geographic area of an urban territory, without crossing its borders. In developed countries this type of transport includes the services realized by school buses.

It is absolutely necessary to correlate expectations of citizens of an urban area with perceptions regarding services. The outcome is necessary to evaluate the quality of service.

Dictionaries define quality as a characteristic, dimension, and the goal of this paper is to find a definition formula for quality of public transport services. Few questions rise: When the public transport services are acceptable qualitatively? When the public transport services determine unhappy citizens? When the public transport has a superior quality?

In the case of services, subjectivity is a variable which could be economically interpreted as utility. Thus an U.S.A. study reveals (75%-80% of respondents) the mean distance that

⁶⁹⁶ * * *, *Romanian Statistical Yearbook*, National Institute of Statistics, Time Series 1990 – 2008, Chapter 17.13, Passenger Transport by Mode of Transport

passengers are willing to walk from the starting point of the journey to the first available public transportation pick up point (400m), corresponding to 5 minutes walking time.

A good is valuable or has utility component in different conditions than has to other people. Utility of a service encompasses abstract factors like: security, tangibles, assurance, empathy, sensibility. On the other hand, quality is the outcome of needs, former experiences, and “world of the mouth”. The two sides necessary for the definition of quality, expectations and perceptions, and the differences between them lead to a satisfied, unsatisfied or unhappy customer.

Assurance of good quality become the output of collaboration between public forces like Local Councils, Ministries, Government, and specialized public transportation companies, when they are invited to implement and improve the image of services rendered to citizens, in an urban area. The public welfare and the maximization of revenues for transport services are put in the balance. It is necessary to underline that a separation line must be drawn between different terms like: quality or service level and the evaluation of performances of a public transport system.

The performance of a public transport system can be measured qualitatively. It also can be measured in absolute values and usually refers to a particular aspect of the transport (cylindrical capacity for vehicles used). The service quality can be approached only from the consumer point of view.

Measuring service is an evaluation from the quantitative point of view of the consumer (effectiveness).

Service levels are evaluated usually with “A” to “F” (quantitative evaluation) for particular passengers’ perceptions. Quality of the public transport services reflects the performance of the same services.

Performance indicators of a public transport system could be: availability, service monitoring, influences on community, travel times, safety and security, construction and maintenance of vehicles, economic impact, transport capacity (number of passengers).

Measuring service quality is a procedure to be considered from the point of view of: public service consumers, the vehicle (and the driver), the private company which administrates public transport services, and the community.

Availability can be measured as spatial availability (for example: network coverage), temporal availability, information availability and capacity availability.

Comfort and convenience are the outcome of conjoint action of variables likes: travel time, hours of service, reliability, waiting time, safety and security, passenger load-available free spaces in the vehicle, vehicle’s cleanliness, the cost of transportation, and number of transits to reach final destination, comparative evaluation among other means of transportation.

An American study reveals (75%-80% of respondents) that the mean distance that passengers of public transportation are willing to walk from the start point of their journey to the first available public transportation picks up point is 400m, corresponding to 5 minutes walking time.

It is appreciated that 1 minute waiting time for public transport services is more important than 1 minute of time in the transportation vehicle⁶⁹⁷. There are cleanliness standards in San Francisco and New York .Thus inspections are undertaken to observe the accomplishments of standards in the public transportation system. Cleanliness is evaluated on the scale ranging from 1(very clean) to 7(dirty).

Methodology

The proposed instrument to gather data are the preference survey and the method to evaluate quality is SERVQUAL.

⁶⁹⁷ * * * Transit Cooperative Research Program, sponsored by The Federal Transit Administration, *Transit Capacity and Quality of Service Manual-2nd Edition*, Part 3-Quality of Service, Chapter 3 Quality of Service Factors, p.3-20, <http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp100/part%203.pdf>

Before applying surveys to consumers, a brainstorming session is held to determine the most important dimension for consumers when evaluating public transportation services: availability and tangibility.

The survey consists of nineteen questions which describe the consumer of public transportation services in Oradea. Seven questions give details related to social and economical status of the consumer regarding: age, sex, occupation, studies, status, neighborhood in which lives in, and incomes. There are thirteen questions which are giving details related to: transportation type known by the consumers, the most frequently used transportation type, factors that are determinants of poor satisfaction of consumers (availability and price of tickets, delays, travel time, frequency, network coverage, hours of service, interior aspect cleanliness and odors, general appearance of the interior of the vehicle, maintenance of vehicles and stop points, technical aptitudes for vehicles and stop points, general look and behavior of personnel). Each factor reveals an abstract general quality of the service like availability or tangibility. Information regarding frequency, other means of transportation, scope of transportation, significant delays encountered and means of transportation that generated delays, availability of time schedule (as information availability) and interest for ecological type transportation methods as a sustainability matter are gathered. Respondents are invited to add their suggestions regarding improvement of actual urban transportation network.

Final data shows relations between social and economical status and urban transportation quality abstract dimensions.

The SERVQUAL method comes to complete the survey through evaluating quantitatively abstract dimensions of transport services.

This method uses 22 statements related to the five dimensions⁶⁹⁸ of any service: reliability, responsiveness, assurance, empathy, tangibility. Statements are applied to consumers before and after the service. Each statement must be evaluated on a seven point scale from “strongly agree” (grade 7) to “strongly disagree” (grade 1). A score is calculated for each pair of statements. If the score is high it means that service delivers a poor quality component. If score is low or zero, quality of service is not affected.

SERVQUAL is a comprising method which evaluates all gaps in quality of services. It appears as a subjective outcome of service delivered.

Parasuraman, Zeithaml, and Malhotra propose a third century instrument to measure data related to quality of services. Data about the service is gathered on the Internet and the instrument is called E-S-QUAL⁶⁹⁹.

The present research is evaluating quality of service as a resultant between expected and delivered quality of service, from the consumer point of view.

Findings

The most important component of public transportation services in Oradea appears to be safety and security during travel.

⁶⁹⁸ James A. Fitzsimmons, Mona J. Fitzsimmons, *Service Management for Competitive Advantage*, 1994, Mc Graw-Hill, p.183-185 in A.Parasuraman, V.A. Zeithaml, and L.L.Berry, *SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality*, Journal of Retailing, vol.64, no.1, spring 1988, p. 12-40

⁶⁹⁹ Parasuraman, A., Valarie A. Zeithaml, and Arvind Malhotra. 2005. E-S-QUAL a multiple-item scale for assessing electronic service quality. Journal of Service Research 7: 213–233 in Eriksson Lars, Friman Margareta, Norman Ann – Catrin, *Electronic Service Quality: Public Transport Information on the Internet*, <http://www.nctr.usf.edu/jpt/pdf/JPT%2010-3%20Eriksson.pdf>

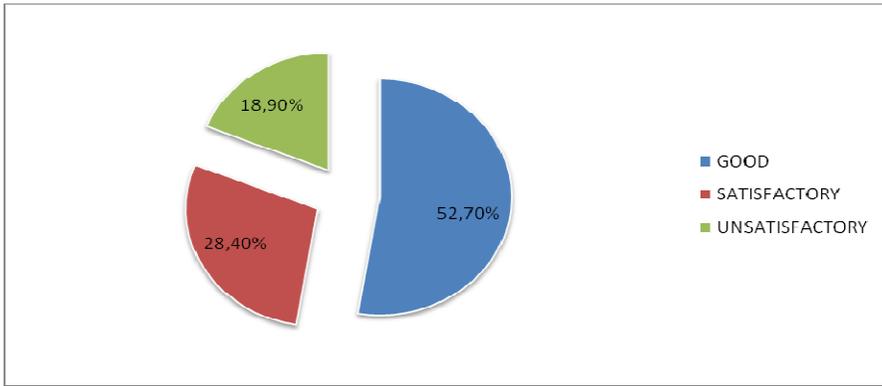


Figure 2 Resident general appreciation of the quality of public transportation in Oradea

Evaluated on a scale ranging from 1 to 5, from not important to major importance, the score of most important characteristic is 4,33. Cleanliness of stop points, convenience of time schedule seems to be equally important for respondents. Equipment and technical support, and appearance and language of employees-tangibles- received a lower score (figure 3).

Figure 3 Most important components of the public transportation service(Mean values are considered for classification)

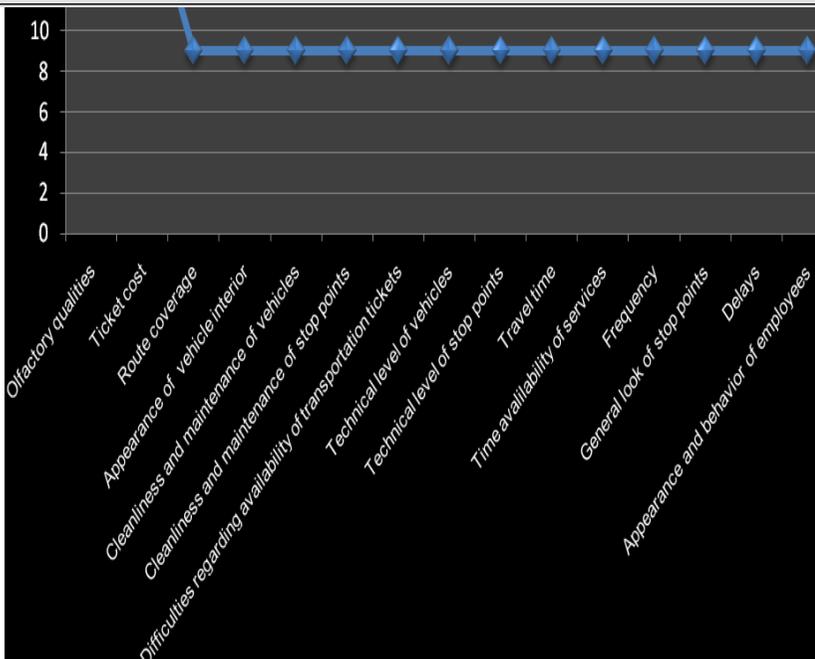
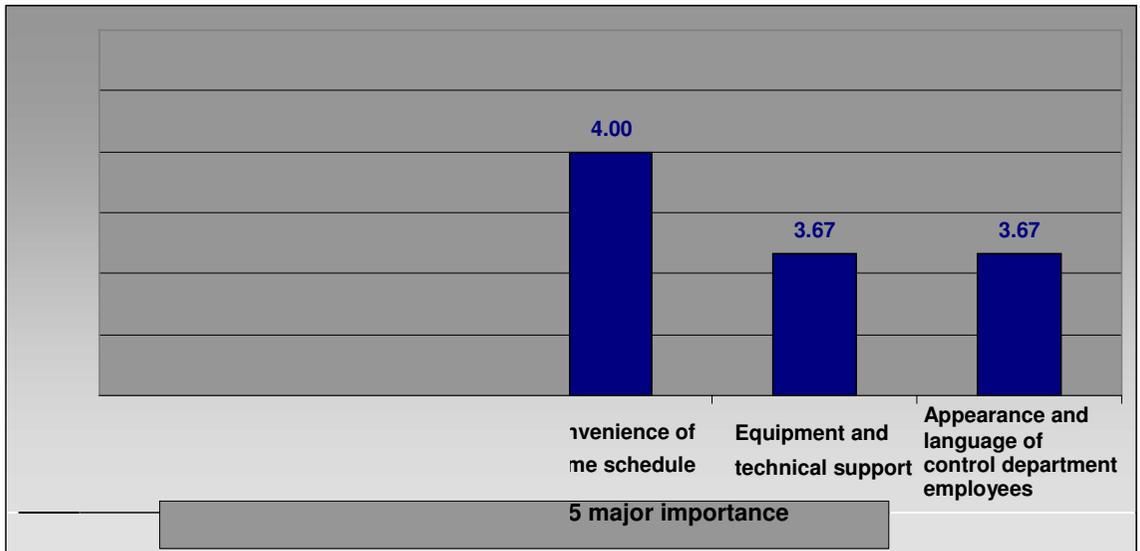


Figure 4 The case of public transportation services: Main reasons for unhappy customers

Respondents (52,7%) appreciate public transportation in Oradea as being with a good quality, 28,40% as being satisfactory and only 18,90% consider that services do not correspond to their expectations.

A major number of people consider olfactory qualities and ticket cost, factors with major importance to qualify public transportation services as being good. It is important to underline that these two factors are among the most important in a fifteen components list (figure 4). SERVQUAL application reveals details about characteristics which do reflect a poor quality of public transportation services. Olfactory qualities and cleanliness of vehicles and stop points received the highest scores. That means that quality is affected negatively because of these characteristics. Transportation companies or local councils should focus their resources to reduce the score for these characteristics. SERVQUAL should be applied again in approximately six months to re-evaluate components of quality of transportation services.

Conclusions

Recommendations regarding improvement of stop points and transportation vehicles would be: more tickets' sale points; equipment and technical base maintenance; cleanliness of vehicles. SERVQUAL can be used for evaluation and improvement of public services in any sector.. It is recommended to monitor delivered quality of services. It is important that a specialized structure should accomplish these functions. For this purpose, in most cases⁷⁰⁰ the monitoring unity is the company specialized in public transportation. Parasuraman, Zeithaml, and Malhotra propose a third century instrument to measure data related to quality of services. Data about the service is gathered on the Internet and the instrument is called E-S-QUAL⁷⁰¹.

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⁷⁰⁰ Gatta Valerio., Marcucci Edoardo, Quality and public service contracts, Working Papers in Economics, Mathematics and Statistics, Università degli Studi di Urbino „Carlo Bo”, Facoltà di Economia, EMS 2007/2008, http://ideas.repec.org/p/urb/wpaper/07_08.html

⁷⁰¹ Parasuraman, A., Valerie A. Zeithaml, and Arvind Malhotra. 2005. E-S-QUAL a multiple-item scale for assessing electronic service quality. Journal of Service Research 7: 213–233 in Eriksson Lars, Friman Margareta, Norman Ann – Catrin, *Electronic Service Quality: Public Transport Information on the Internet*, <http://www.nctr.usf.edu/jpt/pdf/JPT%2010-3%20Eriksson.pdf>

WORKFORCE ENGAGEMENT IN A CATALOG COMPANY

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The paper is part of a larger research project from the new paradigm on service quality management perspective and discusses the main issues in the area of employee engagement in a national direct marketing company. Following a presentation of the engagement concept, the company's workforce is analyzed using the HumanSigma model for employee engagement assessment. The study identifies key issues that should be addressed in order to increase productivity of the company's workforce through transactional and transformational activities.

Keywords: human resources, employee engagement, relationship management

JEL: M10

1. Introduction

The strive for quality in both production and services have lead companies and organizations to develop multiple instruments to measure and improve it. The motivation did not just arise as a competitive advantage, but also as a request from customers and clients⁷⁰². Thus, we would like to present such an instrument and apply it to an emerging sector in the Romanian economy – the telemarketing services. The paper proceeds in the following manner. First of all, the concept of employee engagement is elaborated. Secondly, the area of direct marketing as an example of a service organization is considered and presented. Then one business unit of a telemarketing company is used to test the concept and some conclusions are drawn at the end.

2. Enterprise Engagement

In the last century, companies from all economic sectors have acknowledged the paramount importance of meeting and exceeding customer's expectations by producing or offering high quality goods and services. Managers concluded that there is a strong correlation between the quality of production and financial results.

Because the study of quality in service organizations has largely been overlooked by management scholars, the service sector tried to implement quality management systems proved to be excellent for the production sector.⁷⁰³ One of the quality management methods designed for manufacturing companies and implemented in the service sector is Six Sigma. Though this method was proved to yield high efficiency in the manufacturing industry it wasn't working in service organizations. For sales and service organizations Six Sigma was very difficult to be applied as a strategy for efficient quality management.⁷⁰⁴

The company's human capital is the essential aspect in building long-term profitable relationships with clients, thus HumanSigma⁷⁰⁵ offers a systematized approach for measuring, managing and

⁷⁰² Fotea, Ioan and Corcea, Mihai; *Enterprise Engagement in Higher Education Administration at Griffiths School of Management*, paper presented at Annual Research Conference at Emanuel University of Oradea, March 2010

⁷⁰³ Fleming, John H.; Asplund, Jim; *HumanSigma*, Gallup Press, 2007

⁷⁰⁴ *Ibid*, p15

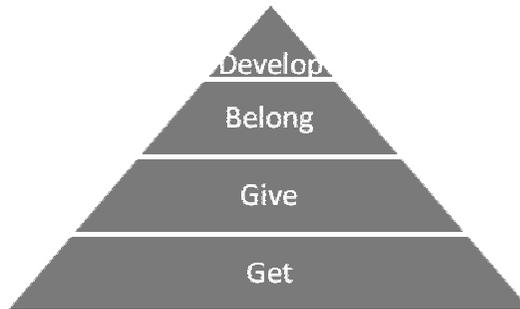
⁷⁰⁵ HumanSigma is a trademark of Gallup Organization.

improving the performance of the most valuable and volatile assets of an organization – its employees and customers.⁷⁰⁶

3. Workforce Engagement

The concept of *engagement* goes beyond satisfaction and motivation, representing a *passionate advocacy*. Such passionate advocacy that can be determined in a workforce is the first prerequisite for engaged customers with a high lifetime value.⁷⁰⁷ There are four dimensions to employee engagement that can be expressed as four questions that arise in every employee's mind, be it consciously or subconsciously: (1) what the employees get, (2) give, (3) if they belong to the workplace and (4) the extent in which they can develop themselves.⁷⁰⁸ The dimension of emotional attachment determines the level of loyalty that a customer has towards an organization that is providing her service.⁷⁰⁹ The buying decision and engagement development can be influenced for both sides of an organization's human capital – employees and customers. External and internal marketing can benefit from several psychological⁷¹⁰ elements of consumer behavior of which we shall mention the social norms, the decoy, the zero effect, methods as applicable to a wide range of service organizations – healthcare, education, retail, professional service.⁷¹¹

These four aspects of employee engagement are a mix of rational and emotional elements that must be regarded when the management team tries to develop the organization's relationship with its most important client – the employee.⁷¹² We shall therefore look into these four dimension in a little bit more detailed fashion:



What do I get? This explores how the employee perceives the level by which the company supports her regarding the technical needs he has in order to efficiently fulfill the job. Any employee that does not perceive real support from the organization will be frustrated and less productive and in time will look for such a job that will provide what she needs or want.

What do I give? This explores how the employee perceives the measure of his value to the company as well as the importance of the job he or she does. An employee who doesn't perceive that he is carrying out an important task, meaningful for the company and for himself, will be less productive than another that feels that he is making an important contribution to the company.

How much do I belong? This explores how the employee perceives the level of his integration in the company's workforce environment, senses he belongs to the team and feels accepted by his peers will not be inhibited, but rather would act normal, thus being more productive.

⁷⁰⁶ Fleming, John H.; Asplund, Jim; HumanSigma, Gallup Press, 2007: 24

⁷⁰⁷ Ambler, Tim; *Marketing and the Bottom Line*, London: Financial Times/Prentice Hall, 2002

⁷⁰⁸ Ibid: 161

⁷⁰⁹ Pop, N. Al., Atașamentul clientului față de întreprindere – principală pârgie a marketingului relațional, *Marketing-Management*, anul XV, no. 1, 2005, p. 16-22

⁷¹⁰ Ariely, Dan; *Predictability Irrational: The Hidden Forces That Shape Our Decisions*, HarperCollins, 2008

⁷¹¹ Forum for People Performance Management and Measurement, *Internal Marketing Best Practice Study*, Department of Integrated Marketing Communications at Northwestern University, 2006

⁷¹² Buckingham, Marcus; Coffman, Curt; *First, brake all the rules*, PocketBooks, 2005

How do we develop? This explores how the employee perceives the number of personal development opportunities understanding if the job he is doing is part of a greater process that aims first at his own professional development – he must feel that the company contributes to a value that is independent of employment at that company.

The Gallup researchers have observed that great organizations and their managers understand excellence as part of attaining the desired results and not only conformance and execution of a job checklist. Therefore, employees are not required to do a mechanic behavior of conformance to a list of specific actions they must undergo, but instead their creativity is stimulated for attaining the established objective. Employees with high levels of engagement will be able to find efficient methods for completing their tasks without the completion of a checklist.

4. Direct marketing catalog companies

Catalog companies are sales organizations that use various channels for undertaking direct marketing activities in order to reach the customer directly and to avoid conventional channels of distribution. Direct marketing is a database-driven interactive process of directly communicating with target customers or prospects using any medium to obtain a measurable response or transaction via one or multiple channels.⁷¹³ One of the new channels of communication with the customer is telemarketing. Telemarketing is the use of the telephone to market goods or services directly to prospective customers.⁷¹⁴ The emergence of telemarketing has been observed in the last decades, when it gained the status of an important tool for sales. Telemarketing has steadily increased in use in sales organizations while management, in various sectors, faced the difficult problem of successfully implementing this tool.⁷¹⁵ As well as other direct marketing channels, telemarketing has challenged conventional means for advertising as well as traditional department stores and other retailers. Scholars affirm that advertising agencies are restructuring to accommodate a harsher reality due to the fact that direct marketing is stealing business away from traditional advertising and the growth of sales promotion and integrated marketing communications both come at the expense of traditional advertising. It can also be mentioned that targeted advertising that Google invented and promotes with their services is also reshaping the advertising industry. In a way printed catalogues – which are not new – are a printed version of the targeted advertising that Google does.⁷¹⁶

A core emphasis in the direct marketing industry falls on relational marketing, as opposed to transactional marketing approaches in traditional channels of distribution.⁷¹⁷ Catalog companies enjoy success when they build strong customer relationships. While relationship building is referred to in many different ways, the end result is the same – mutually beneficial long term bonds between buyer and seller. The success of that relationship is measured in terms of lifetime customer value.⁷¹⁸ The economic evolution of our society determined many confusions and uncertainty due to mass marketing and niches. Direct marketing cuts through this confusion and goes directly to the customer, creating a business relationship that resembles to some degree to the past in which producers and consumers met face to face without many intermediaries.⁷¹⁹

Many direct marketing companies have implemented a multichannel business model. One attractive channel for catalog companies is online sales. Direct marketing undergone by mail-

⁷¹³ Spiller, Lisa and Baier, Martin, *Contemporary Direct & Interactive Marketing*, Pearson Education, 2010, p4

⁷¹⁴ <http://www.entrepreneur.com/encyclopedia/term/82526.html#> visited April 15th 2010

⁷¹⁵ Marshall, Judith J.; Vredenburg, Harrie; Successfully using telemarketing in industrial sales, *Industrial Marketing Management*, Volume 17, Issue 1, February 1988, Page 15

⁷¹⁶ Rust, Roland T. and Oliver, Richard W., “The Death of Advertising” *Journal of Advertising*, 23(4), 1994, 71-77

⁷¹⁷ Etgar, M. Channel Domination and Countervailing Power in Distributive Channels, *Journal of Marketing Research*, 13, 1976, 254-262

⁷¹⁸ Ibid, p13

⁷¹⁹ Andrew R. Thomas, Dale M. Lewison, William J. Hauser, *Direct marketing in action: cutting-edge strategies for finding and keeping the best customers*, Greenwood Publishing, 2008, p2-4

order companies takes place without the traditional intermediaries, with the help of telemarketing, mail catalogs but also web platforms that yield higher efficiencies due to existing payment processing, inventory management and also fiendly end-user interfaces.⁷²⁰

6. Case study: CATALOG COMPANY - Oradea

CATALOG COMPANY is a direct marketing organization based in Oradea which sells various products through telemarketing, catalog and a web-store. Research has been done by administering Q12 Gallup questionnaires to CATALOG COMPANY employees. We chose the Q12 questionnaire because it is a simple, yet powerful tool that reveals employee engagement and workforce conditions. After gathering data from questionnaires applied to staff, the authors of this paper have done an assessment of the current state regarding workforce engagement at CATALOG COMPANY.⁷²¹ From the 12 elements that were analyzed, two of them are under a critical condition:

Element 2, „I have the materials and equipment to do my work” is characterized by low engagement at CATALOG COMPANY and reveals the extent of organizational support with equipment and materials. Offering the employees what they need to do their job is a factor that offers the company two kinds of benefits. First, from an operations perspective means having equipment and materials that will make the work more productive. Second, being equally important, the employee must feel that the company supports him and offers him the equipment needed for efficient work – thus being a strong employee psychological motivational factor.

Element 4, praise and recognition in last seven days, is characterized by low engagement at CATALOG COMPANY showing the level of positive feedback from managers towards employees. Appraisal is important for an organization because it determines a positive climate of workplace environment representing a motivational factor. According to Gallup research this element can bring as much as a 20 percent increase in productivity. Appraisal is a very efficient motivational factor and without any financial costs. An indicator that was assessed by Gallup researchers is positive comments : negative comments ratio. According to statistics, efficient organizations show to have a 1:5.6 ratio, whereas in weak organizations the ratio is 2.8:1. Work teams that show low levels of productivity maintain a negative climate of exaggerate self-affirmation and a narrow mentality of survival. Efficient work teams are characterized by an open culture and a justified positive attitude.⁷²²

No.	Question
1	Do you know what is expected of you at work?
2	Do you have the materials and equipment you need to do your work right?
3	At work, do you have the opportunity to do what you do best every day?
4	In the last seven days, have you received recognition or praise for doing good work?
5	Does your supervisor, or someone at work, seem to care about you as a person?
6	Is there someone at work who encourages your development?
7	At work, do your opinions seem to count?
8	Does the mission/purpose of your company make you feel your job is important?
9	Are your associates (fellow employees) committed to doing quality work?
10	Do you have a best friend at work?
11	In the last six months, has someone at work talked to you about your progress?

⁷²⁰ Turban, Efraim; King, David; Lang, Judy; *Introduction to Electronic Commerce*, Pearson Education, 2009, p135

⁷²¹ Wagner, Rodd; Harter, James; *Cele 12 elemente ale managementului performant*, Editura Allfa, 2009

⁷²² Ibid

The positive aspects of CATALOG COMPANY workforce environment are related to the fact that employees affirm they know what is expected of them at work. They also feel accepted by their colleagues, many of them having a best friend at work. The research revealed that managers have been successful in coaching employees which have affirmed that they feel encouraged and helped to develop.

7. Conclusions

In conclusion, it is very important that there are instruments, such as HumanSigma's Q¹² questionnaires that help organizations measure and evaluate performance, so as to be able to improve quality and overall their activity. Different instruments may be more suitable for different companies but the tool that has been selected revealed several areas of human resource management that need intervention.

It is our recommendation that the measure provided by HumanSigma to be applied to the company's workforce every six months in order to be able to sense changes and improvements as corrective actions are undertaken. For those areas where improvements are desirable we recommend that further analysis should be made – may be using other instruments – to determine the causes and potential solutions.

There are also several limitation of the study such as the fact that the number of employees is rather small, and the company is not among the largest in the country – so we may not extrapolate to the entire industry. It is rather a case study and an example of what the service sector companies should utilize in order to measure employee engagement.

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L'ANALYSE COMPARATIVE DES FUSIONS-ACQUISITIONS AVEC LES AUTRES FORMES DE CROISSANCE DES ENTREPRISES (I- FUSIONS-ACQUISITIONS VS. CROISSANCE INTERNE)

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In order to achieve growth and development strategy, companies can choose between continuous improvement or optimization of operational and financial assets, on one hand, and on the other hand the achievement of mergers and acquisitions, as also strategic partnerships with other companies. The purpose of this paper is to analyze the company's growth and development strategy through mergers and acquisitions by comparison with that of organic growth, while highlighting the advantages and disadvantages of each type of strategy.

Keywords: company, mergers, acquisitions, organic growth

Cod JEL lucrare: L21, L25

1. Introduction

Dans le but de réaliser la stratégie de croissance et développement, les entreprises peuvent choisir entre l'amélioration et l'optimisation continue des actifs opérationnels et financiers d'une part, et la réalisation des fusions et des acquisitions ainsi que des alliances avec d'autres entreprises, d'autre part. Dans le premier cas on parle de croissance interne ou organique tandis que dans le deuxième cas on parle de croissance externe.

Les fusions-acquisitions, le principal instrument de croissance externe, représente actuellement un choix privilégié des entreprises pour se développer d'une manière indépendante. Toutefois, si au début, cette manœuvre a suscité un réel enthousiasme, les résultats s'avèrent être, dans beaucoup de cas, tout à fait décevants. Donc, quand une entreprise desire adopter une stratégie de croissance et développement, il est nécessaire d'apprécier les avantages et les inconvénients de cette option par rapport aux autres moyens de croissance alternative, comme la croissance interne ou la réalisation des alliances.

La choix entre ces options différentes se réalise en fonction des caractéristiques de l'entreprise initiatrice de l'opération mais aussi de ses options stratégiques.

La culture organisationnelle de l'entreprise et la politique menée dans le domaine des allocations des ressources et de la gestion des risques, sont aussi des facteurs-clés en ce qui concerne la choix entre les différentes stratégies possibles.

La croissance par fusions-acquisitions constitue un des principaux instruments de la croissance externe et s'oppose, par ses principes, à la politique de croissance interne.

On propose, par la suite une analyse comparative entre la stratégie de croissance par les fusions-acquisitions et la stratégie de croissance interne, en mettant en évidence les avantages et les inconvénients du chaque type de stratégie.

2. La comparaison entre les fusions-acquisitions et la croissance interne

La croissance interne suppose un développement progressif et continu de l'entreprise, fondé sur une croissance des capacités existentes ou la création de nouvelles capacités productives ou commerciales⁷²³.

⁷²³ Meier, O., Schier, (2006), *Fusions Acquisitions- Strategie, Finance, Management*, Ed. Dunod, Paris, p.10

Une multitude de théories sur les procès et les ressources stratégiques proposent l'explication de la notion de croissance de l'entreprise. Au niveau de l'entreprise, Edith Penrose⁷²⁴ voyait la croissance comme une fonction des ressources managériales, lorsque ces dirigeants ont des connaissances de spécialité, ils connaissent l'entreprise et ils savent comment utiliser d'une manière très efficiente les actifs internes et les compétences. Ensuite, en s'appuyant sur une analyse à fondement plus large, Romer⁷²⁵ considérait qu'à long terme, la croissance est déterminée par une accumulation et une transmission de connaissances.

Plus tard, les études ont accentué les théories se rapportant aux *routines organisationnelles* que Nelson et Winter⁷²⁶ les ont défini comme représentant une accumulation de connaissances et d'habilités opérationnelles de l'organisation. Les chercheurs considéraient que ces routines et l'habilité des entreprises à les renouveler, en fonction de la dynamique du marché, détermine la croissance des entreprises.

Dans l'approche de la croissance au niveau de l'entreprise, dans la perspective interne (resource-based view), l'entreprise représente une accumulation de ressources, d'actifs, de connaissances et d'habilités qu'ensemble, lui détermine la croissance et le développement⁷²⁷.

L'élément central situé à la base du choix d'une stratégie de croissance interne ou croissance externe est représenté par la réponse à la question « Ce serait mieux d'acquérir de nouvelles compétences, l'entrée sur un marché, une base de clients, des opportunités de gains, etc. ou attendre de les obtenir par les propres forces ? »⁷²⁸.

L'opposition croissance interne/croissance externe a pour but la distinction des deux options fondamentales qu'une entreprise a en ce qui concerne la croissance et le développement. Edith Penrose, dans son ouvrage « The theory of the growth of firm » a établi une différence nette entre ces deux moyens de croissance et développement des entreprises. Ainsi, elle a présenté la croissance interne et la croissance externe comme représentant deux options stratégiques différentes que l'entreprise possède à sa disposition. L'idée centrale énoncée par Penrose est celle que les prochaines opportunités de croissance ou ses limites sont générées par les ressources ou les compétences accumulées par une opération antérieure de croissance. Elle souligne le fait que la croissance interne tout comme la croissance externe présente certaines limites et que l'utilisation d'une stratégie de croissance peut avoir des conséquences sur l'utilisation d'une autre stratégie. De cette manière, Penrose considère que la signification d'une fusion (ou acquisition) peut être le mieux évaluée, dans la lumière des effets sur la croissance interne et des limites dans sa réalisation⁷²⁹.

En effet, dans le but de la croissance et du développement, une entreprise peut opter pour agrandir le capital productif, par croissance interne ou la prise du contrôle sur des actifs appartenant aux autres entreprises, par recours aux fusions-acquisitions.

On distingue deux facettes du concept de croissance de l'entreprise par les propres forces. D'une part, on parle de croissance interne lorsqu'on met l'accent sur l'accumulation de nouveaux actifs productifs et/ou commerciales et d'autre part, on parle de croissance organique lorsque l'accent est mis sur l'évolution du volume de l'activité de l'entreprise ou de ses résultats⁷³⁰.

⁷²⁴ Penrose Edith, (1959), *The theory of the growth of firm*, Oxford: Blackwell

⁷²⁵ Romer, P., (1986), *Increasing returns and long-run growth*, *Journal of Political Economy*, 94, pp.1002-1037

⁷²⁶ Nelson, R.R. et Winter, S.G., (1982), *An evolutionary theory of economic change* dans Guennif, S. et Mangolte, P.-A., (2002), *Analysis of Organizational Routines: Proposal for an Analytic Framework Based on Nelson et Winter and Leibenstein*, disponible on-line: <http://pagesperso-orange.fr/lepouillou/nwl-odense.pdf>, visualisée en 15.03.2010

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⁷²⁸ Sherman, A., Hart, M., (2006), *Mergers & Acquisitions from A to Z*, second edition, Ed. Amacom, New York, p. 12

⁷²⁹ Penrose Edith, *op.cit.*, p.5

⁷³⁰ Meier, O. et.al, (2009), *Stratégies de croissance*, Ed.Dunot, Paris, p.4

La croissance interne suppose l'agrandissement de l'entreprise par des emprunts de capital et le réinvestissement des profits des années précédentes à l'intérieur de la même entreprise. Cela détermine une croissance des capacités productives, une allocation supplémentaire de ressources humaines et une augmentation du chiffre d'affaires⁷³¹. La croissance organique peut représenter un moyen d'évaluation de la qualité de l'utilisation des ressources internes de l'entreprise par les dirigeants de l'entreprise. Lorsqu'elle est positive, elle peut indiquer une augmentation du nombre des clients au détriment des concurrents (croissance de part de marché) mais aussi une augmentation des revenus ou une extension de l'entreprise vers d'autres zones géographiques⁷³².

L'allocation des ressources financières et humaines dans la réalisation de la stratégie de croissance doit être fondée sur une augmentation de valeur soutenable pour les bénéficiaires de l'entreprise, mais cela peut demander plus de patience pour atteindre ces objectifs et pour conduire à la perte de certaines opportunités. Par l'adoption d'une stratégie de croissance interne, l'entreprise a la possibilité de garder son indépendance économique et financière. Cette stratégie convient mieux, surtout dans le cadre des stratégies de spécialisation, en adoptant une politique de renforcement ou d'augmentation des activités existantes. Ce moyen de croissance atteint pourtant rapidement ses limites, à cause des difficultés de l'entreprise à disposer de ressources internes suffisantes pour continuer à progresser et à innover. L'innovation est considérée un élément clé qui détermine la croissance interne de l'entreprise. L'innovation est vue comme un processus fondamental ou une capacité organisationnelle qui génère des connaissances organisationnelles qui conduisent, ensuite à la création de nouveaux produits et services, à une croissance interne et ultérieurement à une meilleure performance financière⁷³³.

Souvent, parce qu'on désire l'obtention d'importants résultats dans un intervalle de temps assez court, la nécessité d'utiliser, dans le processus de croissance, d'autres instruments en dehors de ceux classiques de la croissance interne, est devenue de plus en plus grande. Les transactions stratégiques deviennent ainsi un moyen par lequel les dirigeants des entreprises réalisent des changements importants à court terme⁷³⁴.

La croissance par fusions-acquisitions représente un moyen de développement qui permet à l'entreprise de contrôler des actifs déjà productifs sur le marché et détenus au début par d'autres entreprises.

Elle accorde à l'acquéreur la possibilité d'accroître rapidement sa capacité de production, déterminant une diminution de la période de maturité d'un investissement productif. Les entreprises qui ont un grand potentiel de croissance représentent souvent les cibles parfaites des opérations de croissance externe. Par contre, les entreprises dont la croissance interne est ralentie, choisissent souvent de s'agrandir en fusionnant ou en acquérant une entreprise dont la croissance est plus rapide⁷³⁵.

Les fusions-acquisitions, comme option stratégique, sont considérées comme ayant une puissante influence sur la création ou la diminution de la valeur de l'entreprise. Par opposition à la croissance interne, l'allocation de ressources pour la réalisation d'une opération de fusion-acquisition accélère le processus d'atteindre les objectifs de croissance de l'entreprise mais augmentera, en même temps, le niveau du risque si l'opération n'est pas bien structurée ou bien négociée. Généralement, le choix entre ces deux moyens de développement (croissance interne

⁷³¹ Campbell, D., Stonehouse, G. și Houston, B., (2002), *Business strategy: an introduction*, second edition, Ed. Elsevier, Burlington, p. 214

⁷³² Meier, O. et al., (2009), *op.cit.*, p.4

⁷³³ Geroski, P., (1989), *Entry, innovation and productivity growth*, *The Review of Economics and Statistics*, 45(2), pp.171-189

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⁷³⁵ Liodakis, M. et Pang, C., *Searching for value-enhancing acquirers* dans Gregoriou, G.N., et Renneboog, L., (2007), *International Mergers and Aquisitions Activity Since 1990*, Ed. Academic Press, Burlington, USA, p.72

ou fusions-acquisitions) est en étroite dépendance avec le type des entreprises et de la stratégie qu'on envisage. Les variables, qu'une entreprise qui désire adopter une stratégie de croissance et développement, devrait prendre en considération dans le choix d'une stratégie de croissance interne ou d'une fusion-acquisition, incluent⁷³⁶:

- la compétitivité, la fragmentation et le rythme du marché et de l'industrie;
- l'accès au capital et le coût du capital;
- les capacités spécifiques de l'équipe des dirigeants;
- la capacité et le potentiel de développement des compétences fondamentales;
- la loyauté des clients;
- le degré d'influence de la modification de conjoncture du marché sur l'entreprise;
- le degré de réglementation de l'industrie dans le cadre duquel opère l'entreprise.

Si la stratégie de croissance interne avait été une stratégie habituelle pendant la période de début du développement corporatif, actuellement, les grandes entreprises l'utilise en association avec la stratégie de croissance externe afin de consolider leur position sur le marché. La croissance interne présente l'avantage d'un risque réduit, par rapport aux fusions-acquisitions qui représentent l'instrument principal de la croissance externe. Grâce au fait que l'augmentation des capacités reste entièrement sous le contrôle de l'équipe des dirigeants existents, les risques générées par les opérations des fusions-acquisitions des autres entreprises sont évités. De cette manière, les compétences fondamentales peuvent être exploitées et valorisées avec succès. D'autre part, le mécanisme de la croissance interne est plus lent par rapport à celui de la croissance externe. La croissance externe par une fusion-acquisition d'une entreprise, représente un moyen rapide de croissance et développement par rapport à l'augmentation graduelle par des moyens internes⁷³⁷.

Dans la figure suivante sont présentés, schématiquement, les avantages, les inconvénients ainsi que les types d'entreprises concernées dans le cas des deux moyens de croissance des entreprises.

Figure 1. Les avantages et les inconvénients de la croissance interne et des fusions-acquisitions des entreprises

	Avantages	Inconvénients	Types d'entreprises principalement concernées
Croissance interne	<ul style="list-style-type: none"> - L'exploitation d'un domaine connu permettant l'emploi de l'expérience et des compétences accumulées; - Le maintien de l'identité de l'entreprise; - Le maintien de l'indépendance; - L'absence de la reorganisation ou de la restructuration. 	<ul style="list-style-type: none"> - La vulnérabilité de l'activité au cas de changement de la conjoncture ou de la maturité du marché; - Des difficultés à atteindre une dimension suffisante. 	<ul style="list-style-type: none"> - Des microentreprises, des entreprises petites et moyennes non-cotés à la bourse; - Des entreprises qui ont choisi la stratégie de spécialisation.
Croissance par fusions-acquisitions	<ul style="list-style-type: none"> - Accès rapide aux nouveaux domaines d'activités; - Développement au niveau international; - L'exploitation des synergies de coûts; - La croissance du pouvoir sur le marché de l'entreprise- la diminution de la concurrence. 	<ul style="list-style-type: none"> - Besoins élevés de capitaux; - Problèmes de coordination et contrôle des activités regroupées; - Coûts de l'intégration physique des activités (reorganisation); - L'impact psychologique de l'opération sur le 	<ul style="list-style-type: none"> - Des entreprises grandes, multinationales; - Des entreprises qui ont choisi la stratégie de la diversification ou de l'intégration verticale.

⁷³⁶ Sherman, A., Hart, M., *op.cit.*, p.12

⁷³⁷ Campbell, D., Stonehouse, G. și Houston, B., *op.cit.*, p. 213

		climat social; - La difficulté de l'intégration culturelle et managérielle des entités.	
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Source: Meier, O., Schier, G., (2006), *Fusions Acquisitions- Strategie, Finance, Management*, Ed. Dunod, Paris, p.11

Les atouts et les faiblesses de ces stratégies possibles doivent, par conséquent, être appréciés dans la lumière des objectifs et des contraintes des entreprises concernées. Bien qu'il s'agisse d'une logique différente, on peut souligner le fait que ces deux options ne sont pas incompatibles et sont même assez souvent associées. Les compétences-clés sont considérées être un facteur important de la croissance interne mais représente, en même temps, un fondement dans la réussite des opérations de fusions-acquisitions. Autrement dit, les fusions-acquisitions ont de grandes chances de réussite, plus si l'acquéreur maîtrise d'une manière efficiente tous les éléments du mécanisme de la croissance interne et particulièrement⁷³⁸:

- la réalisation d'un plan stratégique et d'un plan d'affaires bien structuré;
- l'élaboration des objectifs réalistes;
- l'analyse des propres activités pour identifier les points forts, les points faibles, les opportunités et les menaces qui peuvent apparaître;
- l'évaluation régulière de la valeur de ses propres actifs et de l'impact que les résultats obtenus ont sur le développement de l'entreprise;
- la capacité de réaliser d'une manière continue des changements dans le but d'améliorer la compétitivité et l'adaptation aux influences extérieures qui s'exercent sur l'entreprise.

3. Conclusions

Les limites de la croissance interne résident dans la difficulté de disposer des ressources internes nécessaires à un procès continu de développement, de progrès, d'innovation. Par conséquent, la croissance externe représente une opportunité de croissance rapide en ajoutant simplement les ressources appartenant aux autres entreprises. La perspective de la croissance et de la création de valeur dans un intervalle de temps assez court mènent à l'évidence que les fusions-acquisitions ou les alliances deviennent des moyens privilégiés de plusieurs dirigeants ou actionnaires d'entreprises, souvent au détriment de la croissance interne. Par la suite on peut conclure que trouver l'équilibre entre la croissance interne et la croissance externe d'une part et le respect de l'impératif de la création de valeur d'autre part, fait partie du choix stratégique qui appartient au top management.

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⁷³⁸ Gouali, M., (2009), *Fusions-Acquisitions. Les 3 Regles du Succes*, Ed.D'Organisation, Paris, p.19

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L'ANALYSE COMPARATIVE DES FUSIONS-ACQUISITIONS AVEC LES AUTRES FORMES DE CROISSANCE DES ENTREPRISES (II- FUSIONS-ACQUISITIONS VS. ALLIANCES)

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Development through mergers and acquisitions is a company's external growth strategy, as well as business alliances, but these options can not be mistaken, because the characteristics, stakes and risks are fundamentally different nature. In this paper we intent to analyze mergers and acquisitions compared with other ways of the company's external growth, by presenting the main similarities and differences between them.

Keywords: company, external growth, mergers, acquisitions, business alliances

Cod JEL lucrare: L21, L25

1. Introduction

La stratégie de croissance externe se rapporte non seulement aux entreprises cotées qui recherchent la consolidation de leurs activités au niveau mondial mais aussi aux entreprises noncotées qui doivent affronter les problèmes de croissance voire même de survie. Par conséquent, elle constitue un des principaux moyens de développement que les entreprises ont à leur disposition afin d'améliorer leur position stratégique dans leur environnement.

Le principal instrument de réalisation de la croissance externe est représenté par les opérations de fusions-acquisitions des entreprises. Pourtant, il y a aussi des solutions alternatives pour la réalisation de la croissance externe notamment les alliances entre les firmes. La croissance par fusions-acquisitions est proche des autres alternatives de croissance externe, les alliances, mais elle ne peut pas être confondue avec celles-ci car les caractéristiques, les enjeux et les risques associés sont fondamentalement différents. On propose, par la suite une analyse comparative entre la stratégie de croissance par les fusions-acquisitions et la stratégie de croissance par les alliances entre les entreprises.

2. La comparaison entre les fusions-acquisitions et les alliances

Les alliances (quelque soient leurs formes- stratégique ou de marketing) se forment lorsque deux ou plusieurs entreprises décident d'unir leurs forces pour mettre en application un ou plusieurs projets importants (recherche et développement, accès à de nouveaux marchés, le partage des lignes de production, etc.) qu'elles ne pourraient pas assumer toutes seules et elles ont, surtout, un caractère contractuel⁷³⁹.

La croissance par fusions-acquisitions représente un moyen de développement qui permet à l'entreprise de contrôler des actifs déjà productifs sur le marché et détenus au début par d'autres entreprises. La notion d'alliance se rapporte à toutes les formes de combinaisons d'affaires, en dehors des fusions-acquisitions.

Ainsi, à côté des fusions-acquisitions, les affaires peuvent se combiner par joint-ventures, des alliances stratégiques, des investissements minoritaires, des échanges de participations minoritaires, des franchises ou des licences.

La création d'un *joint-venture* implique des relations de coopération dans les affaires entre deux ou plusieurs parties séparées dans le but d'atteindre des objectifs stratégiques communs. Un joint-

⁷³⁹ Gouali, M, (2009), *Fusions-Acquisitions. Les 3 Regles du Succes*, Ed.D'Organisation, Paris, p.79

venture suppose la création d'une entité juridique distincte⁷⁴⁰ ayant des objectifs nettement déterminés, tandis que chacun des partenaires continue d'exister en tant qu'entité juridique distincte. La création d'un joint-venture implique la mise en commun des compétences technologiques, scientifiques, commerciales ou logistiques dans le but de création de synergies. Un joint-venture fonctionne comme un mécanisme où chacune des pièces est dépendante de la qualité des autres. Cette exigence impose à toutes les parties composantes du partenariat la certitude que les tâches sont bien faites car dans l'ensemble il faut réaliser les objectifs qui sont à la base d'une création de joint-venture. En d'autres termes, la réussite d'un joint-venture est conditionnée par une répartition stricte des tâches entre les différents centres de décision: la définition de la stratégie appartient aux dirigeants des entreprises partenaires mais la gestion opérationnelle revient à l'équipe managériale du joint-venture. De cette façon, elle dispose d'une autonomie de décision complète et assure une continue interaction avec les dirigeants des entreprises partenaires afin que ceux-ci puissent contrôler et ajuster leur stratégie en fonction des résultats obtenus. Si les tâches et les responsabilités au niveau d'un joint-venture sont claires et acceptées par toutes les parties participantes, l'organisation deviendra efficiente et s'allignera à la stratégie élaborée. De cette manière, on évite les disfonctionnalités qui interviennent souvent suite à la superposition des périmètres opérationnels des partenaires (y compris les problèmes qui appartiennent à la culture organisationnelle). Dans certains cas, et surtout si un joint-venture s'avère être une réussite, le partenariat s'accroît et évolue fréquemment vers une fusion ou une acquisition⁷⁴¹.

Par contre, généralement, les *alliances stratégiques*, ne mènent pas à la création d'une entité juridique distincte. Elles sont des accords entre les entreprises qui désirent la réalisation de certains objectifs communs mais cela dans les circonstances de la préservation de l'autonomie stratégique et de la conservation des intérêts qui lui sont propres⁷⁴². Elles peuvent prendre la forme d'une entente en ce qui concerne la vente des produits de chaque entreprise vers les clients de l'autre entreprise ou du développement en commun d'une technologie, produit ou procès. Les termes d'un tel accord peuvent s'établir légalement ou plutôt, informel.

Les entreprises peuvent opter pour les *investissements minoritaires* dans les petites entreprises ou les start-ups dans le but du développement des produits ou technologies utiles pour les entreprises qui font ces investissements. L'entreprise qui décide d'investir est souvent représentée dans le cadre du Conseil d'Administration de l'entreprise dans laquelle elle a investi. Ces investissements peuvent être opportunistes, les investisseurs passifs arrivant à detenir, à long terme, une position au sein d'une entreprise considérée avoir un potentiel de croissance important⁷⁴³. Plus encore, le partenariat est plus serré dans le cas d'un autre type d'alliance capitalistique, plus précisément, lorsqu'on réalise un échange de participations minoritaires entre les entreprises, de sorte que, chaque partenaire obtient des participations au capital de l'autre.

Le licencement représente une méthode contractuelle de développement et d'exploitation des droits de propriété intellectuelle par le transfert du droit d'utilisation d'une tierce partie sans toutefois réaliser également le transfert de propriété⁷⁴⁴. Les accords de licence ne nécessitent pas un capital initial et représentent, pour les entreprises, un moyen convenable d'agrandir le brand vers d'autres produits ou marchés par le licencement du nom du brand vers d'autres.

La francise est une forme spéciale de l'accord de licence par laquelle un producteur (franciseur) accorde à un dealer (francisé) le privilège de lui vendre ses produits ou les services dans une

⁷⁴⁰ Faire la différence par rapport à l'achat en commun d'une société existante, qui devient après l'acquisition la propriété commune des deux partenaires (ce moyen de croissance représente un cas particulier de la croissance externe)

⁷⁴¹ Gouali, M., *op.cit.*, p.82

⁷⁴² Ciobanu, I., Ciulu, Ruxandra, (2005), *Strategiile competitive ale firmei*, Ed. Polirom, p.238

⁷⁴³ DePamphilis, D., (2010), *Mergers, Acquisitions and Other Restructuring Activities*, Ed. Academic Press Advanced Finance Series, Burlington., p.24

⁷⁴⁴ Sherman, A., Hart, M., (2006), *Mergers & Acquisitions from A to Z*, second edition, Ed. Amacom, New York, p.272

certaine zone. Dans le cadre d'un accord de franchise, le franchiseur peut offrir au franchisé une consultation, une assistance promotionnelle, financement ou d'autres bénéfices, en échange d'une partie des revenus du dernier. Les accords de franchise représentent un moyen peu coûteux par lequel le franchiseur peut s'agrandir, parce que le capital nécessaire est assuré, d'habitude, par le franchisé. De cette manière, cette stratégie est adoptée surtout par les entreprises de petites tailles qui ne disposent pas de ressources nécessaires à assurer une croissance interne⁷⁴⁵.

Selon les remarques ci-dessus, il y a une grande variété d'alternatives stratégiques qui se concentrent sur la construction d'une relation externe dans le but d'atteindre certains objectifs. Les alliances sont souvent utilisées pour atteindre des intérêts économiques communs appartenant à des groupes provenant de pays différents.

La principale différence entre les stratégies présentées au-dessus consiste dans le degré de contrôle des parties. Les fusions-acquisitions supposent le plus haut degré de contrôle tandis que les alliances impliquent un degré plus réduit de contrôle. Ainsi, par opposition à la croissance par fusions-acquisitions, les alliances permettent d'éviter une prise totale de contrôle, en respectant l'autonomie de chaque entité mais toutefois en profitant de la création des synergies⁷⁴⁶. Dans certains cas, ces stratégies sont projetées à long terme, mais dans d'autres cas elles impliquent moins d'engagements ou objectifs communs⁷⁴⁷.

Un autre élément de différenciation des stratégies possibles est représenté par l'exposition au risque. L'opération de fusion-acquisition représente un procès qui comporte un risque. Ainsi, dès la phase préalable de l'acquisition, il est possible que la cible fasse l'objet d'une surenchère et, par conséquent, malgré la signature d'un accord, il arrive qu'elle soit acquise par un concurrent. Ensuite, l'investissement peut s'avérer sans rentabilité, lorsqu'on n'obtient pas les synergies recherchées et donc l'opération ne réussit pas à créer la valeur. Par contre, les partenariats se réalisent beaucoup plus rapidement (il n'est pas nécessaire de parcourir toutes les étapes requises dans une opération de fusion-acquisition), les participants unissent leurs forces sur le fondement de réelles synergies identifiées. Les risques, tout comme les bénéfices d'ailleurs, sont partagés entre tous les partenaires. En fait, en tenant compte des synergies, des coûts d'opportunité, des risques et de la rentabilité, le choix entre les solutions possibles peut se réaliser plus facilement. Ainsi, lorsque le risque peut être assurée, les fusions-acquisitions représentent une option préférable par rapport aux alliances. Par contre, alors qu'il existe l'incertitude en ce qui concerne les risques, les alliances sont préférables. Elles offrent aux entreprises une plus grande flexibilité parce que les engagements peuvent être continués ou suspendus en fonction des résultats obtenus.

Malgré les différences qui les séparent, les fusions-acquisitions ainsi que les alliances, sous leurs différentes formes, ont pour but l'augmentation du nombre des clients et l'obtention des profits supérieurs, ces moyens de croissance ont en commun la combinaison des propres ressources afin d'augmenter et de créer la valeur à un niveau qu'elles n'auraient pas pu atteindre individuellement.

Cette similitude mène à la question logique se rapportant à la pertinence du choix de l'une ou de l'autre de ces options pour assurer la croissance externe. En analysant les facteurs qui déterminent le choix entre ces options, on prend en considération l'hypothèse qu'on va recourir aux fusions-acquisitions dans le cas où les alliances ne répondent pas aux besoins stratégiques de l'entreprise et vice-versa. Pour cela, il faut définir clairement les objectifs recherchés par l'entreprise quand elle se décide d'adopter une stratégie de croissance externe et de comparer l'apport de chaque stratégie. La réalisation de ces comparaisons présente plusieurs bénéfices:

- assure la cohérence entre la solution choisie et l'objectif désiré à être réalisé;
- favorise les chances de réussite de l'opération;

⁷⁴⁵ DePamphilis, D., *op.cit.*, p.24

⁷⁴⁶ Ceddaha, F. (2007), *Fusions Acquisitions, Évaluation, Négotiation, Ingénierie*, Ed. Economica, Paris., p.277

⁷⁴⁷ Sherman, A., Hart, M., *op.cit.*, pp.254, 256

- envoie un signal au marché pour indiquer le fait que l'initiative prise est pertinente et justifiée. Les premiers deux bénéfiques sont intrinsèques à l'entreprise, le dernier se rapporte à l'orientation de la perception du marché en faveur du choix fait⁷⁴⁸.

L'attraction majeure pour ces formes de développement, en comparaison avec les fusions-acquisitions est représentée par l'opportunité du chaque partenaire d'avoir accès aux compétences, aux produits ou aux marchés de l'autre partenaire, à un coût global plus réduit en matière de management, de temps et de financement. Les principaux inconvénients se rapportent au contrôle limité, à la nécessité de la division des profits et à la potentielle perte de quelques secrets commerciaux ou compétences en faveur des concurrents.

En pratique, si l'alliance avec apport de capital représente un succès, il est difficile de maintenir l'indépendance économique des deux entités qui ont mis en commun leurs ressources et leurs compétences, tout cela sous les yeux vigilents des actionnaires des deux entités, qui craignent que les transferts de compétences puissent porter atteinte au patrimoine. Autrement dit, tout se passe comme si les deux entités continueraient à se faire de la concurrence en ce qui concerne les clients, tandis que leurs principales fonctions de production ou de recherche sont communes. Enfin, le maintien des entités autonomes peut empêcher l'obtention d'autres synergies (surtout les synergies commerciales) qu'on pourrait obtenir facilement par une mise en commun de tous les intérêts économiques des entreprises. A cause de cela, une alliance (et surtout celle avec apport de capital) évolue souvent soit vers une approche complète des deux entités, soit vers une interruption rapide à cause du fait qu'on n'avait pas obtenu les synergies recherchées ou la collaboration entre les deux groupes n'a pas marché⁷⁴⁹.

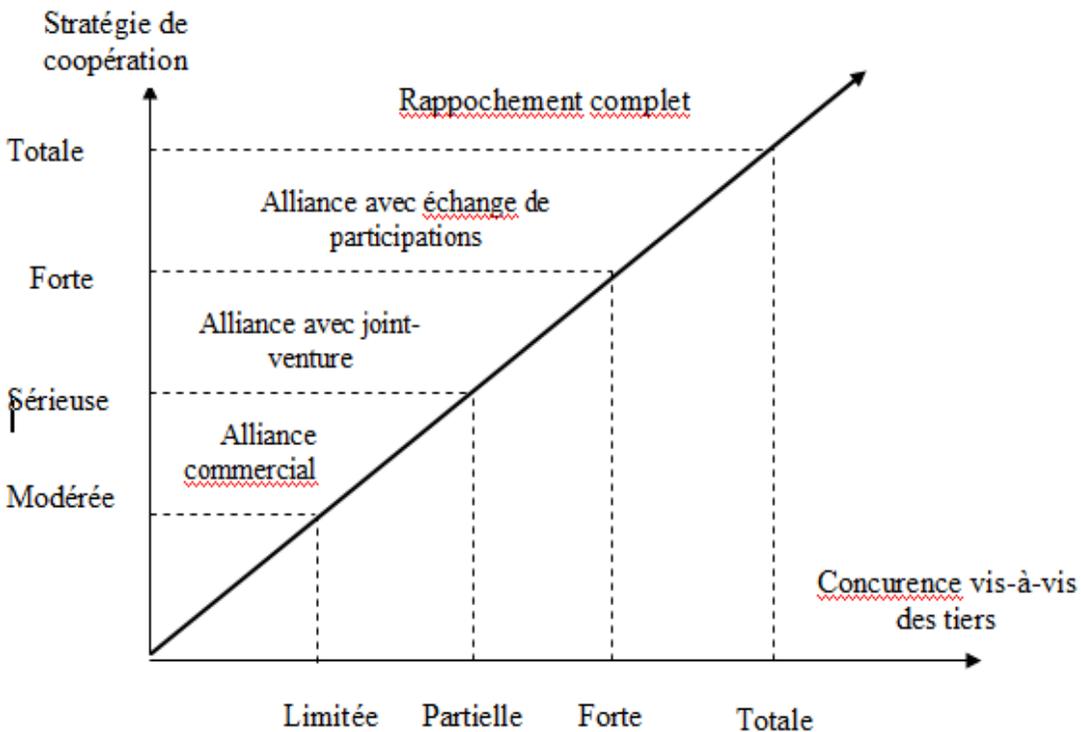


Figure nr.1. Les différents degrés de coopération dans le cadre des alliances

Source: Ceddaha, F., (2007), *Fusions Acquisitions, Évaluation, Négotiation, Ingénierie*, Ed. Economica, Paris, p.279

⁷⁴⁸ Gouali, M, *op.cit.*, p.82

⁷⁴⁹ Ceddaha, F. *op.cit.*, p.277

On peut remarquer que l'alliance n'est pas associée à une catégorie juridique déterminée et on peut, par conséquent le retrouver sous différentes formes, en commençant par la coopération commerciale (accords de licence, franchise, sous-traitance) jusqu'à la création ex nihilo d'une nouvelle structure juridique (filiale commune/joint-venture). Ce dernier représente la forme d'alliance la plus proche des opérations de fusions-acquisitions. Il s'agit d'une alliance avec apport de capital et non pas d'un accord commercial. On peut remarquer que ce moyen de croissance rappelle celui de la croissance par acquisition d'une autre entreprise, inscrivant la relation dans un cadre formel et offrant aux partenaires des avantages liés à la dimension de la nouvelle entité (par exemple réduction des coûts ou économies d'échelle) et à la coordination commune des ressources.

Comme dans le cas des fusions-acquisitions, l'alliance peut même modifier la position des acteurs économiques dans le milieu environnant et par conséquent elle est soumise aux différents mécanismes de contrôle. Enfin, par rapport à la croissance par fusions-acquisitions, ce moyen de croissance constitue une possibilité importante d'adaptation et de transformation des entreprises en fonction de l'évolution des marchés.

En dépit de ces ressemblances, les caractéristiques par lesquelles l'alliance par création d'un joint-venture diffère de l'opération de fusion-acquisition, sont⁷⁵⁰:

- l'alliance par la création d'un joint-venture réside dans la combinaison des moyens, mis à la disposition par les parties participantes, dans le but de développer une nouvelle activité, tandis que les opérations de fusions-acquisitions se caractérisent par la prise de contrôle sur les moyens de production déjà existants en fonction;
- l'alliance par création d'un joint-venture est caractérisée par l'absence d'un système d'autorité unique. Dans une alliance par création d'un joint-venture, les partenaires participent à la direction de la nouvelle entité et contribuent à la prise des décisions par leur droit de vote. L'existence d'un contrôle commun peut créer des problèmes de management lorsqu'il y a de désaccords entre les partenaires. C'est pourquoi, d'habitude, on accorde une attention particulière aux moyens et aux limites d'utilisation des ressources mais aussi aux implications qui découlent d'un renoncement à l'accord.
- dans le cas des alliances par création d'un joint-venture, la maîtrise des conflits d'intérêts devient plus délicate. On peut remarquer que, souvent, les partenaires ne renoncent pas tout à fait aux intentions opportunistes ou concurrentielles. L'alliance peut même, dans certains cas, représenter une forme de compétition déguisée dans le but d'attirer le partenaire dans un piège. Dans le cas d'un conflit stratégique, les parties doivent donc appliquer une procédure de séparation, en permettant la préservation de la valeur créée par l'alliance. Cette situation est moins problématique dans le cas d'une opération de fusion-acquisition quand, lorsque certaines difficultés apparaissent, l'autorité de droit de l'acquéreur s'exerce.
- une autre caractéristique qui distingue l'alliance par création d'un joint-venture d'une opération de fusion-acquisition consiste dans le fait que chaque partenaire garde une certaine indépendance et peut continuer, malgré l'accord, à être en concurrence sur le marché avec les autres acteurs.
- enfin, l'engagement peut se rompre librement par chaque partenaire quand les conflits stratégiques ne peuvent pas être résolus. En effet, malgré les coûts générés par la cessation de l'accord, le degré de liberté laissé aux parties en dehors de l'alliance facilite la sortie des partenaires.

3. Conclusion

⁷⁵⁰ Meier, O., Schier, (2006), *Fusions Acquisitions- Stratégie, Finance, Management*, Ed. Dunod, Paris, p.12-13

En conclusion, on peut affirmer le fait que, dans le but de réaliser des opérations de croissance externe, il est nécessaire que les entreprises réalisent une étude comparative entre les différentes possibilités qu'elles possèdent de sorte qu'elles choisissent la plus convenable. Ainsi, on peut éviter de faire de grandes erreurs qui puissent avoir des conséquences négatives sur la création de valeur pour l'entreprise.

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SUB-SECTION: ECONOMIC STATISTICS

ANALYSIS OF CONVERGENCE WITHIN THE EUROPEAN UNION – SIGMA AND BETA CONVERGENCE

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Real convergence study began with the development of neoclassical models of growth and especially with the passage of econometric applications of these models. In this paper we present applications of indicators and patterns of convergence on the example of European Union member countries and some current economic impact assessments on European convergence process. This analysis is based on the estimated σ - and β convergence and on Markov chains. The study deals with the economic convergence of the European countries and especially the convergence of the EU countries, including Romania. In the end of the study presents several economic scenarios for a faster and easier exit from the current crisis in Romania.

Keywords: real convergence, σ -convergence, β -convergence, Markov chains.

JEL Classification: F15, C13, C15

Introduction

The convergence is an essential objective of the integration process of Romania in the European Union, minimizing gaps in the level of development that arise between Romania and the average of European Union.

There are two types of convergences: the Beta (β) and Sigma (σ) Convergence. ‘Sigma’ convergence measures the dispersion of real GDP per capita (in constant prices) between regions or countries based on standard deviation of the cross-section series (Barro 1992). When the standard deviation is falling (rising) over time, the differences of GDP per capita between regions or countries in absolute terms gradually decrease (increase) and convergence (divergence) is approached. If standard deviation does not show any clear tendency but instead, increases or decreases successively, then a mixed process of convergence and divergence is realized. A different way of measuring the ‘sigma’ convergence is to use the coefficient of variation which results by dividing the standard deviation with the mean of the sample. The coefficient of variation is a measure of relative variability and is expressed usually, as percentage and not via the units of data in which is referred. If the coefficient of variation decreases over time we have convergence otherwise we have divergence.

The ‘beta’ convergence of the neo-classical approach is obtained by a regression analysis estimating the growth of GDP per capita over a certain period of time in relation to its initial level. If the regression coefficient ‘beta’ has negative sign indicates that GDP per capita of countries with lower initial GDP per capita grow more rapidly than this of countries with higher

initial GDP per capita. The neo-classical theory presents two types of convergence: unconditional and conditional (Sala-i-Martin 1996). When all regions (or countries) converge to the same terminal point (steady-state point) the convergence is calling unconditional. In such a case, having considered that the economies do not differ significantly in terms of variables like the investment level, coefficient β is estimated without introducing structural variables. On the contrary, when the economies have different structures, it is assumed that they converge to a different steady state point. In this case convergence is calling conditional and both the coefficient β and the structural variables (influencing the level of growth of GDP per capita) are introduced in the model. According to the neo-classical model the query of why poor regions (or countries) grow faster than rich regions (or countries) can be answered by the diminishing returns to capital explanation.

A Markov chain is a multistage experiment consisting of a sequence of trials in which the state, or outcome, of each trial depends on the state of the trial that immediately precedes it. The goal in a typical problem involving Markov chain is to compute the probability that the system will be in a particular state at a specified time.

For a Markov chain with m states, the transition matrix P is the $m \times n$ matrix in which the entry p_{ij} is the probability of going from state i to state j in one step.

Convergence sigma and beta

A commonly used indicator for measuring convergence is the variation coefficient on the level of GDP/capita, denoted by σ . This indicator is used to measure Sigma convergence. It can be used to evaluate the real convergence level by measuring the dispersion of GDP/capita over a one year period, using for this purpose cross series (countries and regions). In this case, the relevance of the convergence indicator appears only when making comparisons.

In our study, we have used this indicator to measure and predict the real convergence level for all EU countries, specifically the group of EU27. Data series refers to the 1998-2007 period. The considered indicator concerning the GDP/capita variation coefficient of the EU countries shows a decrease during the entire period analyzed, from 1.6353 to 1.4835, fact that indicates the tendency of increasing convergence of the economies of the mentioned countries.

Besides Sigma indicator, expressed by the variation coefficient or standard deviation, there were numerous concerns within econometric research, a significant place being occupied by the Beta parameter estimation and interpretation of growth regression equation.

Beta indicator's values are increasing throughout the period 1999-2007, compared to 1998: they range from 1,043 to 1,358. This means that if in 1998 the indicator's GDP / capita would have increased by 1 unit, in 2007 it would have reached values of 1,358 or higher.

From 1998 to 2007, the Gini-Struck coefficient has decreasing values ranging from 0, 3207 to 0, 2909, which reveals that the indicators distribution is a relatively uniform one on all 27 EU countries.

Markov chain

Total crossing matrix between 1998 and 2007 is presented in the following table. We used nine stages for indicator GDP/inhabitants [1100-9900); [9900-18700); [18700-27500); [27500-36300); [36300-45100); [45100-53900); [53900-62700); [62700-71500); [71500-80300). All data are expressed in Euros. Based on this matrix we calculated the matrix of probability.

Probability vector is:

[1100-9900)	[9900-18700)	[18700-27500)	[27500-36300)	[36300-45100)	[45100-53900)	[53900-62700)	[62700-71500)	[71500-80300)
23.42	21.43	36.37	14.15	2.83	1.15	0.47	0.05	0.10

The forecast based on probability vector for the next three years (2008-2010) is as follows:

[1100-9900)	[9900-18700)	[18700-27500)	[27500-36300)	[36300-45100)	[45100-53900)	[53900-62700)	[62700-71500)	[71500-80300)
23.42	21.43	36.37	14.15	2.83	1.15	0.47	0.05	0.10
22.42	19.83	35.83	16.50	3.23	1.24	0.53	0.06	0.21
20.54	16.99	34.71	21.08	4.27	1.36	0.60	0.08	0.37

We can say there are increases the probability for higher stages, for example the last stage [71500-80300) increase from 0.10% in 2008 to 0.37% in 2010 and on the other hand the first stage [1100-9900) decreases from 23.42% in 2008 to 20.54% in 2010.

Conclusion

This paper has reviewed a number of methods and instruments developed for the analysis of economic and/or social inequalities and that can be used for examining disparities among EU27 countries.

One objective of the paper was to produce an update analysis of the convergence process and Markov change among EU countries. Another was to show that instruments vary significantly in terms of their specificities and qualities and that it is therefore important to be aware of their limits when measuring the extent and evolution of countries disparities within the EU. These results also underline that the analysis of convergence is in fact complex.

Finally, even if the analysis of countries disparities is conducted thoroughly, it says little about the effectiveness of EU Cohesion Policy. It is necessary to proceed to further analysis, notably by controlling other variables likely to affect the convergence process, as a proper econometric analysis would do.

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CURRENT CRISIS AND ECONOMIC CONVERGENCE IN THE EU

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The paper is intended to be primarily a factual developments illustrate the main economic indicators in the context of Romania's crisis by creating a digital picture to illustrate the main effects of the country. The idea started more from a personal desire to make a passage highlighted "the crisis, where some of it not felt it directly, seem to be amplified in an unduly by the media". Secondly, we proposed the application of an econometric model using as a set of macroeconomic indicators compiled data for Romania for the period 2000 to 2008. This will allow certain scenarios and forecasting developments in the context of model assumptions.

Keywords: crisis, model, σ -convergence, β -convergence.

JEL Classification: E01, E17, E20, E32, E40

Introduction

In early 1960, Federal Deposit Bank of St. Louis (Bari 2002) developed in an economic analysis model, which stressed the role of monetary aggregates. Initial analysis of economic data was performed using diagrams that after 1960 will be used regression techniques as a tool of analysis. Some of the quantitative research efforts were consolidated in 1970 with publication of what followed is known as "The St. Louis Model"

The model St. Louis

The first theoretical consideration that underlies the development model was the modern quantitative theory of money. The emphasis of the modern quantity theory is the behavior of economic units in response to changes in the stock of money. Moreover, the existing stock of money must be held by someone. As a result, a change in the stock of money will induce a discrepancy between the current owner and interested possession of money that will change because alternate portfolio of assets. Included in this adjustment is a change in spending on goods and services.

The second theoretical issue that has been implicit in the construction of the model, although not explicitly recognized by those who developed the model at the time, was the search and information costs on economic behavior. Information on the equilibrium price is not to gather cost and thus economic units should seek balance in market prices. As a result, prices do not necessarily have been adjusted instantaneously to the new equilibrium level in response to a step change in total spending.

As a result of these theoretical considerations, the relative impact of fiscal and monetary measures requires careful assessment. This assessment includes the differentiation between short and long, and granting special focus methods are to finance government expenditure.

Model *St. Revised Louis* "allows analysis and forecasting economic fundamentals following developments: nominal national income; level of prices; real national income; rate of employment.

The Structure of the Model

Main assumption in developing the model equations is that the evolution of nominal national income depends on the evolution of monetary and budgetary. In other words, changes in national income depend on monetary and fiscal policy. Thus, the merit of this model is that it provides information on developments in the basic macroeconomic variables in different ways of combining measures of monetary and financial policy, which allows the design of monetary policy in line with the overall objectives of economic policy in terms of income national employment and prices.

Equation of nominal national income:

$$\Delta Y_t = f_1(\Delta M_t, \dots, \Delta M_{t-n}, \Delta E_t, \dots, \Delta E_{t-n}) \quad (1)$$

Equation of price level:

$$\Delta P_t = f_2(D_t, \dots, D_{t-n}, \Delta P_t^A) \quad (2)$$

Identity equation:

$$D_t = \Delta Y_t - (X_t^F - X_{t-1}) \quad (3)$$

Identity equation of total expenditure (nominal national income):

$$\Delta Y_t = \Delta P_t + \Delta X_t \quad (4)$$

Equation of exchange rate:

$$R_t = f_3(\Delta M_t, \Delta X_t, \dots, \Delta X_{t-n}, \Delta P_t, \Delta P_t^A) \quad (5)$$

Equation predicted prices:

$$\Delta P_t^A = f_4(\Delta P_{t-1}, \dots, P_{t-n}) \quad (6)$$

Equation of unemployment rate:

$$U_t = f_5(G_t, G_{t-1}) \quad (7)$$

Deviation of GDP actually from potential GDP:

$$G_t = \frac{X_t^F - X_t}{X_t^F} \quad (8)$$

The relationship model is a fundamental equation of total expenditure. Total expenditure is determined by the actions of monetary and fiscal (spending financed from taxes or borrowing from the public). Although no details are known is that such actions affect costs. Change in total

revenue is combined with an estimate of potential production that leads to the modification application. An estimate of the anticipated price change is combined with the modification request to determine a change in the price level. To describe the model, its characteristics are summarized in relation to four key assumptions money. They are: 1. monetary actions are the dominant factor contributing to economic fluctuations; 2. Monetary actions have little, if any, lasting effect on real variables, with effects lasting only for nominal variables; 3. Fiscal actions, defined as changes in government spending with a given stock of money, have only a transitory impact on economic activity; 4. The economy is in a private stable inert.

Crisis in Romania

Under the model assumptions can build national income equation in the form of a linear econometric model multi-factorial:

$$I^{PIB} = \alpha_1 I_{t/1}^{ChGiver} + \alpha_2 I_{t/1}^M + b \quad (9)$$

Where the indicators used are: real GDP index, index of real monetary, government spending index. Therefore, we interpret the estimated parameters as to an increase of 1% of government expenditure, national income has increased in the review, on average, 0.84211%, respectively an increase of 1% of average monetary income of national increased in the range examined, on average, 0.20644%, which confirm the theoretical results of the influence of fiscal and budgetary policy.

Linear correlation coefficient is defined in the interval [-1, 1], that the value 0.964 obtained indicates a stronger linear correlation between the two variables. Test Fisher - Snedecor shows that the results are significant, with a significance threshold of 5%..

$$F_c = 39,7768 > F_{0,05;2;6} = 10,43$$

So, we can say that the model is good. Checking the significance of default and correlation coefficient of linear correlation is done using the test Fisher - Snedecor:

$$F_c = \left(\frac{n - 2 - 1}{2} \right) \frac{R^2}{1 - R^2} = 3 \cdot \frac{0,9298}{0,0702} = 13,24 > F_{0,05;2;6} = 10,43$$

Therefore, the model correctly describes the dependence of the three variables, the independent in explaining the proportion of 93% of total variation in the dependent variable.

The effects of economic crisis - evolutionary scenarios

If the equation of our revenue to perform a forecast for next year after the 2 scenarios: optimistic, and pessimistic.

If we consider the following *scenario optimistic* assumptions: government expenditure will increase in real terms by 3% and average money will increase in real terms by 5%.

For the pessimistic scenario, consider the following assumptions: government spending will decrease in real terms by 3% and average money will remain constant. Substituting the above equation for each scenario in part refrained forecast for the period 2008-2011.

Thus:

- In the optimistic scenario where the pace of growth will be 2.5%.
- If pessimistic scenario was obtained a decrease in growth of 2.5%.

Exchange Rate equation is:

$$R = \alpha_1 IPC + \alpha_2 I^{PIB} + \alpha_3 I^M + b \quad (10)$$

Where the indicators used are: interest rate, index of consumer prices, monetary mass average GDP dynamics.

The interest rate is influenced by positive and negative dynamic pricing dynamics of GDP and the monetary. All influences are analyzed in accordance with economic theory. Romanian

economy to the equilibrium interest rate is 10.12%. Influences factors are analyzed as follows: for each percentage increase in the CPI rate increases by 1.73% for a percentage of GDP growth rate falls to 0.0771% for each percentage increase in monetary leads to lower interest rates with 10.73%. The lowest influence has therefore GDP.

Coefficient of linear correlation shows that there is a strong linear correlation between variables (0,9147). Test Fisher - Snedecor shows that the results are significant, with a significance threshold of 5%.

$$F_c = 8,54 > F_{0,05;3;5} = 7,3$$

Significance $F = 0.02 <$ threshold of significance (0.05). Checking the significance of default and correlation coefficient of linear correlation is tested using the Fisher - Snedecor:

$$F_c = \left(\frac{n - 3 - 1}{3} \right) \frac{R^2}{1 - R^2} = \frac{5}{3} \cdot \frac{0,8367}{0,17} = 8,2 > F_{0,05;3;5} = 7,3$$

Therefore, the model correctly describes the dependence of the four variables in explaining the independent proportion of 83% of total variation in the dependent variable.

Scenarios development

The interest rate equation in our model build a forecast for next year after the 3 scenarios: optimistic, pessimistic and average. *If we consider the following scenario optimistic* assumptions: government expenditure will increase in real terms by 3% and average money will increase in real terms by 5% and a CPI of 4.5%. *For the pessimistic scenario*, consider the following assumptions: government spending will decrease in real terms by 3% and average money will remain constant while the CPI is 3%. Substituting the above equation for each scenario in part refrained forecast for the period 2009-2011. Solutions in the short term trends indicate libratory interest rate. Thus, the optimistic scenario where the interest rate would record a level of 8.87% in case of moderate 10.21% while the pessimistic scenario it will rise to 12.27%.

Convergence sigma and beta

A commonly used indicator for measuring convergence is the variation coefficient on the level of GDP/capita, denoted by σ . This indicator is used to measure Sigma convergence. It can be used to evaluate the real convergence level by measuring the dispersion of GDP/capita over a one year period, using for this purpose cross series (countries and regions). In this case, the relevance of the convergence indicator appears only when making comparisons.

In our study, we have used this indicator to measure and predict the real convergence level for some EU countries, specifically the group of EU 12. Data series refers to the 1998-2007 period. They will be symbolized with UE12 and are: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia.

Sigma convergence values for this period are: 0,6656; 0,6774; 0,6427; 0,6098; 0,5817; 0,5692; 0,5398; 0,4918; 0,4512; 0,3841.

By analyzing the level and trend of the variation coefficient, we can conclude the following:

- The considered indicator concerning the GDP/capita variation coefficient of the EU countries shows an increase during 1998-1999. This increasing process reveals a divergent growth of the economies inside this group of countries, with the real possibility that every less developed country will strive for higher levels of development;
- During 2000-2007 the evolution of the variation coefficient of GDP / capita is a decreasing one, which indicates the tendency of increasing convergence of the economies of the mentioned countries.

Besides Sigma indicator, expressed by the variation coefficient or standard deviation, there were numerous concerns within econometric research, a significant place being occupied by the Beta parameter estimation and interpretation of growth regression equation.

Beta indicator estimated by using the regression equation, expresses the speed (rate) with which different countries achieves convergence to a steady state. This indicator studies sigma convergence in terms of evolution over time. Beta indicator's values are increasing throughout the period 1999-2007, compared to 1998: they range from 0.06889 to 0.2866. This means that if in 1998 the indicator's GDP / capita would have increased by 1 unit, in 2007 it would have reached values of 0.2866 or higher.

Conclusions

Current economic crisis, burst into the U.S. (Daianu 2008) to quickly propagated globally affecting international economic system. Put on the irresponsible policies of financial institutions, the crisis raises worrying questions about the security. Transmission of the crisis was not only geographically but also in society, the financial plan in the real economy, both social and gradually installed and psychological level. The latter seems to be the most dangerous contaminants, whereas the frozen actions practically blocking economic growth for fear and mistrust. The effects of the crisis are felt in Romania. This is seen primarily at economic indicators, which after a period of growth began to come together with this crisis on a downward trend. Regarding short-term evolution of economy and living standards in Romania, according to evolutionary scenarios outlined in the model St. Louis reviewed the pessimistic scenario (which is most likely in the current context) GDP will decrease by 2.5% and interest rate (real) will be an average of 12.27%.

This paper has reviewed a number of methods and instruments developed for the analysis of economic and/or social inequalities and that can be used for examining disparities among EU12 countries. One objective of the paper was to produce an update analysis of the convergence process among EU countries. Another was to show that instruments vary significantly in terms of their specificities and qualities and that it is therefore important to be aware of their limits when measuring the extent and evolution of countries disparities within the EU. These results also underline that the analysis of convergence is in fact complex.

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METHODS AND MODELS FOR THE ANALYSIS OF THE LABOR MARKET

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The labor market study involves analyzing the supply and demand for labor. The labor market is the meeting place for bidders and applicants for paid employment. Therefore, to characterize the labor market and the existing correlations in this market, one important aspect is the characterization of labor supply that depends on labor resources in general, but is particularly dependent on active population. The paper presents aspects of modeling existing labor market correlations and suggests a multiple regression model to analyze labor supply at the macroeconomic level.

Labor market, regression model, employment, statistics

J21

1. Job offer at the macroeconomic level

According to some authors, the *labor market is the most regulated and organized market*. Alfred Marshall said [1]: "It's normal that the labor market is more regulated than any other. The changes occurring here influence a good that deserves more protection than a mere commodity." On the labor market, a market with a contractual nature, relations between economic agents have evolved from confrontation and conflict to cooperation, social participation and consultation. It is a market on which the institution of collective bargaining emerged as the foundation and framework of the organization, regulation and conduct of all collective bargaining relationships at all levels - corporate, sector, branch inter-professional or national. Given the psychosocial aspects of labor and through feedback relationships with other markets, the labor market is the most sensitive and fragile market. That not only it is a repository of potential conflict, but it captures and amplifies the distortions and failures of other markets, formulating its own requirements. Thus, the labor market is conditioned by the equilibrium of all the other markets and conditions socio-political stability and balance [2].

The labor market is highly regulated in terms of legislation and scores more influences from many factors. Various national and international institutions and legal mechanisms were created over time that accelerate or hinder the labor market. Labor supply and demand are economic concepts. Instead, for sizing the labor market phenomena, we use statistical concepts. Statistical analysis of the labor market starts by delimiting the two components: labor supply and labor demand, namely active population and employed population.

According to the model of supply and demand, labor statistics can be divided into two branches: one that captures and analyzes the characteristics of labor demand (job vacancies, jobs offered by employers) and one that focuses on job offer (persons employed, unemployed or inactive). To characterize the phenomenon of labor market, we use two sets of statistical indicators: absolute and relative. Within these indicators, *the active population* is the indicator that fairly quantifies labor supply at the macroeconomic level.

Active population can be modeled taking into account several grouped factors, as Guy Caire [3] showed:

- Economic and social factors;
- Demographic factors;

- Political factors.

Demographic factors determine the total population participating in economic and social activities, the age of the persons comprising the population and their distribution on different categories of population (active, inactive, busy, etc.) [4]. Economic and social factors, in conjunction with the demographic factors, influence the activity rate, employment rate respectively, explaining in large part, the populations wish to get involved in one activity area or another. In addition to these are political factors, which directly influence migration balance, the degree of coverage of population in education, population education levels, etc.

2. Analysis model for the civil active population of Romania

In ILOs' vision, (BIM) *active population* comprises all persons regardless of sex, providing labor to produce goods and services during a specific period. McConnel and Brue [5] examine factors influencing the working population, considering: the total population, activity rates, natural increase and migration, education level and divorce rate, natural increase, marriage as important factors influencing the working population [6].

The econometric model that we propose integrates these factors, with some modifications, such as:

- Instead of *the total population* (a factor strongly correlated with other factors) *the general civil activity rate* was preferred

- Quantification of the level of education of the population was considered to be achieved by *the number of teachers*.

The data used has its source in the Romanian Statistical Yearbook 2008 and other data from the National Statistics Institute (INS), available through the Tempo Online software [7].

Table 1. Parameter values used in the model, year 2007

CODJ	DEN	PAC	RAGC	PD	SMI	SME	DIV
1	ALBA	184009	70,01	6648	-536	142	530
2	ARAD	216529	67,74	7625	1665	200	936
3	ARGEŞ	272685	59,74	11391	1866	97	1078
4	BACĂU	235655	47,57	12117	-766	333	1399
5	BIHOR	284806	68,84	13183	927	178	512
6	BISTRIŢA-NĂSĂUD	130205	59,20	5959	-433	120	524
7	BOTOŞANI	159891	54,24	7226	-1824	91	755
8	BRAŞOV	249803	57,36	11892	466	557	1630
9	BRĂILA	137515	54,05	5824	-833	93	799
10	BUZĂU	192504	58,88	7461	-352	97	873
11	CARAŞ-SEVERIN	131567	57,01	5407	-535	218	549
12	CĂLĂRAŞI	106465	50,83	4450	-122	33	851
13	CLUJ	340203	68,52	18377	1931	325	1053
14	CONSTANŢA	313658	59,72	12139	1674	217	957
15	COVASNA	94953	60,77	4472	-171	78	354
16	DÂMBOVIŢA	214166	57,99	8113	-436	105	833
17	DOLJ	290647	59,53	13495	235	210	697
18	GALAŢI	219089	50,14	9839	-1217	230	1515
19	GIURGIU	91690	49,52	3225	537	21	188
20	GORJ	147805	55,13	6127	-482	45	379
21	HARGHITA	140263	61,80	7036	-558	103	364
22	HUNEDOARA	209587	62,32	7662	-1748	247	1315

23	IALOMIȚA	108135	55,28	3755	-490	25	486
24	IAȘI	315295	55,24	19520	-121	341	552
25	ILFOV	151528	72,49	3319	5874	18	259
26	MARAMUREȘ	205668	56,36	9405	-1238	195	1016
27	MEHEDINȚI	123159	59,89	4379	-1057	59	544
28	MUREȘ	248791	62,26	11769	-234	277	784
29	NEAMȚ	204200	52,85	8867	-812	422	1066
30	OLT	182373	56,13	7312	-1211	59	631
31	PRAHOVA	315724	55,05	11331	-55	190	1573
32	SATU MARE	154680	58,99	6791	19	188	776
33	SĂLAJ	106839	64,65	4473	-446	39	280
34	SIBIU	185506	61,43	8982	898	413	760
35	SUCEAVA	253057	53,78	12495	-709	235	1247
36	TELEORMAN	171452	63,95	5163	-803	36	647
37	TIMIȘ	340987	70,78	14860	4965	564	1330
38	TULCEA	91561	50,91	4010	-769	54	492
39	VASLUI	161519	53,65	7360	-2387	100	919
40	VĂLCEA	178323	63,28	6773	-408	78	561
41	VRANCEA	150658	56,62	5734	83	172	784
42	MUNICIPIUL BUCUREȘTI	1080588	75,48	48066	-387	1625	3510

Table 1 shows the values of variables considered in the model, at the county level (42 counties), corresponding to the year 2007. The form of the proposed multiple regression model is [8, 9]:

$$PAC = \alpha + \beta_1 * RAGC + \beta_2 * PD + \beta_3 * SMI + \beta_4 * SME + \beta_5 * DIV + \varepsilon \quad (1)$$

where:

- **PAC** - active civil population (in number of persons) is the dependent or explained variable
- and independent variables are:
- **RAGC** - Civil overall activity rate (%)
- **DP** - teaching staff (number of persons);
- **SMI** - internal migration balance (the difference between the number of people who came from another county and the number of people who went to another county);
- **EMS** - external migration balance (the difference between the number of people who came from outside Romania and the number of people who left Romania);
- **DIV** - number of divorces
- **e** - random variable error (residue);
- **α , β_1 , β_2 , β_3 , β_4 , β_5** are regression parameters.

The independent variable *general civil activity rate (RAGC)* also called *the gross activity (RBA)* is the ratio (%) between the *active civil population (CAP)* and *the total population (P)*.

$$RAGC = \frac{PAC}{P} \times 100 \quad (2)$$

- *Teaching staff (PD)* is the second independent variable in the model. Teaching staff are individuals who are engaged in the educational system and are teaching in the educational and training process, full-time or part-time.

- *Internal migration balance (SMI)*, independent variable, which is calculated as the difference between people who have come from another county and the number of people who went to another county;

- *External migration balance (EMS)*, independent variable, which is calculated as the difference between people who come from outside Romania and the number of people who left Romania;
 - *Divorce (DIV)*, independent variable that refers to the number of divorces concluded, distributed by counties according to the last common domicile of the spouses.
 For the considered multiple linear regression model, parameter values listed in Figure 1, were estimated using the method of least squares [10].

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-171371.4	46756.26	-3.665207	0.0008
RAGC	3035.644	781.2027	3.885859	0.0004
PD	16.95030	1.329530	12.74910	0.0000
SMI	0.748486	2.931814	0.255298	0.7999
SME	-45.16098	42.02115	-1.074720	0.2897
DIV	67.54286	14.63983	4.613636	0.0000

R-squared	0.978453	Mean dependent var	216517.6
Adjusted R-squared	0.975460	S.D. dependent var	153958.0
S.E. of regression	24117.84	Akaike info criterion	23.15086
Sum squared resid	2.09E+10	Schwarz criterion	23.39909
Log likelihood	-480.1680	F-statistic	326.9502
Durbin-Watson stat	2.358041	Prob(F-statistic)	0.000000

Fig. 1 Multiple linear regression model parameter estimation by the method of least squares

Multiple linear regression model parameter estimation:

$$PAC = \alpha + \beta_1 * RAGC + \beta_2 * PD + \beta_3 * SMI + \beta_4 * SME + \beta_5 * DIV + \varepsilon \quad (3)$$

obtained by the method of least squares are:

$$PAC = -171371.4004 + 3035.643605 * RAGC + 16.9503033 * PD + 0.7484862292 * SMI - 45.16097981 * SME + 67.54285573 * DIV$$

The estimations for the 2007 year model have the following meanings:

$\beta_1 = 3035.643605$ and shows that dependent variable *active civil population (CAP)* increases by 3036 people when *RAGC* independent variable increases by 1% and the other independent variables remain constant.

$\beta_2 = 16.9503033$ and shows that dependent variable *active civil population (CAP)* increases by 17 people when the independent variable *PD* increases by 1 and other independent variables remain constant.

$\beta_3 = 0.7484862292$ and shows that dependent variable *active civil population (CAP)* increases by 0.75 when the independent variable *SMI* increases by 1 person and the other independent variables remain constant.

$\beta_4 = -45.16097981$ and shows that the dependent variable *active civil population (CAP)* decreased on average by 45 people when the independent variable *EMS* increased by 1 and the other independent variables remain constant.

$\beta_5 = 67.54285573$ and shows that dependent variable *active civil population (CAP)* increases on average 68 people when the independent variable *DIV* increases by 1 and the other independent variables remain constant.

3. Inference in the regression model

Model parameters were estimated based on a sample of observations (2007 data by county). To generalize the results validation of both the model and model parameters is necessary. We use a materiality threshold of 5%.

Inference on model parameters:

Parameter β_1

$$H_0: \beta_1 = 0$$

$$H_1: \beta_1 \neq 0$$

P-value = 0.0004 < 5%. So, hypothesis H_0 is rejected and H_1 is accepted. RAGC significantly affects the PAC.

Parameter β_2

$$H_0: \beta_2 = 0$$

$$H_1: \beta_2 \neq 0$$

P-value = 0.0000 < 5%. So, hypothesis H_0 is rejected and H_1 is accepted. PD significantly affects the PAC.

Parameter β_3

$$H_0: \beta_3 = 0$$

$$H_1: \beta_3 \neq 0$$

P-value = 0.7999 > 5%. So, hypothesis H_0 is accepted and H_1 rejected. SMI doesn't significantly affect the PAC.

Parameter β_4

$$H_0: \beta_4 = 0$$

$$H_1: \beta_4 \neq 0$$

P-value = 0.2897 > 5%. So, hypothesis H_0 is accepted and H_1 rejected. EMS did not significantly affect the PAC.

Parameter β_5

$$H_0: \beta_5 = 0$$

$$H_1: \beta_5 \neq 0$$

P-value = 0.0000 < 5%. So, hypothesis H_0 is rejected and H_1 accepted. DIV significantly affects the PAC.

4. Model validation

The estimated value of the determination ratio $R^2 = 0,978453$ shows that in the chosen model the simultaneous change of values of independent variables explained 97.8% of the variation of the dependent variable PAC.

From the Fisher distribution table the theoretical value $F_{0,05;2,37} = 3,232$ is obtained. The calculated value of Fisher test: $F_{calc} = 326,9502$ (Figure 1), is greater than the theoretical value.

SIG parameter value calculated for the test F is less than 0.05, so the regression model is statistically significant. The following assumptions were tested for the multiple linear regression model: normality (Figure 2), homoscedasticity, no error autocorrelation, lack of collinearity for independent variables.

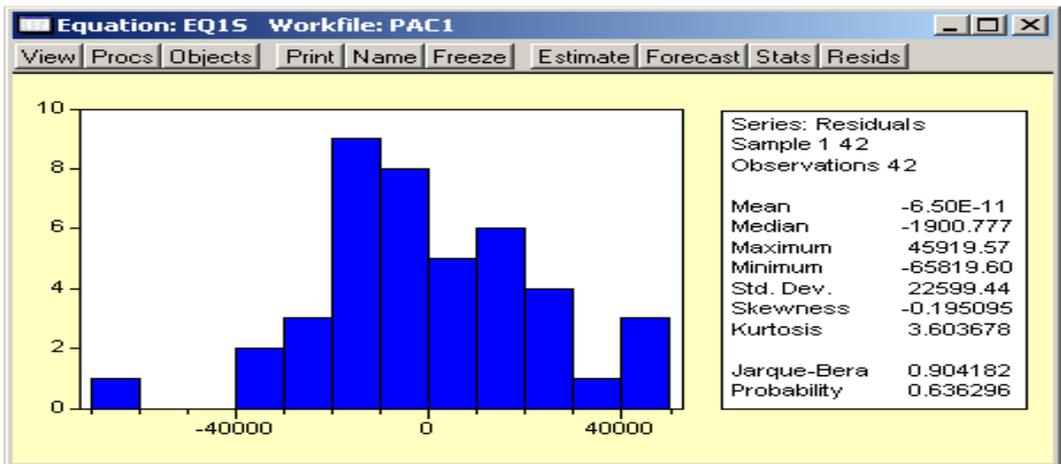


Fig 2 Histogram – Normality Test

For error distribution, the mismatch coefficient (s:skewness) is $-0,195095$, and the flattening coefficient is $3,603678$, so the JB level is $0,904182$ and the probability is $0,6362967\%$.

5. Conclusions

In conclusion, the active population in Romanian counties in 2007 is influenced both by economic variables (activity rates), variables that quantify the level of education (teaching staff) and demographic variables (number of divorces). The model showed that internal and external migration flows do not significantly influence the active civil population.

However, we must note that a counties' active population is related to the total population established in the county and, whatever the degree of influence of these factors, active population has a strict limitation, it can not exceed the total population of the county. Therefore, one can consider, for quantifying employment offer of a county, a high degree of comparability indicator, namely the rate of activity. Its progress does not take into account developments in the county population, but developments of economic and political factors, such as average wages or education level.

The State, in it's triple aspect: the economic agent (a partner of other operators), a component of the operating mechanism of economy and the arbiter of regulation of relations between supply and demand of labor - it actively intervenes on the labor market, supporting, by extra-economic and economic means, as appropriate, offer or demand for labor, trying to ensure social protection of those temporarily removed from the labor market. In this regard, economists, statisticians and experts in the fields will produce a series of such models to analyze the existing correlations in the market, so as to provide viable solutions for adjustment levers, for economic politics, social politics, demographic politics, etc..

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USE OF ECONOMETRIC INSTRUMENTS IN DETERMINING THE FINANCIAL RESOURCES NEEDED FOR PROFESSIONAL SKILLS DEVELOPMENT PROJECTS

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The market shows no signs of sustainable recovery after the crisis that hit the world economy in 2007, and therefore public intervention in the area of professional re-conversion is highly desirable. Public spending on training programs needs to be economically justified and closely monitored. We describe an econometric method to evaluate needed costs for training programs for professional skills development, based on a sample of pair values extracted from training projects implemented between 2008 and 2009. We find that, although the unitary value as resulted after applying the econometric model corresponds to the national available amount, by applying other types of indicators, such hour of training, can determine more efficient (less resources needed), cost-effective and effective (increased number of trained individuals for less costs) values in what regards the process of delivering training programs.

Keywords: public funding, European funds, professional skills development, training programs

Cod JEL lucrare: C53

1. Introduction

The Lisbon Strategy is put into practice in Romania through the Sectoral Operational Program for Human Resources Development which has as main objective the development of human capital and increasing competitiveness, by linking education and lifelong learning with the labor market and ensuring increased opportunities for future participation on a modern, flexible and inclusive labor market for 1,650,000 people [1]. This objective is planned to be achieved through activities that can be financed after public auctioning under the SOPHRD priority axes (PA) and key areas of intervention (KAI) [2]. The professional skills development of employees is achieved under Priority Axis (PA) no 3 “Increasing adaptability of workers and enterprises”, Key Area of Intervention (KAI) 2 “Training and support for enterprises and employees in order to promote adaptability”. This KAI has a series of national indicators, as negotiated by the Romanian Government and the European Commission, which set, on a yearly basis, the targets to be achieved and the financial allocation corresponding to the agreed indicators.

Table 1. Result indicators for KAI 3.2 under SOPHRD

Output indicators	Cumulative proposed targets								
	2007	2008	2009	2010	2011	2012	2013	2014	2015 total
Number of persons trained in the filed of work management and organization	-	1600	3300	5400	7800	10600	13500	15000	15000
Number of persons with updated and improved professional competencies	-	30500	62000	102000	148000	198700	252700	280000	280000

Total		32100	65300	107400	155800	209300	266200	295000	295000

Source: *Government of Romania. Framework Document for the Implementation of SOP HRD*

The indicators in the *Table 1.Result indicators for KAI 3.2 under SOPHRD*, as presented above, refer to employees that have been trained to update, develop and improve their professional competencies. This KAI finances intensive training courses, up to 120 hours/person. Trainings for qualification or re-qualification, which have between 360 and 1080 hours/person, are financed under KAI 2.3 of the SOPHRD [3]. Within the public policy for human resources development, through the implementation of the SOPHRD, by the end of 2015, at least 295,000 employees of active companies in Romania would have been involved in some type of intensive training. For this objective, the Romanian Government, as agreed with the European Commission, has allocated a total sum of 308,550,609 EURO, of which 229,083,655 EURO from the EU, and 40,431,555 EURO from the national budget, as illustrated in *Table 2*.

Table 2. Financial allocation for KAI 3.2 under SOPHRD

Year	Total	EU contribution (ESF)	Contribuția națională publică			Total	Private contribution
			State budget	Local budgets	Other public sources		
2007	18.904.046	14.035.325	2.477.130	0	0	2.477.130	2.391.591
2008	29.304.145	21.756.887	3.839.928	0	0	3.839.928	3.707.330
2009	40.172.466	29.826.080	5.264.081	0	0	5.264.081	5.082.305
2010	47.792.232	35.483.382	6.262.552	0	0	6.262.552	6.046.298
2011	52.866.263	39.250.601	6.927.438	0	0	6.927.438	6.688.224
2012	59.164.088	43.926.426	7.752.686	0	0	7.752.686	7.484.976
2013	60.347.369	44.804.954	7.907.740	0	0	7.907.740	7.634.675
Total	308.550.609	229.083.655	40.431.555	0	0	40.431.555	39.035.399

Source: *Government of Romania. Framework Document for the Implementation of SOP HRD*

The decision makers have based financial allocation nor on quantitative and/or qualitative analyses, but rather on quantitative estimation of trained employees which need professional updating and development. Using the total financial allocation (308,550,609 EURO) for this KAI and the proposed indicator (295,000 persons) in a simple calculus, one can extract the median cost value for each trained person: 1,045.93 EUR. The financial mechanism put in place to sustain professional skills development programs is provisioned under EC Regulations no 1083/2006, 1605/2002 and 2342/2002. In brief, this mechanism is based on private and public providers of professional skills development training programs which can apply for financing under this particular KAI of the SOPHRD. Under state aid schemes, enterprises can apply directly for financing and organize their own training programs.

As estimated by the authors of the Regional Plans for Labor Force Employment, during the current programming period (2007-2013), approximately 30,000 individuals in the North West Region need to have their professional skills updated and/or developed and/or improved.

2. Determining the necessary financing in the North West Region by employing a linear econometric model

Professional skills development is achieved generally at the initiative of the enterprise with the purpose to increase productivity and therefore the profit. Nevertheless, a worker's skills determine that employees's wage and sector of activity and, furthermore, high-wage sectors employ high-skill workers and offer high returns to workers' skills [4].

The level of commitment towards the constant updating of professional skills of employees depends largely on the type of organizational culture, the size, business strategy, type of management and economic environment. Nevertheless, the relation between the professional abilities of staff and productivity (hence, profit) is very direct and widely accepted. Development of general and/or specific professional skills [5], as they are defined in the Commission Regulation (EC) no. 800/2008 (General block exemption Regulation), cover the entire training area. By reporting to these definitions, external financial support for enterprises becomes a matter of public subventions, which, to be possible, needs to comply with the provisions set out in the above mentioned regulation. The Regulation lays down the limits of aid intensity [6], which, depending on the size and type of enterprise, varies between 25% and 70%.

2.1. Model identification and establishment of variables

As a general rule, training providers base their cost estimation whether on the number of hours of the activity or on the number of individuals to be trained. In each of the situations, their offers are in a linear dependency with the base used in the calculus. When determining the program indicators, decision makers have not taken into account the fact that not all types of training programs need the same, or approximately the same, resource engagements. As indicated in *Table 1*, the result indicator for KAI 3.2 under SOPHRD is the number of trained individuals and not the number of hours. Current Romanian legislation regarding professional skills development indicates that qualification training courses are defined on three levels, level 1 – 360 hours, level 2 – 720 hours, and level 3 – 1080 hours, while intensive training for acquiring new competencies may be varying between 20 – 120 hours [7].

Since an official report on the training needs at national, regional or local levels in relation with the types of employers and number of hours has not been conducted, determining the funding requirements for training cannot be carried out unless a low level of significance is accepted. With the current setup, the public policy regarding training of adults may lead to situations varying among: i) unjustified savings – achievement of proposed indicators by delivering common competencies for a sufficient number of individuals through short-term training, but with the disadvantage of leaving uncovered other types of training needs; ii) inefficient use of resources – training projects with over-estimated budgets which provide short term training programs at the costs of long-term training programs; and iii) lack of resources to cover training needs – fail to achieve indicators due to the lack of resources, regional allocation of funds not being carried out based on estimating the necessary hours of training. The list of encouraged competencies/qualifications has not been made available either, which leads to further confusions in what regards prioritization of public funded interventions.

The only indicator which allows a sufficient allocation of resources at regional level and facilitates proper auditing of the performance of the funds is the **hour of training for encouraged competencies**. An important factor in judiciously using the available funds is represented by the pace of allocating financial resources in relation with the prioritized indicators. Thus, one should first establish the profile of the local economy and, consequently, the related necessary competencies as expected by the enterprises. This would further yield in a territorial prioritization of necessary competencies, based on activities and enterprises.

The needed number of training hours can be determined by the use of an econometric model (with multiple variables) within each of the activity and/or enterprise. In this way one can accurately estimate the necessary hours of training in the tourism sector, for SMEs for professions such as cook, waitress, maid etc. The model may support a single variable in the absence of forecasted additional investments – the increase in number of cooks is not related to the increase in number of waitresses, as the intervention is programmed to solve the deficit of competencies of that particular enterprise (with the accepted hypothesis that its condition does not change as result of new capital injection). One can thus generate different settings with different economic consequences which could be taken into consideration when projecting the

impact of the political impact in the territory. The method of global utility can be employed to fundament the decision to finance training programs through public funding for certain types of enterprises, belonging to an economic sector, over other enterprises, belonging to the same or to another economic sector.

Table 3. Phare pairs, 2005-2006

No.	Budget	Indicator
1	60,445	60
2	83,140	40
3	90,763	110
4	29,796	44
5	78,460	66
6	43,760	62
7	48,950	62
8	72,435	51
9	60,200	44
10	67,400	87
11	58,910	42
12	48,425	56
13	78,255	104
14	20,852	100
15	86,255	143
16	63,855	133
17	58,761	148
18	85,710	144
19	77,025	35
20	82,887	300
21	44,590	51
22	105,130	76
23	33,900	25
24	110,494	60
25	53,870	46
26	101,085	480
27	79,180	20
28	77,440	56
29	56,256	39
30	69,420	225
31	71,865	56

Determining the econometric model and optimizing the decision are reflected in the **effectiveness** of public policies; making available affordable resources for training programs results in **cost-effectiveness**, and **efficient** allocation of resources to obtain desired results completes the framework in which the performance of using public funding for professional skills development programs is analyzed. Such approaches, at this time, are very seldom and most of them respond to two of the above-mentioned criteria.

Organizing public calls, where the main criteria of selection is the lowest offered price, is already a reality through the implementation of Section Grants in the Council Regulation (CE) no 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities. One can respond to the cost-effectiveness criteria of public funding use by the proper employment of such calls for projects.

In order to achieve the efficiency criteria we proposed to determine the necessary financing for future training in the Region North-West of Romania, by employing a linear econometric model and by using data collected in the previous programming period (pre-accession period).

The professional skills development programs during the years 2006 and 2009 and in the case of employees, have been carried out through financial allocations made available within the Phare Economic and Social Cohesion – Human Resources Development funding lines. In the North-West Region a number of 31 projects have been approved and implemented with the following pairs of values (as reflected in *Table 3. Phare pairs, 2005-2006*): budget value (endogenous value) and number of trained individuals (exogenous variable).

2.2 Estimation of the econometric model

We estimate the existence of a linear dependency between the project budget and the number of trained individuals, as illustrated by the following formula:

$y_i = a + bx_i + \varepsilon_i, i = \overline{1, n}$, where Y is the endogenous value (project budget), X is the exogenous variable (number of trained individuals) and ε is the random residual variable, which includes the effects on Y of other factors than X, but less significant than X. Taking into consideration the pairs in *Table 3. Phare pairs, 2005-2006* we can estimate the model coefficients. Thus $\hat{y} = 67726,26$, and $\hat{x} = 95,65$ and $\hat{a} = 59711.87$, respectively $\hat{b} = 83.79$. The linear model of budget dependency on indicators for a project becomes: $\mathbf{Ymed(X)} = 59711.87 + 83.79 \mathbf{X}$.

One can observe that in the considered model the project budget is made of a fix part and of a variable one, the later directly proportional with the number of trained individuals. One way to make the training costs more efficient is to impose lower limits for the number of trained individuals per project, determining thus, eventually, a decrease in the number of financed projects, which, at its turn, leads to reducing the costs which are not directly related to training costs.

Besides the punctual estimation as shown by the values obtained on the pairs of data, \hat{a} and \hat{b} , for the unknown parameters a and b , one can construct confidence intervals such as $P\left(\hat{b} - t_{\alpha/2, n-2} \sqrt{\hat{V}(\hat{b})} \leq b \leq \hat{b} + t_{\alpha/2, n-2} \sqrt{\hat{V}(\hat{b})}\right) = 1 - \alpha$, where $\alpha \leq 5\%$, is the significance threshold, $t_{\alpha/2, n-2}$, is a table value from the Table of the Student's T Distribution with $n-2$ degrees of freedom, corresponding to the probability, $\alpha/2$, and $\hat{V}(\hat{b})$ is

$$\hat{V}(\hat{b}) = \frac{\hat{s}^2}{\sum_{i=1}^n (x_i - \bar{x})^2}, \quad \hat{s}^2 \text{ being the punctual estimator of the unknown variance of the residual}$$

$$\text{variable, } \sigma^2, \text{ given by the formula, } \hat{s}^2 = \frac{\sum_{i=1}^n \hat{\epsilon}_i^2}{n-2} = \frac{\sum_{i=1}^n (y_i - \hat{a} - \hat{b}x_i)^2}{n-2} = 13316560.8.$$

Based on the values in the sample, after calculating the residuals and the values for \hat{s}^2 , we obtain for the variance of \hat{b} the estimated value **1578.919**, and for the variance of \hat{a} the estimated value **0,029898**. For $\alpha/2 = 0,025$ and 29 degrees of freedom we find, in the Table of the Student's T Distribution, the constant 2,045. Thus we can determine the numerical limits of the confidence interval both for a and for b . From here it results that $P(2,53 < b < 165.05) = 95\%$ and $P(59711,52 < a < 59712,22) = 95\%$

2.3 Model validation

The model is validated both through the test T of significance for coefficient b and through the test F for the linear correlation coefficient. Based on the result obtained on the sample, we can calculate the particular value $T_{calc} = 2,108761$. As T_{calc} does not belong to the interval $[-2,045, 2,045]$, we dismiss the null hypothesis and accept the alternative hypothesis. Consequently, $b \neq 0$, which means that X stays in the model as factor of major linear influence, for Y , the significance threshold being 5%. Based on the data obtained on the sample, we can calculate a particular value (2), $F_{calc} = 4,4468$. As 4,4468 does not belong to the interval $[0, 4,18]$, we dismiss the null hypothesis and accept the alternative hypothesis. Consequently, $R_{01} \neq 0$, which means that Y is explained in an acceptable manner by a linear model based on X , the significance threshold being 5%.

2.4 Estimates based on the model

In the hypothesis that all 30,000 individuals would be trained under one project, by a single training provider, the allocated budget could be determined by using the described linear model, as it follows: average budget for 30,000 individuals to be trained = $59711.87 + 83.79 \times 30000 = \mathbf{2.573.411,87 \text{ EUR}}$. But the model has been constructed for an average indicator of approximately 100 individuals trained per project, which means that between 2009 and 2015, providers of professional skills development programs will have trained 30,000 individuals in approximately 300 projects. This way we will have: average budget for 30,000 individuals to be trained = $300(59711.87 + 83.79 \times 100) = \mathbf{20.427.261 \text{ EUR}}$.

$$\text{Confidence interval for the forecast: } \hat{v} = \hat{s}^2 \left[1 + \frac{1}{n} + \frac{(x_{n+h} - \hat{x})^2}{\sum_{i=1}^n (x_i - \hat{x})^2} \right]$$

In the hypothesis of 100 individuals to be trained, the result is: 426159890.1 and the confidence interval for the forecast will become:

$$P\left(\hat{y}_{n+h} - t_{\alpha/2, n-2} \sqrt{\hat{V}} \leq y_{n+h} \leq \hat{y}_{n+h} + t_{\alpha/2, n-2} \sqrt{\hat{V}}\right) = 1 - \alpha$$

$P(68090.87 - 42216.24 < Y < 68090.87 + 42216.24) = 95\%$; $P(25874.63 < Y < 110307.11) = 95\%$. We observe that in order to train 30,000 individuals, within 300 projects, with a probability of 95%, the necessary financial resource will amount to 33,092,133 EUR. Based on the tested econometric model, the necessary financing for the North-West Region for training 30,000 individuals is **33,092,133 EUR**.

3. Conclusions

The sample taken into consideration for testing the econometric model is based on recent data, extracted from projects that have been implemented between 2008 and 2009, and therefore we can confidently consider that it offers an accurate image of project based training programs financed through public funding. The unitary value as resulted after applying the econometric model corresponds to the national available amount, 1103 EUR/trained individual vs. 1045.93 EUR/trained individual. Nevertheless, the ambiguity of the result indicators as they are set by the public policy implementer, generates difficulties in assuring an efficient public policy implementation framework, and, as a consequence, affecting the general performance of public funding usage. The model described here in is based on a number of trained individuals, within certain contractual provisions where the volume (result indicators) is assumed by the contract beneficiary. Applying other types of indicators, such hour of training, can normalize the information and determine more efficient (less resources needed), cost-effective and effective (increased number of trained individuals for less costs) values in what regards the process of delivering training programs. This will eventually lead to an increased impact of the public policy. Since the market shows no signs of sustainable recovery after the crisis that hit the world economy in 2007[8], public intervention in the area of professional re-conversion is highly desirable, and therefore public spending on training programs needs to be economically justified.

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GRANGER CAUSALITY AND COINTEGRATION IN ROMANIA'S INFLATIONARY DYNAMICS – AN EMPIRICAL STUDY

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One of the most difficult issues that monetary authorities in many developing economies have to deal with is the management of a stable price environment. Inflation can create uncertainty, a low level of investment, and raise costs in general, thus lowering rates of growth. As a result, there exists a widespread need for understanding inflationary dynamics in any country of interest, especially in developing countries, subject to more significant and volatile price changes. This paper develops a VEC model for the Romanian economy, using CPI index and other macroeconomic data, in order to capture the transmission mechanism of inflation.

Keywords: inflation forecasting, monetary policy, developing countries, Romania, VAR model

JEL codes: E52, C32

Introduction

The primary focus of monetary policy has traditionally been the maintenance of a low and stable rate of aggregate price inflation as defined by commonly accepted measures such as the consumer price index. The underlying justification for this objective is the widespread consensus supported by numerous economic studies, that inflation is costly as it undermines real, wealth enhancing economic activity. This consensus is probably stronger today than it ever has been in the past.

The interest in empirical studies of monetary policy has increased in the last decade, possibly for the following two reasons. First, financial markets have been deregulated and monetary of the monetary policy process in a country with an inflation target may look something like the following. Official central bank inflation forecasts are presented to the public rather infrequently (e.g. in quarterly “inflation reports” as in Romania, Sweden or the U.K.). On these occasions attempts are made to measure and justify the overall stance of monetary policy, considering not only the development of inflation, but also other variables such as interest rates, the nominal exchange rate, indexes of “monetary conditions” (weighted averages of exchange and interest rates), and the “output gap” (the difference between actual and so-called potential GDP).

Forecasts of inflation will represent a key ingredient in designing policies which are geared toward the achievement of price stability. Moreover, such forecasts should be optimal in the sense that they make use of all relevant indicators and weight them correctly according to their reliability as predictors of future price developments.

Literature review

Previously, forecasting and policy analyses have been conducted using structural macroeconomic models developed along the lines of the Cowles Commission approach. These structural models, using hypothesized theoretical relations, show the main linkages in the economy. In the '40s and '50s, this was the traditional approach to econometric modeling of the monetary transmission mechanism, based on the quantitative evaluation of the impact of monetary policy on macroeconomic variables. The Cowles Commission methodology was based on the following three stages: specification and identification of the theoretical model, estimation of relevant parameters and simulation of the effects of monetary policy.

These models thus rely on economic theory, to determine the number of variables and their influence on the inflation. Under the Cowles Commission approach, if a particular structural form or parameterization that is derived from economic theory fails to be identified by the data; the parameter space is then transformed such that each point uniquely represents distinct behavioral patterns.

Two famous critiques were given by Lucas⁷⁵¹ in 1976 and Sims in 1980. Lucas notes that Cowles Commission models do not take into account expectations explicitly and expectational parameters are not stable across different policy regimes, so traditional macro-models are useless for the purpose of policy simulation. Additionally, his critique is related to the fact that this type of model „did not represent the data...did not represent theory ... were ineffective for practical purposes of forecasting and policy evaluation”⁷⁵².

Sims⁷⁵³ critique is parallel to that of Lucas', but concentrate on the status of exogeneity arbitrarily attributed to some variables to achieve identification within structural Cowles Commission models. He argues however that “having achieved identification in this way, the equations of the model are not products of distinct exercises in economic theory.”⁷⁵⁴ The fact is that in structural models, to achieve identification, restrictions are often imposed which have no theoretical justification. Further, and more importantly, Sims asserts that such restrictions are not necessary for the intended use of macromodels (i.e. forecasting and policy analysis). He argues that economic interpretation and investigation may not be possible without incorporating nonstatistical a priori information.

Since the seminal work of Sims, structural-VAR and cointegrated VAR's have been applied to economic data to forecast macro time series, study the sources of economic fluctuations, test economic theories. Additionally, the failure of the Cowles Commission approach lead to a series of methods of empirical research such as VAR approach or RBC approach.

The statistical and econometrical modeling has proven itself one of the main ways through which the inflationist phenomenon is analyzed with the purpose of bringing forth the main factors which determine the level and dynamics of inflation, the economic literature dedicated to this inflationist phenomenon in Romania being extremely rich. Some studies deepen the phenomenon analysis from the perspective of the monetary theories, others take into consideration a multitude of factors, forecasting the dynamics of the prices within some models of general equilibrium; a small number study inflation through the institutional factor and/or in correlation with the dynamics of the work market.⁷⁵⁵ In some models the shocks on the side of the offer are taken into consideration, some authors have included the world price of petrol as explanatory variable of inflation.⁷⁵⁶

⁷⁵¹ Lucas, R., *Econometric Policy Evaluation: A Critique*, Carnegie-Rochester Conference Series on Public Policy, 1, 1976, p.36.

⁷⁵² Pesaran, M. H., Smith, R., *Estimating long-run relationships from dynamic heterogeneous panels*, Journal of Econometrics, Elsevier, 1995, vol. 68(1), p. 95.

⁷⁵³ Sims, C., A., *Macroeconomics and Reality*, Econometrica, issue 1, vol. 48,1980, p. 2.

⁷⁵⁴ Idem, p. 2.

⁷⁵⁵ Ciutacu, C., Ciumara, M., *Inflația în România. Modelarea fenomenului inflaționist*, Editura Expert, București, 2004, p. 23.

⁷⁵⁶ Pelinescu, Elena, Dospinescu, A., *Modelarea ratei inflației*, Revista Oeconomica, 2006, nr. 1, p. 126-127.

In the models built on the basis of monetary theory of inflation, the authors include as variable the monetary supply (considered in the large sense through the M2 component), the output (represented either by the gross domestic product, or the industrial production) and the opportunity cost, usually through the introduction of the monetary exchange, all these start from the affirmation made by M. Friedman which argues that the inflation is exclusively tied to the currency demand, namely “the excessive growth of the monetary mass is the main and the only cause of inflation.”⁷⁵⁷

One of the most well-known models referring to the inflation in Romania is the Dobrescu model, that was developed throughout 1996-2000 and which includes between the main relations, also the ones referring to the forecasting of certain prices (expressed through the deflator of the gross domestic product, the consumer prices index and the gross capital formation prices index). For this model, the inflation calculation is done through the consumer product prices index. This was determined based on different econometrical relations in the 3 versions of the model. In the first version, this was determined by having as explanatory variable the deflator of the gross domestic product; in the model versions from 1997 and 1998, the previous level of the dependent variable was added as explanatory variable, and in the last versions the deflator of the gross domestic product and the monetary offer was used as explanatory variable.⁷⁵⁸ *The inflation calculation through the consumer product prices index finds its theoretical support in the monetary theory of Friedman and others, if the explanatory variable included in the model is the monetary one.*

In what follows some models of inflation will be presented with scientific support in the monetary theory from different perspectives. Nina Budina and her collaborators build a model of inflation forecasting for Romania, starting from the function of real demand of currency from the Cagan formulation.⁷⁵⁹ They reached the conclusion that in the analyzed period (1992-2000) as well as in the periods of price liberalization, the inflation was a monetary phenomenon. The monthly modifications of the inflation rate are explained in the study through the correction of errors mechanism in which the imbalance between the currency demand and supply plays an essential part, the changes of the exchange rate and of the controlled prices through administrative regulation being considered as having transitory effects on the evolution of the monthly rate of inflation.⁷⁶⁰

Cezar Boțel in his article “Cauzele inflației în România” analyzed the inflation in Romania by utilizing the technique of the structural autoregressive vector (SARV) and the cointegration technique. The results of his analysis have been obtained as the form of the response function to shock, of the decomposition of the variable and the tests for the detection of the Granger causality. The most important conclusion made based on this study is that the higher inflation in Romania is the result of the late reformation of the banking and real sectors, compared with other countries which are in transition.⁷⁶¹

Florin Ovidiu Bîlbîie used the Granger causality tests, the variation decomposition and the econometrical models based on the techniques of the non-structural and unrestricted autoregressive vectors in order to point out the relevant indicators that influence the inflation. The obtained results show that the most significant indicators that influence the inflation are the exchange rate and the real nongovernmental credit, followed by the monetary aggregates and the interest rate practiced by the commercial banks.⁷⁶²

⁷⁵⁷Friedman, M., Friedman, Rose, *Liber să alegi*, Editura All, București, 1998, p.219.

⁷⁵⁸Dobrescu, E., *Tranzacția în România. Abordări econometrice*, Editura Economică, București, 2002, p.81.

⁷⁵⁹Budina, Nina, Maliszewski, W., De Menil, G., Țurlea, Geomina, *Money, Inflation and Output in Romania, 1992-2000*, Working Paper, 2002-15, DELTA, octombrie 2002, p. 10.

⁷⁶⁰Idem, p. 20.

⁷⁶¹Boțel, C., *Cauzele inflației în România, iunie 1997-august 2001. Analiză bazată pe vectorul autoregresiv structural*, Caiete de studii, nr. 11, iunie 2002, p. 45.

⁷⁶²Ciutacu, C., Ciumara, M., Op. Cit., p. 28.

David Moore, IMF expert, studied the empirical relationship between the inflation rate, the unitary cost of the work force and the exchange rate utilizing a model of autoregressive vector (ARV). The conclusion that the author had reached is that in Romania, the inflation was determined mainly by the wage increase in the context of a low productivity, the channel of transmission used was the financial lack of discipline and the low budgetary constraint.⁷⁶³

Starting from another ARV model, Elena Pelinescu, in her article “Modelarea inflației în România”, reaches the conclusion that the factors whose modification influences inflation the most are the exchange rate and monetary supply.⁷⁶⁴ Using the models based on the method of the smallest squares or the cointegration techniques of the un-restricted autoregressive vector (UARV), Mugur Isărescu, Cornel Târhoacă and Lucian Croitoru, argued in their study the influence of certain factors on inflation, such as monetary supply, the dynamic of industrial production, the unemployment rate, the exchange rate, the real interest, lastly, underlining a strong negative correlation between inflation and unemployment.

In the study “Țintirea directă a inflației: o nouă strategie politică monetară. Cazul României” a wide range of different econometrical models are presented that have as purpose the realization of a forecast by the specialists of the National Bank of Romania in the context of a regime of aiming at the inflation. The authors consider that the forecast of inflation in Romania through econometrical models “is premature, given the frailty of the connections between the variables with characteristics of *leading indicators* and the inflation (measured through IPC, CORE1, CORE2). Together with the stabilization of the inflation on the palier of a single number and the consolidation of the macroeconomical equilibriums, the amelioration of these relations is predictable and, it follows, the possibility of utilizing the macroeconomic instrument for the realization of viable forecasts on medium turn.”⁷⁶⁵

Methodology and data

Our model is based on monthly data for inflation rate (measured by CPI), unemployment rate (UR), broad money (BM2), real interest rate on deposits (IR), nominal exchange rate (EUR/RON– EREUR) for Romania between January 1997 and February 2010⁷⁶⁶. Unemployment rate represents the structural influences on inflation, broad money as well as real interest rate on deposits captures the monetary stance, nominal exchange rate is used in order to represent imported inflation. Data were computed in Eviews.

The data were tested for stationarity, using the ADF and the Phillips and Peron method. All series have one unit root I(1). The above mentioned tests confirmed that the first difference series were stationary. The Johansen cointegration without deterministic trend test was then conducted. The Unrestricted Cointegration Rank Test (Trace) indicated three cointegrating equations at 0,05 level.

Given the results, a VECM Vector Correction Model with 3 cointegrating equations was estimated. Restrictions were placed on the coefficients of each cointegrating relation as well as on the adjustment coefficients, using the normalized cointegrating coefficients and adjustment coefficients. The VEC Granger causality /block exogeneity Wald test showed that the variables with significant impact on the evolution of CPI were EUR exchange rate, the interest rate and broad money M2. We conducted once again the Johansen cointegration without deterministic trend test. The Unrestricted Cointegration Rank Test (Trace) as well as the Unrestricted

⁷⁶³ Bell, G., Cosse, S., Wang, T., Moore, D., Brown, W., *Romania: Selected Issues and Statistical Appendix*, International Monetary Fund – Country Report, ianuarie 2001, p. 11.

⁷⁶⁴ Pelinescu, E., Dospinescu, A., *Modelarea ratei inflației*, Revista Oeconomica, 2006, nr. 1, p 140.

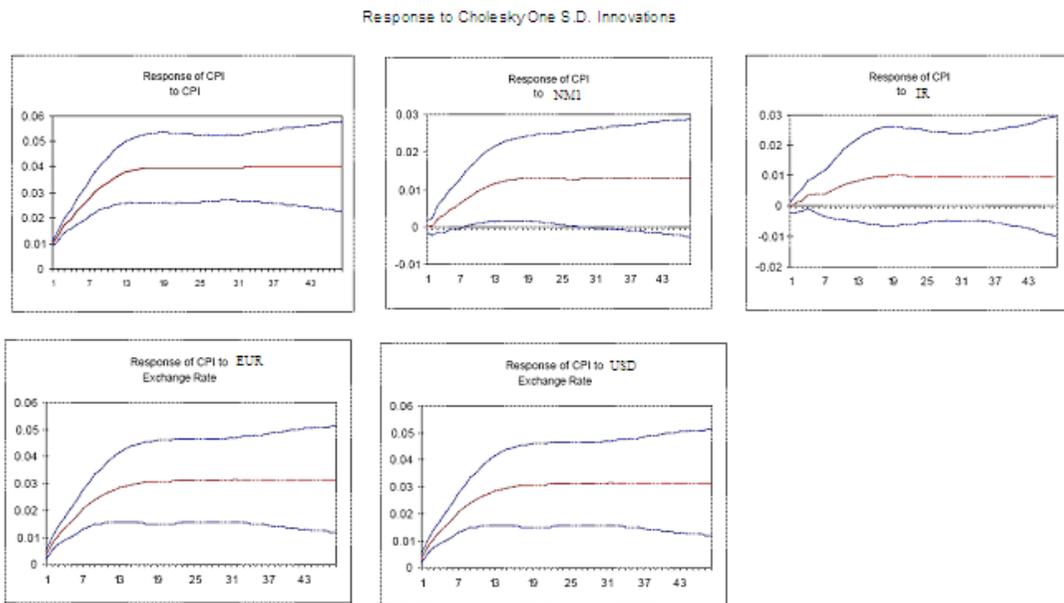
⁷⁶⁵ Popa, Cristina (coord), *Țintirea directă a inflației: o nouă strategie politică monetară. Cazul României*, Caiete de studii, nr. 10, aprilie 2002, p. 34.

⁷⁶⁶ BNR Monthly Bulletins, available at <http://www.bnr.ro/PublicationDocuments.aspx?icid=1182> accessed at 30.03.2009 and INSSE Tempo Online series available at <https://statistici.insse.ro/shop/> accessed at 30.03.2009.

Cointegration Rank Test (Maximum eigenvalue) indicated two cointegrating equations at 0,05 level.

The VECM Vector Correction Model with two cointegrating equations, 6 lags and deterministic trend in CE, no trend in VEC proved to be the one that captures the best the behaviour of selected variables. The diagnostic tests for the VECM equation confirmed its coefficient stability, the Jarque-Bera test did not reject the null hypothesis of a normal distribution of the residuals (at 5 percent significance level) and the Portmanteau test as well as the correlogram of squared residuals did not show any autocorrelation or ARCH in the residuals.

Graph 1. Impulse response functions between CPI inflation rate and selected variables

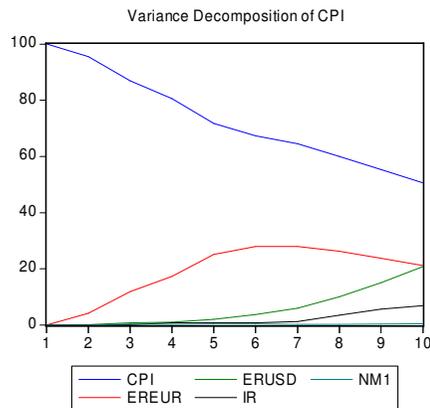


Source: authors' calculations

The dynamic property of the model is tested using variance decomposition and impulse response functions. Graph 1 shows the response of the inflation rate measured by CPI to a one unit shock to the exchange rate, narrow money, interest rate, net average wage. The x axis gives the time horizon or the duration of the shock whilst the y-axis gives the direction and intensity of the impulse or the percent variation in the dependent variable away from its base line level. This model confirms the existence of statistically significant links between the inflation rate and the selected macroeconomic variables. The reaction of CPI index is consistent with the macroeconomic data. The impulse responses meet a priori expectations in terms of the direction of impact. The graphs show that a positive shock to monetary variables or expansionary monetary policy, has a significant expansionary effect on inflation. The effect of a unit shock to base money on the cpi, occurs after approximately the first one to two months and reaching its peak between ten to twelve months.

Thereafter the cumulative effects of base money stabilize with the monthly CPI increasing by approximately one percent of its baseline level. The impact of the exchange rate is rather immediate and long lasting. A unit shock to the exchange rate causes the cpi in the first period to deviate by approximately 0.5 percent from its base level. The inflation rate accelerates rather rapidly in the first ten to twelve months as the CPI tends to a new equilibrium level. Increases in the interest rates tend to have a contractionary effect on prices. The more significant impact however manifests itself after five months with the response function trending away from zero.

Graph 2. Variance decomposition – percent of CPI variance due to



Source: author's calculations

The variance decomposition is presented in Graph 2. The statistics indicate the percentage contribution of innovations in each of the variables in the system to the variance of the CPI. The results show that shocks to the CPI itself and the exchange rate accounts for most of the variability in the CPI over all horizons. Not much can be attributed to base money, although over longer horizons its relative contribution increases.

Conclusion

In the process of conducting monetary policy analysis, central bank economists are faced with a number of empirical questions. Does the nominal exchange rate help to predict inflation? Does the nominal exchange rate adjust in response to the difference between domestic and foreign inflation, to restore some equilibrium level of the real exchange rate? How useful are various measures of the output gap and of monetary conditions? How fast do changes in monetary policy affect output and inflation? These questions concern complex relations between variables which are all endogenously and simultaneously determined in the economic system. We do certainly not expect that there is any single model that can provide the best possible answers to all relevant questions in the analysis of monetary policy, or that it yields exactly the same answers when estimated for different time periods.

While many previously used inflation forecasting models depend on exogenous variables, the VAR approach endogenously determines all the variables which make up the system. Our VECM model has proven that that the basic transmission mechanism runs from base money (via interest rates which affect the relative return on financial assets) to the exchange rate and then to prices.

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BUSINESS SURVEYS – EVALUATION INSTRUMENT OF THE EUROPEAN ECONOMIC CLIMATE

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Business surveys or conjuncture surveys are specific statistical researches, but complementary to traditional, official statistics. While official statistics provide quantitative information regarding the level, structure and evolution of varied economic processes and phenomena, business surveys offer quality information, essential to the short term evolutionary analysis of economic indicators: the diagnosis of the current situation, the timely detection of inflexion points within the economic cycle and the rapid estimation of short term tendencies of the main macroeconomic indicators (the dynamics of the gross domestic product, the index of industrial production, etc.).

Keywords: business surveys, conjunctural balance ,confidence indicator, economic sentiment indicator

JEL classification: E32, O11

1. What are business surveys?

Comparatively to official statistics – of which's utility is undeniable, but are usually available after a certain period of time (weeks, months) – business surveys present two essential qualities:

- periodicity , usually monthly;
- operativity, the results dissemination time often being very fast, usually, a few days after the reference period.

Business surveys are quality surveys, that are addressed to managers of the companies included in the sample. They must answer a series of questions regarding the current and future situation of the unit they lead and about the economic climate in which they conduct their activity.

The primary characteristic of business surveys is that instead of exact numbers, the answer to the question is an “appreciation”, an “estimation”, an “opinion” about different aspects of the company's activity (production, contracts, production capacity, employees, prices, stocks, etc.), in the form of ordinal scales, in most cases, with three options:

- for questions regarding an indicator's level the answers can be: “above normal / normal / below normal”;
- for questions regarding the evolution in time of a phenomenon, the answers can be: “has risen / is stable / has dropped” or “will rise / will remain stable / will drop”;

Through a calculation and aggregation procedure (presented in paragraph three of the paper), the quality information provided by companies' managers is transformed in statistical indicators with a special power to reflect present reality and anticipate future short term evolutions.

So, the business surveys provide reliable and fast information, published regularly, in the form of new indicators used for describing the economic situation in the European Union and the Member States. Presently, these indicators present a growing interest, especially after the finalization of the European Union's growth process and in the condition of the present financial crisis. The Central European Bank, the Governments of the Member States, the central banks and financial institutions, the business environment and the research institutes currently use the results of business surveys for detecting and analyzing the economic conjunctural diagnostic and the estimation of the main macroeconomic indicators at a national and community level.

In this context, the existence of a conjuncture survey system at a European level has been imposed, that allows the comparison of national economies, different as development level and etherogenic from economic structures' point of view.

2. How are the business surveys in the European Union harmonized?

The business surveys are planned and take place in an organized environment (The Joint Harmonized EU Programme of Business and Consumer Surveys), so such that their results can be used for monitoring economic development, both at the Member States' level and the entire European Union and the Euro Area's level.

The mentioned programme, coordinated by DG ECFIN (Directorate General for Economic and Financial Affairs), although was launched by the decision of the European Committee all the way since 1961, has recorded a continuous rise in development, revisal and harmonization, in at least two directions:

- sectorial coverage, as activity domains in which the surveys took place and, implicitly, the

results have been published (industry – 1961, construction and investment in industry – 1966, consumption in farms – 1972, retail trade – 1984, services – 1996 and more recently

in the financial sector);

- the geographic coverage that numbers three countries that have participated in the programme; beginning in January 2007, the programme contains the 27 States.

Members of the European Union and a candidate country (Croatia); another candidate country (Turkey) have integrated themselves into the programme in May 2007.

The harmonization's objective is the production and publication of comparable data for all the Member States in such a way that it permits conducting comparisons between the business cycles of different countries as well as the aggregated calculus of composition indicators, for the European Union and at the Euro Area's level.

The harmonization is based on two principles:

- the use of harmonized questionnaires that contain the same standardized questions, in number and form, by all the Member States; still, depending on the economic specific and the analyzed sector, the questionnaires can include additional questions, conforming to the necessities of the respective country;

- the statistical researches and the transmittion of results to the European Commission (DG

ECFIN) is realized in periods and on common terms.

Business surveys have been implemented gradually in Romania, at the National Institute of Statistics, following the initiation in 1991 of the Centre of Cooperation with Economics in Transition's (CCET) programme within the Organization of Economic Cooperation and Development (OECD) and the European Commission (DG ECFIN – Bruxelles).

Business surveys have been realized at the National Institute of Statistics, first trimestrially, beginning with June 1991 for the manufacturing industry, October 1993 for construction and January 1994 for retail trade.

Following development and revision, the "European Union's business survey harmonizing Program", approved by the European Commission in November 2000, beginning with June 2002, has passed on to the National Institute of Statistics for the monthly existing business surveys' conductance, as well as the implementation of monthly surveys in services and biannual for investment and industry.

Presently, Romanian statistics provides all the necessary information following the community's requirements. As such, the obtained results are intensely used – alongside the ones from

traditional statistics – by the responsible nationals and Europeans, by the business environment and, last but not least, by the specialized mass-media.

Currently, five current surveys with monthly frequency are being organized and conducted by all the Member States of the European Union, in the following activity sectors: manufacturing industry, construction, farms' consumers, retail trade and services.

The questionnaires contain standardized questions specific to every activity sector, regarding:

- the appreciation of the actual situation overlooking:
 - the level of production, goods sales, services demands, construction works;
 - the level of underway contracts and orders;
 - the level of stocks of finished products and stocks of goods.
- the estimation of evolution in the next three months, for a series of indicators such as:
 - the evolution of production, the physical volume of product sales, service demands, construction works;
 - the evolution of production and sales prices;
 - the evolution of the number of employees.

Mostly, the questionnaires have a qualitative character, the main questions referring to appreciations, estimations and opinions from the managers and consumers.

To record the information in the research questionnaire, a large range of methods are used:

- the method of the interview, direct or by phone (done by the operators at the County's Statistical Offices);
- the method of autoregistration, in which companies' managers complete the questionnaire on paper or electronically.

3. The calculation and interpretation of indicators

Answers of a qualitative nature, obtained from research (by collecting primary data) are transformed, through a hierarchic aggregation algorithm, in two categories of quantitative indicators: conjunctural balances and composite indicators.

Conjunctural balances (CB) or short term balances are determined for every question, for every sector (manufacturing industry, construction, consumption, retail trade, services), for every class of activity within the respective sector, as well as in groups depending on the size of the companies.

The conjunctural balance (CB) for every question, at the level of each stratum of the sample is determined based on the companies answers that can be one of the three options: rise (R), stability (S), decrease (D), where $R + S + D = 100\%$.

The conjunctural balance is calculated as the procentual difference between the alternative extremes:

$$CB_{\text{stratum}} = \%Rise - \%Loss = R_{\text{stratum}} - L_{\text{stratum}}$$

R_{stratum} = the percentage of those who have chosen the positive option of the phenomenon;

L_{stratum} = the percentage of those who have chosen the negative option of the phenomenon.

To obtain representative results and considering the quality assurance of the sample, the proportions R and L are not calculated directly, based on the number of answers (positive and negative) for the questions in the questionnaire, but considering the weight of the companies that have chosen the respective alternative in the volume of activity of the stratum in the sample, so the importance of every company from one relevant indicator's point of view (turnover or the

number of employees). In this way, a greater importance is attributed to larger companies in evaluating the current economic situation and previewing future evolutions.

As a result, the conjunctural balance at each stratum's level represents the difference between the percentage of companies that have answered positively and the weight that have answered negatively:

- regarding the surveys in the manufacturing industry and construction, the weight of the n

number of employees is considered;

- regarding the surveys in retail trade and services the weight of the turnover is used.

The conjunctural balance for each question, at each of the activity classes' level and at the entire sector's level is calculated based on a plan of processing answers using – based on the situation – the weight of the number of employees of the weight of the turnover (g):

$$CB_{class} = \sum R_{stratum} \cdot g_{stratum} - \sum L_{stratum} \cdot g_{stratum} = R_{class} - L_{class}$$

$$CB_{sector} = \sum R_{class} \cdot g_{class} - \sum L_{class} \cdot g_{class} = R_{sector} - L_{sector}$$

If the answer to a question is given five options: intense rise (RR), light rise (R), stability (S), light decrease (D), heavy decrease (DD), then the conjunctural balance is calculated based on the next formula:

$$CB = \left(RR + \frac{1}{2} R \right) - \left(\frac{1}{2} D + DD \right)$$

$$RR + R + S + D + DD = 100\%$$

It's obvious that the conjunctural balance can become values in the [-100%, +100%] interval:

- if the majority of answers are negative (D), then $CB < 0$; when all the answers are negative

$$CB = -100\%;$$

- if the positive answers (R) are compensated by the negative answers (D), then $CB \approx 0$;

- if the majority of answers are positive (R), then $CB > 0$, when all the answers are positive,

$$CB = +100\%.$$

Consequently, the conjunctural balance indicates the perception of the respondents on the tendencies manifested in the present and future evolution of a phenomenon, but must not be confused with the intensity of rises and decreases of a statistical indicator (that are quantified with the help of indexes and rise/decrease rhythms).

Based on the analysis of historical data, the specialists have convened upon the next milestones for interpreting conjunctural balances (CB):

$CB \leq -41\%$	severe decrease
$-40\% < CB < -16\%$	decrease
$-15\% < CB < -6\%$	moderate decrease
$-5\% < CB < +5\%$	relative stability
$+6\% < CB < +15\%$	moderate rise
$+16\% < CB < +40\%$	rise
$CB \geq +41\%$	severe rise

Composite indicators are synthetic indicators calculated at the level of the European Commission, based on the conjunctural balances sent to the national institutes of statistics. So, through specific aggregations, a series of composite indicators are

determined, that quantify the reflected situation in the business surveys for every Member State, at the level of the European Union as well as the Euro Area.

The confidence indicator (CI) for every sector (manufacturing industry, construction, consumer, retail trade, services) and for every Member State is calculated as a simple arithmetic average of the answers (conjunctural balances) for a part of the questions. The selected questions are appreciated as being the most representative from the point of view of the correlation with the evolution of a statistical reference indicator (the analysis of the main components).

To exemplify, the confidence indicator in the manufacturing industry – which best adjusts the movements of industrial production index (IPI – considered reference indicator) – has conjunctural balances for the following three components in view: the estimation of production (CB_p), the appreciation of the contracts and demands portfolio (CB_c) and the appreciation of stocks of finite products (CB_s), these being taken from the calculation formula with a changed calculus sign; the explanation is the fact that a positive response to this indicator reflects a negative aspect.

Consequently, the industry confidence indicator (ICI) is:

$$ICI = \frac{CB_p + CB_c + (-CB_s)}{3}$$

The confidence indicators synthetically reflect perception, estimations and expectations at each sector's level (industry - ICI, construction - ICCT, consumer - ICCS, retail trade - ICRT and services - ICS).

The Economic Sentiment Indicator (ESI) is an aggregate of confidence indicators from all the five sectors (business surveys), being considered a true barometer of the national and community economic climate. It anticipates the future tendencies of the gross domestic product in each of the Member States in the European Union and in the Euro Area, following the movements of the economy as a whole.

The Economic Sentiment Indicator is determined as a ponderated arithmetic average of confidence indicators calculated at the level of each sector:

$$ESI = a \cdot ICI + b \cdot ICCT + c \cdot ICCS + d \cdot ICRT + e \cdot ICS$$

a,b,c,d,e = the allocated percentage of each sector based on the sector's representativity and the performance registered in following (adjusting) the reference variable.

The next percentage system is currently used: industry (a = 40%), construction (b = 5%), consumption (c = 20%); retail trade: (d = 5%), services (e = 30%).

The percentages are not directly applied to the five confidence indicators. These (the latter) have been calculated based on the fifteen conjunctural balances, very different as dynamics and level. In these conditions, components with a relatively high amplitude of the characteristic would dominate the evolution of the composite indicator (ESI), while other important influences, but less visible in confidence indicators, would have an insignificant impact over the ESI.

As a result, to eliminate this inconvenience and to ensure the comparability between the time cycles of conjunctural balances for all the fifteen main components, a method of standardization (normalization) is applied, that runs through the next steps:

- Each chronological series of conjunctural balances corresponding to each component transforms into a centered variable (through the difference to the average) and reduced

(through comparison to the standard deviation of the series). As a result, all the initial chronological series with the property that the average is null and the standard deviation is equal to the unit;

- The conjunctural balance of each country is determined, for each period, through the aggregation of all the components and, implicitly, of all the five conjuncture surveys' results. This result is a correct estimator of economic sentiment;
- Still, for providing analysis and interpreting data, the economic sentiment indicator (ESI) is determined through the rescale of the previously determined balance, through a variable characterized by a long term average of 100 and a standard deviation of 10.

This transformation permits the more practical interpretation of the indicator:

- If $ESI > 100$ the reflected economic sentiment is greater than the long term average;
- If $ESI < 100$ the reflected economic sentiment is lower than the long term average.

The Economic Sentiment Indicator, through its construction, synthesizes information contained within conjunctural balances and provides a measure of the business climate, as it is perceived by a large number of managers. The indicator aggregates attitudes, judgments, behaviors of economic actors in the entire economy, offering precious information about the macroeconomic conjuncture and the short term perspectives of the evolution of the gross domestic product.

The level and tendency of the ESI suggests that the evolution of the gross domestic product.

Also identified are the business cycles and the perception of the European economic climate, with a minimum point reached in March 2009 when ESI was 68 points.

After ten months of uninterrupted improvement of the ESI's level (March 2009 – January 2010), a period of recoil appears in February 2010 manifested through a stagnation at the European Union's level (only +0.2 points compared to January) and even a reduction (-0.1 points) in the Euro Area.

Still, the fact that the highlighted tendency in the last year has led to recording an ESI level very close to the long term average must be marked (97.4 points).

At the Member States' level, in February 2010, there can be identified at least four groups of countries based on the values of the ESI:

- The group of countries with the ESI level that is over 100 points, so the economic sentiment

is over the long term average (that contains the 1990-2009 period). Here we have the Nordic

states: Sweden (108.2 points), Denmark (105.7 points) and Finland (102.8 points), the most

optimistic countries as far as evaluation and anticipation of the business climate are concerned. In January 2010, this level has been reached by Italy and Poland also – but – has

not been able to maintain it in February 2010.

- The group of countries with the ESI varying between 90 and 100 points, under the level of

the long term average, but near it. Here we have fifteen Member States: from Italy (99.7

points) to Spain (90.1 points), including France (98.4 points), Great Britain (98.3 points)

and Germany (97.0 points). The presence of the biggest economies in this group explains

the general tendency at the entire European Union's level.

- The group of countries with the ESI's level between 80 and 90 points is characterized

through evaluation and anticipation still moderate in the as far as the business climate is concerned and a withheld economic sentiment, even if it is rising. Here we have six countries: from Lithuania (89.9 points), to Romania (80.9 points) and Cyprus (80.8 points).

In this group we also find Latvia, Hungary and Bulgaria.

- Finally, in the last group we have Greece, with the lowest level of economic sentiment (72.4

points), still far from the national long term average and the levels recorded by the other

Member States also.

The analysis of the data permits us to point out other interesting conclusions:

- The majority of the Member States have recorded increases in the ESI in the last year: the

fastest increase being in Denmark (+37.4 points, from 68.3 to 105.7), while in Romania, the

economic sentiment has risen with only 3.1 points (from 77.8 to 80.9);

- The only country where the ESI has decreased in the last year is Bulgaria (-2.3 points, from

88.7 to 86.4); Bulgaria's position is explained through the fact that in the reference month

(March 2009) the ESI's level was the the highest in the whole European Union, reflecting

an exaggerated optimism.

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THE INFLUENCE OF THE NATIONAL MACRO-ENVIRONMENT VARIABLES ON TOURISM SERVICES CONSUMPTION

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The present work aims analysing the influence of different factors or features on tourism services consumption. In order to achieve the main goal of the paper, the author appealed to a statistical analysis. Thus, the variables with higher influence in tourism are emphasized at the end of the work. The result of the work can be used by managers of travelling agencies and tour operators in drawing and creating a marketing strategy for the products and services they sell and provide.

Key words: tourism consumption, influences of macro-economic variables, employment rate, inflation;

JEL classification: M

1. Introduction

Traveling agencies operate in a wider area than that defined by its microenvironments. Its actions will also be marked by the existence of general factors with long-term and indirect influence, which can not change and control. Profound impact of these factors requires action adaptation of the undertaking of travel conditions, trends and structures in society and the economy it subscribes.

Given the influence exerted on different parts of macro-environment of tertiary activity, in general, this paper aims to analyze whether the national macro-environment variables are affecting tourism consumption in Romania, or not, through the selection of key components, and measuring the intensity of those that have impact on tourist consumption. For achieving such an analysis, one will appeal to statistical methods designed to highlight the extent to which a variable is considered or not influenced by other variables.

2. The analysis of the influence of macro-environment variables on tourism

Regression analysis generally is part of the multivariate methods, being at the same time, an explanatory method of analysis as a dependent variable is explained by means of independent variables.

Regression analysis describes the relationship between a dependent variable and one or more independent variables, through the means of a given model.

In the case of mass phenomena, the dependent or resultant variable is a function of more variables: $y_i = f(x_1, x_2, \dots, x_n)$ in which x_i variables are factorial features that determine more or less the variation of the resultant feature y .

In the present analysis, the resultant feature will be the outcome y expressing tourism consumption, - income from tourism - and characteristics of factorial x , representative, expressing the level of economic development at national level are:

- net average monthly nominal earnings in comparable values (euro / person);
- the employed population (absolute);
- unemployment rate (%);

- inflation rate (%);
- investment (billions of lei, constant prices);
- Romania's urban population (%);
- crime rate per 100,000 inhabitants;
- number of physicians per 10,000 population;
- number of cars in circulation (absolute);
- Romanian population (absolute);
- Gross Domestic Product per capita in comparable values (thousands).

Further, it will examine the link between income from tourism made as dependent variable reflecting tourist consumption, and the independent variables described above, which reflect the socio-economic development in Romania, the period of time had in view is 1996-2008.

Using the software package SPSS 12 for multiple regressions, we obtained the following results:

Table 1: Stepwise regression method

Variables Entered/Removed ^a			
Model	Variables Entered	Variables Removed	Method
1	ratasomaj	.	Stepwise (Criteria: Probability-of-F-to-enter <= ,050, Probability-of-F-to-remove >= ,100).
2	popocupata	.	Stepwise (Criteria: Probability-of-F-to-enter <= ,050, Probability-of-F-to-remove >= ,100).
3	investitii	.	Stepwise (Criteria: Probability-of-F-to-enter <= ,050, Probability-of-F-to-remove >= ,100).

a. Dependent Variable: incasariturism

In the above table are given the selection criteria of the three variables retained in the model. The first step is to model the variable “unemployment”, the second step is regression model with two variables, namely: “Unemployment” and “employed population” and the third step is the regression model with three variables: “unemployment rate”, “employed population” and “investment in the economy”

The summary table presented bellow, reflecting the values of determined coefficients, explains synthetic results of the three models. Thus, it appears that the first variable, “unemployment rate”, explains about 64% of the variation in earnings from tourism. In the case of the second model, variables retained “unemployment” and “employed population”, explained variation reached 93.6% and for the third model, variables retained “unemployment”, “employed population” and “investment in the economy” explained variation is 97.3%.

Table 2: Values of the determination coefficients

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,801 ^a	,642	,609	59,51117
2	,968 ^b	,936	,923	26,35151
3	,986 ^c	,973	,964	18,08079

- a. Predictors: (Constant), ratasomaj
b. Predictors: (Constant), ratasomaj, popocupata
c. Predictors: (Constant), ratasomaj, popocupata, investitii

It is noted that the first two variables selected, namely, “unemployment” and “employed population”, largely explain the variation in earnings from tourism, while the variable “investment in the economy” explains variation in the proportion of earnings only by 3.7%, reflecting the importance of the first two components in determining tourism consumption in Romania.

From the summary of model also results that the standard error of the estimation decreases from 59.51 billion lei for the first model to 18.08 billion lei in the case of the third model.

Analysis of variance for multiple regression will be based on the results shown in table 3. It is noted that most of the total variance is generated by the regression equation. Thus, if the first model, 64.2% of total variance is explained by regression model and 35.8% by unknown factors, that represent error variance. In the case of the second model, 93.6% of the total variance is explained by regression model and 6.4% by unknown factors. In the case of the third model, 97.3% of total variance is explained by regression model and 2.7% by unknown factors.

Table 3: ANOVA variance analysis**ANOVA ^d**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	69767,843	1	69767,843	19,700	,001 ^a
	Residual	38957,374	11	3541,579		
	Total	108725,2	12			
2	Regression	101781,2	2	50890,598	73,287	,000 ^b
	Residual	6944,021	10	694,402		
	Total	108725,2	12			
3	Regression	105783,0	3	35260,994	107,860	,000 ^c
	Residual	2942,235	9	326,915		
	Total	108725,2	12			

- a. Predictors: (Constant), ratasomaj
b. Predictors: (Constant), ratasomaj, popocupata
c. Predictors: (Constant), ratasomaj, popocupata, investitii
d. Dependent Variable: incasariturism

Based on variance analysis, the data in the table shows an increase in the value of F calculated from 19.7 to 107.86, which strengthens the statistical significance of the regression explaining the variation in earnings from tourism.

Table 4: Regression coefficients

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	525,297	55,613		9,446	,000
	ratasomaj	-31,078	7,002	-,801	-4,438	,001
2	(Constant)	-858,561	205,295		-4,182	,002
	ratasomaj	-30,445	3,102	-,785	-9,815	,000
	popocupata	,00016	,000	,543	6,790	,000
3	(Constant)	-1198,458	171,113		-7,004	,000
	ratasomaj	-12,614	5,523	-,325	-2,284	,048
	popocupata	,00017	,000	,575	10,339	,000
	investitii	,679	,194	,498	3,499	,007

a. Dependent Variable: incasariturism

The table of regression coefficients includes the intercepted value and regression coefficients that generate the regression equations in the three phases:

1. $\hat{y} = 525,29 - 31,07 \cdot x_1$,
2. $\hat{y} = -858,56 - 30,44 \cdot x_1 + 0,00016 \cdot x_2$,
3. $\hat{y} = -1198,45 - 12,61 \cdot x_1 + 0,00017 \cdot x_2 + 0,679 \cdot x_3$,

where x_1 represents the unemployment rate;

x_2 represents the occupied population in economy;

x_3 represents the investments in economy;

The results of the model with two excluded variables, presented bellow indicate the excluded variables from the final model due to a very low value of calculated t , that leads to the acceptance of H_0 of the regression coefficient that is null.

Table 5: The results of the model with two excluded variables

Excluded Variables ^d

Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics	
					Tolerance	
1	castigsalarial	,399 ^a	1,115	,291	,333	,249
	popocupata	,543 ^a	6,790	,000	,907	,999
	ratainflatie	,358 ^a	1,858	,093	,507	,719
	investitii	,254 ^a	,532	,606	,166	,152
	popurbana	,327 ^a	1,969	,077	,529	,934
	ratainfractionalitatii	,622 ^a	2,961	,014	,684	,433
	nrmedici	-,512 ^a	-3,133	,011	-,704	,676
	autoturismeincirculatie	-,247 ^a	-1,055	,316	-,316	,590
	popRomaniei	,707 ^a	3,495	,006	,742	,394
	PIBloc	,044 ^a	,105	,919	,033	,207
2	castigsalarial	,372 ^b	3,243	,010	,734	,249
	ratainflatie	-,036 ^b	-,290	,778	-,096	,465
	investitii	,498 ^b	3,499	,007	,759	,148
	popurbana	,105 ^b	1,168	,273	,363	,761
	ratainfractionalitatii	,089 ^b	,505	,626	,166	,222
	nrmedici	,229 ^b	1,214	,256	,375	,171
	autoturismeincirculatie	,224 ^b	2,033	,073	,561	,402
	popRomaniei	-,585 ^b	-2,063	,069	-,567	,060
	PIBloc	,411 ^b	3,033	,014	,711	,191
	3	castigsalarial	,077 ^c	,215	,835	,076
ratainflatie		-,007 ^c	-,076	,941	-,027	,460
popurbana		,013 ^c	,179	,862	,063	,621
ratainfractionalitatii		-,178 ^c	-1,357	,212	-,432	,159
nrmedici		-,142 ^c	-,783	,456	-,267	,095
autoturismeincirculatie		-,176 ^c	-,981	,355	-,328	,094
popRomaniei		-,181 ^c	-,623	,551	-,215	,038
PIBloc		-,253 ^c	-,467	,653	-,163	,011

a. Predictors in the Model: (Constant), ratasomaj

b. Predictors in the Model: (Constant), ratasomaj, popocupata

c. Predictors in the Model: (Constant), ratasomaj, popocupata, investitii

d. Dependent Variable: incasariturism

3. Conclusions

The conclusion to be drawn from multiple regression analysis conducted under this chapter is that the main macroeconomic variables considered to have a significant impact on earnings from tourism are: unemployment, employment and investment levels in the national economy.

The most important macroeconomic variable used by multiple regression model is considered in explaining the unemployment rate of 64.2% change in earnings from tourism, followed by employment and investment, together with unemployment, explains the proportion of 97.3% change in earnings, the difference of 2.7% is explained by unknown factors.

Evolution proceeds from tourism, reported in the three macroeconomic variables will be determined as follows:

- The percentage increase in unemployment, tourism revenues will decline by approximately 12.614 million lei, while the employment in the economy and investment remain unchanged;
- The drive to increase employment in the national economy, made in tourism receipts will increase to 170,000 lei, while the unemployment rate and investment remain unchanged;
- The one billion lei increase investment in economy, tourism receipts achieved will increase by 679 million lei, while the unemployment rate and employment in the economy remain constant.

Starting from the three variables considered having a significant impact on tourism receipts, it can be said that tourism consumption in Romania is determined by the employment of people

with variable rate of unemployment and employment concerns and the level of economic development expressed through investment.

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SECTION: FINANCES, BANKING AND ACCOUNTING

SUB-SECTION: FINANCES

AN OPTIMIZATION OF THE RISK MANAGEMENT USING DERIVATIVES

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This article aims to provide a process that can be used in financial risk management by resolving problems of minimizing the risk measure (VaR) using derivatives products, bonds and options. This optimization problem was formulated in the hedging situation of a portfolio formed by an active and a put option on this active, respectively, a bond and an option on this bond.

Keywords: Risk management

The article's JEL code: G32

Options

First, we will consider a financial active that checks a classic equation

$$dS_t = \mu S_t dt + \sigma S_t dz_t,$$

where μ is the trend, σ is the active's volatility, and z_t is the brownian motion.

For a cover operation we will use a put option defined like this $P_t = P(S_t, K, r, \tau, \sigma)$, where τ is the contract period, K is the exercise price, and r interest rate.

Obviously, the option price is given by Black-Scholes model

$$P_t = K e^{-r\tau} N(-d_2) - S_t N(-d_1)$$

$$d_1 = \frac{\ln \frac{S}{K} + \left(r + \frac{\sigma^2}{2}\right) \tau}{\sigma \sqrt{\tau}}$$

$$d_2 = d_1 - \sigma \sqrt{\tau},$$

, and $N(d) = Prob(x \leq d)$ is the distribution function of the standardized normal law.

A way of using put options is by taking long positions $h_i, i = 1, \dots, n$ with n options whose exercise price $K_i, i=1, \dots, n$ so that the total price must be lower or equal with fixed C ,

$$\sum_{i=1}^n h_i P_{it} \leq C.$$

Additionally we will put the total overdraft condition $\sum_{i=1}^n h_i < 1$.

Considering that the exposure must be observed for the next τ periods, it will be necessary the measure risk characterization, VaR. We will define $VaR_{t+\tau}^\alpha$ as loss of $\alpha\%$ of a relative monetary unit to an institution exposure (financial) to invest at t moment in an active risk.

This definition must be translated into a formula, so we will consider $Y_t = \ln S_t$ and will apply lema Ito

$$dY_t = \left[\frac{1}{X_t} \mu X_t + \frac{1}{2} \left(-\frac{1}{X_t^2} \right) \sigma^2 X_t^2 \right] dt + \frac{1}{X_t} \sigma X_t dz_t = \left(\mu - \frac{1}{2} \sigma^2 \right) dt + \sigma dz_t.$$

That is

$$\ln S_t \sim N(m, \sigma^2 t), m = \ln S_0 + \left(\mu - \frac{1}{2} \sigma^2 \right) \tau,$$

And we can state that, for a position without cover, we have

$$VaR_{t+\tau}^\alpha = S_t e^{r\tau} - S_t e^{\theta(\alpha)},$$

where

$$\theta(\alpha) = \left(\mu - \frac{1}{2} \sigma^2 \right) \tau + c(\alpha) \sigma \sqrt{\tau},$$

while $c(\cdot)$ is the separation point of the two regions of the cumulative normal standard distribution.

We see that the second term of the VaR formula can be interpreted as the asset's expectation of the active will return at the $\alpha\%$ level.

In order to make the calculus easier, we shall suppose that the put option will be "in money", so we obtain

$$VaR_{t+\tau}^{\alpha} = S_t e^{r\tau} - \left[(1 - \sum_{i=1}^n h_i) S_t e^{\theta(\alpha)} + \sum_{i=1}^n h_i K_i - (\sum_{i=1}^n h_i P_{it}) e^{r\tau} \right].$$

We now can formulate an optimization problem

$$\begin{aligned} \min_{h_i, K_i} VaR_{t+\tau} \\ \sum_{i=1}^n h_i P_{it} \leq C, \\ \sum_{i=1}^n h_i < 1, h_i \geq 0, \end{aligned}$$

This means that we want the minimization of the VaR, using long positions with put options and hedging cost restrictions.

As usual, in order to draw some conclusions that later we can generalize, eventually, we shall consider the above problem as having a sole long position on a put option. We so can re-write the minimum problem

$$\begin{aligned} \min_{h, K} VaR_{t+\tau}^{\alpha} &= S_t e^{r\tau} - [(1 - h) S_t e^{\theta(\alpha)} + hK - hP_t e^{r\tau}] \\ C &= hP_t, 0 \leq h < 1. \end{aligned}$$

If we use the cost covering restriction, we shall obtain

$$\tilde{K} = arg \min_K \left\{ S_t e^{r\tau} - \left[\left(1 - \frac{C}{P_t} \right) S_t e^{\theta(\alpha)} + \frac{C}{P_t} K - C e^{r\tau} \right] \right\}.$$

We can re-write

$$\tilde{K} = arg \min_K \left\{ S_t e^{r\tau} + C e^{r\tau} - S_t e^{\theta(\alpha)} - C \left[\frac{K - S_t e^{\theta(\alpha)}}{P_t} \right] \right\}$$

which leads us to

$$\tilde{K} = arg \max_K C \left[\frac{K - S_t e^{\theta(\alpha)}}{P_t} \right] = arg \max_K \left[\frac{K - S_t e^{\theta(\alpha)}}{P_t} \right]. (*)$$

Is noticeable that $VaR_{t+\tau}^{\alpha}$ is independent from K 's selection and K optimum is determined according to the cash-flow of the active and the cover is adjusted depending of the cover's price. VaR is a linear function in relation with the expenditures with the cover, so each added monetary unit generates a decrease of the same level in VaR.

From the last relation we can deduce that the VaR's minimize is the same thing with the maximize of the difference between exertion's price and the level $\alpha\%$ of overdraft earnings relative at the price of the option put.

Intuitive, we may say that the objective function of the optimization problem can be interpreted as the rate between the cover's price and the cost of this operation. Furthermore, if the option's exercise price will decrease we will cover a larger part of distribution, but this option will become more expensive.

The optimization problem (*) requires a maxim condition

$$\frac{\partial \left(\frac{K - S_t e^{\theta(\alpha)}}{P_t} \right)}{\partial K} = 0$$

That is

$$\frac{P_t - (K - S_t e^{\theta(\alpha)}) \frac{\partial P_t}{\partial K}}{P_t^2} = 0.$$

From here

$$\tilde{K} - S_t e^{\theta(\alpha)} = \frac{P_t}{\frac{\partial P_t}{\partial K}} = \tilde{K} - S_t e^{r\tau} \frac{N(-d_1)}{N(-d_2)}$$

The last relation leads to

$$S_t e^{\theta(\alpha)} = S_t e^{r\tau} \frac{N(-d_1)}{N(-d_2)} (**)$$

Further

$$e^{\theta(\alpha)} = e^{r\tau} \frac{N(-d_1)}{N(-d_2)}$$

$$\theta(\alpha) - r\tau = \ln \frac{N(-d_1)}{N(-d_2)}.$$

We can notice that due to the inequality $\frac{N(-d_1)}{N(-d_2)} < 1$ the solution's existence \tilde{K} is provided solely for $\theta(\alpha) - r\tau \leq 0$.

More, we obtain

$$\tilde{h} = C/P(\tilde{K})$$

which means that we obtained the coverage ratio of the optimal exertion of the option price which is the relative cost to the option's value.

Bond

This time we will proceed almost the same, but we will use bonds.

We consider that we have a moment $t=0$, a zero-coupon bond which we can sell it at T moment.

If the interest rate will increase, the overdraft portfolio can lead to losses, therefore we can decide to do a cover of maximum C level. This cover can be made by buying a put option that is based on a bond, so, in the case of a strong decrease of the bond price, the option put can cover major losses. It remains to establish the choice of exercise price, price that can be chosen after the minimizing of VaR at a cover price of C .

Suppose we have an available bond $P(0, S)$ with the main $N=1$ and maturity at time S and we will cover this bond with a percentage h ($0 < h < 1$) of a put option $BP(0, T, S, K)$ with the exercise price K at time $T \leq S$.

The bond price is given by

$$P(T, S) = A(T, S) e^{-B(T, S)r(T)},$$

where $r(T)$ is rate with the parameters independent of it, $A(T, S), B(T, S) > 0$.

We will consider, like usually done, the covered portfolio formed by P bond and BP option, and its value at T moment is

$$H_T = \max(hK + (1 - h)P(T, S), P(t, S)).$$

If the option ends the contract „in money”, worst case, the one that interests us, the portfolio value will be

$$H_T = hK + (1 - h)P(T, S).$$

We can express the value of the losses as

$$L = L(r(T)) = P(0, S) + C - ((1 - h)P(T, S) + hK) =$$

$$P(0, S) + C - ((1 - h)A(T, S)e^{-B(T, S)r(T)} + hK),$$

In case in which the option is “in money”

If we note

$$F_{r(T)}^{-1}(p) = \inf\{x \in \mathbb{R} | F_{r(T)} \geq p\}, p \in [0, 1],$$

where $F_{r(T)}$ is the cumulative distribution of $r(T)$.

With risk measure we can consider

$$VaR_{\alpha, T}(L) = \inf\{l \in \mathbb{R} | \Pr(L \geq l) \geq \alpha\} = \inf\{l \in \mathbb{R} | \Pr(L(r(T)) \geq l) \geq \alpha\}.$$

L function is an inverse function and strictly increasing, which leads us to

$$VaR_{\alpha, T}(L) = \inf\{l \in \mathbb{R} | \Pr(r(T) \geq L^{-1}(l)) \geq \alpha\}.$$

Considering dual equality we have

$$\begin{aligned} VaR_{\alpha,T}(L) &= \inf\{l \in \mathbb{R} | \Pr(r(t) \leq L^{-1}(l)) \geq 1 - \alpha\} = VaR_{\alpha,T}(L) \\ &= \inf\{l \in \mathbb{R} | F_{r(T)}(L^{-1}(l)) \geq 1 - \alpha\} = L\left(F_{r(T)}^{-1}(1 - \alpha)\right). \end{aligned}$$

From previous relations we may write

$$VaR_{\alpha,T}(L) = P(0, S) + C - ((1 - h)A(T, S)e^{-B(T,S)F_{r(T)}^{-1}(1-\alpha)} + hK).$$

Like the situation treated in the first part, we will state a minimum problem

$$\begin{aligned} \min_{h,K} VaR_{\alpha,T}(L) \\ C = hBP(0, T, S, K), h \in (0,1). \end{aligned}$$

Considering function

$$\mathcal{L}(K, h, \lambda) = VaR_{\alpha,T}(L) - \lambda(C - hBP(0, T, S, K))$$

and we put the Kuhn-Tucker conditions

$$\begin{aligned} \frac{\partial \mathcal{L}}{\partial K} &= -h + h\lambda \frac{\partial BP}{\partial K}(0, T, S, K) = 0 \\ \frac{\partial \mathcal{L}}{\partial h} &= -\left(K - A(T, S)e^{-B(T,S)F_{r(T)}^{-1}(1-\alpha)}\right)\lambda BP(0, T, S, K) = 0 \\ \frac{\partial \mathcal{L}}{\partial \lambda} &= C - hBP(0, T, S, K) = 0 \\ 0 &< h < 1, \lambda > 0. \end{aligned}$$

We deduce that

$$BP(0, T, S, K) - \left(K - A(T, S)e^{-B(T,S)F_{r(T)}^{-1}(1-\alpha)}\right)\frac{\partial BP}{\partial K}(0, T, S, K) = 0.$$

It's noticeable that the optimum exertion price K^* is independent from the coverage cost C , which means that VaR is a h linear function.

Conclusions

In the article's first part we obtained the coverage ratio of the optimal exercise price of options which is the relative cost at the option's value by an optimization problem of VaR in the situation of a portfolio consisting in a financial asset and a put option.

In the second part of this article we obtained the optimal exertion price of a put option in a portfolio in which is a bond and this option. And for this result it has been created a minimum problem of VaR and the obtained result leads to the idea that VaR linear depends of the h percent of the bond cover by options.

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MODERN APPROACHES REGARDING THE ASSESSMENT OF THE COMPANY'S OVERALL PERFORMANCES

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The importance of this research can be supported by ambitious goals that are attributed to performance measurement / assessment of a company such as: improving company performance, optimization of company's management and motivating staff. In the current context of sustainable development, the performance definition, measurement and maximizing system of companies becomes a complex one. The modern business environment demands a multi-goal orientation. Profit theory is no longer a valid measure of organizational performance and neither are other approaches that only take the interests of shareholders (owners) of a company into account. Today's business environment is characterized by the increasing importance and strength of various stakeholder groups. This paper captures the current mutations brought on the line of developing a modern system of assessment of company's performance.

Keywords: sustainable development, global performance, financial indicators, non-financial indicators.

Jel Classification: M10 , M14, M21

1.Introduction

In a world of competition, which has gained increased dynamism, as a result of environmental change and increased financial risk once with increased financial and economic turmoil and with the internationalization of trade regarding goods and money, achieving "**excellence**" in business is the way of survival and development for any business in a competitive economy.

One of the ways to achieve excellence, is performance, currently is increasingly talking about **overall (global) performance**. This new approach to performance is now known as sustainable development, which has three objectives: increasing economic and financial performance of the company, development of effective environment and encouraging social development. Thus we can say that overall performance is the sum of financial and economic, ecological (environmental) and social performance.

In the current conditions of globalization of world economy, a performing company is the "enterprise that creates added value for its shareholders, satisfies customers demand, takes account of employee opinion and protects the environment. Thus, ownership is satisfied that the company achieved the desired return, customers trust the company and the quality of future products and services, employees are proud of the company where they work and the society benefits through policy adopted by the company regarding environmental protection (Jianu, 2006).

Measuring performance has been and is a constant concern of management because it represents an essential criterion for companies' survival. Current economic circumstances justify the need for renewal and improvement of performance measurement techniques and tools and selecting appropriate indicators in the steps to maximize target performance.

2. Triple Bottom Line approach on company's overall performance. Literature review.

In the current context of sustainable development, the accent regarding the issue of maximizing overall performance of the entity is put on the fact that this should happen only in the conditions in which it maximizes (optimizes) in the same time the performances for all participants in economic life of a company (stakeholders) and not just those of shareholders. In this sense, the key to driving adoption of company policies should start from the approach "Triple Bottom Line" that is maintaining a balance between the three pillars, namely:

- *Maximize economic performances* meaning maximizing performance for shareholders. This goal can be achieved based on traditional accounting financial criteria, (based on income, profitability, cash flow) or criteria derived from the theory of value creation for shareholders (Economic Value Added, Market Value Added).

- *Maximize social performance* which requires maximizing performance for all participants in economic life (stakeholders) this means from employees to the community, from suppliers to customers and from investors and creditors to state, from managers and corporate governance and maintaining the center attention of the shareholders.

- *Maximize environmental performance* which implies an activity that does not affect the surrounding community and environment, thus developing the best environmental performance in relation to the environment

Triple Bottom Line (TBL) concept developed by John Elkington in 1997, advocates the idea that a company's overall performance should be measured by its contribution to triple economic prosperity, environmental quality and social capital. Subsequently, this idea began to be widely supported by a large mass of writers, recalling only a few outstanding authors: Philip Kotler and Nancy Lee (2005), David Vogel (2005), William B. Werther, Jr. and David Chandler (2006), William C. Frederick (2006).

In Romania, there were also concerns in the direction of approaching performance from a global perspective, especially in the context of national economic approaches on the line of EU integration. We recall in this regard concerns of authors such as Niculescu M. (2003), Stancu A. & Orzan M. (2006), Ciobanu (2004, 2005, 2006), Mironiuc M. (2009), Tabara et al (2007), Siminica M. (2008).

In the current context of sustainable development, financial performance is not sufficient to assess the activity of an enterprise. This notion was extended to take into account social responsibility and societal responsibility of the company towards stakeholders, which includes environmental issues.

The concern regarding the modalities of adopting social responsibility at the company's level in the current context of sustainable development, raised concerns about their reporting in various forms, among with financial and accounting reporting. The most advanced initiative towards a credible reporting system of sustainable development is the Global Reporting Initiative (GRI). This report should provide sufficiently detailed and balanced representation of sustainability performance of organizations, including the impacts both positive and negative ones generated by it. Performance indicators developed by the GRI are divided into: *Economic performance indicators, Environmental performance indicator and Social performance indicators.*

3. Selecting performance indicators representative for the company's global performance

In literature, there is very differentiated approaches in terms of choosing the most representative indicators of overall company's performance. Meyer (2002) identified a total of 117 top-level measures that include 17 financial measures, 17 measures related to customer, 19 internal

processes related measures, 35 measures on renewal and development and 26 measures related to human resources. This supports the allegations according to which " we measure everything that walks and moves, but nothing that matters" (Neely, Austin, 2002).

3.1 Selecting performance indicators representative for the company's economical performance

Making references to economic performance, the synthetic forms of representation of a company's economic performance is around traditional concepts of profit and profitability and the modern approach, yet extremely artificial, the increase of the value of a company. Regarding synthetic performance reflected by increasing the value of a company representative indicators for the increase of the value are addressed differently in the literature as follows:

- Halpern P, Weston F & Brigham E. (1998) refers to a company's growth measured by growth rates that are designed to indicate the firm's ability to maintain its market share when the economy and industry are in a period of expansion. Most representative indicators that reflect a company's growth would be, in the authors' view the following: turnover, net profit, earnings per share and dividend yield.
 - Greuning H.V (2005: 27), making some interpretation about International Financial reporting Standards (IFRS), considers that the increase of a firm would be given by "the rate at which an entity can achieve growth, as it is determined by the retain (undistributed) of the profit and by the profitability measure with the help of return on equity (ROE)."
 - Colasse B (2009:54) defines the state of "company's growth" as "the company's capability to increase its size; it can be measured by using several criteria such as: turnover, production, value added, fixed assets, total assets'.
 - Cabinet consultancy Stern Stewart (1991) proposed as indicators able to measure de performance of a company *the economic value added (EVA)* to which they added *the market value added (MVA)*, *the Future Growth Value (FGV)* and *the Current Operations Value (COV)* (<http://www.sternstewart.com>).
 - Boston Consulting Group and HOLT Value Associates from Chicago have promoted *Total Shareholder Return (TSR)*, *Cash Flow Return on Investment (CFROI)*.
 - Applied Finance Group (AFG) have promoted the *Economic Margin (EM)* as a representative indicator for measuring the value of an entity that comes to correct distortions created by the traditional financial analysis based on accounting documents. The Economic Margin Framework is more than just a performance metric, as it encompasses a valuation system that explicitly addresses the four main value drivers of enterprise value: profitability, competition, growth, and cost of capital. Unlike traditional valuation approaches that utilize highly sensitive perpetuity assumptions, AFG's approach incorporates company specific competitive advantage periods which identify companies that may lose excess returns over time faster than their competitors.
- Based on the literature review presented above, we conclude that if we use only the classic indicators (of **profitability and return**), we can find companies which gain performances but do not create value, instead they consume an existing one. Therefore, to gain profit and, going further, to work efficiently (the increase of the effects to overcome the increase of the efforts involved), is not sufficient to lead the company to maximize their global performance. In addition, it is necessary for society to succeed in creating the new value (value added). The modern main indicators that reflect the value creation for shareholders, separated on the basis of literature covered, would be: ***Economic Value Added –EVA, Market Value added –MVA, Cash Value Added- CVA, Total Shareholders Return- TSR, Cash Flow Return on Investment – CFROI***. These indicators complement successfully indicators such as **profit (net profit, Earning per share-EPS), Profitability (ROE, ROA, ROI)** and **cash flow** in making synthetic images of company's economic performance.

3.2. Selecting performance indicators representative to reflect performance involved by corporate social responsibility adoption: social and environmental performance

There are many important non-financial aspects of performance regarding the social responsibility corporate. Identifying and analyzing non-financial performance indicators may have as object: monitoring firm performance, purchase / sale of business (business), make reports to shareholders, guiding the allocation of resources to invest, identified intangible assets held by company that impact on its performance, interest managers in the value they create for shareholders. As a result, the selection of non-financial indicators, most often, it takes into account the perspective from which business performance analysis is made. For example, for making reports to shareholders generally are elected those indicators identified as relevant to capital market investors, while the selection of non-financial indicators for assessing managers' bonuses consider the strategy adopted by the company.

Given the large number of studies on this subject we consider appropriate, to present proposed indicators for reporting on global performance by the Global Reporting Initiative (GRI) in the context of sustainable development of an organization.

A. In what follows we will focus on the **social performance indicators**. According to GRI, these social performances indicators could be:

- performance indicators on **practices and working conditions**: the appearance of employment, occupational health and safety issue, issue education and training;
- **human rights performance** indicators: nondiscrimination appearance, freedom of association issue, the issue of child labor, rights of indigenous peoples;
- indicators of **performance on society**: corporate issue, political contributions issue, conformity aspect;
- performance indicators on **product responsibility**: consumer health and safety issue, the issue relating to labeling, marketing communication aspect, conformity aspect (Mironiuc, 2008).

B. Regarding the **environmental performance indicators**, GRI select the following indicators:

- **raw material** aspect: the raw materials used per unit of product, amount of weight in the total amount of recyclable materials;
- **energy** aspect: direct and indirect energy consumption, on primary energy sources, energy savings achieved by preserving and increasing its efficiency, products and initiatives to achieve low energy services, initiatives to reduce indirect energy consumption;
- **water** issue: total consumption of water by sources, significant water sources, the percentage of reused and recycled water;
- aspect of **biodiversity**: area of owned, leased or managed land in protected areas, describing the major impacts of activities, products, services on protected areas, protected habitats, strategies for managing protected areas, the number of protected species that have habitat in protected areas of the organization;
- aspect regarding **emissions**, waste: direct and indirect total emissions of greenhouse gas per unit of product, initiatives to reduce emissions of greenhouse gas and the results achieved, emissions of harmful substances per unit of product, nitrogen dioxide, sulfur and other air emissions per unit of product, wastewater and reuse methods (recycling), ratio of hazardous waste to be imported, exported, transported, treated, fauna, flora and aquatic habitats significant destroyed by sewage and emissions from the organization;
- **appearance of products and services**: initiatives to mitigate environmental impacts exerted by products / services of the company, the ratio of products sold and the amount of packaging / materials recycled and reused, by category;
- **compliance** aspect: value of significant fines and the number of non-monetary sanctions for failure regarding environmental regulations;

– **transport** issue: a significant environmental impact caused by transportation of goods / materials used in each activity of the company and every movement of personnel;
 –**general appearance**: Environmental expenditure and investments, by type.
 Many important non-financial aspects of performance can't be measured. So, they remain outside the formal performance measurement. Contrary to financial performance measures, non-financial performance measures are less appropriate for decomposition, which results in the fact that they are unique to specific business units, whereas financial ones are common to many units.

4. Current mutations in the importance of indicators that comprise the overall company's performance

The value of non-financial metrics becomes more important than just a few years ago. A number of studies realized over the years by consulting firm Ernst & Young (Ittner, 1998) revealed that indicators measuring customer satisfaction is of increasing importance in corporate strategic planning. In 1988, 54% of businesses considered highly value these indicators, their share reaching 80% in 1991.

Another study conducted by Mavrinac for the same consulting company Ernst & Young - Center for Business Innovation, shows that only one third of investors and financial analysts propose mandatory publication, widely reported by companies, of non- financial information. In the same study was carried out and a hierarchy of key financial and non-financial indicators underlying investment decision making (see Table 1).

Table 1. Hierarchy of performance indicators

Financial analysts	Rank	Portfolio managers
Profit	1	Market growth
Cash-flow	2	Profit
Market growth	3	Cash-flow
Average performance of the segment (sector)	4	Company's ability to develop new products and services
Market share	5	Costs
Investments	6	Market share
Cost	7	Investments
Investment in research & development	8	Average performance of the segment (sector)
Strategy success	9	Investment in research & development
Company's ability to develop new products and services	10	Productivity of R & D expenditure

Source: Mavrinac S, Siesfeld G. A, 1999

Highest importance that portfolios managers attach of non-financial information may be the result of their concern to capture real-time changes taking place in different sectors, meaning the companies that operate within them. Unlike financial information reflects past performance of the business, non-financial information may be indicative of current and future profitability of the company.

More companies are including non-financial data in their annual reports or their shareholder briefings, and compensation structures continue to involve non-financial targets. According to another study conducted by *Business Systems News & Analysis* for Finance and IT (FSN) in 2007, more than a third of the respondents (37 percent) say that a company's performance is determined more by intangible assets and capabilities than by hard assets. As companies gain experience with non-financial metrics, they discover a wide range of predictive, forward-looking managerial tools. Fifty-four percent say forward-looking information is of greater value to management and the board than historical information. Customer satisfaction, innovation and

employee commitment are identified as key drivers of performance among the companies Deloitte interviewed.

If the case of Romanian companies, the study realized by Ciobanu (2006) on a sample of 60 companies from different industries showed that 62.7% of managers used in the same extent non-financial indicators and financial ones for business performance measurement, giving them 13.6% of non-financial indicators even greater importance.

5. Conclusions

One cannot evaluate organizational performances without taking organizational goals into consideration. The modern business environment demands a multi-goal orientation. Profit theory is no longer a valid measure of organizational performance and neither are other approaches that only take the interests of shareholders (owners) of a company into account. Today's business environment is characterized by the increasing importance and strength of various stakeholder groups. Recognition of the optimum combination of financial and non-financial indicators which best measure performance, or is capable of explaining or predicting future levels of performance remains an area of current concern.

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FISCAL SETTLEMENTS OF INCOMES OBTAINED FROM ABROAD BY NATURAL PERSONS RESIDENT IN ROMANIA

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The resident natural persons and those who qualify for residency conditions are subject to taxation in Romania for the incomes from any source, both from Romania and from abroad. External fiscal credit can be granted in order to avoid double taxation, so that the person can be entitled to deduct from the tax on income due in Romania the tax of income paid abroad, without exceeding the share of the income tax payable in Romania related to the income from abroad. The procedure of granting external fiscal credit vary depending on different categories of income.

Keywords: resident, external fiscal credit, tax, resident natural persons, foreign states.

JEL codes: F53, H24, K34.

The income obtained from abroad by natural persons resident in Romania are taxed under the national legislation, corroborated with the provisions of conventions for avoidance of double taxation concluded between Romania and other countries. The conventions for avoidance of double taxation determine which state has the right to tax incomes of natural persons, respectively the residence state or income source state.

In order to benefit from the provisions of conventions for avoidance of double taxation the Romanian natural persons will obtain from the Romanian fiscal authority the certificate of fiscal residence (according to OMF no. 1798/1998 for approval of forms regarding the application of conventions for avoidance of double taxation and determining the powers of signing this form) which he will present to the fiscal authorities from the income source country. The certificate of fiscal residence can also be obtained by natural persons who qualify for residency conditions for three consecutive years, starting from the fourth fiscal year.

The tax on incomes obtained from abroad is owed by:

- resident natural Romanian persons that are domiciled in Romania;
- natural persons that fulfill the criteria for residence for 3 years in a row become subject on income tax starting the fourth fiscal year.

Establishment of the residence in Romania for natural persons, according to Romanian legislation

In the Romanian legislation, the notion of resident involves every natural resident person and every Romanian legal person. According to the Fiscal code a resident natural person is “any individual who meets at least one of the following conditions⁷⁶⁷:

- a) the person has his or her domicile in Romania;
- b) the center of vital interests of the person is located in Romania;

⁷⁶⁷ Law no 571/2003 regarding the Fiscal Code, with the changes and ulterior completions, Official Monitor no 927/23.12.2003.

c) the person is present in Romania for a period or periods that exceed in total 183 days during any period of 12 consecutive months ending in the calendar year in question;

d) the person is a Romanian citizen who is serving abroad as an official or employee of Romania in a foreign state.

In order to prove that the natural person has its center of vital interests located abroad, it has to present the necessary documents to the tax office to prove that incomes obtained from abroad are higher than incomes obtained from Romania and that the tax authority of the relevant State is exercising its right to consider that person as its resident on globalized income taxation and in this case the person is subject to taxation in Romania only for incomes obtained in Romania

The following persons are exempt:

- a foreign citizen with diplomatic or consular status in Romania;

a foreign citizen who is an official or employee of an international and intergovernmental organization that is accredited in Romania;

- a foreign citizen who is an official or employee of a foreign state in Romania and members of the family of such foreign citizens.

The concept of resident through The Model Convention OCDE for avoidance of double taxation

According to the Model Convention OCDE the term of “resident of a Contracting Country” represents every person that, in accordance with the country legislation, he is obliged to pay taxes in that Country, for reasons of domicile, residence, management place and any other criteria of similar nature, but excluding the persons that are subject to taxes in that country only for the income obtained from sources in that Country or for the stock situated in that Country.

In the case where the person is resident of both the Contracting Countries, there were set up the following criteria of establishing the residence, applied in the following order:

1) the person will be considered a resident of the Country that has a permanent domicile, put on her disposal; if she holds a permanent apartment in both the Countries, she will be considered resident only in the Country where her personal and economical relations are tight (the centre of vital interests). For solutioning the possible conflicts that might appear between the laws of the two countries, the first criteria which will be taken into consideration is the holding of every form of set up domicile for permanent use of the person concerned, that means that it is not taken into account a domicile that is used occasionally, or for short period. If the person has a permanent domicile in both the Contracting Countries, it is required to analyze the situation in order to decide with which of the two Countries the person concerned has closer personal and economical relationships, that means that they will be taken into account others criteria: family, her social relations, occupations, her political activities, cultural or of any other type, her place of activity, the place where she administers her properties, etc.

2) If the Country where the individual has the centre of vital interests can't be determined, or if the person concerned does not hold a permanent domicile put on her disposal in neither of the states, it will be considered that she is a resident of the Country where she has the usual address;

3) If the person has the usual address in both Countries or in none of them, it will be considered that she is resident of the country where she has the usual address.

4) If the person has the nationality of both Countries or in none of them, the competent authorities of the Contracting Countries will solve this matter amicably.

So, if the first criterion cannot apply for establishing the residence, it is applied the second one, it is repeated this algorithm until the last criterion, respectively the amicable procedure stipulated in Article 25 from the Model Convention.

Tax on incomes obtained from abroad owed in Romania by natural persons

A natural person can be subject to income tax in Romania for both local and abroad incomes if the one of the following conditions is met for three year in a row:

- the center of vital interests of the person is located in Romania;
- the person is present in Romania for a period or periods that exceed in total 183 days during any period of 12 consecutive months ending in the calendar year in question;

Documents required for establishing the center of vital interests are: copies of income declarations from the foreign state, statement concerning the situation of school children, the statement of assets, where appropriate, for members of family and other documents.

In case the incomes from the foreign state are below requirements and therefore tax residence cannot be granted, the Romanian authorities find that conditions are met in order to tax the incomes in Romania and do so, by taxing the globalised income of that natural person. Romanian authorities and authorities from the foreign state will exchange information concerning the case.

Where income from other state are not conducive to the granting of tax residence in this state and Romanian tax authority considers that the conditions for taxation in Romania, the taxpayer will be required in Romania and worldwide revenue by information exchange, Romanian authorities and other State shall inform about this case.

Starting the 4th year of compliance of one of the above conditions, the natural person is to become a fiscal resident and therefore subject to taxation in Romania for all incomes. Tax authority will issue a fiscal residence certificate also in the 4th year.

Taxpayers that live abroad and keep their domicile in Romania are subject to taxation in Romania, according to Romanian legislation, for taxable incomes obtained both in Romania and from abroad. In case they cannot fulfill its obligation they can empower a natural person or designate fiscal representative

In order to tax incomes from abroad the taxation rate (16%) is applied to the basic income determined by specific rules for each category: independent activities, commerce activities, intellectual property rights, the grant of the use of goods, dividends, interests, prizes and gambling, transfer of securities, other investments and sources of incomes from abroad.

Losses from abroad are carried over and compensates incomes of the same category or nature of incomes obtained from abroad, for each foreign country for the next 5 fiscal years.

The taxpayers that obtained incomes from abroad have to fill in form 201 “Special Declaration regarding the incomes earned abroad” and submit it to the tax office by may 15th of the year following the year they obtained the income. The sources of incomes included in form 201 “Special Declaration regarding the incomes earned abroad” are: independent activities, commerce activities, intellectual property rights, the grant of the use of goods, dividends, interests, prizes and gambling, transfer of securities, other investments and sources of incomes from abroad.

The forms regarding the incomes earned abroad have to be submitted for each foreign state and for each source of income by may 15th of the year following the year the income was obtained.

For incomes earned abroad in 2010 the taxpayers have to submit the *tax statements* by may 25th of the year following the year the income was obtained and also they have to determine the tax amount⁷⁶⁸.

External fiscal credit

The method used in Romania to avoid double taxation as it is provided by the OECD model of the Convention for avoidance of double taxation, is the credit method, by granting external fiscal

⁷⁶⁸ The Emergency Government Ordinance no. 109/07.10.2009, for the amendment and supplementation of Law no. 571/2003 regarding the Fiscal Code, published in the Official Monitor no. 689/13.10.2009.

credit for incomes obtained from abroad, which are subject to taxation in both states. By this method the tax due in the foreign state is to be deducted from the tax paid in the state of residence, under certain conditions

Credit method in terms of the OECD model of the Convention for avoidance of double taxation

The credit method takes into account the so-called legal double taxation, that means the case where the same capital or the same income is taxable in several States. In the conventions for avoidance of double taxation there is a difference between the income tax and the capital tax, there are several ways of eliminating double taxation: exemption method (complete or gradual) and the credit method (full or ordinary). By the ordinary credit method it is given the deduction from the tax owned in the residence state of an amount equal to the tax paid in the source state, but without exceeding the income tax or the capital tax calculated before the deduction is given, which is attributable, depending on the case, to the income or capital which can be taxed in the source state.

Granting the external fiscal credit according to national legislation

Resident natural persons taxpayers, who, for the same income over the same taxable period and are subject to tax income both in Romania and abroad, are entitled to the deduction of income tax due in Romania of the tax paid abroad. The amount deducted from income tax in Romania is called external fiscal credit. Having at the basis the principle of ordinary credit the national legislation provides granting external fiscal credit at the level of the tax paid abroad in association with the income from foreign source, but not exceeding the income tax due in Romania, in association with taxable income from abroad. If the taxpayer in question receives incomes from abroad from several countries, external fiscal credit allowed to be deducted from tax payable in Romania will be calculated according to the above procedure for each country and each kind of income.

The external fiscal credit is granted for the following income categories:

- a) incomes from independent activities;
- b) incomes from wages;
- c) incomes from the grant of the use of goods;
- d) incomes from investments;
- e) incomes from pensions;
- f) incomes from agricultural activities;
- g) incomes from prizes and from gambling;
- h) incomes from transfer of real estates;
- i) incomes from other sources.

Granting the external fiscal credit is made for income types as those mentioned above, only if the tax paid abroad, for the income earned abroad, was actually paid directly by the natural person or his legal representative or by withholding at the source of the payer's income. To benefit from external fiscal credit, the tax paid abroad must be proved by a document in proof, issued by:

- tax authority of the foreign state in question;
- employer, in the case of income from wages;
- other income payer, for other income categories.

At the end of the tax year concerned, the taxpayer attaches to the tax declaration the documents in proof regarding the income and the tax paid, issued by the tax authorities in the country where the income was obtained, employer or other payer, documents used to calculate the fiscal credit.

The exchange in lei of the income obtained abroad and the associated tax expressed in foreign currency units proper to the State in question, are made at the annual average rate of exchange on the currency market, reported by the National Bank of Romania, from the year the income was

earned. If the currency of that country is not listed on the National Bank, the amounts will be transformed in the following way:

- a) from the currency of the source state in an international currency such as dollars or euros, using the exchange rate from the source country;
- b) from the international currency into lei, using the average annual exchange rate of this one, expressed by the National Bank of Romania, from the year the income in question was earned.

Granting external fiscal credit for incomes from independent activities, incomes from the grant of the use of goods and incomes from agricultural activities

Natural persons that have obtained incomes from abroad and paid tax on income in that foreign state are entitled to deduct from the tax on income due in Romania the tax on income paid abroad for each source of income. The tax paid abroad which is deducted from the tax on income owed in Romania is limited at that share of the tax owed in Romania

For the incomes which have been considered abroad as obtained from the entire world, the external fiscal credit for each of these incomes is limited to the tax on income computed by applying the taxation average quote from abroad to each source of income obtained abroad but not exceeding the taxation quote provided by national legislation related to the relevant income.

The taxation average quote is computed as follows:

tax paid abroad

Taxation average quote = -----

global income obtained from abroad

The global income obtained from abroad represents all the categories of incomes which, by law of the relevant State, shall be globalized abroad.

For the incomes obtained abroad not globalized in view of their taxation, the external fiscal credit is limited to the tax on income from abroad but not exceeding the tax on income due for a similar income in Romania.

In order to grant the deduction, the amount of the external fiscal credit is compared to the tax paid abroad, taking into account the smaller amount:

- if the amount of the external fiscal credit is greater than the tax paid abroad, the amount of this tax will be recognized as being deductible
- if the amount of the external fiscal credit is less than the tax paid abroad, the amount recognized as being deductible and representing the external fiscal credit will be computed according as above.

The external fiscal is computed by the fiscal body distinctly for each source of incomes. If the incomes from abroad of the taxpayer in question are obtained from several countries, the external fiscal credit allowed to be deducted from the tax due in Romania is to be computed according to the above procedure for each source of income and each country.

Starting 2010 calculation of the external fiscal credit according to the same rules.

Granting external fiscal credit for income from investments, incomes from pension, incomes from prizes and gambling, and incomes from transfer of real estates.

External fiscal credit for these categories of income is granted comparing the foreign tax rate paid abroad to that prescribed by internal legislation for each similar income in Romania, as following:

- a) if the foreign tax rate from abroad is higher than that provided in the internal legislation for a similar income, external fiscal credit is limited to income calculated tax by applying the rate provided in the national legislation;
- b) if the tax rate from abroad is lower than tax rate for a similar income in Romania, the external fiscal credit is calculated at the level of tax paid abroad, and the annual tax remaining to be paid in Romania is calculated as the difference between tax income (which will be calculated by

applying the tax rate prescribed by national legislation) and tax income paid abroad for income earned abroad.

Granting external fiscal credit for income from wages

Even though the national legislation states that in Romania will be taxed the income obtained from employment performed abroad and paid for it by the Romanian employer, they are taxed in Romania, however, for this category of income there was no proceeding for granting the foreign tax credit, the legislature stating only that income from wages which are not taxable in Romania, are not related to the foreign tax credit.

Legislation regarding this category of income has been improved, so that starting with income earned in 2010 the following legal provisions will be taken into consideration:

„If the same income from wages is taxable both in Romania and abroad, the foreign state having the right to tax under the Convention for the avoidance of double taxation concluded by Romania with that state for income earned during the period in which Romania has not the right to tax, the competent fiscal authority will reimburse the tax withheld by the Romanian employer, at the request of Romanian resident”⁷⁶⁹. It can be inferred from these provisions that the reimbursement of tax held in Romania is conditioned by the existence of a convention for avoidance of double taxation between Romania and the State in which the natural person worked.

Analyzing the conventions for avoidance of the double taxation concluded by Romania with various states, it results that income from employment activities performed in another state, which are paid by a Romanian employer and are not borne by a permanent head office that this one has in the foreign State, are taxable in the foreign State only if the natural person receiving the income is present in the foreign State for a period or periods exceeding on the whole 183 days in any 12 month period starting or ending in the calendar year in question.

Therefore, for tax refund in Romania it is taken into consideration only the situation when between Romania and the State where the person has developed his activity there is a convention for avoidance of the double taxation.

Conclusions

For taxation of income from abroad, it will first be determined whether the beneficiary of income is Romanian resident, according to the criteria for residence under national legislation, in conjunction with the provisions of conventions for avoidance of double taxation. After declaring this income, their taxation will be achieved, taking into consideration the granting of the foreign tax credit, taking into account the nature of income earned abroad and presenting the documents in proof on payment of the tax abroad. In Romania, avoidance of double taxation on income earned abroad by Romanian natural persons is done by ordinary credit method, method which is provided for both the conventions for avoidance of double taxation and in national tax legislation.

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VAT TAXATION OF INTRA-COMMUNITY SUPPLIES AND ACQUISITIONS OF SERVICES

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As of January 1st, 2010, as a result of the transposition in the national legislation of the Council Directive 2008/8/CE of 12.02.2008 for the amendment of the Directive 2006/112/CE regarding the place of the supply of services, new notions of tax law have arisen, namely intra-community acquisitions of services and intra-community supply of services. The transposition in the national legislation⁷⁷⁰ of the new CE directives in the field of the VAT aims not only at the way the place of the supply of services is determined, but also at the changes regarding the person subject to taxation, tax registration, declarative obligations, etc.

Keywords: supply of services, acquisition of services, registration for VAT purposes, intra-community services, recapitulative statement.

JEL codes: H25, K34.

The place of the intra-community supply of services

One of the conditions required by law for the operations within the value added tax to be taxable in Romania is that *the place of supply of services should be deemed as being in Romania.*

As a general rule, the place of the supply of services towards a taxable person acting as such is the place where the person receiving the services has established the registered office for his/her business. If the services are supplied to a fixed headquarters of the taxable person, located in a place other than the one where the person has the headquarters of his/her business, the place for the supply of services is the place of that fixed headquarter of the person receiving the services.

In the case of the fixed headquarters wherefrom the services come, in order to qualify as fixed headquarters of a taxable person, the degree of permanence and its structure with respect to the technical and human resources must be sufficient to provide taxable services on a regular basis. In the case of the fixed headquarter receiving the services, in order for it to be qualified as a fixed headquarter of a taxable person, it must meet the same conditions.

A taxable person having the headquarters of his/her business outside Romania, *but settled in Romania* by fixed office/office, the place for the service supply will be deemed the place where the beneficiary has established his/her business headquarters, or , as the case may be, a fixed headquarters situated in another state, if the beneficiary can submit enough proofs to the service provider that these services have been provided to the headquarters of his/her business, or to a fixed headquarters established in another state, and not to the fixed office/offices in Romania;

A taxable person having the headquarters of his/her business in Romania, *but has established fixed office/offices outside Romania*, it shall be deemed that the place for the supply of services is the fixed headquarters whereto the services are provided, if the beneficiary can present enough evidence to the provider in order to prove that these services have not been provided to the headquarters of his/her business in Romania, but to the fixed office/office outside Romania.

⁷⁷⁰ Emergency Government Ordinance no. 109/07.10.2009, for the amendment and supplementation of Law no. 571/2003 regarding the Fiscal Code, published in the Official Gazette no. 689/13.10.2009.

In case of the services provided by a taxable person not settled in Romania to a taxable person having his/her registered office in Romania, it shall be deemed that the place of the supply is not in Romania, if the beneficiary can prove that the service is provided to a fixed office located outside Romania.

The services for which the general rule for the establishment of the supply is applied, which are supplied by the providers settled in Romania to beneficiaries who are taxable persons settled on the territory of the Community, are called *intra-community service providers*.

The services received by a taxable person settled in Romania from a provider, a taxable person settled in the community but not in Romania, are called *intra-community acquisitions of services*. The general rule for the establishment of the place of supply is not applied for the following services:

- the services carried out with respect to the real assets, including the services provided by real estate agents and experts, of accommodation in the hotel sector or in sectors with similar function, as well as holiday camps or camping places, for the granting of user's right of real estate, for services of preparation and coordination of the construction works, as well as services provided by architects and companies supplying construction site supervision;
- services of passenger transport;
- services regarding cultural, artistic, sports, scientific, educational, entertainment or similar activities, such as fares and exhibitions, including the services provided by the organisers of these activities;
- restaurant and catering services, except for those actually provided onboard ships, aircrafts or trains during a part of a passenger transport operation carried out within the Community;
- short-term leasing services of a means of transport.

A taxable person also carrying out activities or operations that are not considered taxable according to the legal provisions is considered a taxable person for all the services received.

Moreover, a non-taxable legal person registered only for VAT purposes or registered for VAT purposes for intra-community acquisitions of goods or services, is considered to be a taxable person for all the services received.

The person bound to pay the value added tax is the taxable person providing services, except for the cases where the beneficiary is bound to pay the tax.

The tax is owed by any taxable person, including by the non-taxable legal person registered for VAT purposes, which is a beneficiary of the taxable services purchased within the community. The tax is owed including if the beneficiary, taxable person settled in Romania, has not honoured his/her obligation or being registered for VAT purposes.

The registration of the taxable persons for VAT purposes

The taxable person having the headquarters of his/her business outside Romania, but settled in Romania by a fixed office, is bound to request the registration for VAT purposes in Romania, as follows:

- before the reception of the services, if he/she is going to receive, for the fixed office in Romania, services provided by a taxable person settled in another Member State (*intra-community acquisition of services*), the latter being bound to pay a tax in Romania;
- before the supply of the services, if he/she is going to provide the services from the fixed office in Romania for a beneficiary taxable person settled in another Member State (*intra-community supply of services*), bound to pay the tax in the other Member State;

The taxable person having the headquarters of his/her business outside Romania and settled in Romania by several fixed offices without legal personality will be identified by a single registration code for tax purposes. To this end, the taxable person will appoint one of the fixed offices on the Romanian territory that would submit the tax deduction and be liable for all the VAT obligations of all the fixed offices settled in Romania.

The taxable person having the headquarters of his/her business in Romania, not registered and not having the obligation of registration for VAT purposes and not already registered for intra-community acquisitions of goods or for intra-community acquisitions of services, is bound to be registered for VAT purposes if he/she provided services with the place in another Member State (*intra-community supply of services*), before the supply of the service.

The taxable person having the headquarters of his/her business settled in Romania, not registered or having the obligation of being normally registered for VAT purposes, not already registered for intra-community acquisitions of goods or for intra-community supply of services, is bound to be registered for VAT purposes if receiving services with the place in Romania (*intra-community acquisition of services*), before the reception of those services, because this person is bound to pay the tax in Romania.

The registration will be deemed valid as of the registration application.

The persons registered according to the above cannot communicate this code for the deliveries of goods or supply of services carried out to other people, as it is communicated to other people only for intra-community supply of services and for intra-community acquisitions of services.

The public institutions that are normally registered for VAT purposes, for their entire activity or only for part of the structure, will not apply for the registration for VAT purposes for intra-community acquisitions of services or for intra-community supply of services. They will communicate the normal registration code for VAT purposes, whether the acquisitions are meant to be used for the activity carried out in the capacity of public authority, for which the public institution does not have the capacity of taxable person, or for activities for which the public institution has the capacity of taxable person.

Any public institution not normally registered for VAT purposes, but which has been given a registration code for VAT purposes for intra-community acquisitions and supply of services will be deemed a taxable person only with respect to the establishment of the place for the service supply.

The fiscal period and the declarative obligations

The taxable persons using the calendar trimester as fiscal period are not bound to use the month as fiscal period if they carry out intra-community acquisitions of services.

The persons normally registered for VAT purposes must submit to the authorised fiscal agencies, for each fiscal period, a tax deduction, until the 25th, inclusive of the next month of the one in which that fiscal period ends.

The operations regarding the intra-community supply and acquisitions of services are distinctly emphasized in the tax deduction, the intra-community acquisitions of services being emphasized both as deductible tax and as collected tax.

The taxable persons who are not registered and who need not be normally registered for VAT purposes, whether or not they are registered for intra-community acquisitions of goods and services, as well as the non-taxable legal person registered for VAT purposes for intra-community acquisitions of goods or for services, which are the beneficiaries of the services having the place of supply in Romania and which are supplied by taxable persons without residence on the territory of Romania, but settled within the Community, submit the special tax deduction for intra-community acquisitions of services until the 25th of the next month after the one in which the exigibility of the operations arises.

Any taxable person normally registered for VAT purposes or only for intra-community acquisitions of goods or for services must draw up and submit with the authorised fiscal agencies, until the 15th, inclusively, of the next month of a calendar month, a recapitulative statement which should mention:

- the supply of services carried out to the benefit of taxable persons not settled in Romania, but settled in the Community, others than those exempt of VAT in the Member State where they are

taxable, for which the tax exigibility has arisen in that calendar month;

-acquisitions of services carried by taxable persons in Romania who have the obligation of paying the tax, for whom the tax exigibility arose in that month, from taxable persons not settled in Romania, but settled in the Community.

In the case of the supply of services carried out to the benefit of taxable persons not settled in Romania, but settled in the Community, the provider will report in the recapitulative statement only the services that do not get tax exemption in the Member State where they are taxable. To this end, the operation will be deemed tax-exempt in the Member State where it is taxable if that operation were tax exempt in Romania. If in Romania the tax exemption is not applicable, the provider is exonerated of the obligation of declaring that service in the recapitulative statement if he/she receives an official confirmation from the fiscal authority of the Member State where the operation is taxable, wherefrom it should result that in that Member State a tax exemption is applied.

The beneficiaries of the taxable persons in Romania have the obligation of declaring in the recapitulative statement the intra-community acquisitions of services, provided by the taxable persons not settled in Romania, but settled in the Community, when they have the obligation of paying the tax for those services, respectively when no tax exemption is applied for that service.

Conclusions

The new regulations of the Fiscal Code and the methodological rules issued for its application, especially those regarding the intra-community services have imposed the issue of new orders from the President of the National Agency of Fiscal Administration that would harmonize their contents with the new regulations. We hope that all these changes, along with the change of the declaration periods, especially the monthly submission of the recapitulative statement will contribute to the increase of the efficiency in the administration of the value added tax and, implicitly, to the increase in the fiscal output of this tax.

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CONSIDERATIONS REGARDING TO THE LAW OF FISCAL-BUDGETARY RESPONSIBILITY

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A law of fiscal-budgetary responsibility which is firmly based and structured can outline the general parameters which can constitute the basis of creation of some decisions in sustainable fiscal politics through stipulating fiscal principles, rules concerning with budgetary incomes, public debts, deficits, expenses and risk management.

Keywords: objectives, principles, legal definitions, fiscal council

Code JEL: K34

Fiscal responsibility is essential to creating a better, stronger, more prosperous nation for the next generation. The choices we make today will determine our children's future.

It is known the fact that the main goal of the fiscal politics is concerned with reaching credibility and stability of the public finances, though this cannot be reached only through the followings:

- continuation of fiscal consolidation in the direction to accomplish the target deficit of 3% from the gross domestic product (GDP) to structural measures which assure sustainability for a medium⁷⁷¹;
- promotion of an anti-cyclical fiscal politics which can offer sustainability for the process of economic increase;

⁷⁷¹ We must take into consideration the fact that the Economic and Financial Affairs Council (ECOFIN) edited recommendations for Romania regarding to the measures which will be taken to correct the excessive public deficit, reevaluating in the same time the established calendar to reduce it under 3% from the gross domestic product (GDP), which is the reference value established by the EU Treaty. Practically the Economic and Financial Affairs Council (ECOFIN) extended the correction period of the deficit, taking into consideration the damage in the economy of the country, more sever than the level which was foreseen, beginning with July 2009, when it was initialized the procedure of excessive deficit, and the Council edited their initial recommendations.

The Council urged Romania to reduce its deficit to 3% from the gross domestic product until year 2012 instead of 2011, presenting a strategy to reduce the deficit and establishing the date of 16 August 2010 as limit term to apply these corrective measures.

The excessive deficit procedure is governed by the Article 126 of the Treaty and the Council Regulation regarding the acceleration and clarification of the excessive deficit procedure implementation. The excessive deficit procedure sets down the criteria and the deadlines for the European Council (ECOFIN) to adopt a decision regarding the existence of an excessive deficit. The excessive deficit Procedure is initiated when the actual or forecasted deficit exceeds the 3% of GDP ceiling, except the situation when the deviation is of an exceptional and temporary nature outside of the control area of the respective member state and has a major impact on the fiscal position, or due to a major contraction of the economic activity – <http://discutii.mfinante.ro/statistic - 26.04.2010> /15.00

-efficiency of control and increase of the responsibility of the units which are outside the central administration (local authorities, auto-financing institutions and companies of the state) even to reduce the arrears of the state;

-reform of fiscal administration;

-increase of the efficiency of the fiscal-budgetary politics and the improvement of its predictability taking into consideration the fact that stability and predictability of the fiscal-budgetary system represents directive principles for a viable economy.

The institution of the frame-politics which assure sustainability⁷⁷² and fiscal predictability for long term presumes the promotion and the adoption of the Law of fiscal responsibility, taking into consideration the fact that the fiscal-budgetary politics promoted in the last years had demonstrated the evident fragility of the institutional frame and the lack of some adequate rules which could diminish the discretionary fiscal space.

The Law of fiscal responsibility outlines the principles by which the fiscal-budgetary politics will be guided to respect the long-term objectives of the European Union and the standards which must be fulfilled to create an added value for stability and economical increase.

The necessity of adopting the Law of fiscal responsibility⁷⁷³ is related to the requested conditions for closing the loan adjustment with the International Monetary Fund⁷⁷⁴, but it is an important moment for Romania because through this normative document are established some „normal things” which were not respected, becoming exceptions.

At the other hand even the harmonization of the fiscal-budgetary politics of the member states of the European Union urges the implementation, with continual and permanent character, of a severe and unconditional fiscal-budgetary discipline, realized practically through the adoption of this law. The Law of fiscal-budgetary responsibility aims to assure predictability in spending the public money.

At the same time Law no. 69/2010 has as regulation object the establishment of a legal frame which allows to assure and maintain a strict, clearly defined financial-budgetary discipline, which being respected offers the opportunity that the public finances could be efficiently managed.

The legal foresights created this way are applicable⁷⁷⁵ for authorities, institutions and public entities foreseen by *art. 2 point 30 of Law no. 500/2002* regarding to public finances (like The Parliament, the Presidential Administration, the Ministries, the other organs of specialty in public administration, other public authorities, the autonomous public institutions, like the institutions coordinated by these and financed either integrally by the budget of state, by the social insurance

⁷⁷² For realizing the sustainability of public finances through fiscal sustainability it must be applied some measures which imply the reduction of expenses, without influencing the vulnerable groups, avoidance of the increase of taxes (which would have a negative impact upon the employment of the labor and upon investments).

⁷⁷³ Law no. 69 from 16 April 2010 of fiscal budgetary responsibility, published in the Official Monitor of Romania No. 252 from 20 April 2010.

⁷⁷⁴ Together with the Law of unique salary of the budgetary personal (respectively Law no. 330 from 5 November 2009 regarding to the unitary salary of the employees paid from public funds, published in the Official Monitor of Romania no. 762 from 9 November 2009) and Law of the reform of the system of pensions.

⁷⁷⁵ Art. 2 of Law no. 69/2010.

budget of the state, by budget of special funds; or by own income and subventions offered by the budget of state, the budget of social insurance of the state, the budget of special funds; or integrally by own incomes) respectively by *art. 2 point 39 of Law no. 273/2006* regarding to local public finances (the general name of local public institutions, including villages, cities, towns, the sectors of Bucharest, districts, the city of Bucharest, institutions and public services under the control of these, with judicial person, financed either integrally by the local budget, or by own incomes) *like to other entities* finances in proportion of over 50% by public funds, established according to European norms.

For the exact conceptual clarification of some notions the legislator tried to define some notions like fiscal-budgetary strategy, the general consolidated budget⁷⁷⁶, primary expenses of the general consolidated budget, economic cycle, expenses with employees etc.

The legal principles of the fiscal-budgetary politics are the following:

-the principle of transparence regarding to the establishment of fiscal-budgetary objectives and the application of the fiscal and budgetary politics, the Government and the authorities being obliged to publish and maintain in debate for a reasonable period of time all the necessary information which allow to evaluate the implementation method of the fiscal and budgetary politics, the results of these and the situation of the central public finances and that of the local one;

-the principle of stability;

-the principle of fiscal responsibility;

-the principle of equity;

-the principle of efficiency⁷⁷⁷;

-the principle of the efficient management of the employment expenses paid by public funds.

In the content of art. 5 of Law no. 69/2010 there are also treated the objectives of the fiscal-budgetary politics, respectively:

-to maintain the public depts. At a sustainable level for a medium or long-term⁷⁷⁸;

-realizing of a sold of budget generally consolidated near to zero for the period of economic cycle, in the same time with assuring the competitiveness of the country;

-the prudent management of the resources and of the entered obligations of the public sector and of the fiscal-budgetary risks;

⁷⁷⁶ We must mention that in form of project, the Law of fiscal-budgetary responsibility defined at art. 3 point 2 the notion of general consolidated budget as being „the ensemble of the component budgets of the aggregated and consolidated budgetary system to create an unitary thing: the budget of state, the budget of social insurance of state, the budgets of special funds , **local budgets...**” but the Commission for budget, finances and banks of the Parliament of Romania considered opportune to substitute the notion of local budgets with the notion of central budget of the administrative-territorial units, and invoked as reason in this sense the necessity for clearer definitions in the sphere of the general consolidated budget and the possibility to review these in conformity with the European norms and with the evolutions in the administration of the public funds.

⁷⁷⁷To include all the non-repayable funds offered for Romania, including the communitarian and other programs, whose donors of non-repayable funds are not member of the European Union, the Commission for budget, finances and banks of the Parliament of Romania had changed the definition of the content of *the principle of efficiency*, replacing paragraph „financed by funds offered by the European Union” with the text „financed by **non-repayable** funds offered by the European Union or by other **donators**”

⁷⁷⁸ The establishment of a medium/long term for the maintenance of the public dept at a sustainable level must be done because a strategy must foresee a longer period.

-maintaining and adequate level of the budgetary resources for the payment of service of public dept;

-assuring the predictability of the quota and of the basis of taxation level.

The efficiency and the positive evolution of the fiscal-budgetary politics will be assured also by respecting some established fiscal rules in the matter of the sold of the general consolidated budget, the total expenses of the general consolidated budget (including the annual rate of growth of these) etc.

In the matter of employment costs, the Government, the credit accountants and any authority with attributions of elaborating politics and payment agreements from the public sector must assure itself that all these politics are in concordance with the principles of fiscal responsibility, with fiscal rules, as with the objectives and limits of the fiscal-budgetary strategy.

Also trough Law no. 69/2010 are promoted essential rules in the matter of budgetary rectifications and to solve the problem of the excessive expenses and that of the overrating of incomes, there must be elaborated and implemented a credible *fiscal-budgetary strategy* for 3 years, which must include macroeconomic⁷⁷⁹ frame, fiscal-budgetary frame, a frame of expenses for a medium term and a declaration of responsibility⁷⁸⁰.

The fiscal-budgetary strategy must be a key document of politics which must offer information and objectives allowing a better process of taking decision in the annual budgetary process even for a medium period, which can be elaborated by the Government and approved by the Parliament. Compliance towards the fiscal strategy will be followed through reports of semester and annual progress which must deliver the feed-back for the Government upon any adjustment which could be proven to be necessary to respect the aims and the limits. The reports and controls done by the Ministry of Public Finances and by the Government contributes to the promotion and increasing of the transparence of the fiscal-budgetary politics (in this sense we can mention as example: the obligation of the Ministry of Public Finances to publish a semester report referring to the economic and budgetary situation, a report about the final budgetary execution, the obligation of the Government to publish a report about the economic and budgetary situation at the end of their mandate etc).

The law foresees also the creation of a Fiscal Council compound by 5 members⁷⁸¹ nominated by the decision of the Parliament at the proposal of the National Bank of Romania, the Romanian

⁷⁷⁹ According to law (art. 19 of Law no. 69/2010) the macroeconomic frame contains information about:

-situation of macro economy and prognoses: for the actual budgetary year and for 3 ulterior years, the concrete results of the last 2 budgetary years, referring to: the gross domestic product and its components; indicators of consume prices and deflation of the gross domestic product; unemployment and labor; the position of current account of the balance of payments; premises which create the basis of the prognoses; a declaration regarding to the concordance or differences towards the prognoses of the European Commission;

-macroeconomic prognoses for a medium term which influence fiscal politics.

⁷⁸⁰ The responsibility declaration will contain a declaration signed by the Prime Minister and by the Minister of Public Finances, where it is certified the correctness and integrity of information about the fiscal-budgetary strategy and its conformity with the law, the aims and limits of the fiscal rules and the respect of the principles of fiscal responsibility.

⁷⁸¹ Their mandate lasts 9 years, and they cannot be elected once again at the end of this period. The conditions which must be fulfilled to become a member of the Fiscal Council are the following:

-the person must have clean judicial and fiscal criminal report;

-the person must have Romanian citizenship and right to vote;

-the person must be graduate of university studies in economic domain;

-the person must have good reputation and professional experience in the domain of economic, budgetary or financial politics;

-minimum 10 year professional experience.

The membership of the Fiscal Council is over in the following situations:

Academy, the Academy of Economic Studies, the Romanian Bank Institute and the Romanian Association of Banks, which must assure their support to assure the quality of the macroeconomic and budgetary prognosis and the fact that the budgetary politics are in accordance with the principles of fiscal responsibility.

The sanctions introduced in case of breaking some foresights of Law no. 69/2010 are represented by contravention amendments, but by art. 52 it is shown that „the breaking of the legal foresights by the members of the Government implied the joint political responsibility of the other members of Government, according to the foresights of the Romanian Constitution, republished and to Law no. 115/1999 regarding to the ministerial responsibility, republished with the ulterior modifications”⁷⁸².

In conclusion, we show that reaching some smaller budgetary deficits assumes the considerable modification of the budgetary process, and also reforms of the income and expenses politics, and the essential component of the medium-term strategy is represented by the law of fiscal-budgetary responsibility which:

- established better elaboration procedures of the multi-annual budgets;
- establishes limits regarding to the budgetary rectifications done during the year;
- foresees fiscal rules regarding to total expenses, employment expenses and budgetary deficit;
- creates a Fiscal Council which assures an independent and professional analysis of the macroeconomic and budgetary prognosis;
- creates an emission and management frame of the guarantees and obligations.

References:

- 1.***, Law no.69/2010;
- 2.***, Law no. 500/2002;
- 3.***, Romania, Ministry of Public Finances – www.mfinante.ro;

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- at the expiration of the mandate;
 - through resignation;
 - through the appeal of the Parliamentary plenum in the following situations: by the establishment of incompatibility according to the foresights of Law no. 69/2010; in case when a penal conviction with punishment of privative freedom towards a member of the Council was pronounced, being definitive;
 - through substitution, in case of definitive impossibility of exercising the mandate. It is considered to be definitive impossibility of exercising the mandate any situation which creates an unavailability longer than 90 calendar days;
 - through decease.

⁷⁸² This way, the supreme sanction for the Governmental members is the joint political responsibility, a sanction whose content is not very clear outlined.

THE IT ANNUAL REPORTS USED IN THE FINANCIAL ANALYSIS

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In the paper the authors presented the importance of financial reporting system used in financial analysis of IT firms. Thus were presented balance sheet, income statement and cash flows.

Keywords

Financial rates, financial position, strategy, financial structure

Cod JEL: G32

1. Background Information

Finance is the application of economic principles and concepts to business decision-making and problem solving. The field of finance can be considered to comprise three broad categories: financial management, investments, and financial institutions.

(i) *Financial management.* Sometimes called corporate finance or business finance, this area of finance is concerned primarily with financial decision-making within a business entity. Financial management decisions include maintaining cash balances, extending credit, acquiring other firms, borrowing from banks, and issuing stocks and bonds.

(ii) *Investments.* This area of finance focuses on the behavior of financial markets and the pricing of securities. An investment manager's tasks, for example, may include valuing common stocks, selecting securities for a pension fund, or measuring a portfolio's performance.

(iii) *Financial institutions.* This area of finance deals with banks and other firms that specialize in bringing the suppliers of funds together with the users of funds. For example, a manager of a bank may make decisions regarding granting loans, managing cash balances, setting interest rates on loans, and dealing with government regulations.

No matter the particular category of finance, business situations that call for the application of the theories and tools of finance generally involve either investing (using funds) or financing (raising funds). Managers who work in any of these three areas rely on the same basic knowledge of finance.

Financial analysis is "a tool of financial management. It consists of the evaluation of the financial condition and operating performance of a business firm, an industry, or even the economy, and the forecasting of its future condition and performance. It is, in other words, a means for examining risk and expected return."⁷⁸³ Data for financial analysis may come from other areas

⁷⁸³ Frank J. Fabozzi, Pamela P. Peterson, **Financial Management and Analysis**, Second Edition, John Wiley & Sons, Inc., Hoboken, New Jersey, 2003, p. 5

within the firm, such as marketing and production departments, from the firm’s own accounting data, or from financial information vendors such as “Moody’s Investors Service” and “Standard & Poor’s Corporation”. Financial publications such as “Business Week”, “Forbes”, “Fortune”, and the “Wall Street Journal” also publish financial data (concerning individual firms) and economic data (concerning industries, markets, and economies), much of which is now also available on the Internet.

The financial/economic analysis sponsored and used by the economic manager can be viewed within a broad hierarchy of decision-making needs. The diagram in Figure 1.1 shows four key areas in the typical business where financial/economic analysis is a necessary ingredient. This conceptual pyramid rests on the broadest area: day-to-day decisions and operational planning. It successively rises via strategy development, investment analysis and capital structure planning, on to performance assessment and incentives, and finally to valuation and investor communication. Each of these areas contains challenges and issues in the practice of analysis and decision-making that the economic manager must address.

Figure 1.1 Area for Financial/Economic Analysis



(Source: Erich A. Helfert, Financial Analysis: Tools and Techniques, McGraw-Hill, 2001, p. 10)

Despite the great variety of issues faced every day by managers of different businesses, management tasks are so similar in principle that we can effectively group all business decisions into three basic areas: the investment of resources; the operation of the business using these resources; the proper mix of financing that fund these resources. Figure 2 reflects the continuous interrelationship of these three areas.

Figure 2 The Three Basic Business Decisions



(Source: Erich A. Helfert, Financial Analysis: Tools and Techniques, McGraw-Hill, 2001, p 24)

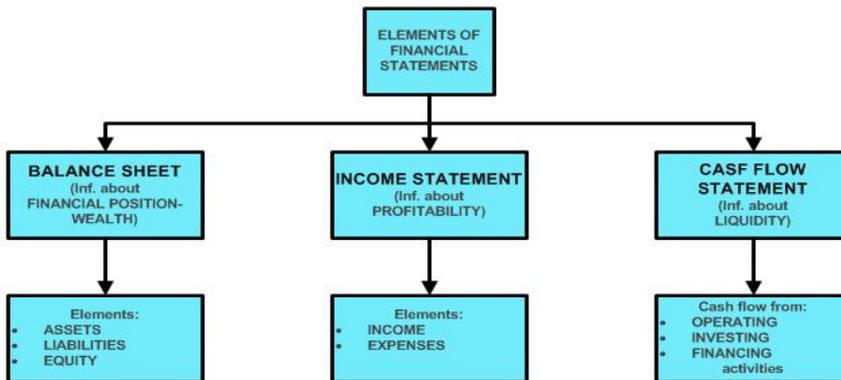
2. Financial Statements in IT Enterprises

In the process of financial/economic analysis, a variety of formal or informal data are normally reviewed and tested for their relevance to the specific purpose of the analysis. The most common form in which basic financial information is available publicly, unless a company is privately held, is the set of financial statements issued under guidelines of the Financial Accounting

Standards Board (FASB) in the case of USA, or issued under guidelines of the International Accounting Standards Board (IASB) for the countries of the European Union and other countries like for example Hong Kong, Australia, Russia, and Singapore. Such a set of statements usually contains balance sheets as of given dates, income statements for given periods, and cash flow statements for the same periods. A special statement highlighting changes in owners' equity on the balance sheet is commonly provided as well.

Financial statements are summaries of the operating, financing, and investment activities of a business. Financial statements should provide information useful to both investors and creditors in making credit, investment, and other business decisions. And this usefulness means that investors and creditors can use these statements to predict, compare, and evaluate the amount, timing, and uncertainty of potential cash flows. In other words, financial statements provide the information needed to assess a company's future earnings and therefore the cash flows expected to result from those earnings. In Figure 3 there is a depiction of the financial statements and of its most important elements.

Figure 3 Elements of Financial Statements



2.1. The Balance Sheet Source of Information for Financial Position Analysis

The balance sheet, prepared as of a specific date, records the categories and amounts of assets employed by the business (the resources committed) and the offsetting liabilities incurred to lenders and owners (the funds obtained). Also called the “statement of financial condition” or “statement of financial position”, it must always balance. By definition, “the recorded value of the total assets invested in the business at any point in time must be matched precisely by the recorded liabilities and owners' equity supporting these assets.”⁷⁸⁴ Liabilities are specific obligations that represent claims against the assets of the business, ranking ahead of the owners in repayment priority. In contrast, the recorded shareholders' equity in effect represents a residual claim of the owners on the remaining assets after all liabilities have been subtracted.

The major categories of assets, or resources committed, are⁷⁸⁵:

- (i) **Current assets** (items that turn over in the normal course of business within a relatively short period of time, such as cash, marketable securities, accounts receivable, and inventories).
- (ii) **Fixed assets** (such as land, mineral resources, buildings, equipment, machinery, and vehicles), all of which are used over a longer time frame.
- (iii) **Other assets**, such as deposits, patents, and various intangibles, including goodwill that arose from an acquisition.

Major sources of the funds obtained are:

⁷⁸⁴ Erich A. Helfert, **Financial Analysis: Tools and Techniques**, McGraw-Hill, 2001, p 38

⁷⁸⁵ **ACCA-F7 Financial Reporting (Int)**, Cromwell Press Trowbridge Wiltshire, 2008, p. A 1.4

(i) **Current liabilities**, which are obligations to vendors, tax authorities, employees, and lenders due within one year or less.

(ii) **Long-term liabilities**, which are a variety of debt instruments repayable beyond one year, such as bonds, loans, and mortgages.

(iii) **Owners' (shareholders') equity**, which represents the recorded net amount of funds contributed by various classes of owners of the business as well as the accumulated earnings retained in the business after payment of dividends.

Balance sheets are static in that, like snapshots, they reflect conditions on the date of their preparation. They're also cumulative because they represent the effects of all decisions and transactions that have taken place since the inception of the business and have been accounted for up to the date of preparation.

2.2. The Income Statement and the Financial Performance Analysis of the IT Enterprises

The income statement⁷⁸⁶ reflects the effect of management's operating decisions on business performance and the resulting accounting profit or loss for the owners of the business over a specified period of time. The profit or loss calculated in the statement increases or decreases owners' equity on the balance sheet. Thus, the income statement is a necessary adjunct to the balance sheet in explaining this major component of change in owners' equity, and it provides a variety of performance assessment information. The income statement also referred to as the "operating statement", "earnings statement", or "profit and loss statement", displays the revenues recognized for a specific period, and the costs and expenses charged against these revenues, including write-offs (depreciation and amortization of various assets) and taxes. Revenues and costs involve elements such as: sales for cash or credit; purchases of goods for resale or manufacture, or cost of services provided; general and administrative expenses; sales and marketing expenses; research and development costs.

The income statement represents the best effort of the firm's accountants to match the relevant items of revenue with the relevant items of cost and expense for the period, a process which involves accrual accounting and extensive use of allocation of prior and future revenues and costs. Among the judgmental areas involving costs are: recognizing the incidence of revenues received in advance or delayed in time; depreciation of assets being used over more periods than the current reporting period; cost of goods purchased or manufactured in previous periods; proper allocation of general expenses to a specific period.

2.3. The Cash Flow Statement Used in the Changes in Financial Position Analysis

Because we are interested in the combined effects of investment, operating, and financing decisions, analyzing both the income statement for the period and the balance sheets at the beginning and the end of the period together provides more basic insights than either statement alone. Management decisions not only affect the profit for the period, but cause accompanying changes in most assets and liabilities, particularly in the accounts making up working capital, such as cash, receivables, inventories, and current payables. The statement that captures both the current operating results and the accompanying changes in the balance sheet is the "cash flow statement", "statement of cash flows", or "funds flow statement". It gives us a dynamic picture of the ultimate changes in cash resulting from the combined decisions made during a given period.

The cash flow statement thus offers a ready overview of the combined cash impact of all management decisions during the period. The user can judge both the magnitude and the relationships of these cash movements, such as the company's ability to fund investment needs from operational results, the magnitude and appropriateness of financing changes, and disproportional movements in working capital needs. Observing the cash flow patterns can

⁷⁸⁶ : *ACCA-F7 Financial Reporting (Int)*, Cromwell Press Trowbridge Wiltshire, 2008,p. A 1.4

stimulate questions about the effectiveness of management strategies as well as the quality of operational decisions. The amount of detail can vary widely, depending on the nature of the business and the different types of movements emphasized.

3. Conclusions

As we saw above financial reporting system IT firms do not differ from annual financial reporting system provided by IFRS. Such system is based on three pillars namely the balance sheet, income statement and cash flows.

Information provided by balance are static information while the information provided by profit and loss and cash flows are dynamic information.

Data from annual financial reports are used in financial analysis of IT companies, using methods and techniques among which the most important is the method rates.

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The conduct of the fiscal administration regarding the simplification and modernization of the systems of statements and payment of tax obligations is a necessary task to improve the relationship between the fiscal administration and the taxpayers, and also to induce efficiency regarding the management of fiscal duties in a single system. Regrouping the collecting of taxes under a single administration by taking over the functions of the social security administration has been the cornerstone of establishing a simplified tax administration. Improving the methods of compulsory enforcement of tax claims, the implementation of the management by objectives and the improvement of performance indicators of the fiscal administration activity, are considered to be the commitment of the fiscal body regarding the process of improving the collection of public financial resources.

Keywords: management of statements, budgetary arrears, efficient collection, fiscal indiscipline, performance indexes

JEL code: G, H21, H30

1. Introduction

The decision of the fiscal administration concerns the specialization of the management of large taxpayers, because a careful analysis of the contribution of budgetary resources at the level of the general consolidated budget for 2004 indicates a contribution of 44.4% of large taxpayers to the total revenue collection, with a personnel structure of only 187 posts. Moreover, administering large taxpayers involves more complex issues than for most taxpayers. This is the reason for which the administration of the largest contributors was entrusted to a specialized structure.

At the level of the territorial fiscal bodies began, together with the establishment of the National Agency for Fiscal Administration (NAFA), a necessary process of management improvement, by the progressive development of a method of management by objectives, thus adopting the modern management that exists in most developed countries.

The development of this management model required the implementation, since the year NAFA was set up, of a system of **performance indicators**, of a set of 12 indicators covering the major fields of the activity of the fiscal administration, among which:

- The degree of voluntary compliance of taxpayers to declare budgetary obligations.
- The degree of voluntary compliance of taxpayers to pay the budgetary obligations.
- The share of the amounts collected in full and on time, in the total amount expected as declared.
- The share of notifications received from taxpayers, who responded within less than 20 days.
- The share of solutions for admittance or dissolving in the total of solutions given by the review bodies responsible for settling solutions of appeals.
- The share of appeals resolved in the favor of NAFA, by the courts.

- The share of appeals filed by taxpayers in the total of foreclosures issued and the documents prepared for the fiscal inspection.
- The level of arrears collection in the case of large taxpayers.
- The percentage of budget revenues collected by the procedure of compulsory enforcement.
- The average annual number of documents of control signed by an inspector.
- The additional amounts incurred to the general consolidated budget.
- The additional amounts incurred as a result of tax audit reports, which correspond to an inspector.

NAFA and each of its component structures at central and territorial level must then engage in a performance plan to achieve goals regarding the development of such indicators considered a priority and determinants in assessing the degree of achievement of the annual targets of the fiscal management distributed to each of the territorial fiscal unit.

Considering the NAFA objectives as reference, which set the targets to be achieved by the national fiscal administration, each territorial structure (district, sector) is building its own performance plan. This way, the targets in the plan direct the activity of the staff in the territorial fiscal unit, leading towards focusing on what needs to be made to fit the broad lines of development and modernization of the fiscal administration. This approach involves a broad participation and raises responsibility among employees at all levels, a collective effort to increase the performance of the entire activity of the fiscal administration.

NAFA's mission is to ensure the means necessary to finance the operation of the state, the basic duty of the fiscal administration in a broad sense that subscribes to achieving the budget revenue by applying two principles:

- First, equal treatment of taxpayers regarding taxes is fundamental and should guide the entire activity of the fiscal administration, so that every taxpayer is sure of being charged a fair contribution and will accept the very principle of the tax.
- The second is that of efficiency: that, as any administrative action in a modern country, the administration of taxes and social contributions should be made at the lowest cost. It's not just about performing a cheaper service, but also at higher standards, the taxpayers being entitled to benefit from a public service of quality.

2. Conclusions

The rate-setting of activities and of the work of the fiscal administration on specific types of activities and on each person separately, aiming at increasing productivity in all the activities of the administration, required to define the three priority guidelines of the National Agency for Fiscal Administration:

- To encourage voluntary compliance, by providing a better administration of taxes and social contributions.
- To promote a quality fiscal control, more oriented towards risk sectors.
- To increase the efficiency of collecting the taxes and social contributions in order to guarantee the necessary budgetary revenue.

The encouraging of voluntary compliance, by providing a better administration of taxes and social contributions, was made based on the feature of the tax system in Romania, which is a declarative one, and relies on the statements made by each taxpayer. This way, the efforts of the administration have set the frames to establish a system of statement for budgetary obligations, so that a maximum number of taxpayers should pay the amounts due to legal term.

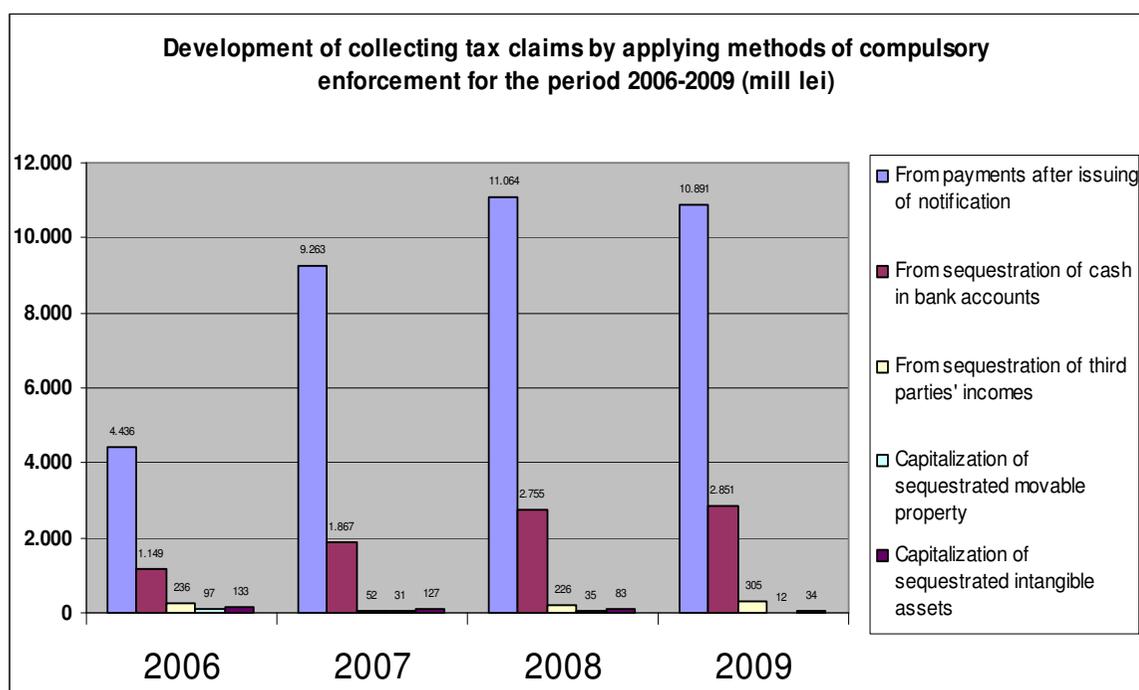
The management of the respective statements is a complex process, which allows the setting of taxes and eventually of refunds for any surplus of payment, such as the income tax refund or the VAT, for example.

The procedure of simplifying the activities of the fiscal administration continued through the suppression of the previous systematic review of requests for reimbursement of VAT credit, the

repayment period being reduced for the taxpayers who are not at risk of fraud. Through this procedure they resort to the electronic information and accomplish the concentration of the activity for setting solutions for VAT refunds in a department of risk analysis.

In order to analyze the voluntary compliance of taxpayers regarding statements and payment a timetable was established, and as a result, all territorial units will analyze the nonconformities for the same period and will automatically draw up notifications for non-submission of declarations and summons for lack of payment of overdue budgetary obligations. This will be achieved by modernizing the record on taxpayers.

In terms of **budgetary arrears**, increasing the degree of collecting by procedures of compulsory enforcement procedures mainly constituted the priority action taken by NAFA, and publishing on the website of the Ministry of a list of small and medium taxpayers with large debts was another objective of ensuring the transparency of the fiscal administration, with the consequence of determining the effect of preventing the formation of new arrears.



Source: www.anaf.ro NAFA report of performance

The working out of a record of the economic agents who registered tax debts, at the level of every territorial unit level, has allowed the development of a system for the monitoring and analysis of achieved revenues to the general consolidated budget, for reporting the results achieved in the collection process at the level of the objectives set by performance indicators and for taking measures to avoid the formation of new budgetary arrears, through a wider use of bankruptcy proceedings and the renunciation of granting payment facilities.

Pursuing performance in all the activities of NAFA, targeting positive results and better and better quality from one year to another, reflects a new culture in the activity of the fiscal administration. The approach related to the annual performance Plan of NAFA takes into consideration the following developments:

- The system of performance indicators should be improved by refining the existing indicators, and especially by introducing new indicators. The complex activities related to

administering the state's revenue will be assessed based on more representative indicators and will be boosted by establishing attractive targets.

- The level for which targets will be set will increase, because at least a medium term vision will ensure the necessary consistency in the management of the fiscal policy.

The detailed knowledge of the current situation and of the potential of the territorial structures, through the performance indicators, will be an essential prerequisite for grounding the major decisions that will guide the evolution of the fiscal administration.

There is the need to improve the budgetary revenue collection and shift them towards the most sensitive and important sectors regarding the budget revenue: the large debtors must be more insistently pursued, and the action of collection should be, especially for this category of taxpayers, more aggressive.

The activities of NAFA and of the territorial structures rely especially on information of fiscal nature, and it is vital that these should be correct. Continuous upgrading of the IT system has allowed in particular extending the reporting of fiscal obligations through the Internet.

We consider that the NAFA reform should be accompanied by a new vision regarding **the collection** of revenues to the general consolidated budget in the jurisdiction of the territorial fiscal structures – which, according to the Regulation on the organization and operation of NAFA, are empowered to collect fiscal claims and to apply the compulsory enforcement of budget revenues, thus, essential for carrying out NAFA's basic mission, they should express their option regarding the adoption of the following fiscal administration principles:

- Voluntary fulfillment of tax obligations by as many taxpayers as possible.

- To decrease the number of taxpayers - customers of the collecting measures, using particular methods of compulsory enforcement.

- Efficient management of taxpayers.

- Lowering the cost of the current activity regarding collection and the special ones resulted from applying the performing measures for every leu collected to the general consolidated budget of the state.

- Minimizing the losses representing overdue fiscal claims, subtracted from the fiscal record due to causes of insolvency and bankruptcy and other reasons not attributable to the fiscal unit.

- Reduction of overdue budget arrears and current arrears made up from the current fiscal year's debit.

- The management of specializing the taxpayers according to the criterion of size and revenue share paid to the general consolidated budget in accordance with the social importance.

The implementation of NAFA's IT program was considered a fundamental milestone in modernizing the fiscal administration through the usage of the IT application Management Information System of Fiscal Claims, which allowed the keeping of a log according to taxpayers on separate subsystems, the analytical leadership - distinct for each type of fiscal claim of the analytical evidence on taxpayer and of possible fiscal claims, accessories for increasing taxes due to delay, the analytical management of compulsory enforcement, facilities for payment, VAT refunds, offsets, the fiscal claims being in a stage of adjournment or insolvency, as well as the synthetic result of the process of fiscal administration, through the automatic transfer of data based on IT applications.

Regarding the granting of facilities for payment, we consider that the fiscal administration should apply the principle of equality between taxpayers regarding taxes, a principle which should be endorsed, promoted and enacted by the Tax Procedure Code and to represent the coordinating vector of the entire array of fiscal administration procedures both regarding the collection of state revenues through fair and non-discriminatory tax regime applied to all taxpayers, and especially in improving the business environment and encouraging competition by eliminating discriminatory tax incentives and facilities for payment.

For the collection of budget revenues the rapid acknowledgement of the situation of overdue payments is essential in order to effectively decide which is the method to prevent and/or regulate the lack of payment, and of the arrears' reduction, adapted to every taxpayer.

To discourage the accumulation of **budgetary arrears** by corporate taxpayers, NAFA updates and publishes quarterly, on their website, the list of large taxpayers and the list of small and medium taxpayers who register overdue budgetary obligations, and their collection arrangements applied by the bodies of enforcement.

The NAFA priority axes, on which the entire activity is based, is aimed at three major strategic objectives that govern its current and future actions, contained in the larger strategic guidelines set by the Government in the governing program.

First, **to prevent the elusion of taxes**, a vital stage regarding importance and the first from a chronological point of view in the process of fiscal administration: the taxpayers' assistance and providing optimal conditions for statements and payment will encourage voluntary compliance, will push for fiscal discipline.

Secondly, **an efficient and rapid collection**, which should treat taxpayers equally, will not allow deferred payment and will avoid the creation of those budgetary arrears whose likelihood to become income to the budget decreases in time.

Finally, NAFA should **suppress any phenomenon of fiscal indiscipline**, to ensure a healthy business environment in which the economic agents should engage in fair competition and in which the market law should not be distorted by taxpayers who do not pay their budgetary obligations.

We consider that in order to modernize fiscal administration there should be accomplished the decentralization of the administrative decision and also the transparency of the management process, objectives which have not found a correct application at the level of the territorial structures of the fiscal administration, the willingness of the Executive regarding decentralization being only in a declarative stage. The current organizational structure of NAFA reflects the concentration of the administrative decision at the level of the 21 general directorates of the Agency, both in the human resources management and especially in the ability to adapt the collecting methods and techniques to the development of the economic situation, but mostly to the budgetary constraints and to the need to induce efficiency regarding public expenditure.

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INSURANCE OF BANKING OPERATIONAL RISK

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The current financial crisis is not a singular event in the history of crisis episodes. The essential difference between past episodes of financial turmoil and the actual crisis is the unprecedented severity, the pace of contagion and its global size. Financial markets have been seriously disturbed, threatening the robustness of financial institutions and their ability to meet current needs to properly manage the risk. One such risk is operational risk, which has become an important source of loss for credit institutions. In this context, the main purpose of this study is to present the best techniques and methods of managing this risk, less addressed problem in the literature from our country.

Keywords: operational risk, coverage, damage

Cod JEL lucrare: G22

1. Insurance as means of protection against operational risk

The Basel Agreement on required minimal capital acknowledges the role insurance can play in diminishing the financial impact of the operational losses of a bank. In a more and more competitive environment, as that of the bank industry, the transfer of risk to an insurer can contribute to the bettering of performance indicators and of cash flows, preventing crisis situations. Moreover, the insurance proper can be accompanied by connected services of risk management, which would allow a bank to more properly define its own risk profile.

In the consulting document on operational risk, promoted by the Basel Committee in 2001, it is acknowledged that insurance can be seen as a tool of diminishing the financial impact of operational risks of banks. In the acceptance of this document, the diminishing of the financial impact refers to the fact that concluding a specific insurance against operational risks can lead to a lower level of necessary minimal capital allocated to this risk category.

Still, it is pointed out that the market of insurance against operational risks itself passes through a stage in its development and maturation, so that banks can find themselves in the situation of replacing the operational risk by a counterparty risk.

2. Products of insurance against operational risks

Although they occur in a standardized form, these policies undergo several adaptations - depending on the demands of the insured customer - in that some clauses get eliminated and several supplementary ones are introduced, all with specific reflection in the price level.

- *Employment Practices Liability* (employer's liability) - covers compensation to be paid by the insured because of violation of labour law (discrimination, breach of employment contract etc.).

- *Non-Financial Property* - covers the usual risks that can affect the goods in the property of the insured (fire, earthquake etc.).

- *Unauthorized Trading* (unauthorized transactions) - provides unauthorized transactions that may constitute fraud by computer or fraudulent registrations;

- *General and Other Liability* (general liability and other liabilities).

3. Advantages of operational risk insurances

In essence, the role of insurance is to transfer the financial impact of a risk or a combination of risks from one entity to another. Strictly speaking, to transfer risk is not a way to control risk (control includes avoiding, preventing or reducing risk events). By insurance, the financial impact of a risk event is simply transferred to another entity, under the established terms. Concluding insurance against a particular risk, the bank relies on the ability of the insurer to provide compensation according to agreed conditions, so that risk transfer decision can be considered a financing decision.

Insurance as a risk reduction tool, helps the bank to avoid or mitigate the loss (financial or of any other nature) generated by the production of a risk. Theoretically, the benefits that a bank can obtain from contracting insurance against risks are related, on one hand, to the occurrence of a predictable cash flow and, on the other hand, to the avoidance of catastrophic losses.

Large and unpredictable operational losses can dramatically reduce the liquidity of a bank, to exhausting the capital allocated.

By buying a policy of insurance against operational risks, the bank pays an insurance premium in exchange to which it is granted compensation in case of production of a certain risk. This means that insurance against operational risks enables a bank to eliminate or reduce large fluctuations in cash flow caused by high and unpredictable operational losses.

A decrease of cash flow fluctuations also generates other benefits for the bank in that it improves incomes and then increases the bank's market value.

Another advantage refers to avoiding catastrophic situations, by the fact that insurance covers large operational losses that would lead to insolvability.

Although some banks (especially large international ones) have developed their own systems for operational risk management, the practice shows that an insurer has more resources and expertise in this field, acquired as a consequence of administrating a large portfolio of risks taken from clients in various sectors of activity.

By contracting an insurance policy against operational risks, banks transfer the risk to insurers and benefit, on one hand, from effective services and, on the other hand, from a qualified monitoring.

The first aspect is based on the object of activity of an insurer, namely evaluation, control and financing of the risks. Thus, large insurance companies have an advantage over banks from data available, experience and the size of the portfolios of the risks administrated. For banks, it may be more efficient in terms of cost to outsource certain elements of the risk management program to insurance companies. Insurers provide services of damage assessment and coverage, besides legal consulting and administration services (such as the collection of compensation).

The second aspect refers to the fact that, in some cases, shareholders may request the bank management to invest in risk management activities more than the latter would be willing to spend. Therefore, it is difficult for shareholders to monitor management behaviour and make sure it fulfils its tasks. In this case, one possible solution lies in an insurance contract, so that monitoring tasks would be in the insurer's duty.

The monitoring activity performed by the insurer supports, in fact, the manifestation of market forces. The risk must be regarded as any other commodity and it can be traded. Problems arise when individuals or groups interested in the activity of a bank (e.g. certain shareholders or the management itself) take advantage from the position they hold and expose the others to risks improperly remunerated.

4. Factors influencing the decision of insurance against operational risks

The decision of a bank to conclude a contract of insurance against operational risks depends on many factors that influence both the potential benefits it will obtain and the size of insurable risks. Synthetically, these factors regard:

- **The size of bank** - has a major influence on the decision of insurance against operational risks. There are differences of approach between a large bank and a small one, both in terms of potential benefits, and in terms of the insurable risks. It is difficult to judge whether the advantages of the insurance are bigger for one category or for another.

In general, smaller banks have lower equity and free cash flow and, consequently, are more vulnerable to losses from operational risks. Often they have neither a dispersion of risks, nor the funds necessary to develop their own risk management systems to such a degree of complexity that it could equal the monitoring performed under the terms of the insurance contract.

At contrast, large banks have the resources to perform a proper management of operational risks themselves. However, large banks often opt for the insurance solution to protect their income against losses from operational risks, especially when they affect investors' confidence or would lead to the overtaking of that bank.

Putting together and managing large or unusual operational risks of several banks by one insurer is almost always more beneficial than individual administration of those risks within one bank. It is also cheaper for a large bank to transfer the daily administration of relatively common and low-impact risks to an insurer, especially if the market of the insurance for that risk is competitive.

The bank's risk profile - the new Basel II agreement states that the level and types of risk identified in various business segments vary. It is possible that these differences affect the nature of the insurability of the risks associated to a business segment (e.g. in default of data and sizes of the losses). Besides determining the size of the minimum capital required, the bank's risk profile also influences its ability to contract itself a good quality and cost advantageous insurance against operational risks.

- **Time horizon for the management / shareholders.** The benefits of insurance require a certain while to become perceptible. If a bank renounces at an insurance contract, it may see a short-term advantage because it saves the insurance premium.

The extent to which a bank can cover the immediate expense of the insurance premium, in exchange for a benefit that may materialize only in the long term, depends on the time horizon the management or the shareholders aim. Those implied on a long term are, generally, more in favour to the solution offered by insurance than those who have immediate interests.

- **The interested parties' attitude towards risk.** The more the groups interested in the activity and the results of a bank (management, shareholders, etc.) show a bigger aversion to risk, the more appealing the solution of the insurance will be to them. The empirical results show that the attitudes toward risks of the groups interested in the bank's activity influence the entire strategy of risk management.

- **Bank rating.** The better the rating, the lower the refinancing cost the bank will support. In such circumstances, banks with very good rating can opt to finance losses by contracting credits rather than insurance. This aspect, though, needs further detailing, as the bank can be immediately demoted when it incurs a considerable loss that was not subject of insurance and, consequently, its access to financing becomes more restrictive.

5. The new Basel II agreement - the role of insurances in the management of operational risk and the impact of the required capital of the bank

5.1. impact of insurances upon required minimum capital

Regarding the new Basel II agreement, two acceptations have developed among bankers, related to the impact of insurances on the required minimum capital.

The first implies that any effort to improve the risk management should be viewed independently from the request of capital. Consequently, insurance should not affect the required minimum capital.

The second acceptance implies that, on the contrary, banks have to be provided incentives in order to improve risk management own systems. Consequently, insurance has to be considered when reckoning the required minimum capital. Many bankers and insurers believe that insurance should be treated as an instrument of reducing the required minimum capital and, in this case, the problem boils down to establishing how much of the insured amount will be deducted from the level of the required capital.

Given the complexity of Basel II, resulting from the recognition of the three criteria for determining the minimum capital level within Pillar I (basic approach, standard approach and the one based on its own system of risk measurement), we need to define, first, the notion of "minimum capital".

Secondly, it should be clarified if a number of instruments, namely insurance contracts concluded by banks, can contribute to the reduction of this required minimum capital.

The second pillar of the Basel II Agreement allows regulators to increase the required capital. Yet, from this perspective, banks should be permitted to rely on the insurances contracted for lowering their capital charge.

The third pillar covers the issue of transparency and control through market forces. Given the benefits of risk monitoring and control, insurance could play a relevant role in the management of banking risks.

Banks with an efficient management could resort to complex insurances of the cart type by which they could assure a higher level of protection and their reporting would improve their rating, driving to the reduction of the cost of the capital raised.

Currently, the market of insurances against operational risks undergoes a process of development and adaptation, so that we can eliminate the disadvantages and maximize the benefits brought to banks. For example, new cart type insurance products provide protection against more risks and solve a part of the problems related to gaps and redundancies arising from the use of traditional insurance.

Basel II agreement needs to provide a flexible framework that allows banks to use insurance as an effective tool for operational risk management.

The new agreement will have to regulate if and to what extent insurance against operational risks is compulsory. For example, the fidelity insurance that cover all risks - operational and non-operational - is mandatory in the U.S.A. and in several other countries (including Britain), which do have reduced schemes of depositors' protection.

From the perspective of the risk management, Basel II agreement should contribute to the production of a competitive environment where market forces could act efficiently and effectively. For this, the regulators should provide regulatory infrastructure and leave the task of monitoring the method of applying regulations to insurance companies and to risk rating agencies.

Insurance companies are very interested to support banks in their bettering of risk prevention and reduction activities. Incidentally, the rating agencies already provide independent external evaluations.

Regulators will be able to direct their limited resources on those banks that have problems from the point of view of the insurers and the risk rating agencies.

One of the objectives of Basel II agreement, that of assuring more transparency to financial environment, could be achieved by publishing the risk rating awarded to banks for the policies of insurance against operational risk, as well as the rating of debt securities. These require, though, a closer cooperation between regulators and the risk rating agencies because, unlike these agencies, public authorities do not publish the awarded ratings.

The regulatory and supervisory authorities collect data on operational risks to determine the required minimum capital and it would be useful that, as far as possible, data should be disseminated to be further useful when concluding insurance contracts and for standardization. This would grant that relevant and properly classified data are considered which would demand a more rigorous calculation of insurance premiums, fewer exclusion clauses and higher compensation limits.

Basel II Agreement also puts forward the risks associated to outsourced activities such as communication systems and those for payment and settlement⁷⁸⁷.

The traditional approach used in insurances, the one of covering known risks, generates a series of complaints from banks, because, in the circumstance of alert creation of new products and services, it appears to be essentially reactive. Nevertheless, this reactive attitude allows the emergence of unforeseen gaps in covering operational risks due to changes in technology, knowledge and economic environment situation.

Although a series of renowned international insurers have adopted a pro-active attitude in what the offer of operational risks insurance is regarded, the level of demand for such products is neither known nor easy to estimate. Previously, the insurance companies have created the insurance against fraudulent transactions - considering that it is useful to banks - and found that the demand was virtually non-existent. To avoid situations like those mentioned, you need a constructive dialogue between representatives of banks, insurers and regulatory authorities, in order to clearly identify the products that the market requires and is willing to pay.

At the level of the insurance market, there is a more and more obvious manifestation of the necessity to standardize the documentation for damage in case of losses from operational risk. This would diminish the possibility of disputes and would be a guarantee (for regulators and banks) of the fact that the losses proven will be covered in accordance to the insurance contracted.

This would also help to develop alternative products for protection against risk, because standard products could be traded on the capital market and offered to a much larger public, by means of securitization.

However, a cautious approach is necessary, because an excessive standardization may suppress the development of product and affect the efficient functioning of the market. În plus, schimbarea continua a cererii clientilor face dificila crearea unor polite de asigurare pe deplin standardizate. In addition, the continuous change in the customers' demand makes it difficult to create fully standardized insurance policies.

5.2. The attitude of the banks towards the solution of insurance

When contracting an insurance against operational risks, a bank has to first see to what extent this contributes to the increase of its value on the market and look beyond costs.

Concluding an insurance contract can increase the market value (most frequently measured on the basis of the market price of the actions) by predictability of the cash flow, preventing a financial catastrophe, assistance in monitoring and controlling risks and use of a management instrument of effective risk in what price is regarded.

It is relevant to point out that the simple contracting of an insurance for reducing the required minimum capital does not automatically lead to an increase in the market value of the bank, especially when the opportunity is lower. Contracting an insurance must be justified by the fact

⁷⁸⁷ Dedu V., Nechif R., "Banking Risk Management in the Light of Basel II", Theoretical and Applied Economics - 2 / 2010 (543), p.114

that it brings benefits and services the bank cannot develop by itself, under the condition of cost efficiency.

The management of the bank should plead in front of the shareholders for the necessity of concluding insurances against the operational risks, insisting on the fact that these represent an efficient instrument of monitoring and controlling.

The use of specific insurance policies is in itself a credible signal of undertaking proper management of risks.

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CURRENT COORDINATES OF THE ROMANIAN INSURANCE MARKET

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Although the insurance activity is well known to the Romanian market ever since the 14th century, when insurance was all about mutual help, this activity evolved rapidly in the period before the First World War and in the period between the World Wars, and it manifested itself as the entrance on the market of insurance companies representatives from countries as Austria, Italy, Great Britain. facultative insurance.

Keywords: gross written premiums, gross paid indemnities, market

Cod JEL lucrare: G22

In 1989 the change in the political system came about with significant changes in the insurance industry. Certain types of insurance which previously were compulsory became facultative. From the point of view of the insurance market's offer, the year 1989 meant also the end of state monopoly, ADAS seized its activity and its portfolio was taken over by three companies that later on were privatized – Asigurarea Romaneasca SA, Astra SA, and Carom SA. The beginning of "the new era" for the Romanian market represents the year 2000 when the law concerning the supervision of the insurance market was implemented, and the Insurance Supervisory Commission was set up; better improvements have been registered. Since then, the Romanian insurance market recorded a constant growth, as we can see in the following table:

Table 1
Insurance market ratios

		2000	2001	2002	2003	2004	2005	2006	2007
Number of insurers		70	47	45	40	40	39	41	42
Volume of subscribed premiums	Mil USD	311	344	500	610	1051	1508	1970	2630
Penetration degree	% GDP	0,85	0,87	1,09	1,06	1,44	1,55	1,67	1,84
Insurance weight	USD/capita	13,85	15,38	22,95	37,51	47,01	68,4	91,27	122,3

Source: Badea D. G., Novac L. E., "Romanian Insurance Market Facing Globalization Process", Theoretical and Applied Economics., 2008, vol. 9(526), p.62

In 2006, the total volume of insurance premiums reached 1.62 billion Euros, a nominal increase of 23.68% compared to 2005, when the volume of premiums recorded 1.21 billion Euros, being the second year in which the threshold of 1 billion Euros was exceeded.

In 2007, 42 insurance companies centralized a total volume of gross written premiums of 2.15 billion Euros with a nominal increase of 25.07% compared to the level of 2006. As structure, 79.9% of the total premiums was generated by the general insurance (an increase of 24.73% in the volume of premiums subscribed compared to 2006), whereas the life insurance brought about

only 20.1% (a more accentuated increase – related to the increase in the general insurance – of 26.46% compared to 2006).

At the level of European Union, the Romanian insurance market had in 2007 the fastest growth in the entire Europe, overcoming other significant markets in the region, such as Poland. With a growth rate of 33% in Euros, the local insurance market had the greatest dynamics among the 33 member states of CEA – Comite Europeen des Assurances.

In the last 15 years, the insurance market increased 30 times in terms of gross insurance premiums subscribed and even though the motor insurance continue to have a significant weight, it can be noticed an accelerated increase of other property insurance, credit insurance and health insurance⁷⁸⁸.

In 2009, there were 43 insurance companies on the market. Of these, 19 companies ran non-life insurance, 12 ran life assurance and another 12 had a composite structure of their business: life & non-life.

As we are still crossing the global economic crisis, CEIOPS analyses show that the insurance market in European Union has not proved to be a source of systemic risk for the financial sector, still the global crisis affect it by diminishing the written premiums or decreasing the value of the investments on the financial or capital market.

The analysis of data submitted by insurance companies for 2009, show that written premiums to the level of the insurance market in Romania (non-life and life) were at a slightly lower level than the one in 2008, of 1.1%, an increase of 2.03% for non-life insurance and a decrease of 13% on life insurance.

1.Gross written premiums (GWP)

The total volume of gross written premiums in 2009 of nonlife insurance and life assurance was 8.837,01 million lei, dropping from 99,42 million lei, compared to the same period last year.

1.1. GWP for non-life insurance

GWP volume of insurance in 2009 was of 7.211,68 million lei, representing 81.60% of total GWP for the two categories of insurance.

Compared with 2008, the premiums for non-life insurance recorded a nominal increase of 2.03% and the growth was of 143,51 million lei.

While gross written premiums for (Casco), recorded a drop of 231,02 million lei, the motor third party liability insurance (MTPL) registered a growth of 392,65 million lei.

In 2009, auto Insurance related to the insurance of land vehicles other than railway rolling stocks (Casco) and MTPL hold a significant share in the total amount of GWP (77.13%), although they recorded a growth rate reduction of 6.49% from the previous year.

Higher rates of growth, recorded the following two classes, whose premiums grew with amounts between 5 and 20 million lei: class XV – Surety ship insurance security guarantees (+158.59%), XII class - Liability insurance for ships (+93.67%).

Gross written premiums for insurance against financial loss registered a downward trend in 2009, dropping by 39.20% compared to 2008, leading to decrease the share of them in total non-life insurance GWP of up to 1.6 %.

This situation was due to a more expensive lending and reducing or stopping the granting of loans charged by credit institutions.

⁷⁸⁸ Badea D. G., Novac L. E., “Romanian Insurance Market Facing Globalization Process”, Theoretical and Applied Economics., 2008, vol. 9(526), p.65

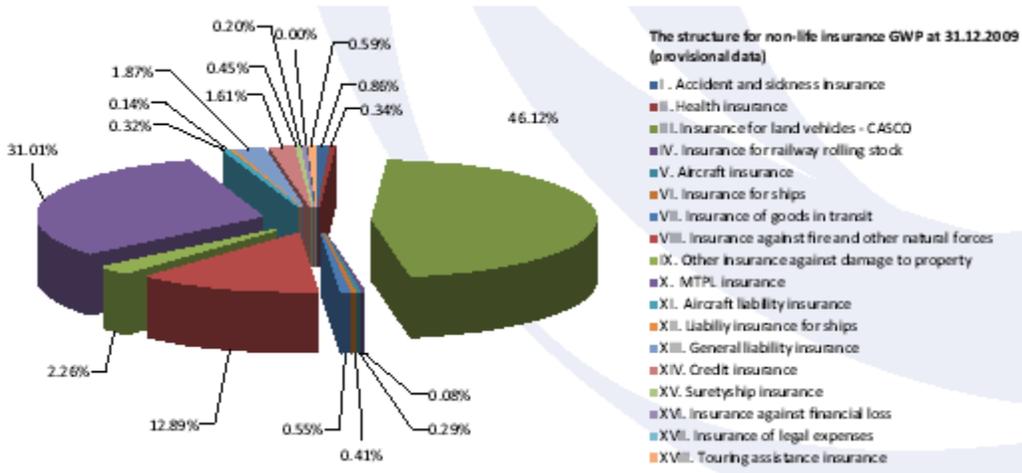


Figure 1: The structure for non-life insurance GWP at 31.12.2009, p.16

Source: Insurance Supervision Commission, Newsletter, no. 1/2010, p. 16

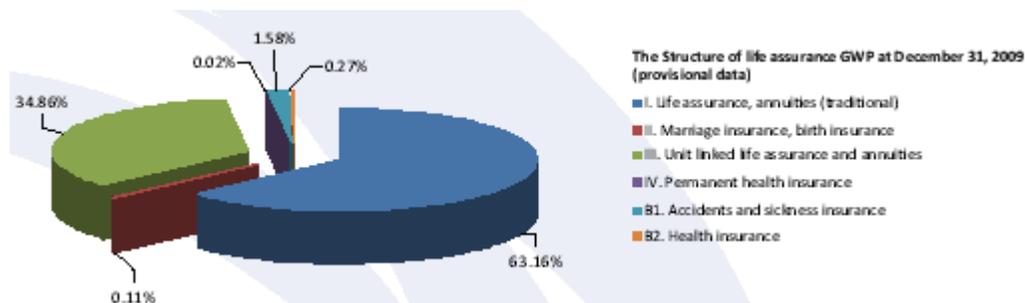


Figure 2: The structure of life insurance GWP at 31.12.2009

Source: Insurance Supervision Commission, Newsletter, no. 1/2010, p. 16

I.2. GWP for life assurance

The total volume of GWP in 2009, for life assurance amounted to 1625,32 million lei in 2009, representing 18.38% of the total volume of gross written premiums. GWP for life assurance were of 242,79 million lei (13%) lower than in 2008⁷⁸⁹.

This situation was generated by the negative trend of the traditional life assurance products assigned to Class I life assurance, representing 63.15% of total written premiums for life assurance, mainly due to the significant decrease in purchasing power of the population.

In terms of class structure, class I – traditional life assurance and class III – annuities related to investment funds hold together a share of 98.01% of total amount of GWP.

However the premiums related to class I decreased with 21.92% in 2009, in comparison with the previous year, in absolute terms with 288,41 million lei, while the premiums for the class III (unit linked) recorded a nominal growth of 8.9 % (with 44,80 million RON), compared to 2008.

In comparison with the previous year, accidents and sickness life insurance registered a growth of 14.42%, while permanent health insurance (class IV) registered a growth of 7.54%, although the two classes represent only up to 1, 5%, of total amount of GWP of life assurance.

⁷⁸⁹ Insurance Supervision Commission, Newsletter, no. 1/2010, p.17

2. Gross paid indemnities (GPI)

The volume of gross paid indemnities for the two categories of insurance was of 5861, 63 million lei, an increase of 26.36% compared to the year 2008.

3. Gross technical reserves

Of the provisional data provided by insurers, we can notice that on 31.12.2009 insurers had gross technical reserves for non-life worth 6900,42 million lei, up 7.6% compared with 31.12. 2008. For life insurance, on 31.12.2009 insurers had gross technical reserves set up in the amount of 3.889,48 million lei, (+13.60%) of the value recorded at the end of the previous year.

4. Conclusions

If the economy is returning to growth in 2010, the insurance market could begin, in the second half of this year, to experiment a slight increase, so that, in December, the gap recorded in 2009 to be recovered.

But if the pessimistic scenario, in which we will see a sharp decline in macroeconomic indicators, will occur, the insurance market would end 2010 at a similar level of gross written premiums as the one registered at the end of the last year.

Insurance industry is directly connected to the development of the main economic branches and is also depending on consumption, which last year saw a slump.

Insurance Supervisory Commission analysis shows, however, that this market could end 2010 on an addition of at least 5%, given that the need for protection began to be increasingly conscious of potential consumers.

What meant year 2009 for the insurance market, both for the companies and the Insurance Supervisory Commission? Rapid reactions, strategy changes, a more prudent risk management, significant infusions of capital, changes to some regulations, in order to enhance the protection of the policyholders, the introduction of new procedures, such as the “Bonus–Malus” system.

Unfortunately, the insurance market in Romania continues to be dependent on MTPL and CASCO segment, given that it generates over 60% of the gross written premiums for non-life insurance market.

Meanwhile, in Romania, life insurance segment, the one that makes the rule of the industry on the full grown markets, is still feeble. Moreover, in 2009, life insurance proved to be the most exposed to the crisis.

The wave of redemptions and termination of contracts, started towards the end of 2008, still it was tempered in the latest quarter of the last year.

Since 2007, the local insurance companies apply the Solvency I while preparing for Solvency II. Together with the accounting standards IFRS, Solvency II is going to dramatically reshape insurance and reinsurance industry in Romania, to boost competitiveness and professionalism.

When it is to be implemented, Solvency II will lead to a change in the way the supervisors are working. Insurers and reinsurers are going to be evaluated according to the existing risks in their portfolios, their assets and liabilities being quantified by economic principles. The implementation of Solvency II will mainly increase the consumers’ confidence in insurance products, as the solvency model enables early detection of possible shortcomings and to further adapt the risk management process. It is of a high importance that policyholders believe that the insurers are willing to accomplish their commitments. Insurance companies, under the careful supervision of the Insurance Supervisory Commission, are responsible for generating and maintaining that trust.

The continuous improvement of the insurance premiums, the insurance density and the insurance penetration rate (annual amount of Euros paid on average by an inhabitant) support the importance of this sector of activity in the total economy of Romania.

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CONCEPTUAL CLARIFICATIONS REGARDING THE FINANCIAL CONTROL

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In this paper, the author presents the concept of financial control, distinguishing between financial supervision and tax control based on the analysis of relations finance - Public finance - taxation, namely, financial law - tax law.

Keywords: public finance, control, tax.

JEL Classification: N20.

1. GENERAL CONSIDERATIONS ON FINANCIAL CONTROL

1.1. The concept of control

The Control, in general, plays an important role in any economy of any state, it is a basic tool of management for all segments of society. The activity of control is in all the phases of processes taking place in society, from their planning, their progress and impact assessment.

The origin of *control* is found in a Latin word phrase „*contra rolus*”, which expresses the activity of comparing, checking duplicates of the original act, entrusted - in this respect - to another person. In a synthetic speech, the phrase „*contra rolus*” means „checking an act after the original check”⁷⁹⁰.

More broadly, in its semantic sense, control is „a continuous or periodic review of an activity, a situation to watch them march and take action to improve”⁷⁹¹. Meanwhile, the *control* means „further monitoring moral and material, and possession of an activity, a situation or a process of comparing facts with the required or planned, and the enterprise of collective approaches, so that achievements are in accordance with predetermined goals”⁷⁹².

Under its various aspects, human activity has been subject to control since ancient times. The power of control of man, suspected occurrence of a particular predisposition to evil man to other people, need the good and / or had (owners) to protect their interests affected by the bad guys and not having ”.

By newer days, other purposes have become increasingly important: *efficiency* (to control what goes wrong to go through measures to improve the operational order, tactical or strategic), *legality* (compliance verification established by law and application of sanctions, if any), *opportunity* (the events are appropriate circumstances and situations)⁷⁹³.

In the specialised literature we meet other acceptable definitions regarding the control, namely:

- The Francophone sense according to „Le Petit Larousse - Dictionnaire encyclopedique, Paris, Larousse, 1975 ”, „control is a check, a careful inspection of the correctness of an act”.

⁷⁹⁰ M. Ghiță - „The financial control, a component of economy”, Universitaria Publishing House, Craiova, 1995, page 6.

⁷⁹¹ *** „Romanian Language Dictionary”, Academic Publishing House, Bucharest, 1975.

⁷⁹² Ionel Bostan - „, The financial control”, Economic Publishing House, Bucharest, 1999, page 6.

⁷⁹³ Ionel Bostan - „, The financial control”, Polirom Publishing House, Iași, 2000, page 11.

- The Anglo – Saxon sense according to „, The New Merriam - Webster Dictionary, Merriam - Webster Inc., Publishers, Springfield, Massachusetts, 1989 ”, „, supervisory control is the action of someone, something, an examination or the power to control an instrument for regulating a mechanism. ”

The need for control is determined by objective reasons and above all, forms of ownership, commodity production and action of specific laws economy.

Control has been and continues to be one of the factors that have influenced and stimulated progress⁷⁹⁴, always people with admiration on the achievements of their predecessors and contemporaries, subjecting them to rigorous examination, which led to change and progress.

In addition to the original meaning, *the concept of control* has gained more meaning over time: *the continuous or periodic review* of an activity, a situation they are going to track and take improvement measures, surveillance, moral and material; *to rule* , *to dominate* an activity or situation; *periodic verification of knowledge*; *careful inspection of the correctness* of an act.

Finally, the *control* is an activity that provides data and information derived from the findings *before, during* or *after* the execution of an operation aimed at the prevention of irregularities or deficiencies, in wich their correction and establishing liability, where applicable .

The control is an activity that the findings before, during or after the execution of operations, is providing data and information about them, with the final goal of preventing irregularities and deficiencies - lack of conformity to predetermined rules - and their correction and determination of liability if case⁷⁹⁵.

In practice, the control is obvious in all social fields, from politics and obviously in the economic sphere where economic control is revealed primarily by financial control.

1.2. Financial supervision and tax control: definition.

The relationship between finance, public finance and taxation. Relationship between financial law - tax law.

1.2.1. Financial control: definition

Starting from the notion of control and by developments in the economy - which it belongs - *financial control* - its defined „*as the action to determine the status of activities represented in financial and accounting documents, by reporting these representations to the provisions laws that have been defined*”⁷⁹⁶.

Analyzing the above definition that audit work *is more* than one action to the need to check the status of knowledge of certain economic phenomenon and pursued to address the effects of deviations from certain statutory provisions.

Specifically, the financial control shall examine the way in which the financial terms of objectives and programs undertaken by different public bodies, in order to prevent them or to discover any irregularities, errors, deficiencies, correct them and to avoid them in the future.

In the sphere of public finance law, financial control covers all the legal rules governing social relations - the legal relations of financial law are set in relation to control the *formation, administration and use* of public financial resources (state and / or administrative units of territories) and that are intended to correct the acts and transactions and other compliance and default rules⁷⁹⁷.

⁷⁹⁴ Dan – Drosu Şaguna - „, Financial and tax treaty law”, All Beck Publishing House, Bucharest, 2001, page 329.

⁷⁹⁵ Doina Petică Roman - „, Public Financial Law”, Tribuna Press House and Publishing House, Sibiu, 2003, page 222.

⁷⁹⁶ P.Popeangă, G.Popeangă - „,Financial and tax control”, C.E.C.C.A.R. Publishing House, Bucharest, 2004, page 19.

⁷⁹⁷ See Doina Petică – Roman, op.cit., page 223.

The economic literature has formulated various definitions of the financial control, a common denominator of them is the fact that relations in the sphere of financial control is a *component* of the relations which arise in connection with the state's financial resources.

Thus, Professor Ioan Gliga defined the financial control as „*a compliance and enforcement activities conform to norms of financial conducted with the purpose of restoring legality, training and use made of public money funds and hence the purpose of establishing liability and application of legal coercion cases of violation of financial law*”⁷⁹⁸.

Professor Dan Drosu-Şaguna defined the financial control as „*a component of economic control, which is to know how material and financial resources are managed by public companies, the form for spending public money, ensure financial balance, achieving economic efficiency, development of national economy, the achievement of social progress*”⁷⁹⁹.

In his work, public finance law "(Printing Press House and Tribune, Sibiu, 2003), Mrs. Professor Doina Petică - Roman makes the distinction between financial control and public financial control, defining *the public financial control* as being „*a component of financial control activity to verify how is formed the public financial funding and how the public patrimony is managed*⁸⁰⁰, to ensure a good financial management with the purpose of restoring legality in situations of violation of legal rules”⁸⁰¹.

The *training, management and efficient* use of public money are *crucial* to achieving the major objectives of the State, both economic and social, but are *determined* to a large extent, by the efficiency of activities developed by *financial control*.

From the definitions above, we conclude that the financial control activity serves a triple system of interest namely:

1. Financial control is the instrument through the effects of prevention and settlement failures that can occur at any time in activities within an economic unit, serves the interests of the state in achieving its long-term fiscal policy.
2. Financial control serves the interests of economic operators who organize it and carry it through *both* the prevention of situations of failure in the management of heritage, and especially the work of remedying violations of legal provisions established.
3. Financial control serves the interests of economic entities marketing partner, which gives precise information on the economic situation of economic unit and are concerned for a possible partnership.

1.2.2. The relationship between finance, public finance and taxation. The financial law - tax law relationship.

Definition of fiscal law

In the analysis of definitions given to the financial control we can see the following observations⁸⁰²:

- a) Through *financial control* occurs the inspection of the establishment of public revenue. Since the formation of public revenues is on account of *taxes and other revenue* of public budgets, the legal rules governing these issues are covered in theory as the *tax law*, subdivision belonging to *financial law*. Therefore, *tax law* is a component of *financial law*, just as *taxation* is part of the *science of Finance*. Taking *finances* - the financial relationships – as a *whole*, *public finances* are

⁷⁹⁸ Ioan Gliga - „Financial Law, Humanitas Publishing House, Bucharest, 1998, page 380.

⁷⁹⁹ Dan Drosu-Şaguna - „Financial and tax treaty law”, All Beck Publishing House, Bucharest, 2001, page 329-330.

⁸⁰⁰ Public property means all rights and obligations at a time, of state administrative units - regional public entities or their economic value, acquired or assumed in any way (Doina Petică - Roman, op.cit., Page 226)

⁸⁰¹ Doina Petică – Roman, op.cit., page 224.

⁸⁰² See Doina Petică – Roman, op.cit. 225-227.

the *part* (and the private finance too) in the public finances, *taxation* is also *part* (the *taxation* is a component of *public finances*, which is a component of finance in its sense). Even so, considering the entire *financial law* as a whole and the relationship between *tax law* and *financial supervision*, by analogy the relationship between financial supervision and tax control is a relationship of the *whole to part*.

Financial Control reflects the *inspection* of the establishment of public revenues through taxes, respectively, verifying the *fulfillment* of tax obligations by taxpayers.

b) Through *financial control* we can check how *to use* the *public revenue / public funds*, regardless of the quality of public or private entity to receive the funds. In addition to checking the *constitution* of government revenue - work carried out through *fiscal control - financial control* (as a whole), and we can also check how public revenues are used. The ultimate goal of *using public revenues* is the satisfaction of needs and general interests, which is why it is imperative to verify the use of these public revenues because it is natural that the requirements are respected by *legality, regularity, economy, efficiency and effectiveness*.

c) The financial control occurs inspection of the *management of public property* - understood as whole and the rights and obligations of the administrative units - territories to public goods in their field and / or private, at one time, value economic, acquired or assumed in any way. In this case, *financial control aimed* is protecting public property against losses caused by natural wear (erosion), waste, abuse or fraud.

2. Conclusion

We can define the *financial control*, as a component of economic control, meaning the activity of verification provisions and operations, which has the objective of knowledge of the *state*, the way they are *formed, managed and employed* the material and financial means (by public companies - which are state entities and the administrative - territorial) - in other words - how to do and spending public money in order to achieve an efficiency of economic life - social, ensure financial balance, the national economy, achievement of social progress and restore the rule of law .

The formation / construction of public revenues is mainly on account of *taxes and other revenue* of public budgets to regulate such matters are the responsibility of *tax law*, a subdivision of financial law. In the context of *fiscality, fiscal control* - reflects the inspection of the establishment of public revenues through taxes, and verifying the fulfillment of tax obligations by taxpayers.

As the French author, Fr. Querol, assessing the effectiveness of a state „depends first of its propensity to tax product to enter the public pay offices and therefore to ensure that citizens do not avoid their tax obligations. For this, it - has endowed with a certain tool: *fiscal control*”⁸⁰³. The tool ensures the supremacy of state tax sovereignty⁸⁰⁴.

In addition to fiscal control, *financial control* also comprises checking how public revenues are *used*, and inspection of the management of public property.

As tax law is part of the financial law, so, fiscal control is part of financial control.

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⁸⁰⁴ Viorel Roș - „Finacial Law”, All Beck Publishing House, Bucharest, 2005, page 377.

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SOME CONCLUSIONS REGARDING THE HISTORICAL EVOLUTION OF FINANCE IN THE PRESENT TERRITORY OF ROMANIA

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In the present article the authors are debating the historical evolution of finance from its beginning until its present. The importance of the theme is given by the fact that the appearance of finance was due to the appearance of the state, when the state treasury was confused with the welfare of the Lord, and when taxes are introduced for the first time.

Keywords: evolution, taxes, revenue, period.

JEL Classification: N20

1. Introduction

If elements of economic and commercial nature, existed in the current romanian space of time removed, resulting - after developing the state and money - the emergence of the first elements of finance, about their financial relationships - we speak - with reference to our territory inhabited by the romanian people - just as when mainstream form of cash contributions, which chronologically puts us on the mid-nineteenth century, since the modern era⁸⁰⁵.

Therefore, the changes in the elements of finance – from the beginning of the first millennium - to **finance / financial relations** - equipped with a **real tax system** - in the mid-nineteenth century - is a long and complex process, influenced by the concrete conditions of society, the changes in social systems - economic, ideological and political trend.

The tax system contains all the financial funds in place, bounded on an economic level and links between these movements constituted financial resources generated by operations (also called financial flows). Fiscal relations ensures the funds, but their orientation, so fiscality is evident in the distribution process, by mobilizing the various channels of resources available to state, representing a part of the finance functions namely the allocation.

2. The historical evolution of finances in the present territory of Romania

2.1. The medieval period

In a work entitled, „History of the Romanian public economy”, National Culture Publishing House, Bucharest, 1924, the author, George N. Leon says (page 11), „Financial History of Romania can not be studied only by the foundation of the principalities, because the Romanian people lived before them, with an organization determined by the conditions of existence of time. Whether we lived freely in some parts, whether they lived in dependence of other nations, he experienced a tax debt for us is a great interest to investigate the Romanian people with household public relations, whatever the latter was.

In the same work quoted by Professor George N. Leon, we have an overview of the obligations which it imposes the **Tatars** oppressed peoples of Eastern area, „he came from Russia a comissar to charge of regulation. He took the first of three children, one from the three carried it with him putting to slavery all unmarried people, men or women and all those who did not had

⁸⁰⁵ Idem, page 12.

how to gain life or pay the **capitation**. The remaining population was counted: small and great, rich and poor, old and young had to pay the same capitation of five skins: a white bearskin, a marten skin, the skin of a beaver and a ferret skin Mongolian officials came in, to change the tribute settlement and administration. They put one man to ten contributors, over one hundred one centurion, over one thousand and one mias who steals responsible for fulfillment of the capitation. Exception were only priests, monks and nuns”.

„A document from 1222 tells us that Andrew II, king of Hungary, nodded the Teutonic Knights the right to bring salt on ships on the Olt and Mureș River, saving them from the tax they pay to pass through Romania (per terra Balcanum). This proves that the romanians, since the first half of XIII century, had organized a country economically, collecting customs duties which of course served to cover collective needs. It is beyond any doubt that in this period the needs of the princes is confused with the needs of the state”⁸⁰⁶.

2.2. The Principalities period

Public expenditure were made to society, but were almost exclusively expenditure made by the Lord that was required to ensure the rule of law and ensure peace. He repress sight and force arbitrary, paid employment related to services for the Princely Court, supporting the Church and social establishments. Revenues are restricted areas consist mainly of its operation, the taxes mentioned above, changed from year to year or repeated in the same year with the change of the Lord. The Lord is the master and all his goods were between public property and private possessions of the prince no distinction confusing the state treasury.

Most people were peasants and lived in country villages as differentiated by the fall: the royal villages, monastery villages - donated by the Lord to the monasteries, with all obligations – the villages of Noblemen - donated noblemen, and free villages composed of free men, named „**Moșneni**” in Valahia and „**Răzeși**” in Moldova.

The people who were not free were called „**rumâni**” or „**neighbors**” and were tied to the land, the estate or gentleman.

The „**rumâni**” have to his master, three kinds of tasks: the „bucket”, giveing and labor⁸⁰⁷.

The „**buckets**” represent some of the products made by „rumâni” on the land of the noblemen due to grain for hay and live with different names: from wine yards, cowing etc.. The „buckets” were **paid** by free people, in size and structure, thanks to tithe for all products of the earth.

The **giveing** is an obligation that was due only to beehives, sheep and pigs.

The **labor** is required to work without pay in farming, transport, to live, to repairing houses of the noblemen.

Outside sharecrop basis, free men were also forced to perform work on the estates of noblemen / prince / monastery, twelve days a year, and by the seventeenth century, this requirement had to perform a twenty four days a year.

In addition to free people, there were other categories of people, such as **courtiers**, „**călărași**”, „**hânsarii**”, „**darabanii**”, „**plăieși**” and **hunting men**, they were royal retainers. Plăieșii were exploiting forests in exchange for the duty to guard the borders, darabanii lived and fed on royal seats in exchange for warlike service. In general, the various royal servants were various services in exchange for lowering taxes to the ruler and the noblemens.

Valahia and Moldavia were the grain yards of Turkey, hence feeding the Sublime Gate with grain, sheep and beef and other food providing the empire.

When the Ottoman Empire was at war, the principalities were obliged to send people to certain services, transport, building bridges and various other labor.

⁸⁰⁶ George N. Leon - „ The history of politic economy at romanians”, National Culture Publishing House, Bucharest, 1924, page 17.

⁸⁰⁷ I. Vlădeanu - „About pays and taxes. The tax.”, „Cartea Românească” Publishing House, Bucharest, 1925.

„The Hungarian entry into the country, conquered land was divided between different Hungarian families, making their joint property. But besides these owners are in the country a free people, native, who lived under her own organization, to enjoy various privileges and engaged in the cultivation of land (Romania), trade and crafts (chassis) and, finally, the crowd Slavs who lived to the owners and worked for the benefit of the master.”⁸⁰⁸

The current Romanian territory, but also in other areas / regions where Romanian living, social relations were feudal. Financial structures were rudimentary, characterized by arbitrary distribution of tax burden based on the principle of distribution of step in step, to family, without any economic justification. There is no regular collection or a real financial device, sound, financial structure of the relationship marked by the nobility, the church, clergy, by rule or royalty.

2.3. The Middle Ages

Given the fact that Constantin Mavrocordat was a gentleman who depended on the Phanariot „goodwill” of the Great Gate, „goodwill” that was ensured by substantial amount and because the Lord himself, certainly not during his reign, but while he hold his lordship, exploit the situation to increase his own wealth; it happened that the Lord himself violate some provisions of the reform, raising the toll of five to six times a year instead of four and even ahead of schedule.

To increase revenue, Constantine Mavrocordat was worried about the increase in the number of taxpayers, by abolishing in Valahia (at 7.VIII.1746) and Moldavia (in 6.IV.1749) the serfs, not by releasing them, but to give fresh land release, which was they remain in a state close dependence on the noblemen.

From the russian withdrawal from Moldavia (in 1812) and annexation of half of the territory, in conditions of generalized poverty, there was a number of significant migration of population: 400.000 inhabitants took refuge in Russia, 300.000 in Serbia and 75.000 in Bulgaria, so number of taxpayers is reduced drastically, leading the Valahian country with approx. 800.000 inhabitants, and Moldavia about 500.000 inhabitants.

In these conditions, the Valahian government ensured attracting new resources to the budget, after the Revolution of 1821, will resort to **loans**. Thus, Valahia is forced **to resort to loans from monasteries**, with interest of five thalers to bag a month, ensuring in this way, attracting the amount of 23.550 thalers (equal to 70,650 ROL). The Moldavia resorted to **loans from the noblemen**⁸⁰⁹.

2.4. To the modern period

By the introduction of the Organic Laws it took the first steps towards a modern tax system rests on the base. Thus, it was done to fix the state spending each year, they set the taxes and revenues to meet expenses, they established rules of collecting tribute and rules after the Treasury was to realize its activities.

The draft regulation is initially introduced some regulations on land tax (for the first time), as a direct release of land, and some tax regulations like stamp tax, which is pursuing two objectives on the one hand increase state revenues, and secondly, reduce the number of lawsuits pending. These provisions - **the land tax and stamp duty** - will be adopted in the final text of the Regulations, due to the opposition of the noblemen.

⁸⁰⁸ George N. Leon, op.cit., page 40.

⁸⁰⁹ Drept exemplu se poate da cazul căminarului Constantin Boteanu, care a împrumutat statul, conform unei chitanțe, cu suma de „150 lei, adică una sută cincizeci lei [...], în trebuința cheltuielilor țării, cu vadă de doi ani și cu dobânda legiuită și la împlinirea vadei să i se plătească atât capetele cât și dobânda” (Enciclopedia României, 1936, pag.737)

2.5. The modern period

The change of regime in Russia by the end of 1917, Romania has asked the allies for collective security vaults by Moscow, guarantee granted to February 21, 1918. Despite this guarantee, Romania failed even to this day to recover than a tiny part of those values.

In this respect, the main aspects that characterize this period are:

In 1921, the government Averescu having as Finance Minister Nicolae Titulescu (between June 13, 1920 and December 16, 1921) will launch a series of laws (even a program), aimed at reforming public finances in Romania and unify systems imposition. Thus, the proposed reform of Nicolae Titulescu, passed by the Romanian Parliament in July 1921, contained several laws namely:

- **The direct contributions law, by the creation of progressive taxation on income**, it had an modern economic content, aiming to ensure some fiscal and social equity, based on a set of principles, such as requiring actual income made in the declaration taxpayer, progressive and proportional taxation, the introduction of the minimum taxable.

- **The progressive tax on wealth and enrichment of the war**. This tax should be levied on net wealth companies and apply the text of the law provisions, which were there any kind of joint stock companies, cooperative societies and companies limited by shares, including foreign companies limited by shares with branches in Romania.

By this measure, proposed by Titulescu nationalization policy with tax authorities, a policy of nationalization of the country's resources and private capital for the benefit of the community.

Also, this tax would affect the assets acquired during the war, those who have benefited from significant increases in their wealth or have achieved great wealth during the war, should contribute to state revenue with some of them. By law, revenues derived from the application of this tax was intended to liquidate damages of war and internal debt amortization. **This tax**, although acquired parliamentary approval **was not applied in practice**.

- **The luxury tax and turnover**, which is - at that time - new to the Romanian tax system.

In fact, it is a tax on gross turnover, including its base and other taxes hidden costs. The tax charge is based on the idea of a commodity, whenever it passes - by selling a hand to another (taxation, in cascade "or" snowball ", " tax on tax ").

- **The progressive inheritance tax** is a tax placed on the transfer of wealth will affect the gradual concession and property, according to its size.

In 1923, the Finance Minister function was occupied by Vintilă Brătianu, by adopting **the law direct taxes on income tax proportion** is achieved true unification of direct contributions. The new system of direct taxes was based on the idea of imposing real incomes made by individuals or companies. Tax effort largest banks way back, then trade and agriculture, and finally, the last position, with the lowest tax burden, industry.

Brief overview of major tax and specific postwar period and the totalitarian state (socialist state)

The highest yield tax is the tax on income population, which, according to the taxable base is divided into: income tax amounts and tax on non-agricultural income agricultural sources.

- Tax on non-agricultural sources is initially perceived, from workers, officials, scientists, letters and art, self-employed, artisans, merchants and owners of workshops. Imposition was personal, the tax for each person in the party who obtained income. For owners of workshops provide a global tax with progressive rates, to discourage and make them give up these activities. From 1972 to appeal the imposition of those paying distinguished by progressive rates. Some craftsmen who practiced walking activities the quarter due to a flat tax.

- Tax on income earned from agricultural activities was placed on the income of the cooperative, with remuneration of Agricultural Production Cooperatives and on their personal income households and households income on individual producers of the hills and mountains

that was noncollective property. At first the imposition of rules is based on income so-called „middle-income” per square, livestock, differentiated the five groups of districts, depending on climatic and soil conditions. In setting take into account middle income category of land use: arable land, irrigated gardens, orchards, vineyards, meadows, forests, swamps.

Between 1969 - 1971, imposing income from farms has undergone many changes, the orientation of fiscal policy in this area is to discourage land tenure.

- Income tax on collectivist cooperative organizations

Handicraft cooperatives, consumer cooperatives and agricultural production cooperatives due to the state budget, a progressive tax, the installments, depending on the size of the income benefit base is actually made.

- The tax on collective farms land was charged in the period 1955 - 1968 and calculate the fixed amount per square of land, divided into five groups according to their quality. Since 1969 this tax was dropped, and replaced with a tax on the income of members.

- Tax benefit of joint ventures, much like commercial tax profit and dividend of enterprises established after 1995. The base tax benefit of joint ventures is determined by the difference between revenues and expenses, then to be taken is deducted from the reserve fund (5% of the benefit each year and 25% of capital invested). Annual taxable benefit so calculated was required to share 30%, and that was transferred abroad, there was a 10% tax.

- The tax on buildings is set for all types of buildings: houses, business buildings, commercial premises, institutions, etc.. and is supported by individuals and units of various forms of socialist, tax rates differ according to purpose buildings (0.45% - 1.50% of the building). The tax is paid in two equal half-yearly installments.

- Urban land tax is levied on land built and Non-built cities, belonging to individuals and legal persons. Tax is calculated in fixed amounts per square meter of land, depending on location and the use of the land. Budgetary institutions were exempt from this tax.

- Tax on land belonging to the state was about exclusive for state ownership of land.

- Tax on vehicles and animals was collected for individuals having mechanical or animal traction vehicles. The fee was determined based on engine capacity, the number of animals for traction and by the characteristics of the vehicles.

- Flat fees for use of public places are paid by individuals who sell goods, products or objects, in fairs or public spaces.

- Stamp duty fees are charged for natural persons and legal entities that use the services of the state, through its institutions: state arbitration, the State Notary, judges, etc..

- Tax on goods movement is an indirect tax placed on prices of goods of any kind, although the communist period is not recognized the quality of consumption tax. In fact, it was a tax on gross turnover with its known disadvantage, is applied in a single stage of making the goods, usually the manufacturer, the single tax type. He, however rise to the phenomenon of tax to tax because some materials, some parts, included in the cost of the new product to the purchase price which included the tax on the movement of goods. It applies to the wholesale price and vary according to industry types, from 0.50% to 22.50% aiming at an adjustment of yield on branches of national economy.

The tax on movements of goods are received from the cooperative organizations, during the recovery of agricultural products by units of the food industry. These products are bought at different prices depending on the source of supply, but prices were delivering unique manufacturing enterprises. The difference is paid to the state budget as this tax was not - necessary for export goods and investment. The tax is due monthly, but paid decade, wages, or sometimes daily.

- Tax adjustment was introduced in 1970 aimed at removing excessive profitability, its economic content is the same as the tax on movements, but is charged in all cases to domestic production.

- Collection of net production by the company is a tax introduced in 1978, sat on the added value to the price of goods, which are calculated based on net production and other indicators of physical production and value, to encourage and stimulate a higher return businesses, without taking into account the economic base. Although it was recognized as an indirect tax levies to the company net production was a net turnover tax calculated by the analytical method, by adding added value features are redemption amount, asimilate their wages and benefits, taxes and other items Net income. The tax being another tax on gross turnover - that the tax on movements.
- Duties were imposed on imports and exports, in accordance with international agreements and conventions concluded by Romania as a country member of the Monetary Union and other countries were presented to the Customs Code.

3. Conclusions

The financial economy is an economy feudal regalian type field, in which state power is broken in pieces of many fiefdoms.

In the Middle Ages, the legal sovereignty and financial sovereignty - tax are charged by private individuals. In many medieval taxes there are **categories of taxes**. So there were: **the rights of lords for property** (tithe, quinquagesima); **and workers to individuals rights on people** (military service, labor, etc.); **the rights on acts of civil life** (on any property tranfer on inheritance, marriage, etc.); **the rights on the acts of trade and craft** (customs duties, taxes on guilds, etc.); **mint mark rights** and other rights of lords, the clergy and royalty.

All these rights, outside of military service, were not public but were private, particularly for the benefit of feudalism. As these requirements are only partly served the community and is paid mostly in kind and in labor, so they were not a tax but being as a **financial rights over the subjects**.

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CHAOS OR TURBULENCE ON THE VOLATILITY OF PUBLIC REVENUES

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In an intuitive attempt to define financial distress in the public sector, it can be represented by the turbulence over the normal rhythm of indicators' evolution in the public revenues, due to the influence of exogenous factors coming from the real economy, the behavior of taxpayers as well as to other influencing factors. This way of defining financial distress makes it possible to measuring its composing elements, such as: the turbulence and the influence of exogenous factors. The application of financial distress tests for the public budgetary indicators and the notification of its existence can be of real use for the central and local governments, taxation policy.

Keywords: local government revenues, public taxation, financial distress

JEL Classification: G17 - Financial Forecasting, H21 - Efficiency; Optimal Taxation, G01 - Financial Crises

1. Introduction:

The central governments but also the local ones are presently interested to identify the best solutions for successfully dealing with the global economical crisis, which deteriorated the public budgets, financially contaminating them with the virus of chronic budgetary deficits.

Having this reality, the global economical crisis, the central governments put in practice budgetary policies oriented most of the times towards constraints applied to the operational costs of the governmental device and called for momentary solutions, to solve the crisis of budgetary deficits through public loans⁸¹⁰.

But the problem of public loans is easy to explain when these, in crisis times, assure the financing of public investments; on the other hand, the same loans are very controversial when they assure the financing of consumption costs. A budgetary policy of covering the budgetary deficits through public loans destined for consumption costs (pensions, the salaries of those working for the state) make the experts shiver, having serious consequences on long term on the macro-economical balance of a country.

In fact, the classic and modern economical theories show that for crisis periods, the immediate solutions at hand for the central governments is to support the public investments with implications regarding the jobs increasing and indirect support of the investments in the business sector. The essence of public investments is that through the development of public utilities infrastructure the business investments are to be supported so that the *automated propelling stimulus* for the increase of budgetary revenues is generated. The multiplier of the public

⁸¹⁰ Boloș Marcel, (2006), *Bugetul și contabilitatea comunităților locale – între starea actuală și posibilitățile de îmbunătățire*, Ed. Economică, p.40

investments cannot lead to multiplying the budgetary revenues unless through investments in the business sector⁸¹¹.

In this period of global economical crisis some conclusions are to be learned, written on paper along the time as a matter of fact by the experts in public finances, briefly as follows:

-the budgetary revenues are connected to the real economy, having as main communication channels the percepts and taxes;

-a turbulence generated in the companies' activity on the goods and services markets leads to a turbulence in the public budget expressed most often as budgetary deficits;

-the central governments, during crisis times put in operation budgetary policies which aimed at constraints applied to the operational costs, and naturally supported the investments in the public sector⁸¹²;

-by accident but as a real fact, some central governments, lacking other solutions for the moment, to avoid the financial collapse appealed to public loans to support the consumption costs (pensions and/or the salaries of those working for the state)⁸¹³.

When the momentary solutions, to avoid the financial collapse, were to support the consumption costs from the public loans, was nothing else than the clear fact of weakened economies, not able to produce public revenues to support the consumption public costs. This uncontested reality leads to the idea that a characterization of the national economies can be done through the situations resulted from comparing the public revenues (percepts and taxes from the business sector) with the public consumption costs (operational) which can be expressed as follows:

-percepts and taxes collected from the business environment / the public consumption costs (operational) the national economies have the capacity to generate public revenues, the central governments can develop and support the public investments as an essential condition for keeping a living standard accepted by the population;

-percepts and taxes collected from the business environment / the public consumption costs (operational), the central governments are in the critical point indicating the imminence of starting a crisis, whose causes can be the uncontrolled increase of the public costs or on the contrary a decrease of the economical growth rhythm registered at local level;

-percepts and taxes collected from the business environment / the public consumption costs (operational) indicate the existence of a crisis, regardless of its nature (financial or global economic) or can be the result of uncontrolled policy of growing the public costs.

The third situation is the subject of our research to indicate the conditions of financial distress existent on the market and its influence on public revenues, with immediate consequences as is already known on budgetary deficits of central governments.

The experience demonstrated that during the periods without crisis, the local and central governments appealed most of the times to the necessary tools to support the economical development as a solution for the budgetary deficits sometimes hard to control. Moreover, to respond to the existent needs in the public sector, the governments, especially in pre-electoral periods, supported the salaries increase for the persons working in the public sector, which on long term added consumption costs and an unreasonable support of the budgetary deficits.

All economic theories, regardless it is about the classic or modern theories were elaborated for the situations existent at that time. Therefore during the economic boom periods the crisis situations were not taken into account, as well as the inverse situation is also valid. We know only by intuition if during economic boom times the prudential reserves would have been good to

⁸¹¹ Cowell Frank A., (2004), *Microeconomics, Principles and Analysis*, Sticerd and Department of Economics, London School of Economics, p.134

⁸¹² Moşteanu, Tatiana, coord. (2004) *Budgetary policies and techniques*. published in University House, Bucharest, pp.23-34.

⁸¹³ Tulai Constantin, (2003), *Finanţele publice și fiscalitatea*, Ed. Casa Cărții de Știință, Cluj Napoca, pp. 15-20.

stock, even if in currency, for the governments to intervene in crisis situations. We don not know if during crisis times some anti-crisis measures have to be taken and not protection measures against the crisis. There are questions, answers, dilemmas which experts in economical sciences should solve even if to adapt the results of their research to the economical reality.

2. What is financial distress and how we measure it?

It is obvious that any interested reader, in the simplest terms would define the distress as a discomfort situation generated by the existence of undesired events, which negatively influence the people's behavior and sometimes their welfare. The distress was conscious for the people in Eastern Europe mostly in the same time with reaching the market economy, when the lack of jobs, unemployment danger, the decrease of the purchase power led to a stressful situation which on long term influenced the welfare of people and generally of the whole population.

How the population protects itself from the forms of stress? The most frequent protection forms against stress is to economize (to make reserves) which offer the individuals a mental comfort that in any situation "*the money can help them*". But forming the reserves is only possible when the economies register situations of economical growths, except the fact that the individuals, during economical boom, have a bigger tendency towards consumption. In crisis times, avoiding stress is almost impossible mostly by the individuals lacking reserves or financial investments. They cannot fight against the stress, being practically condemned to support the negative consequences of crisis manifestations.

It is interesting to study the companies' behavior during economic boom but also during crisis times. The reality showed that during economic boom, in the lack of a solid business, the business people in Eastern Europe were attracted by the short-term gains, being caught in the whirlpool of *speculative businesses*⁸¹⁴. For example, the most frequent expression forms of speculative businesses were the businesses in the construction field but also those resulted from the currency exchange speculations. The speculative businesses worked, true on short term, but most of the times the investors endured, afterwards, the negative consequences of crises and of disappearance of speculative businesses from the market. The behavior of the business environment, in the lack of the speculative businesses, for the boom economic times can be characterized through an emphasized inclination towards investments, and not for making reserves, as we would be tempted to say about a future prudential-pessimist investor⁸¹⁵. In fact if the market would be dominated by the pessimist investors, than the progress, economical growth, welfare would be only theoretical concepts forgotten in the dusty drawers of science. Can we talk about a stress of the business environment during economic boom? The answer is yes only it is a positive form of stress caused by the desire of reaching the development rhythm expected by the investors.

During crisis times, the same business environment in Eastern Europe, in the lack of an alarming culture but also protection against the unwanted impact of crisis, adopts different forms of sheltering against the devastating effects of crisis. Slowing down of the business growth rhythm and the operation at the damage limit is the most frequent type of behavior met among the investors. The recent global economical crisis made the proof of this type of behavior which eventually led to cutting off jobs, the growth of the unemployment level, reducing the volume of the business, etc. Moreover, in the same crisis times the companies, which during economical boom speculatively made businesses, rapidly gave up in the fight with the crisis, closing their doors. The result is that the number of companies going bankrupt rose exponentially. We would be tempted to say that the crisis times are useful for the business sector as it cleans off the "sick

⁸¹⁴ Fabozzi J. Frank, Peterson Pamela, (2003), *Financial Management and Analysis*, 2nd ed., John Wiley & Sons, Inc, USA, pp.35-134.

⁸¹⁵ Gibbons Robert, (1992), *Game Theory for Applied Economists*, Princeton University Press, New Jersey, pp.45-60.

companies". The financial contagiousness of crisis leads even partially to the health condition of the business sector. Is the stress present during crisis times at the level of the business sector? The answer is again yes. Stress has now a negative component, the investors being worried by the protection form they should implement to successfully cope with the unwanted effects of crisis. But the public economy functions connected to the real economy. Any shock in the real economy is inducted into the public one the same as any economic boom in the real economy leads to a boom, if not so intense, in the public economy. It is a vital connection for the public sector whose financial resources are rooted in the real economy⁸¹⁶.

The complex mechanisms of the public services cannot function without a real feeding with percepts and taxes at the necessary level for these services to work. But so as the behavior of the business sector and population is different during crisis times, so as the governments' behavior is different. During crisis times the governments' concern is to control the operational costs of the governmental system and support the public investments. But all these budgetary policies are translated eventually in almost chaotic budgetary deficits, which according to economical theories must finance public investments having only one alternative accepted by specialists to be covered and that is to contract public loans.

In economic boom periods, the same governments, legitimately, are tempted to support the public investments with a double aim: to improve the living standards of the population and to indirectly support, through public utilities infrastructure, the business sector. It is also true that in the same economical boom periods the central governments to gain popularity exceed of generosity and increase the pensions and salaries of those working for the state, but this type of measures must be accompanied by a constant growth of economy to avoid the financial collapse in the public sector. The state of financial distress, as we would be tempted to appreciate only intuitively is also present during economical boom and respectively crisis. This state of financial distress can be understood in a first stage, without considering scientific arguments, as being a malfunction of the normal rhythm of evolution regarding the indicators in the public sector.

This way of defining the financial distress makes that this to have two base defining elements, in our approach and that are: the turbulence and the influence of exogenous factors.

Measuring the financial distress in the public sector and the study of the exogenous factors which determined it help the central governments mostly to adopt anti-crisis measures which could stop the decline of the studied indicator and could lead to its re-launching, with an impact on the macro-economical balance. To prove scientifically the measuring technique of the financial distress the *revenue tax* was considered as indicator in the public sector. As already known the revenue tax is used both for measuring the economical growth at the level of a region/ state and for deducting it between budgets with the help of shared taxes. The study of this indicator's evolution, permanently leads to obtaining information related to the dynamics of employed people but also to information related to the evolution of the salary gains of the employed people at the level of a locality.

Consequently for measuring the financial distress the following stages were taken into account:

- the revenue tax is calculated by the companies and is transferred to the state budget after which by deduction, with the help of shared taxes, is transferred, based on some deducted quotas, to the state budget and to the local budgets;

- each budget where was transferred registers a certain level of the collection noted with (I_{impv}) , for each period of calculation (t_0, t_1, \dots, t_n) ; usually in the case of revenue tax the period of calculation is equal to the calendar month;

⁸¹⁶ Baker, (2003), *Notes for Mathematics, Groups, symmetry and fractals*, Department of Mathematics, University of Glasgow, p.60

-for the series of data constituted the simple arithmetical mean was determined, to identify the average level of the encashment from the revenue tax, using the formula: $I_{impv}^- = \sum_{i=1}^{12} \frac{I_{impvi}}{i}$;

-based on the data series and the arithmetical mean the mean square deviation was established $\sigma^2 = \frac{1}{n} (I_{impvi} - I_{impv}^-)^2$ and the mean deviation ($\sigma = \sqrt{\sigma^2}$) with the aim of establishing the deviation of encashment as to the mean, in normal conditions, without financial distress⁸¹⁷;

-for each budget type (state or local) which collects revenue tax at least two influence factors are important: the evolution of the number of employed people and the average revenue they make;

-the scenarios of financial distress were simulated, by subtracting the number of employed people and the average revenue, respecting the constraint according to which the wage cannot be lower under the average national wage, so that the mean square deviation resulted from the modification of the two indicators, respectively the number of the employed people and the average revenue per person, to embrace consecutively values of $\pm 2\sigma$, $\pm 3\sigma$; For these variations of the two indicators in the conditions of the modification of mean deviation with values of $\pm 2\sigma$, $\pm 3\sigma$, different levels of encashment were registered.⁸¹⁸

The following results were obtained which were validated by the results of the research and that are:

-the financial distress is a phenomenon that characterizes the turbulence of the indicators in the public sector as to the normal evolution rhythm which can be measured with the help of mean square deviation (σ_b) and intervene for the values between ($I_b \pm 2\sigma$);

-the financial distress is determined usually by the influence exogenous factors of the budgetary indicator and is the result of continuous modifications registered by the exogenous factors in the conditions of registering turbulences in the activity of companies or taxpayers;

-the presence of financial distress for a certain budgetary indicator allows the public authorities to adopt policies of avoiding the risk or to diminish or even remove the risk involved by the negative impact caused by turbulence on the normal evolution of the studied public indicator.

3. Measuring the value of budgetary indicators in conditions of financial stress

For each budgetary indicator studied in conditions of financial stress is interested to analyze its value registered when subjected to the stress test.

Why is the stress test necessary? The stress test can indicate the values of the budgetary indicator beyond which, the values registered by the indicator, can lead to the registration of some budgetary deficits that could often be beyond control and for which the volume of public loans to be contracted leads to the substantial growth of the public debt level.

In the case of revenue tax for example, the value of this indicator in financial distress conditions implies knowing the limits for which the encashment of the revenue tax reach the stress limit. Respecting the research methodology for measuring the financial distress such a limit of financial distress is reached when the encashment of the revenue tax register values of the mean square deviation over $\pm 2\sigma$ according to the formula:

$$N_s \times S_l \times \% p \text{ Im } pv(1 - g_i) = 2 \left(\sqrt{\frac{\sum_{i=1}^n (\text{Im } p_i - \overline{\text{Im } p})^2}{n}} \right) \quad (1)$$

⁸¹⁷ Kolmogorov N., Fomin S., (1970), Introductory real analysis, Dover Publications, New York, p. 45

⁸¹⁸ Greene William, (2003), Econometric Analysis, 5th Ed., Prentice Hall, USA, pp.23-45.

Raising to second power and considering the level of encashment 100% the equation indicating the maximum level of revenue tax encashment can be obtained, after which the financial distress conditions are registered, leading to very serious turbulences of the macro-economical balance.

$$N_s^2 \times S_i^2 \times 0,16^2 = 2 \left(\frac{(\text{Im } p_i - \overline{\text{Im } p})^2 + \dots + (\text{Im } p_i - \overline{\text{Im } p})^2}{n} \right) \quad (2)$$

By re-arranging the terms of the quadratic equation of above we obtain the value of revenue tax in conditions of financial distress whose solutions are the following:

$$\text{Im } p_i = \frac{4 \text{Im } p \pm \sqrt{16 \text{Im } p^2 - 8(\text{Im } p^2 - N_s^2 \times S_i^2 \times 0,16)}}{4} \quad (3)$$

The results of applying the research methodology are presented in the case below. If we note the values of the revenue tax indicator in financial distress conditions with ($\text{Im } p_{sf}$) and its mean values with ($\overline{\text{Im } p}$) the conclusion is that the values between ($\text{Im } p \pm \text{Im } p_{sf}$) are securing values which are not affected by the action of influence exogenous factors of the budgetary indicator in condition of financial distress.

Figure 1. Variation of N_s

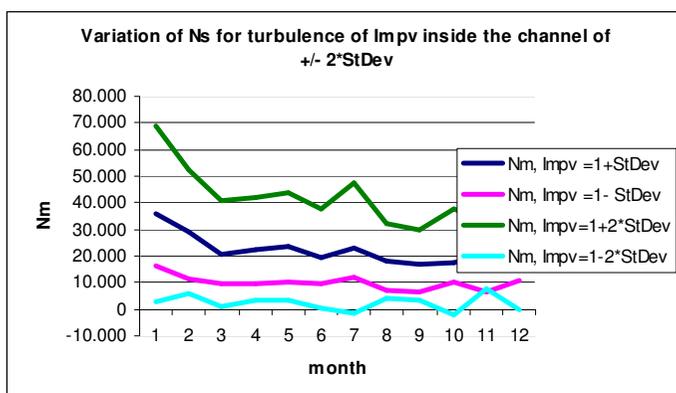


Figure 2. Variation of S_I

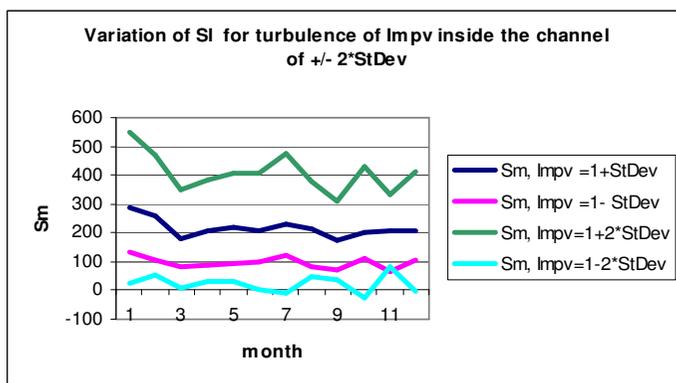
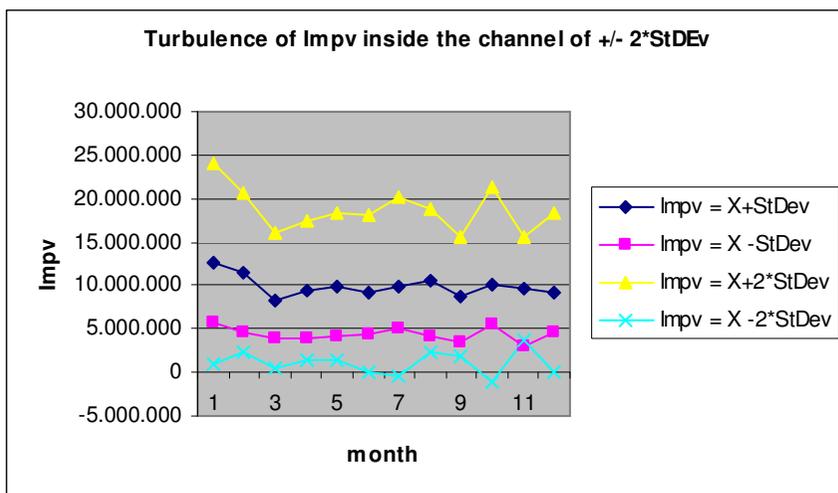


Figure 3. Turbulence of Impv



Source: authors simulation (for the three figures)

4. Conclusions

The existence of financial distress for any studied budgetary indicators is a reality that cannot be contested. Essentially the financial distress of any budgetary indicator indicates that state of turbulence registered by the indicator as to its normal rhythm of evolution, caused most often by the existence of exogenous factors.

Measuring the financial distress can be done for any budgetary indicator with the help of mean square deviation, and the determination of the distress condition can take place by simulating the modification of the influence exogenous factors of the budgetary indicator. By repetitive simulations of the influence factors we reached the conclusion that a condition of financial distress for a budgetary indicator intervenes when the values of the mean square deviation registered are equal to $\pm 2\sigma$. These values of the mean square deviation are registered when the studied exogenous influence factors of the budgetary indicator are modified. Any exceed of these values of the mean square deviation can lead to the study of other phenomena such as turbulences and chaos.

Each of the studied budgetary indicators register certain limit values for the existence of financial distress beyond which other phenomena occur, and that can be researched with the help of tools offered by the science of statistics or econometrics. These values of budgetary indicators noted with (I_{sf}) offer information related to the safety channels, inside which the budgetary indicators are not affected by the existence of financial distress. The safety channels have values comprised between $(I_b \pm I_{sf})$, and outside the range of these values the budgetary indicators can signal the existence of turbulences or even chaos with devastating effects on the budgetary balances.

Financial distress testst are used for measuring the existence of influence exogenous factors can be detected which on long term can lead to deterioration of the financial condition of the countries or regions of a country. The anti-crisis measures can be identified in due time to diminish as possible the devastating effects of the global economical crisis.

However the financial distress tests have some limits. They can detect the presence of the financial virus established, it is true, through research as present when the budgetary indicators register certain values, but these do not identify the exogenous factors that determine the existence of distress nor the intensity or the level of the influence of exogenous factors on financial distress.

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A SHORT ANALYSIS ON THE SENSITIVITY OF TAX REVENUES IN ROMANIA DURING 2000 - 2009

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From a temporal perspective, the collected tax revenues for the public budget know a number of changes in terms of flow and collection rates due to changes in factors of influence. The most used method to measure the response, the sensitivity of tax revenue to any changes of a variable is elasticity. This paper seeks to briefly examine the sensitivity of tax revenues to changes occurring in terms of gross domestic product and tax burden in Romania during 2000 to 2009. After analysis, we believe that a pattern regarding the sensitivity of tax revenues to the modification of a factor can not be created, tax elasticity developments and alternations of elasticity / inelasticity are not based on a uniform rule, they differ from country to country, and even in the same country from one period to another.

Keywords: tax elasticity, tax burden, tax revenues

JEL Classification: H 23, H 30

1. Introduction

Taxes generate the biggest part of public resources and that is not a novelty. Currently, both theorists and practitioners` concerns are increasingly focusing on the question of the relative sizing of tax compared to its base of calculation and also compared to the source of taxes, source which is ultimately reduced and expressed in the purchasing power of taxpayers. Taxpayers are more interested in the net incomes and the extent to which these are affected by taxes. Tax burden indicates the degree of taxation, meaning the extent to which taxpayers as a whole, society, economy supports a range of taxes, such as compulsory levies, imposed and charged by the state through legal compulsion. Tax burden and the degree of taxation is a way of sizing the tax incidence.

2. Sensitivity of tax revenues based on GDP

From a time perspective (short or long), tax revenues collected by the national public budget know a number of changes in terms of flow and collection rates due to changes of factors of influence. The analysis of the impact of changes in the factors of influence can be made by studying their magnitude. The most frequently used method of measuring the response, the sensitivity of tax revenue to the change of a variable, is elasticity. It can be measured by a coefficient of elasticity of tax revenues based on GDP and the tax rate, considering other factors unchanged (*caeteris paribus*).

The elasticity of tax revenues based on GDP is the response or reaction of tax revenues to the movement or fluctuation in GDP. A null value of tax elasticity indicates that a variation towards infinity of GDP will determine an incomplete collecting of tax revenues as a result of the self-defense reaction of the taxpayer in front of taxes. Tax elasticity indicates the ratio of relative change in tax revenue and relative change in GDP for a particular country. It expresses the sensitivity of direct and indirect tax levies to changes of GDP or other conditions of public revenues (tax rate). The issue of quantify the degree of tax elasticity was questioned by other

authors: Singer (1968), Chand and Wolf (1973), Khan (1973), Artus (1974) or Ehdai Jaber (1990), each one developing an econometric model of measurement.

The coefficient of elasticity of tax revenues ($E_{t/PIB}$) indicates the degree, fraction or percentage of changes in compulsory levies based on the changes in GDP or other conditions of tax revenues (eg. tax rate). The general form of the coefficient of tax elasticity based on GDP is as follows:

$$\text{Where: } \begin{matrix} V_f & - & \text{tax revenues} \\ PIB & - & \text{GDP (gross domestic product)} \end{matrix} \quad E_{t/PIB} = \frac{\frac{\Delta\%V_f}{V_f0} \times 100}{\frac{\Delta\%PIB}{PIB0} \times 100} = \frac{\Delta V_f}{V_f0} \div \frac{\Delta PIB}{PIB0} = \frac{\Delta V_f}{\Delta PIB} \times \frac{PIB0}{V_f0}$$

Tax elasticity based on GDP calculates how strongly tax revenues collected for the national public budget reacts to a change of one percentage of the GDP, tax revenues being characterized by elasticity or inelasticity, depending on the result of the calculated coefficient of elasticity. It may tend to infinity, may be higher, lower or equal to 1 or may tend to zero causing the framing tax revenue in a particular category of elasticity.

Let's consider the following table where budget executions in matter of public revenues in Romania during 2006 – 2009 are centralized. Data was collected from the General Consolidated Budget, which is why the heading "tax income" does not include contributions owed by taxpayers for state social security, health or unemployment, but only taxes levied by the state budget or local budgets. Considering that the taxpayer, individual or legal person, has to burden of not only levies in the form of taxes, but also social contributions, we will analyze tax elasticity based on GDP, differentiated by tax levies in the form of taxes and by total tax levies, including social contributions.

Table no.1 Evolution of budgetary indicators of the General Consolidated Budget of Romania 2006-2009

							Million RON	
Year	Tax revenues GCB	GDP	Direct taxes	Indirect taxes	Social contributions	Total tax levy (GCB)	$E_{t/PIB}^{819}$	$E_{t/PIB}^{820}$
2009	88324.3	505503.0	35207.6	53116.7	47872.0	136196.3	3.72	2.69
2008	94044.4	513904.0	36283.0	57761.6	48419.8	142464.2	0.73	0.75
2007	76365.8	390800.0	26319.0	46061.2	38843.0	115208.8	1.21	1.17
2006	63792.4	335900.0	19105.2	39448.0	32981.4	96773.8	-	-

Source: <http://www.mfinante.ro/excebug.html>, Romanian Ministry of Finance
Provisional Execution of Consolidated General Budget

The analysis of the sensitivity of tax revenues to changes of 1% of GDP in 2006-2009 showed an elasticity coefficient with a positive sign, regardless of the the considered amounts included in the numerator, which reflects a directly proportional relationship between GDP and compulsory levies. In other words, the two indicators moved in the same direction but not in the same rhythm. A positive economic growth is followed by the same effect of tax levies, while decreasing the amount of GDP resulted in a decrease in the amount of tax liabilities collected by the state.

The type of tax elasticity is not monotonous, but it varies from year to year, alternating phases in which tax revenues are elastic or inelastic in relation to GDP. In 2008-2009 tax liabilities collected by public authorities are characterized by elasticity, with a coefficient of elasticity above the figure 1, of 2,69. This indicates that the decrease of GDP in 2009 compared to 2008, of

⁸¹⁹ Elasticity coefficient of tax revenue (excluding social contributions) based on GDP.

⁸²⁰ Elasticity coefficient of tax revenue (including social contributions) based on GDP.

1,63 percent, generated an even wider change, also negative, of tax liabilities (taxes, fees, contributions) collected at the aggregate level, of 4,4 percent. In 2007-2008 the calculations show a subunit coefficient of tax elasticity based on GDP, of 0,75, therefore mandatory levies are inelastic, an increase of 31.5% of GDP generated a smaller increase of fiscal public revenues, of 23,66%. The period 2007-2006 is characterized by an almost monotonous tax elasticity, the two indicators evolved at about the same pace, but in the same direction.

Differentiated analysis of tax elasticity, including or excluding social contributions, determines us to say that taxes have a higher degree of flexibility, they are more sensitive to changes in GDP. The coefficient of elasticity in 2008-2009 of 3,72, indicates that a decrease of 1.7% of GDP generated in 2009 a deeper reduction of the amounts collected as taxes by 7.1%, ie 4 times higher. The deficiency of statistical public information regarding Romania's General Consolidated Budget in the last 10 years, but especially their delayed publication, determines us to analyze tax sensitivity based on tax levies made by the three components of the National Public Budgets.

Table no. 2 Evolution of tax revenue from National Public Budget and tax elasticity in Romania between 2000 and 2009

million RON						
Year	State budget	State social security budget	Local budgets	Total tax revenues	GDP	$E_{t/PIB}$
2009	49405.0	32919.9	36708.8	119033.7	505503.0	2.79
2008	54980.0	32159.5	37585.9	124725.4	513904.0	1.04
2007	44824.2	24397.3	30108.9	99330.4	412761.3	0.97
2006	37900.2	20185.9	25236.8	83322.9	344650.6	2.77
2005	34531.2	17394.8	2414.5	54340.5	288954.6	0.98
2004	30252.7	14249.2	2177.2	46679.1	247368.0	1.07
2003	23602.3	11305.9	1825.9	36734.1	197427.6	1.20
2002	16775.3	9075.0	1184.2	27034.5	152017.0	0.87
2001	13727.7	6828.9	839.5	21396.1	116768.7	0.61
2000	11439.4	4696.9	614.3	16750.6	80377.3	-

Source: Statistical Yearbook of Romania from 2001-2008 and Provisional Execution of Consolidated Budget for 2008 and 2009, Ministry of Finance and own calculations

As can be seen in the table above, tax obligations in Romania are characterized by the predominance of unitary tax elasticity (2008, 2007, 2005, 2004), but there are years with high sensitivity to tax (2009, 2006, 2003) and years with inelastic tax obligations (2007, 2002, 2001). Highest degree of elasticity in the last 10 years in Romania was registered in 2009 compared to 2008, recession brought with it a more rapid decrease of tax levies for the National Public Budget compared with that of gross domestic product in the same period. Highest degree of tax inelasticity occurred in 2001, of 0,61, a 45,2% increase in GDP generated an increase of only 27,7% of compulsory levies made on behalf of the National Public Budget.

Static or dynamic analysis of tax elasticity in Romania has no relevance without addressing certain issues of comparison at international levels, European level to be exact. From this point of view we are interested to compare the degree of tax elasticity in Romania with the average recorded in the 27 member states of the European Union. The average tax elasticity of tax liability based on GDP in the EU-27 was 0,17 during 2008/2007, ie we face inelasticity. The positive sign of the tax sensitivity coefficient indicates a trend in the same sense of aggregate GDP in the European community and of taxes and contributions owed by all taxpayers, individuals or legal people, community residents. The increase of GDP of the European Union in 2008 with 1% to 12.506.778,5 million EURO, generated a positive development of tax levies of

only 0,2% to 5.026.047 million EURO. From a structural point of view we can see a strong inelasticity in the case of direct taxes, which tend to zero in 2008 (0,15). A change in the GDP of the EU-27 generates an evolution in the same direction, but much smaller, of levies from direct taxes. EU-27 is characterized by a high degree of sensitivity between GDP and social security taxes collected by member countries, namely between GDP and indirect taxes. A change of 1% of GDP generally results of the European Union countries to collect with more than 1% of social contributions in their social security system. Noteworthy is the negative sign of the coefficient of tax elasticity of indirect taxes, which means that the increase of GDP by 1% resulted in the reduction of consumption taxes by 2,4%.

Romania presents a situation opposite to the European Union average in 2007-2008. In the of our country indirect taxes are the most sensitive to GDP changes, recording a unitary elasticity (1,01). Instead, tax inelasticity is specific for indirect taxes, the people being tempted to make long-term savings, than to consume.

3. Sensitivity of tax revenues based on fiscal pressure

Tax elasticity can also be approached in terms of the relationship of tax revenues – tax burden. The coefficient of elasticity of tax revenue based on tax rate ($E_{t/RF}$) is calculated as a ratio between the percentage of changes in direct and indirect tax revenues and the percentage of changes in tax rate, while the other factors that influence tax revenues remain unchanged (caeteris paribus).

Where: Vf- tax revenues
RF – tax rate (tax burden)

$$E_{t/RF} = \frac{\frac{\Delta \% Vf}{Vf0} \times 100}{\frac{\Delta \% RF}{RF0} \times 100} = \frac{\Delta Vf}{Vf0} \div \frac{\Delta RF}{RF0} = \frac{\Delta Vf}{\Delta RF} \times \frac{RF0}{Vf0}$$

It should be noted that the tax elasticity measures the change in percentages, not absolute value (monetary unit), which allows comparisons across time and space. To determine the tax elasticity we need to know the evolution in time of the amounts collected by the public budget as taxes and contributions. During 2000-2007 all European Union member states have experienced an upward trend of compulsory levies on taxpayers. Is this due to the increase of tax burden?

Table no. 3 Structural tax burden in Romania 2000-2007

Year	2000	2001	2002	2003	2004	2005	2006	2007
Tax burden (Including social contributions)	30.4	28.9	28.1	27.7	27.3	27.9	28.6	29.4
Tax burden (Excluding social contributions)	19.3	17.8	17.4	18.2	18.1	18.2	18.8	19.5
Indirect tax burden	12.2	11.4	11.6	12.3	11.7	12.9	12.7	12.8
Direct tax burden	7.9	6.4	5.8	6.0	6.4	5.3	6.1	6.8
Social contributions` burden	11.2	11.1	10.7	9.5	9.2	9.7	9.8	9.9

Source: European Commission, Taxation Trends 2009

After analyzing the relationship between tax burden and the dynamic of tax revenues (including social contributions) in the EU-27 and Romania, we find that there may be a double correlation between the two indicators: a direct relationship - increase of tax burden is followed by the increase of the amount of collected tax revenues, which corresponds to the economic zone of the Laffer Curve (since 2003 for the EU-27 and in Romania after 2005), indirect relationship - increasing the tax burden creates a self defense reaction of taxpayers who are no longer willing to pay tax obligations and restrict their activities, thus revenues collected by authorities decrease, which corresponds to the non-economic area of the Laffer Curve, (EU-27 in 2001-2002, Romania in 2001-2004).

In the 27 European Union member states, during 2005-2007, there were recorded coefficients of elasticity higher than one and with a positive sign, indicating a directly proportional evolution of tax burden and tax liabilities collected on average by the 27 member states, a change of 1,4% of the first indicator causes a broader change of the second one, of over 5%. The most striking development was recorded in 2006 compared with 2005, when an increase in the tax burden of 0,3% from 36,9% in 2005 to 37% in 2006, was accompanied by an increase in tax revenue of 6,93%.

The evolution of tax revenue elasticity based on tax burden in Romania has achieved the same trend with the EU average, the years 2001-2004 were characterized by reductions in tax burdens that have resulted in additional sums to the public budget, while during 2005 - 2007 we witnessed an evolution in the same sense of tax burden and the amounts collected. It should be noted that Romania records very high values of elasticity coefficients when compared with the average of the EU-27, which leads us to say that compulsory levies in Romania are extremely sensitive to changes of tax burden, much more sensitive than in other cases, the Romanian taxpayer quickly reacting to any change of the tax burden he has to bear. The period of inversely proportional relationship of the two indicators in Romania, between 2001-2004, stands out through a spectacular evolution in 2003, and 2004, when the gradual reductions with a few percents of the tax burden were accompanied by increases of the amounts collected to the budget of over 20%. In 2003, for example, a reduction of tax burden by 1,4% resulted in a positive response of taxpayers, they payed with 28,21% more tax liability to the public budget than the previous year, a situation favorable to Romania. These developments can be explained by the fact that in the same period Romania saw a record number of newly established companies on the fund of the law of microenterprises. We must also note tax elasticity after 2005 when, although tax burden started to rise, Romanians continued to bear it. In this case we deal with a high sensitivity to changes in two indicators (coefficients with values above one), but slightly lower than in the previous cases of reverse evolution of the two indicators. For example, in 2007, an increase of Romanians' tax burden of 2,8% generated a positive reaction of the amounts levied by the state of 22,31%, 8 times more sensitive.

To summarize the ideas above, we can not create patterns regarding the sensitivity of tax revenues to the modification rates of tax burden , developments of elasticity coefficients and alternations of elasticity / inelasticity are not based on a uniform rule, they differ from country to country, and even in the same country from one period to another. Compared to Europeans who react favorably to a tightening tax burden rather than tax relaxation, Romanians react favorably to tax relaxation rather than a tighten one.

4. Conclusions

Knowing the form of tax elasticity is important in the process of decision making about a country's fiscal policy because it allows the determination of the development of total tax revenues collected by the central authorities. Besides the two variables studied above, we can identify a number of other factors that positively or negatively influence tax elasticity, such as the level and nature of tax rates, the sensitivity of tax matter, tax facilities and penalties, the administration of tax claims, the level of fiscal education of tax payers, tax information in all economic and social policies.

Tax burden may be regarded as the part of income that taxpayers surrender to the State as mandatory levies. Looking at tax burden as a mathematical expression of the ratio between tax and aggregate economic indicators is in fact designed to express tax return. The increase of taxes above certain limits incentives not work, investments and savings, but prelongs a crisis, already installed. Also, the increase of tax burden is a prerequisite for conflict and doesn't generate motivation to work. Most tax liability encourages illegal employment and tax evasion. Reduced

tax burden can be obtained on the basis of tax reforms which should aim at increasing the tax base while reducing tax rates without depriving the state budget of the revenues it needs.

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THE EFFECTS OF FINANCING SOURCES COSTS OVER THE FINANCIAL AND OPERATIONAL RISK

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The selection of the financing sources of an enterprise constitutes a major problem for the managerial finance field with influences over the economic-financial performances. The theoretical and practical studies did not provide to the scientific research field the proper identification of the representative models for managing the capital structure and to evaluate the real costs for the financing sources.

The liquidity crisis by which are confronted the Romanian companies nowadays, relevant situation for the actual period, imposes the need for correlation and optimization of the capital structure and identification of the financial and operational risks at the level of the enterprises and at the level of the representative responsibility centres in order to valorise at a maximum level the existing financial potential..

Keywords: Cost of the Capital, Financial Risk, Operational Risk, Centre of responsibility.

JEL Code: G32, G31, C53, G11

The main criteria for selection of the financial sources, according to the financial theory and practice are: **cost of capital, financial profitability and the exceeding of the liquidity flow**. Accurate estimation of the capital cost is important for maximizing the market value of the company and for implementation of the investment decisions, leasing, buy back of the own stocks, adoption of a circulating funds policy.

Depending on the level on which is applied, is realized a distinction between the *opportunity cost of the capital*, defined at the level of the investment projects and the weighted average cost of capital, at the level of the company.

Also depending the initial hypothesis and the proposed goal, to the cost of capital are attributed several interpretations. Thus, starting from the *net present value* criteria, the cost of the capital was considered for a long time to be the rate of interest and was used in the capital flow discounting techniques. The actualization rate was defined as the long term interest rate existing on the market. This explanation was used because the financial studies were realized considering a perfect financial market.

Just later was outlined the dependency of the discount rate by the interest rate of the low risk investments, existed on the financial market and by the risk represented by the company or by the project. The evaluation of the risk premium can be realized taking into consideration the influence of the financial structure.

Existence of two decision centres within the company: the managers on one side, and the shareholders, on the other sides, parties which don't have the same motivation, are leading to the distinction of two *cost of capital categories: explicit*, the effective costs sustained by the company and *implicit*, such as the minimum profitability rate required by the shareholders in order to justify the investment of their capital.

The capital investors and creditors are pursuing the remuneration of the capital at a higher profitability, over the average one offered by the financial market, in order to increase their wealth. The managers are acting in the interest of the capital investors, in order to grow the total value of the company, by reduction of the own and borrowed capital costs. One of the ways for reduction is to increase the proportion of the investors which require low remuneration of the

capital, which can lead to the increase of the debt, the loans being obtained at a lower cost than the capital of the shareholders.

In these conditions the **financial risk is increasing the operational risk**, so the total risk of the shareholders' capital is increasing, which endows them to request a higher remuneration rate. It imposed the determination of the global cost of the capital as a weighted average of the costs attributed to all sources of capital.

The global cost of capital (own internal and external and also borrowed) is not an historic cost, but an expectation for remuneration of capital investors, with its help being expressed the market value of the company.

Weighted average cost of capital represents the total amount of own and borrowed capital, corrected with their proportion in the total capital of the company before taxation:

Are considered two main groups of financial sources:

- **Own capital: internal**, obtained thorough auto-financing on the bases of reinvesting a part of the net profit and **external**, received through emission of new shares or by increasing the value of existing ones.
- **Borrowed capital**, such as bank loans, commercial loans offered by the business partners (if are obtained as grants and are not taken into consideration when counting the debts within the weighted average cost of capital formula), discounting loans based on bearer securities, collateral loans, leasing.

The fiscal asymmetry between the interest (deductible) and profit which belongs to the shareholders (un-deductible), **determines fiscal economies at the indebted company**, proportionate with the size of the interests and with the profit taxation rate: $(Dob \times \tau)$, average cost of the capital, being calculated based on the following formula:

$$k_{ec} = k_e \times \frac{CPR}{CPR + DAT} + k_d \times (1 - \tau) \times \frac{DAT}{CPR + DAT}$$

Where:

- k_{ec} = weighted average cost of capital;
- k_e = cost of own capital(equity), which is the profitability awaited by the shareholders;
- k_d = cost of borrowed capital.
- τ = profit taxation rate

For the enterprises which are quoted on the stock market is recommended **to be used market values both for estimation of the value of debts and also for estimation of the value of their own capital on capitalization basis**, which confers an objective and close to reality expression of the opportunity cost of the capital.

The cost of the capital, being an indicator which cannot be calculated objectively and coherently, being based on forecasts with high level of uncertainty, is considered an opportunity cost, which expresses simultaneously the situation of the company through the financial market as a result of its financial policy and of the pursued investment policy and it depends by two important factors:

- **financial structure** (share of owned and borrowed capital in total capital), reflecting the proportion of participating funding sources into the total capital of the company. Distinguished as **permanent capital** (long-term CPR and DAT) used to fund the investment cycle and **short-term capital**, proposed particularly for financing the operating cycle;

- **Specific costs of various components of capital**, especially distinguishing between equity and borrowed capital, the cost of which varies significantly and influence each other

The literature is addressing separately the four major components of capital: **loan, preference shares, reinvested or accumulated earnings and issuance of ordinary shares**.

On determining the marginal cost of each funding source, the composite cost of capital is essentially a marginal cost. **Self-financing is the most reliable source in terms of profitability**, involving also some costs.

Accumulated profits are a component of equity and have a profitability ratio approximately equal to that of external capital, some authors consider that there are only **three major sources of capital**: credit component, preferred shares and ordinary shares. The formula for calculating the average cost of capital is:

$$k_{ec} = k_d \times (1 - \tau) \frac{D}{C} + k_p \times \frac{P}{C} + k_e \times \frac{E}{C}$$

where:

D = market value of nonconvertible debt;

P = market value of nonconvertible preferred shares;

E = Equity market value;

k_d = interest rate on loans (loan capital);

k_p = the cost of preference shares component;

k_e = opportunity cost of owned capital;

C = D + P + E, total value of the capital;

$k_d \times (1 - \tau)$ = cost of the credit component after payment of the tax.

Other possible sources may be taken into consideration according to a specific combination of funding sources of the company: **leasing (operating or capital), convertible debt, convertible preferred shares, warrants or shares held by employees or managers, as stock programs - options**.

Capital cost estimation problems have contributed to the formulation of widely accepted views of scholars and practitioners. The most important are listed below.

- Cost of capital of a company is defined through the rate of remuneration of the different funding sources. The concept is directly related to the rate of return on investment projects having as minimum limit the capital costs, in order to maintain the same market rate for the company shares.

- Based on risk preferences, cost of capital is difficult to estimate, but can be determined by the dividend discount model on an indefinite duration or by the model for valuing financial assets, Capital Assets Pricing Model (CAPM).

- Among the modern methods proposed for estimating of the future evolution of capital costs are included the artificial neural networks and genetic algorithms with a limited scope.

- Cost of debt is given by the actualization rate, which equals the amount received from lending with cash outflows due to credit process, identified as the interest rate.

- Costs of other sources have specific determinations, the cost of the retained benefits which is approximated as being equal to that of own capital (equity), depreciation cost and preference shares cost with the debt costs. Cost of convertible bonds is a probabilistic mix between debt and

equity costs, leasing costs and subsidies cost are also approximated by the cost of debt, with differentiations according to existing regulations.

- Weighted average cost of capital is calculated as a weighted average cost of financing sources used by the company.
- Usage of weighted average cost as the rate of actualization is justified under fulfillment of certain requirements, relating mainly to maintain the level of risk, both economically and financially.
- When investment projects differ substantially in terms of risk, the weighted average cost needs to be adjusted.

Limitations of the usage of **weighted average cost of capital** can be divided into two broad categories:

- **First category**, linked to the method of calculation of its composing elements and even of its own, is determined as a weighted average cost of different funding sources. One problem is the use of weighted average cost of capital after the deduction of profit taxes or before deducting them. Most authors believe that the real cost of capital is that which is calculated before the tax deduction but which takes into account the savings from taxation induced by credit, but there are authors who only consider cost of capital only after tax deduction, arguing that the capital suppliers are interested only in the amounts to be divided between them, as interest and dividends.
- **The second category** refers to the identification of weighted average cost updated with the actualization rate used in selecting investment projects, within the net present value and internal rate of return criteria

Calculation of capital cost is also a controversial topic. Shareholders' expectations cannot be quantified and differ greatly from person to person. Costs of special categories of resources such as grants, depreciation and even retained benefits, which given the fact that are not explicit costs have received different interpretations. Because they are part of the owned capital, often, their costs are compared with the return required by shareholders.

Approach to the financial risk in terms of the effect of borrowed capital, generating interest expense, which have a fixed, insensible at the alteration of the volume of activity. This requires the approach of the financial structure in line with capital costs.

The financial risk refers to the additional variability of the net income per share caused by turning to fixed cost of financing, such as bank loans and loans from bond issues. Fixed capital cost generates financial obligations which must be fulfilled by the company, regardless the size of its gross operating income. Under these conditions, increasing borrowing costs takes to an increase in the company's fixed costs. To cover these costs, the company must obtain an additional gross operating result.

The level and evolution of the financial risk are important for managers and shareholders. Managers are interested by the financial risk in order to optimize the financial structure, respectively to combine the equity with the borrowed capital in order to minimize the weighted average cost of invested capital. Shareholders are interested in the size of the financial risk to establish the remunerations which are requested for investing funds in the company. The earnings are closely correlated with the risk they bear.

The financial risk can be measured using two indicators: **the position indicator**, based on the breakeven level, and the **financial leverage ratio**.

Break even, or minimum critical turnover (CAcr), reflects that volume of the activity of the company needed to ensure that revenues from sales fully cover operating expenses, without profit and it's based on clustering the operating expenses into variable and fixed expenses and is determined using the formula:

$$CA_{cr} = \frac{Cf}{1 - \frac{Cv}{CA}} = \frac{Cf}{1 - Rv} = \frac{Cf}{Rmv} ,$$

where:

Cf – fixed operating costs;

CA - total turnover of the company;

Cv – firm's total variable costs;

Rv – rate of total variable costs;

Rmv – margin rate of total variable costs.

Financial risk analysis, taking into account the financial costs with interest, which have a fixed character are modifying the formula as follows:

$$CA' = \frac{Cf + Dob}{1 - \frac{Cv}{CA}} = \frac{Cf + Dob}{1 - Rv} = \frac{Cf + Dob}{Rmv} ,$$

where:

CA' – critical turnover;

Dob – Interest expenses

Critical turnover (CA') shows which is the level of the sales volumes which have to be registered by a company to cover all fixed costs, both operating and those with interest payment. For financial risk assessment, it can be calculated the **position indicator** to break even level, both as absolute value(α) as well as a relative value($\alpha\%$), as follows:

$$\alpha = CA_1 - CA' ;$$

$$\alpha\% = \frac{CA_1 - CA'}{CA'} \times 100$$

where:

CA₁ – actual turnover.

Position indicator in absolute value, called also as the safety margin expresses the existing gap between the actual turnover achieved during the reported period and turnover corresponding to the overall breakeven level(Ca '). The greater this gap, the firm will have a greater flexibility and adaptability to short and medium term developments recorded in the economic sector where it operates, which will enable it to cover the fixed operating expenses and the interest costs from the total margin account of the variable costs, with no danger of loss occurrence.

The higher are the values of this indicator, the lower will be the financial risk registered by the company and vice versa. **The relative size position indicator**, expresses in percentages the gap between actual turnover and the one associated to the critical point.

Financial risk analysis, may consider, in addition to the cost of borrowed capital and the owned capital cost, in these conditions, in addition to covering the fixed operational and financial expenses, the company must to cover from the margin variable costs (turnover minus variable costs), both the cost of borrowed capital, and of the self-owned capital. Considering that this cost has a constant character, the breakeven formula (the critical turnover - CA") becomes:

$$CA'' = \frac{Cf + Dob + Ckpr}{1 - \frac{Cv}{CA}} = \frac{CFt}{1 - Rv} = \frac{CFt}{Rmv},$$

where:

CKpr – equity cost;

CFt – Total fixed costs (operating, interest and equity).

Critical turnover, set the by the new relationship, shows the value of sales volume which a company must make it in order to cover its fixed operating costs, but also the fixed financial cost of the invested capital (financial debt and equity), evaluation of financial risk using the same position indicators:

$$\alpha'' = Ca_1 - Ca'';$$

$$\alpha''\% = \frac{Ca_1 - Ca''}{Ca'} \times 100$$

The position indicators signifies the difference between the total turnover and the one which allows integrally covering of the operational and financing costs regarding the sold production, exceeding this threshold realizes value for the shareholders.

Positive position indicator means that operating expenses, interest, own capital cost was fully covered and all variable costs associated with the production margin that exceeds the threshold value represent an increase to the profitability of the company after deducting the income tax.

In these conditions it's increasing the value of position indicators, in the management process, in developing and implementing financial policy, allowing the establishment of a direct correlation between sales volume and the total expenditures regarding the production and financing of goods which form are the main active objective of the company.

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CONSIDERATION REGARDING TO THE FISCAL REGULATIONS IN SOME EUROPEAN STATES

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It can be observed, that the member states of the European Union were guided to implement some reforms in the domain of fiscal politics, the aim of which would constitute in fighting and eliminating the “damaging” fiscal competition, of the differences regarding to indirect fiscality, etc.

Without this political fiscal instrument coordinated by the members of the European Union, the free traffic of capitals could be transformed into a determinant factor of the cross-border fraud.

Keywords: tax law, financial crisis, regulatory framework for Tax

Cod JEL: K34

From the foresights of the institutional Treaty of the European Community (CE Treaty) we outline the fact that at a fiscal level, the national sovereignty is manifested (with some exceptions) through the fact that the national Governments and not the European Union are those who make decisions upon the taxes which must be paid by their citizens. This way, the primary objective of the European Union is to assure that the national fiscal regulations respect the general orientation of the Union and that these regulations show no disloyal advantages for some companies from a country in front of their competitors from an other, the communitarian fiscal politics sustaining the principle of unique market and that of the free traffic of capitals.

It is known the fact that the taxes are contributions created to finance public expenses, but the priorities in the matter of expenses are different in every member state, and the European Union does not intervene, in the condition that these must be maintained in reasonable limits. In the context and under the condition of some prudent actions in the matter of economical politics, the member states have great freedom in deciding how to spend their money and what taxes are applied to finance their expenses.

Though, in the matter of indirect taxation it is assessed the legislative harmonization, because this type of fiscality influences the free traffic of goods, the free practice of services – the indirect taxes are contained by the final prices of goods and services, so that it increases the risk of the distortion of the communitarian transactions; that’s why the legal dispositions are more fixed in the matter of harmonization of the fiscal politics.

For the majority of the legal aspects in the domain of direct fiscality there is no need for a harmonization, so that these are at the appreciation of the member states of the European Union, also respecting the principle of subsidiarity.

Having in attention these facts we try to make a concise presentation of some elements of fiscality from some member states of the European Union..

The *Austrian* tendencies in the fiscal matter have been manifested in the direction of diminution of the taxes between the period 2008/2012. More concrete, the principal aspects applied by the fiscal reform from year 2009 aims the followings:

-reduction of tax rates on salaries and income⁸²¹ – Austria using the progressive method of taxation, in this case⁸²²;

-increase of the exemption limit and changes concerning the reduced tax rate of other receipts;

-increase of the child tax credit from € 50.90 to € 58.40/month;

-analogue adjustment of the single-parent tax credit;

-introduction of a child tax-free amount of € 220/child/year;

-deductibility of child care costs up to € 2,300/child/year for children up to an age of 10;

-tax exemption for employers' subsidies for child care up to € 500/child/year;

-change from the tax-free amount for profits invested by entrepreneurs subject to accounting to a tax-free amount for profits as from 2010: the tax-free amount will be increased from 10 % to 13 % and the requirement for investing profits will be abolished up to € 30,000;

-abolishment of the preferential taxation for retained profits as from 2010;

-abolishment of the preferential tax treatment of stock options as from 1 April 2009;

-tax deductibility of donations for humanitarian purposes, for development cooperation and emergency aid up to 10 % of the profits or income of the previous year;

-increase of the maximum deductible amount of contributions to churches to € 200 as from 2009.

The economical crisis have affected France too, in the moment when this country had already confronted with the increase of the budget deficit – this way there were also outlined difficulties in fiscal matters. In case of the taxation⁸²³ of the incomes of physical persons, the scheme of progressive taxation is presented this way (fractions of taxable incomes of the physical persons; the taxable income is divided according to a fiscal domicile, for example, into one part in case of a single person, into two parts in case of a married couple, etc.):

Table no.1

Fractions of taxable income (one part)	Rate
up to 5852 euro	0%
from 5852 euro to 11673 euro	5,5%
from 11673 euro to 25926 euro	14%
from 25926 euro to 69505 euro	30%
over 69505 euro	40%

In the German fiscal spectrum it is observed the introduction, beginning with January 1st 2009, of the tax restrained through stop by the source, upon the incomes of the capital⁸²⁴. Also, an other important moment was the adoption , at the end of 2008, of the reform plan of the system of

⁸²¹ The Income Tax Act covers the following seven categories of income: income from agriculture and forestry; income from self-employment; income from trade or business (*categories of business income or income from profit*); income from employment; income from investment of capital; income from rental and leasing; other income (*income from receipts over expenditures or categories of non-business income*).

⁸²² Among the effects of this measure it is outlined the fact that, whereas in 2008 2.54 million people out of 6.535 million taxpayers did not pay any taxes on salaries/income, from 1 January 2009 2.7 million people no longer pay taxes on salaries/income.

⁸²³ It must be mentioned that the need for taxation is asserted in art. 13 of the 1789 Declaration of the Rights of Man and of the Citizen: „for the maintenance of the public force, and for administrative expenses, a general tax is indispensable [...]”, adding that „it must be equally distributed among all citizens, in proportion to their ability to pay”. Article 14 of the Declaration states that „all citizens have the right to ascertain, by themselves or through their representatives, the need for a public tax, to consent to it freely, to watch over its use, and to determine its proportion, basis, collection and duration”.

Unlike other mandatory levies, *taxes may be assessed and collected only by virtue of an act of the legislature*, i.e. Parliament.

⁸²⁴ Named „*Abgeltungsteuer*”.

heritage taxes – the modifications aiming especially the evaluation rules of the inherited properties.

The last aspect discussed referring to the actual state of the German legal frame of taxation is regarding to a decision of the Constitutional Court (2008), through which there were declared unconstitutional the dispositions referring to the deduction of costs of transport to the working place. According to those foresights, the tax-payers could not deduct their costs in case when they lived no farther then 20 km from the working place, a contractual amount could be directly deducted for every kilometer of transport which crossed this limit. The constitutional Court had considered that this is an arbitrary limit which breaks the basic regulation of the equal treatment in the front of the law. As a consequence, every tax-payer has the right for deduction by a contractual amount for every kilometer.

In the *Italian* fiscality we must mention the taxation rates of the incomes, as follows:

Table no.2

Taxable income	Rate	IRPEF⁸²⁵ –income tax for individuals
up to 15000 euros	23%	23% of income
more than 15000 and up to 28000 euros	27%	3450 + 27% on the part exceeding 15000 euros
more than 28000 and up to 55000 euros	38%	6960 + 38% on the part exceeding 28000 euros
more than 55000 and up to 75000 euros	41%	17220 + 41% on the part exceeding 55000 euros
more than 75000 euros	43%	25420 + 43% on the part exceeding 75000 euros

Also in 2006 (exactly on October 3rd 2006) the legal frame for inheritance and donations was excepted. The heirs and legatees who benefit from the following property and rights shall pay this tax:

- real estate and rights from real estate. The evaluation of the property is done by multiplying the cadastral revenue by the relevant updated coefficients (see below the calculation of the cadastral value to work out the cadastral and mortgage tax);
- shares in the capital of a company (the value is given by the net equity);
- bonds (excluding government bonds);
- companies (the value is given by the net equity without evaluating immovable goods and good will);
- credits and money;
- movable goods (jewels, furniture).

The taxable base is made up of the *total net value* of the hereditary assets, that is to say of the value of the property and the rights object of the inheritance, net of liabilities and deductible expenses (debts of the deceased, medical expenses and funeral expenses).

The inheritance tax is determined by the office which applies different rates according to the degree of kinship of the heir.

In our presentation we are also dealing with some fiscal aspects from Grand Duchy of Luxembourg, which has tried a long period of time to increase his global competitiveness. These effort were materialized in an extremely high political and social stability, in a coherent legal frame, in a direct and favorable fiscal environment. In 2009 for *tax-payers physical* (Law no. 19

⁸²⁵ That is applied on the following incomes: real estate income; capital gains; income from self-employment; income from employment; corporate income; other incomes.

from December 2008⁸²⁶) and for companies, there were introduced new positive measures in the fiscal matter (for example through adoption of Law from 19 December 2008⁸²⁷).

For the physical person tax-payers⁸²⁸ the new thing is represented by a better consideration of the inflation by introducing the new fiscal credits, the better payment method of the children allocation, sustaining the donations for some charity organizations and the annulment of the taxes restrained by the payment of debts by some saving institutions.

The directions of the fiscal politics(implying fiscal legislation) elaborated by the Ministry of Public Finances with the cooperation of the three fiscal administrations („Administration des contributions directes du Grand-Duché de Luxembourg”, „Administration de l’Enregistrement et des Domaines” and „Administration des douanes et accise”) will aim even in the future to assure the balance of public finances.

In the fiscal system from Bulgaria, an important moment was represented by the introduction of the unique level of taxation⁸²⁹ (10%), this being the lowest taxation level of the personal incomes in Europe; the system of unique level of taxation have registered positive effects because the simple method of calculations, the equal treatment of tax-payers, the low level of taxation. In these conditions it was considered, that the adopted fiscal politics had a primordial role in the economical development of Bulgaria, especially in 2008.

The fiscal system of Croatia had not registered essential modifications in the last period, the main fiscal incomes of the state having as source the tax on the personal incomes, the company taxation, the Value Added Tax and excise duties. Though, we must mention that from the total amount of these fiscal incomes, the greatest part is registered by VAT.

In the Dutch tax system, the rate for income from employment and home ownership is a progressive rate that is charged over four „brackets”. As a result, the private taxpayer will pay a proportionally higher amount of tax as his income increases. tax rates in 2008.

Table no.3

Taxable income from employment and home ownership	Tax rate ⁸³⁰
up to 17 579 euro inclusive	2.45%
17579 euro to 31589 euro inclusive	10.70%
31589 euro to 53860 euro inclusive	42.00%

⁸²⁶ „Journal Officiel du Grand-Duché de Luxembourg”, no. 198, from 23. dec. 2008, p. 2622-2629.

⁸²⁷ „Journal Officiel du Grand-Duché de Luxembourg”, no. 207, from 24 dec. 2008.

⁸²⁸ We are referring to the matter of income taxation. According to this legal dispositions tax-payers are:
 -resident taxpayers, i.e. those physical persons who have their domicile or normal place of residence in Luxembourg. Luxembourg residents are taxable on their worldwide income.
 -non resident taxpayers, i.e. those physical persons who have no domicile or normal place of residence in Luxembourg. Non residents are taxable on income arising from Luxembourg sources only. Taxable income consists in the total net income less special expenses.; but only the following categories of income are taken into account for the determination of total net income: trade and business income; agriculture and forestry income; income from independent professional services; net income from employment; net income from pensions and annuities; net income from capital and investments; net income from rentals and leases; sundry net income.

⁸²⁹ *Law on taxes on the income of natural persons* (01.01.2007), with the ulterior modifications and completions.

⁸³⁰ Tax rates in 2008.

53860 euro and more	52.00%
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Not at least we try to present concisely the main elements of the Hungarian legal frame in the fiscal domain, represented mainly by: [Act XCII of 2003 on the Rules of Taxation](#); [Act CXVII of 1995 on Personal Income Tax](#); [Act CXXVII of 2007 on Value Added Tax](#); [Act LXXXI of 1996 on Corporate Tax and Dividend Tax](#); [Act XLIII of 2002 on Simplified Entrepreneurial Tax](#); [Act CXX of 2005 on Simplified Contribution to Public Revenues](#); [Act LIX of 2006 on the Introduction of the Special Tax and Bankers' Contribution Intended to Improve the Balance of Public Finances](#); [Act XCIII of 1990 on Duties](#); [Act LXXXVII of 2003 on Consumer Price Subsidies](#); [Act XXXIV of 1991 on Gambling Operations](#).

In the domain of taxation of physical persons the legal regulations outline the following categories of taxable incomes:

-incomes to be consolidated: income from activities other than self-employment, income from activities of self-employment and other incomes to be consolidated;

-incomes taxed separately: (in-kind benefits, capital gains, income from private businesses and income from rental of real estate). In case of the incomes from the first category the taxation is represented in the following way: the rate for the combined tax base that is under 5 million HUF is 17 %, for incomes higher than 5 million HUF a fixed amount of 850.000 HUF + a percent of 32% for the amounts over 5 million HUF⁸³¹.

In the matter of taxation on income/profit of judicial persons we mention that pursuant to the Corporate Tax Act, the following are deemed resident taxpayers:

-companies established under Hungarian law (thus, firms established under the Act on Business Associations: joint stock company, limited liability company (Kft.), joint company (Kv.), general partnership (Kkt.), limited partnership (Bt.) and other organizations (foundations, associations);

-non-resident taxpayers performing entrepreneurial activities at business premises in Hungary.

No group taxation is permitted under Hungarian law and in general the tax year corresponds to the calendar year.

We can observe that in every state, the fiscal politics are based on the national public budget, the budgetary expenses and incomes, constituted in great part by taxes and fees, will influence the destiny of the national economy (even on communitarian level, the economical politics are implemented through monetary and fiscal politics – form here originating the particular importance of the establishment of the general frame of these regulations).

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⁸³¹ Beginning with 01.0.2011 there will be modifications by the quantum of the tax, this way for the incomes under 15 million HUF there will be a percent of 17%, and for the higher incomes then 15 million HUF, the tax will be a fix amount of 2.550.000 HUF + a percent of 32% for the amounts over 15 million HUF.

THE IMPACT OF THE ECONOMIC CRISIS ON CREDIT INSURANCE

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The insurance domain is one of the most complex and extensive areas of the market. However this field is very risk exposed especially in this period of economic instability. One of the most non-performant insurance products at this time is the credit insurance. Due to inability to pay and increasing bad loans, insurance companies have decided to remove these products from their portfolio. We believe that the signs that led to this situation have been very visible for a long time, but the insurance market players refused to give too much importance to them because they based their operations on the artificial strength of the whole system. In this paper we want to show how things have evolved on the credit insurance market as compared to the general insurance market, and if the present situation could have been anticipated and avoided.

Keywords: crisis, inflation, hazard, credits, performance, panel data.

JEL Code: G22, G21, C23

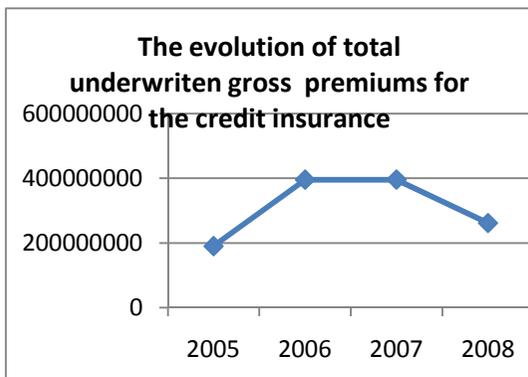
In these times of economic instability the players belonging to both the national and international financial market attempt to protect themselves as effectively as they can against the risks. Thus, an important help should arise from the insurance companies, which should offer viable products for covering the credit risk. Credit insurance should protect financial institutions from the possible occurrence of bad loans. Increasingly more people are late in paying bank lending rates, so that, in June 2009, the total amount of rates paid with a delay of less than 30 days was of 817 million lei. Meanwhile, according to the National Bank of Romania, the delays of more than 30 days had accumulated to 4.98 million lei. Compared with the same month of the last year, 2008, the rates of late payments rose almost 4 times. Simultaneously with these payment delays, the share of overdue debts in the total balance of loans rose to 2.58% in June. All these after in June 2009 the level was of 1.17% and at the end of the year it reached 1.47%. In addition, the number of debtors is still growing. According to the data centralized by the Credit Bureau in late June, more than 600,000 individual clients had more than 30 days delays on payments. At the same moment the total amount of the population's debts of loans smaller than 20,000 lei was of 1.8 billion lei. A recent study carried out by Deutsche Bank warned that the rate of bad loans might get to 15-20% by midyear, in Romania and Bulgaria. In addition to increasing bad debts, banks continue to face a decreased demand for loans. According to a study released by GfK Romania this year, Romanians fear that they would no longer be able to pay their debts.

In Romania, most insurance companies provide specialized products to cover the credit risk. However, as it would be proved by the following analysis, these products have a relatively low

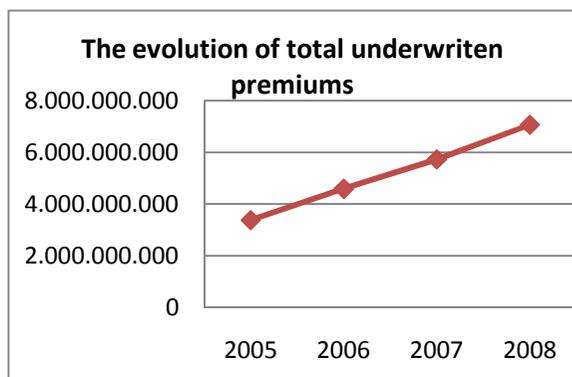
weight in the total subscribed insurances and their share in the total insurance subscriptions is in a continuous decline. It is interesting to see how these types of insurance have evolved in recent years, and most important we have to analyze how the insurance companies have acted before the start of the economic crisis. During the reported period (2005-2008) a steady decline in the share of the credit insurance in the total gross subscribed premiums for the general insurances may be observed. On the other hand, the total gross premiums subscribed for generale insurances by insurance companies have been continually increasing. From the graphs below we may see that the total underwritten gross premiums have a much higher growth rhythm, while the credit insurance underwritten premiums in the first phase, 2005-2006, have sharply increased then showed a constant trend, 2006-2007, and then have fallen, 2007-2008. These premiums have decreased mainly due to the economic conjuncture especially because insurers have made a more careful selection of risks. Furthermore, the credit insurance premiums have decreased by 51.79% as compared to the 2007, so this trend diminished their share in the total written gross premiums of general insurance by 2.7% in 2008 compared to 6.9% in 2007, respectively 8.6% in 2006.

Fig.1 The evolution of total gross underwritten premiums for the credit insurance.

Fig. 2 The evolution of total underwritten premiums



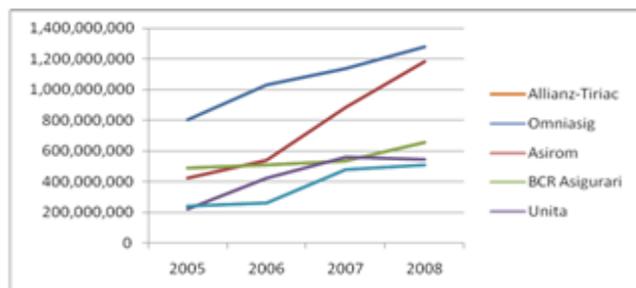
Source: Authors' processing



Source: Authors' processing

Throughout the examined period the market leader, having a share of 18.09% from the total written gross premiums of 2008 was the Alliant Tiriac Company, its premiums summing up to 1,278,805,131 lei. It is followed by companies like Omnisig, Asiom, Astra Insurance, as it may be seen from the following chart:

Fig. 3 The evolution of total gross underwritten premiums for 2005-2008(lei)

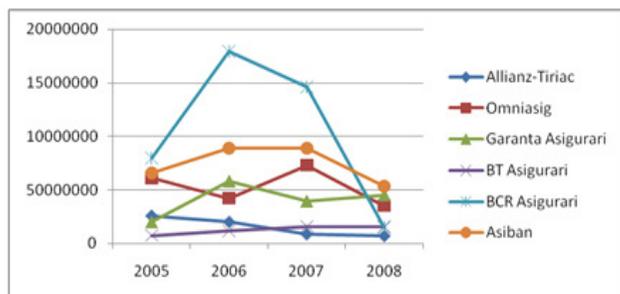


Source: Authors analysis

Despite the fact that the global economic situation is in a precarious situation, insurance companies still manage to increase the amount of gross written premiums. As is may be seen, Omnisig recorded by far the most impressive growth during 2006-2008. This can be put mainly on the account of two considerents. A first hypothesis is that the company would offer a wide range of products for all categories of customers at a lower price than its competitors. However we do not think this strategy could have such a big impact on the gross written premiums. In

addition, we tend to believe that Omnisig reduced the level of risk analysis so they could give insurance policies much easier. This policy may prove to be detrimental, because the insurance premium does not cover the intensity of the risk. Cristian Constantinescu, general manager of Allianz-Tiriac Insurance and chairman of the National Association of Insurance and Reinsurance Companies from Romania (UNSAR) said in mid-2007 "competition, as it is in Romania, is not linked to the consumer insurance, because there is no culture for insurance. Beside the price, nobody looks at anything. It is absolutely absurd to have large price differences both at the same insurance product. Nobody can understand some of these prices. At this time the competition is absolutely unfair. There is competition, but it subscribes only for the sake of subscribing whiteout considering the consequences. That's what happens now, according to the results from the market companies".

Next we will present the way that these market leader companies have addressed the problem of providing credit insurance:



Source: Author analysis

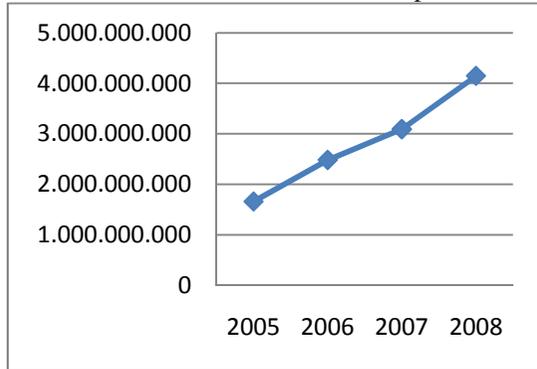
Fig. 4 The evolution of the gross premiums for the credit insurance for 2005-2008(lei)

It may be noted that although Allianz-Tiriac is the insurance market leader, the gross written premiums for credit insurance are rather reduced. The market leader of this area, accounting for 28.13% of the market, is Asiban which is not even located in the top 5 companies of the insurance market. This graph points out that among companies to offer credit

insurance products there are included insurance companies which are components of financial groups. The sharpest decrease in revenues from credit insurance premiums is recorded by BCR Insurance. This sinuous evolution is based also on the company's management. While the banks were willing to give credits to anyone, the credit insurance market was seen as a great opportunity to get profits. Excluding the risks assumed, once with the increasing outstanding loans, insurance companies began to record significant losses. Thus, many companies have reduced the activity of the insurance sector. The strongest example is BCR Insurances, which currently does not offer credit insurance products. Oscillations in the evolution of gross premiums for credit insurance have been registered by all the companies of the market, the exception being BT Insurances which managed to attain a sustained and constant evolution. Mainly the financial groups are currently trying to quit unprofitable products and one of the first products to be waived were the credit insurances. This may be a consequence of two things. Primarily due to the economic context, the number of loans fell sharply and this insurance has not been needed on the market. A second factor could be a psychological one, caused by the panic from the banking sector. So the insurance company has not given insurance policies as easily as before, quantifying more carefully the risks that the company is exposed to.

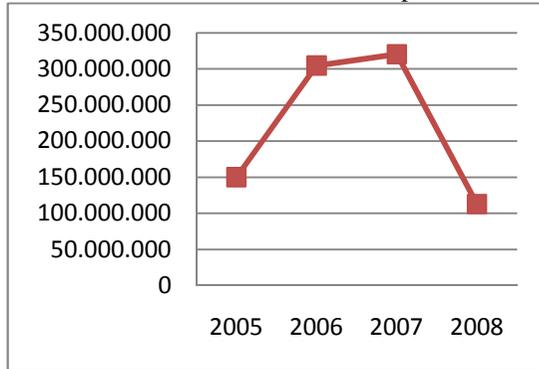
To relate how these insurance policies are covering the insured risks we must analyze the level of indemnities paid by insurance companies..

Fig. 5 Gross paid indemnities for the credit insurance in the 2005-2008 period



Source: Authors' processing

Fig. 6 Total gross paid indemnities in the 2005-2008 period



Source: Authors' processing

A sharp decrease of 2008 gross paid indemnities for the credit insurances may be noticed while the total indemnities are constantly increasing. But the insurance field has always been an atypical industry. In the current economic context, insurances are still the field that manages to attract the most money from the economy. Total gross underwritten premiums in 2008 increased by 23.42% compared to 2007 while the level of indemnities rose by 34.05%. The trend for insurers is to pull out the non-performant products from their portfolio. Thus the gross written premiums for credit insurance fell by 40% in 2008 compared to 2007 and indemnities fell by more than 65% during the same period, after in 2007 they recorded a growth of 5%.

Another important indicator to be assessed is the rate of damage. This indicator can be determined for each type of insurance, with particular importance in assessing the financial and economic results of the insurance company. When this indicator records high values, the financial situation is unfavorable for the insurer.

Next we will present how the damage rate for general insurances evolved by comparison with the credit insurances. The damage rate for general insurance records a constant trend during the period under review, recording a growth from 49.16% to 58.62%. Not the same thing may be observed about the damage rate for de credit insurances which recorded much higher values. Thus the highest rate was recorded in 2007 with a value of 80.96%, and then it decreased to a value of 59.21%.

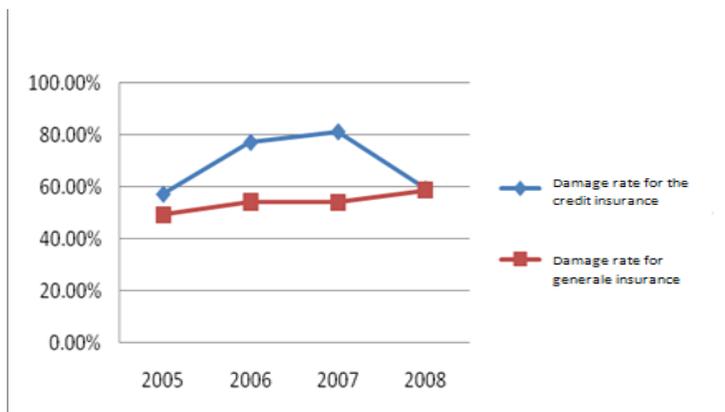


Fig. 7 Evolution of the damage rate in 2005-2008

Source: Author analysis

By analyzing the indexes with a fixed base it is observed that, in 2008 as compared to 2005 General Insurance damage rate grew with 19.24%. Unlike this, we can see that on the analyzed period, at the credit insurance, in 2008 as compared to 2005, it registered an increase of only 3.39%. Even if the damage rate on general insurance grew a lot more, it shows a certain constant trend from year to year, while not the same thing may be said about the damage rate on credit insurance, which records a much higher fluctuation from one year to another.

In the case of the formerly presented indicators we'd also verify the hypothesis of an existing correlation between the volume of gross written premiums in credit insurance and the total volume of gross written premiums in general insurances, by using panel data⁸³². For this purpose, we created a database containing data corresponding to the six insurance societies who managed to maintain their top position on the credit insurance market, i.e. Alliantz-Tiriac, Asiban, BCR Insurance, BT Insurance Garanta and Omiasig, with respect to the gross written premiums on credit insurances and the total volume of gross written premiums for general insurances, during the 2005-2008 years, information that were taken from the annual reports of the Insurance Supervisory Commission in Romania. These models were at first estimated with the method of least squares for panel data (Pooled OLS), then with a model with constant effects (Fixed Effect Model FEM) and a random effects model (Random Effect Model - REM). In order to estimate the parameters of the built models the Gretl⁸³³ software package was used.

For this purpose, the following notations were used:

V_1 = gross written premiums in credit insurance, the endogenous variable, in lei;

V_2 = gross written premiums in credit insurance, the exogenous variable, in lei;

u = residual variable.

The following econometrical linear model was built:

$$V_1 = f(V_2) + u \Rightarrow V_1 = a_0 + b_0 * V_2 + u$$

Analyzing the results obtained with these three models, using data for these six societies, we see that they are significant. In order to choose between the estimator obtained with the Pooled OLS model for panel data and the one obtained with the constant effect model, an F^{834} test was performed, based on the hypothesis that all free terms are constant and we could see that the best estimator is the one obtained in the case of the fixed effects model. The Random effect model assumes that the medium individual effect is framed in the constant term, and the error term includes the unobserved individual effect⁸³⁵. Still, an optimum answer must be given to the *what panel method should be used?* question. In order to test these last two models, with fixed and random effects, we use the Hausman test⁸³⁶. Through this test the existence of the efficiency and inconsistency of estimators (for the models) is verified.

⁸³² Panel data models allow a single coefficient to summarize the impact of a variable upon a group of time series dependent variables (a group of companies, countries, regions) and the estimation of specific coefficients (constant or independent variables coefficients) for each time series considered as dependent variable - fixed effects.

⁸³³ Gnu Regression, Econometrics and Time-series Library is a platform software for econometrical analysis.

⁸³⁴ If the calculated value of F statistics is higher than the table value, then the null hypothesis of free terms equality is rejected. In this condition we may say that fixed-effect model is preferable to the common constant model.

⁸³⁵ In the case of this model we consider that the societies differ in relation to the linear relationship between the two data sets, by random error series.

⁸³⁶ If the statistical value is higher than a table value, then the null hypothesis is rejected, considering that, in this case, the second model is more suitable for analyzing the relationship between the two variables. Hausman, J. (1978), Specific Tests in Econometrics, 46.

After the simulations on the panel with fixed effects method, the free term a_0 obtained had the value 33782900 (0.0310**⁸³⁷) and b_0 had the value 0.0259427 (0.4137). So, we may say that, at a V_2 increase of 1 lei, V_1 will increase with approximately 0.026 lei. R^2 has the value 0.527216, so the exogenous variable considered explains only 53% of the endogenous variable, and definitely there are other factors which influence V_1 . Also, the graphics for the experimental and theoretical values of V_1 , the volumes of the gross written premiums for credit insurance, are as follows:

Fig.8. Experimental values of V_1 and the ones adjusted through the model

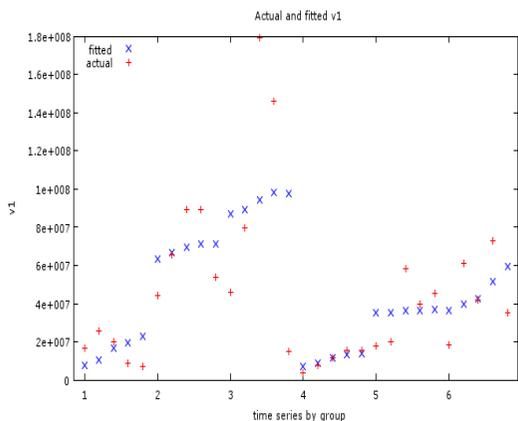
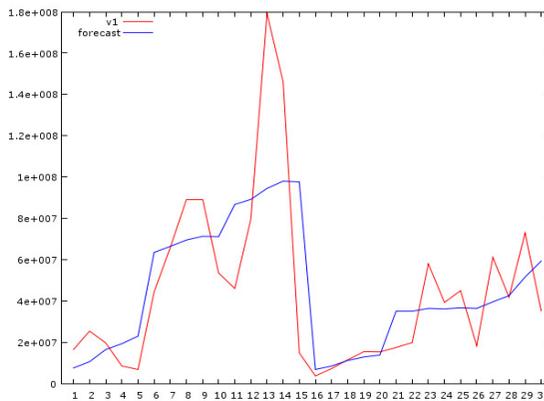


Fig.9 Experimental values of V_1 and the ones adjusted through model



Source: Authors' processing in Gretl

Conclusions

It is a certainty that insurances represent a necessarily "evil". Their main mission is to protect its customers from any risks that may arise from their activities. But as in any other field, there must be a clearly defined limit. This limit is placed between the insured risk and insurance premium. There must be a close connection between them, so that insurance companies could still be interested in continuing their activity on the market, and the clients to continue to rely on these types of services.

In this field, the management of the insurance companies is essential. According to the manager aversion towards risk, the company may have different objectives. Thus, if the manager wants to obtain a high market share he will decrease the risk assessment requirements in order to attract more customers, which will lead to a too much exposure of the company. You may see this in these times of crisis, when insurance companies are forced to compensate the recipients of the credit insurance. Due to the large number of debtors, many insurance companies are in a difficult situation. In order to get rid of these portfolios, insurers turn to reinsurance companies, to minimize the risks.

We think that this difficult period for the global economy and the national one should lead the insurance companies to a more mature, professional and responsible analysis before they offer an insurance policy subscription. We don't think that the insurance companies should give up covering certain insurance products, like the credit insurance, just because bank loans undergo through difficult times. This is not a solution. A new correct system of risk coverage correlated tariffs should be created, and also should be better correlated with the different coverage risk situations so that the customer won't have to suffer when the insurers decide that their profit rates are too low and they should withdraw from the market.

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⁸³⁷ p-values in between brackets. ** assigns the 5% significant coefficients.

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EFFICIENCY AUDIT WITHIN THE SOCIAL HEALTH INSURANCE SYSTEM. HOSPITAL SERVICES PROVIDERS IN ROMANIA

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Given how the healthcare sector records a continuous rise of costs, decision factors and theoreticians try to develop policies that will contribute to the improving the way resources are used.

Keywords: performance auditing, efficiency, DRG

JEL codes: I11, I12, I18

Introduction

In literature it is well known that the goal of performance audits is to provide information and to ensure the management manner of public resources. This type of audit assesses: “the economy, efficiency and effectiveness of managing public entities by examining the used resource, the information systems and the supply of information, including performance indicators, the monitoring of the results and observing the law and the ethics”⁸³⁸. The most known ways to measure performance are the three traditional Es: economy (*to minimize consumption of inputs*), efficiency (*the relations between inputs and outputs*) and effectiveness (*results compared to expectations*)⁸³⁹.

The present paper tries to determine the performance level recorded by several hospital services providers with the help of one of the three indicators, namely efficiency.

Literature review

Economy, efficiency and effectiveness have been a major concern for all the governments in trying to reform and modernize healthcare systems. It seems the 3Es were adopted as “raison d’être” of the intervention of public authorities in areas like healthcare⁸⁴⁰.

There are authors like Hollingsworth & Peacock (2009) that provide a comprehensive overview of stochastic frontier studies which attempted to measure efficiency in hospital or other health services.

Liu & Mills (2007) shows that organizational (hospital) efficiency can be measured by: multidimensional weighted ratio analysis: “outputs are measured by using one indicator derived by converting all types of outputs into an output equivalent, and that the inputs are measured by using either the total cost measure or an input equivalent”⁸⁴¹, or by production function analysis used to: “estimate the output elasticity from which scale effects can be derived; elasticity of the input substitution that can be used to measure allocative efficiency in combination with the input prices; and efficiency”⁸⁴².

⁸³⁸ S., Anwar, (2007), *Performance Accountability and Combating Corruption*, International Bank for Reconstruction and Development/ World Bank, Washington, DC, USA, p. 313.

⁸³⁹ J., Wholey, E., Zapico-Goni (2007), *Monitoring Performance in the Public Sector: Future Directions from International Experience*, Transaction Publishers, New Brunswick, New Jersey, SUA, p. 5.

⁸⁴⁰ M., Marinker (2006), *Conversations about Health: Policies and Values*, Radcliffe Publishing Oxford, Oxford, UK, p. 97.

⁸⁴¹ X., Liu & A., Mills (2007), *Public ends, private means: strategic purchasing of health services*, World Bank Publications, Washington, DC, USA, p. 360.

⁸⁴² Idem, p. 365.

Research methodology

In order to conduct this research, we did a documentation based on various analyses, studies, practice handbooks regarding the efficiency of hospital service suppliers. At the same time, the specialized literature, the current legislation, as well as the practical aspects met in the contracting and reporting activity of medical services by providers was also taken into account.

Regarding the size of the sample, we mention that during the analyzed period, 2005-2009, of a total of 68 hospital services providers, which are included in the category of municipal hospitals, 12 units (17.65%) were subjected to analysis. At the same time, it was considered useful that the sample is composed of municipal hospitals that operate in the same development region (Center Regional Development Agency⁸⁴³). Given that the indicators underlying the analysis of the present study have relatively similar values, we believe that the results of the research can't be distorted significantly.

The indicator according to which the over 80% of hospital services providers contracted budgets with the second credit accountants (Health Insurance Houses) is tariff value for solved case (Diagnosis Related Groups - DRG). According to the law (e.g. Framework Agreement), this indicator is considered a quantitative indicator due to the specific indicators that are included in its structure. The calculus formula for contracted DRG is the Number of discharged cases (NDC) – which is negotiated with the Health Insurance House, multiplied by the Case-mix index from the previous year (CMI) – stipulated in the norms, and multiplied by the Tariff on average case (TAC) – stipulated in the norms. Starting from the calculus formula highlighted above, we tried to conduct a study based on empirical indicators (achieved values of the indicators).

Case study

In the first stage of research, we determined the tariff value for solved case (DRG_{aMH}) achieved by each hospital service provider by multiplying the number of achieved discharged cases ($NDCa$) with the achieved Case-mix Index ($CMIA$) and the achieved tariff on average case ($TACa$) as follows:

$$DRG_{aMH} = NDCa * CMIA * TACa \quad (1)$$

Source: data processed by the author according to the Framework Agreement, 2010

The dynamic of the tariff value for solved case (DRGr)

Table no. 1

Supplier Municipal Hospital (MH)	\Year	2009 -lei-	2008 -lei-	2007 -lei-	2006 -lei-	2005 -lei-
Aiud MH (AMH)		13.035.375,13	13.721.660,57	8.423.909,31	8.610.580,34	6.310.430,78
Blaj MH (BMH)		14.424.701,44	13.320.990,27	9.670.934,49	8.142.229,58	7.705.533,07
Sebeş MH (SMH)		12.644.791,78	12.345.072,74	11.216.334,99	7.106.466,52	5.252.441,59
Făgăraş MH (FMH)		14.864.141,87	14.974.200,88	11.303.466,11	9.275.214,85	6.820.803,17
Săcele MH (SMH)		4.163.427,72	3.158.030,46	2.052.123,67	1.497.583,66	550.276,70
Codlea MH (CMH)		3.663.037,50	3.779.643,41	2.990.454,77	1.869.172,03	2.452.606,36
Odorheiu Secuiesc MH		25.744.031,12	24.721.867,17	16.393.636,28	13.158.627,24	11.390.723,31
Topliţa MH (TMH)		9.212.595,72	9.232.686,04	4.496.168,18	3.984.093,31	3.694.323,99
Sighişoara MH (SMH)		16.889.157,60	15.381.927,12	10.041.795,10	8.580.768,78	7.106.603,11
Reghin MH (RMH)		13.465.912,21	12.827.297,34	8.684.663,88	7.037.691,60	5.641.836,22

⁸⁴³ Center Regional Development Agency (ADR Centru) aims to contribute to the sustainable and equitable development of the Center Region by removing disparities and imbalances between areas of the region for the benefit of its inhabitants.

Târnăveni MH (TMH)	19.988.085,60	17.612.227,92	16.645.216,80	10.420.887,38	6.815.895,84
Mediaș MH (MMH)	18.641.004,12	16.919.497,73	11.775.565,39	7.777.400,67	6.718.272,81
DRG_{aMH}	13.894.688,48	13.166.258,47	9.474.522,42	7.288.393,00	5.871.645,58

Source: data processed by the author, 2010

In the next stage, with the help of the relation below, we determined the hospital healthcare service provider that in the last five years recorded the closest value to: the average number of discharged cases, the case-mix index of the tariff on solved case, as follows:

$$f_{MH} = \min(|I_{eMH} - \overline{I_{eMH}}|) \quad (2)$$

Source: data processed by the author, 2010

where:

f_{MH} – the minimum value of the efficiency indicator of the municipal hospital compared to the average

I_{eMH} – the efficiency indicator achieved by the municipal hospital

$\overline{I_{eMH}}$ – the average value of the achieved efficiency indicators

In order to determine which organization has the best value of the f_{MH} function, we determined the values for each indicator (for the number of discharged cases -; the case-mix index - f_{CMIaMH} ; tariff on average case - f_{TACaMH}). The summary of these values, calculated based on the data in Annex no. 1, is highlighted in the following table:

Evolution of the smallest deviation from the minimum value of the analyzed indicators

Table no. 2

Indicator\Year	2009	2008	2007	2006	2005
No of achieved discharged cases f_{NDCaMH}	118	180	323	303	135
Case-mix Index f_{CMIaMH}	0,0030	0,0387	0,0042	0,0052	0,0022
Tariff on average case f_{TACaMH}	8,46	8,46	20,33	3,58	3,44

Source: data processed by the author, 2010

By comparing the data in table no. 2 with the values recorded by each provider, the following aspects can be observed:

-for the Indicator “number of achieved discharged cases” (**NDCa**) there are two hospital units that obtained in the analyzed period the smallest deviations from the average (f_{NDCaMH}), namely Sighișoara Municipal Hospital (with 118 cases in 2009, 180 in 2008, 323 in 2007, and 135 in 2005);

-for the achieved Case-Mix Index (**CMIA**), of all the providers, two obtained the smallest deviations from the average (f_{CMIaMH}) in the same period, namely Reghin Municipal Hospital (0.042 in 2009, 0.0462 in 2008, 0.0110 in 2007 and 0.0165 in 2006) and Mediaș Municipal Hospital (0.0052 in 2006 and 0.0022 in 2005);

-for the tariff on average case indicator (**TACa**), of all the providers, five recorded the smallest deviations from the average (f_{TACaMH}) in the analyzed period. In this case also we can see that Reghin Hospital had relatively low values of the indicator compared to the average: 34.33 lei in 2007, 40.62 lei in 2006 and 35.56 lei in 2005.

After processing the data in Annex no. 1 with the help of relation number 2, the following values were obtained the values from Table no. 3.

It can be noticed that during those five years the entity with the most representative values compared to the average if Reghin Municipal Hospital (RMH). Even if in 2006 and 2007 it recorded slightly higher values in comparison to the other units, it ranks second in both periods. Consequently, based on what was revealed before, we believe that RMH can be considered the best performer among the providers and the entity at the base of determining the efficiency indicator for the tariff on solved case for the analyzed municipal hospitals.

The minimum value of DRG_{aMH} in the 2005-2009 period

Table no. 3

Provider\ Year	2009 -lei-	2008 -lei-	2007 -lei-	2006 -lei-	2005 -lei-
AMH	859.313,35	555.402,10	1.050.613,10	1.322.187,35	438.785,20
BMH	530.012,95	154.731,80	196.412,08	853.836,58	1.833.887,49
SMH	1.249.896,71	821.185,73	1.741.812,58	181.926,47	619.203,99
FMH	969.453,39	1.807.942,41	1.828.943,69	1.986.821,86	949.157,59
SaMH	9.731.260,77	10.008.228,01	7.422.398,74	5.790.809,34	5.321.368,88
CMH	10.231.650,98	9.386.615,06	6.484.067,64	5.419.220,97	3.419.039,22
OSMH	11.849.342,64	11.555.608,70	6.919.113,86	5.870.234,24	5.519.077,73
TMH	4.682.092,76	3.933.572,43	6.484.067,64	3.304.299,68	2.177.321,59
MHSi	2.994.469,12	2.215.668,65	567.272,69	1.292.375,78	1.234.957,53
RMH	428.776,27	338.961,13	789.858,54	250.701,40	229.809,36
TMH	6.093.397,12	4.445.969,45	7.170.694,39	3.132.494,38	944.250,26
MMH	4.746.315,64	3.753.239,26	2.301.042,98	489.007,67	846.627,23
$f_{DRG_{aMH}}$	428.776	154.732	196.412	181.926	229.809

Source: data processed by the author, 2010

In the last stage of the study, starting from the formula for determining efficiency, known in economic theory as the ratio between the obtained results and the used resources; the specific criteria of efficiency audit pursued by the Supreme Audit Institutions (SAI) and the data processed previously, we established the following calculation method for the efficiency of the analyzed hospital ($e_{DRG_{aMH}}$) units:

$$e_{DRG_{aMH}} = \frac{DRG_{aMH}}{DRG_{aPMH}} \quad (3)$$

where:

$e_{DRG_{aMH}}$ – the efficiency indicator tariff on solved case of the municipal hospital

DRG_{aMH} –Diagnosis Related Groups produced by the municipal hospital

DRG_{aPMH} –Diagnosis Related Groups produced by the performing municipal hospital

Following the calculus of the efficiency indicator at the level of each MH, in the examined period, based on the data in Annex no. 1, we obtained the values from Tabel no. 4.

Therefore, we can see that during the analyzed period most providers have recorded values higher than the level considered optimum (≥ 1) for the studied efficiency indicator. Of the municipal hospitals with high values, two are more evident: Odorhoiu Secuiesc Municipal

Hospital had a value of the efficiency indicator that exceeded 2 in the year 2005, and for the other years it recorded values over 1.8; Târnăveni Municipal Hospital recorded values from 1.21 (2005) to 9.7 (2007) and in the last year the value was 1.48. At the opposite pole are three municipal hospitals that recorded during the same period much lower values compared to the optimum level: Săcele Municipal Hospital had values between 0.1 in 2005 and 0.34 in 2009; Codlea Municipal Hospital recorded values between 0.43 in 2005 and 0.27 in 2006 and 2009; and Toplița Municipal Hospital has values raging from 0.65 in the first year and 0.68 in the last year.

The evolution of the efficiency indicator e_{DRGaMH} during the 2005-2009 period

Table no.4

Provider \ Year	2009	2008	2007	2006	2005
AMH	0,97	1,07	0,97	1,22	1,12
BMH	1,07	1,04	1,11	1,16	1,37
SMH	0,94	0,96	1,29	1,01	0,93
FMH	1,10	1,17	1,30	1,32	1,21
SaMH	0,31	0,25	0,24	0,21	0,10
CMH	0,27	0,29	0,34	0,27	0,43
OSMH	1,91	1,93	1,89	1,87	2,02
ToMH	0,68	0,72	0,52	0,57	0,65
SiMH	1,25	1,20	1,16	1,22	1,26
TaMH	1,48	1,37	1,92	1,48	1,21
MMH	1,38	1,32	1,36	1,11	1,19

Source: data processed by the author, 2010

Conclusions

It is known that resources within the healthcare system are limited, regardless of the type of the system or of the organization and functioning economic system of the trade economy, which is why it is *completely immoral to waste them*. An inefficient use of resources in a certain area implicitly determines a lack of services in other areas where they are truly needed. Therefore, it is *a moral requirement* to identify the most efficient manner of organization for all healthcare services and to use *economic rationality* at their level.

At the same time, in literature, it is known that efficiency is related to economy. Also, regarding economy, as well as efficiency, the central concerns are related to the deployed resources. The main question is if these resources were used in an optimum or satisfying manner or if the identical or similar results, in terms of quality, could have been achieved with less resources.

Therefore, next to the indicators calculated in this study (efficiency), we believe that in practice, in order to determine performance for a hospital services provider, the economy, as well as effectiveness, must be taken into account.

Therefore, next to the indicators calculated within this study (efficiency), we believe that in practice, in order to determine the performance of a hospital services provider, the economy, effectiveness, as well as quality indicators must be taken into account (e.g. clinical infections).

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Annex no.1

Number of discharged cases, Case-mix index and the tariff on average case

Provider\ Year	2009 -lei-	2008 -lei-	2007 -lei-	2006 -lei-	2005 -lei-
<i>Number of achieved discharged cases (NDC)</i>					
AMH	10.193	10.653	10.043	11.924	11.717
BMH	11.874	11.637	11.507	13.101	13.919
SMH	11.954	12.056	12.101	11.786	10.296
FMH	11.911	11.978	12.043	11.999	12.019
SaMH	4.118	3.260	3.073	2.990	1.250
CMH	3.450	3.542	3.553	4.030	2.864
OSMH	21.721	21.525	21.007	22.153	21.509
TMH	7.186	7.714	7.453	7.521	7.973
SiMH	10.900	10.759	10.579	10.959	10.315
RMH	10.462	10.142	10.436	10.864	10.798
TMH	12.900	12.319	13.945	13.354	11.109
MMH	15.550	15.680	15.081	14.459	14.190
NDC average	11.018	10.939	10.902	11.262	10.663
<i>Achieved case-mix index (CMI)</i>					
AMH	0,9174	0,9240	0,7358	0,8234	0,7066
BMH	0,8803	0,8295	0,7811	0,7506	0,7691
SMH	0,8635	0,8359	0,8283	0,7003	0,6811
FMH	0,9043	0,9059	0,7681	0,7864	0,6639
SaMH	0,8005	0,7670	0,6772	0,6599	0,6668
CMH	0,7750	0,7789	0,6887	0,4704	0,9989
OSMH	0,9399	0,9108	0,8062	0,7973	0,8170
TMH	0,9290	0,8673	0,6143	0,7007	0,7044
SiMH	1,1228	1,0360	0,7768	0,7699	0,7791
RMH	0,9327	0,9165	0,7836	0,7929	0,7359
TMH	1,2128	1,9117	0,9832	0,8355	0,7556

MMH	0,9652	0,8688	0,8280	0,7409	0,7502
CMI average	0,9370	0,9627	0,7726	0,7357	0,7524
<i>Tariff on average case (TAC)</i>					
AMH	0,9174	0,9240	0,7358	0,8234	0,7066
BMH	0,8803	0,8295	0,7811	0,7506	0,7691
SMH	0,8635	0,8359	0,8283	0,7003	0,6811
FMH	0,9043	0,9059	0,7681	0,7864	0,6639
SaMH	0,8005	0,7670	0,6772	0,6599	0,6668
CMH	0,7750	0,7789	0,6887	0,4704	0,9989
OSMH	0,9399	0,9108	0,8062	0,7973	0,8170
TMH	0,9290	0,8673	0,6143	0,7007	0,7044
SiMH	1,1228	1,0360	0,7768	0,7699	0,7791
RMH	0,9327	0,9165	0,7836	0,7929	0,7359
TMH	1,2128	1,9117	0,9832	0,8355	0,7556
MMH	0,9652	0,8688	0,8280	0,7409	0,7502
TAC average	0,9370	0,9627	0,7726	0,7357	0,7524

Source: data processed by the author according to the Framework Agreement and according to the data of the National School of Public Health and Health Management Bucharest for the 2005-2009 period.

THE ANALYSIS OF ABSORPTION CAPACITY OF EUROPEAN FUNDING IN THE NORTH WESTERN REGION OF ROMANIA

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This paper analyzes the Romanian absorption capacity of the funds allocated through the REGIO programme, which is part of ERDF programme. Within the paper are presented the concept of absorption capacity and several opinions regarding its main composing elements. Also the Regio programme, its main axis and its budget is briefly presented. In the last chapter of the analysis a thorough analysis of the implementation of REGIO in the Romanian North-West Region was carried out and several causes for the low absorption of European Funds have been identified.. The process of improving the absorption capacity of European Funds is still at the beginning in Romania and will certainly become an important issue over the following years at all levels of the Romanian society and at the level of the European Funding Authorities as well.

Key words: Absorption capacity, European Union, European funds, Structural Funds, European Regional Development Fund, Financial allocation

The article's JEL code: F15, F36, E61, D78, H77, O23

1. Introduction

The Structural Funds and the Cohesion Fund are financial instruments of the policy of economic and social cohesion. These instruments support the reduction of the gap between the development of different regions from the member states and promote, to this purpose, the economic and social cohesion. The general rules for the Structural Funds and the Cohesion Fund were set by the *EU Council Regulation no. 1083/2006 June 2006*, which defines the general framework for the European Regional Development Fund, European Social Fund and for the Cohesion Fund (European Council, 2006). The eight East European EU member states that joined in 2004, along with Bulgaria and Romania—the “EU10”—are set to receive a huge amount of support from the EU in 2007-13. The eight more seasoned “new member states” will see their funding allocations almost double, and the jump in funding for Bulgaria and Romania compared to the pre-accession funds they had been receiving will be even more sizeable (Economist Intelligence Unit, 2007).

Total funds allocated to the EU10 for 2007-2013

Country	Total assistance (billion (euro))	Per capita assistance (euro)	% of the GDP
The Czech Republic	26,686	2.627	3.5
Estonia	3,393	2.555	4.1
Hungary	25,307	2.561	3.9
Latvia	4,001	1.751	3.9
Lithuania	6,775	2.041	4.2
Poland	67,284	1.773	3.6
Slovakia	11,507	2.102	3.9
Slovenia	4,102	2.082	2.0
Bulgaria	6,674	901	4.0
Romania	19,668	911	3.2
TOTAL	175,397	1.930	3.6

Figure 1. Total funds allocated to the EU 10 for 2007-2013 (Economist Intelligence Unit, 2007).

Despite the EU10 have also been busy building new institutions and training staff to improve their “absorption capacity”— the ability to manage and organise the spending effectively, is still under much debate and questioning both from their citizens and from old member states as well.

2. Defining the absorption capacity

The absorption capacity is generally defined as the “capacity of the countries on low incomes to absorb productively a large volume of foreign aid”, the central issue here being to prioritize the granted aid (Bourguignon and Sundberg, 2006). From this perspective and taking into account the beneficiaries of the international aid, the absorption capacity relates to the general functionality of the particular state, to the adjustment of obvious dysfunctions and to the adoption of minimal administrative and economic standards(Cace et al, 2009).

The analysis by Boot et al, 2001, is the first to systematically put forward the notion of absorption capacity. It has defined it as “the extent to which a member state is able to fully spend in an effective and efficient way the allocated financial resources from the Structural Funds” (Boot, de Veet, Feeks, 2001). On this basis three more specific factors of absorption capacity have been established(Wostner, 2008):

- The *macroeconomic absorption capacity*, which would be defined and measured in terms of GDP;
- The *managerial-administrative absorption capacity* which refers to the abilities and skills of central, regional and local authorities to prepare acceptable plans, programmes, and projects in due time, to decide on programmes and projects, to arrange the co-ordination among the principal partners, to cope with the vast amount of administrative and reporting paperwork required by the Commission, and to finance and supervise implementation properly, avoiding fraud as far as possible.
- Finally, the *financial absorption capacity*, which refers to the ability to co-finance EU supported programmes and projects, to plan and guarantee these national contributions in multi-annual budgets, and to collect these contributions from several partners, interested in a programme or project.

3. Regional Operational Programme - the main infrastructure financing tool of the European Union in Romania

The Regional Operational Programme 2007 - 2013 (REGIO) is one of the main Romanian operational programmes agreed with the European Union and a very important tool for implementing the national strategy and the regional development policies. It is applicable to all eight development regions of Romania. The overall objective of the ROP consists of "supporting and promoting sustainable local development, both economically and socially, in the regions of Romania, by improving the conditions of infrastructure and business environment, which support economic growth". This means that the ROP's aim is to reduce economic and social development disparities between the more developed regions and the less developed ones. (Romanian Government, 2007). As mentioned above and presented in the figure bellow Romania has eight development regions: which contain between four to seven counties(Region 1 to 7) and the Ilfov County of the capital city of Bucharest(Region Eight).

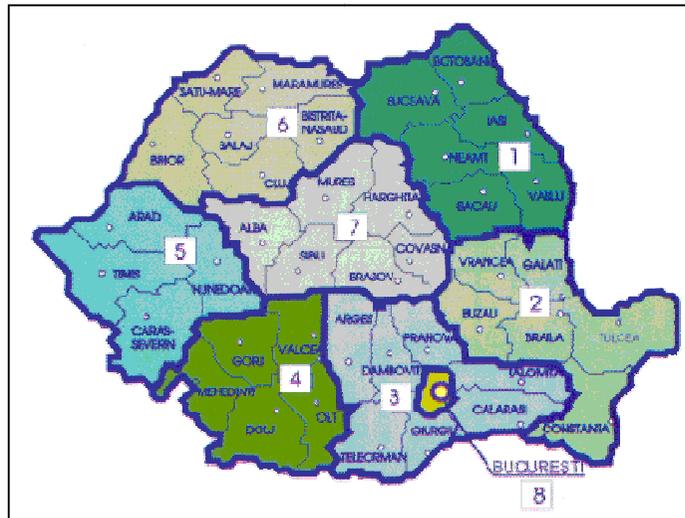


Figure 2. Development Regions – Romania (Romanian Government, 2007)

The Regional Operational Programme in Romania is financed within one of the structural funds of the European Union – the European Regional Development Fund (ERDF). This fund supports EU regions with a GDP per capita below 75% of the European average.

The total budget allocated to the ROP is approximately 4.4 billion Euros in the first 7 years after accession (2007-2013). EU funding represents approximately 84% of the ROP budget. The rest comes from national funds, public co-financing (14%) and private co-financing (2%).

The distribution of funds is done on the priority axes of the Regional Operational Programme. Each priority axis is allocated a certain budget and includes a number of key areas of intervention whose target is the achievement of development objectives.

It is expected that the implementation of this programme will create better conditions for the economic and social balanced territorial development of all Romanian Regions and for urban growth poles able to spread the development.

The balanced development of all the counties regions will be achieved through an integrated approach, based on a combination of public investments in the local infrastructure, active policies to stimulate business activities and support for the valorisation of the local resources, by the following priority axes:

- Support to sustainable development of urban growth poles
- Improvement of regional and local transport infrastructure
- Improvement of social infrastructure
- Strengthening the regional and local business environment
- Sustainable development and promotion of tourism
- Technical assistance.

In order to ensure the implementation of the actions within the program an amount of almost 4.4 billion Euros have been allocated between the six Priority Axis of the fund:

Priority Axis	EU Contribution	National Public Contribution	Total Public Contribution
Support to sustainable development of urban growth poles	1 117 806 529	273 365 256	1 391 171 785
Improvement of regional and local transport infrastructure	758 355 021	118 355 985	876 711 006
Improvement of social infrastructure	558 903 260	98 629 992	657 533 252
Strengthening the regional and local business environment	633 423 700	76 471 117	709 894 817
Sustainable development and promotion of tourism	558 903 264	57 862 924	616 766 188
Technical Assistance	98 629 988	32 876 662	131 506 650
Total	3 726 021 762	657 561 936	4 383 583 698

Figure 3. Regio - Breakdown of finances by priority axis (European Union - 2007)

From this amount of 4.4 billion Euros an amount of 536.41 million Euros are directly allocated to the North-West Region as presented in the programming documents of the Regio Programme (Ministerul Dezvoltării Regionale și Turismului, 2007). North-West Region has a surface of 34,159 sqkm, accounting for 14.3% of the total surface of the country. It comprises six counties (NUTS 3): Bihor, Bistrita-Nasaud, Cluj, Maramures, Satu Mare and Salaj. North-West Region's network of localities comprises of 42 towns and cities and 1,802 villages, grouped in 402 communes. Out of the towns and cities, four of them have a population over 100,000 inhabitants (Cluj-Napoca – 310,194 inhabitants, Oradea – 206,223, Baia Mare – 140,937 and Satu Mare – 115,197), nine between 20-100,000 inhabitants and 29 less than 20,000 inhabitants.

4. Absorption capacity in the North-West Region

To the North-West region of Romania as described above was allocated from the Regio Programme 2007-2013 an amount of 536.41 million Euros. The allocations of funds are distributed between the five implementation axis of the programme. Based on a Report presented by the North Western Region Development (Agency Agentia de Dezvoltare Regională Nord-Vest, 2010), which is dated on 31.03.2010, was assessed the current state of the REGIO funds contracting till that date. As will be presented in the table below the current state of the contracting within the programme for all five axis is in this moment under 24% from the total budget.

Regional Operational Programme - Axis	Amount allocated (mill EUR)	Amount requested (mill EUR)	Amount contracted (mill EUR)	Amount contracted %
Axis 1 - Support to sustainable development of urban growth poles	168,19	82,32	0	0,00%
Axis 2 - Improvement of regional and local transport infrastructure	105,99	218,02	95,33	89,94%
Axis 3 - Improvement of social infrastructure	79,50	161,66	11,65	14,65%
- 3.1 Improvement of Health Infrastructure	20,99	42,68	1,97	9,39%
- 3.2 Improvement of Social Services Infrastructure	12,03	21,06	3,1	25,77%
- 3.3 Improvement of Emergency Infrastructure	12,03	9,79	0	0,00%
- 3.4 Improvement of Education Infrastructure	34,45	88,13	6,58	19,10%
Axis 4 - Strengthening the regional and local business environment	96,19	48,00	4,4	4,57%
- 4.1 Development of sustainable business support structures	33,17	27,77	0	0,00%
- 4.2 Rehabilitation of unused polluted industrial sites	28,46	0,00	0	0,00%
- 4.3 Support the development of micro-enterprises	34,56	20,23	4,4	12,73%
Axis 5 - Sustainable development and promotion of tourism	86,54	109,31	16,84	19,46%
- 5.1 Restoration and valorization of cultural heritage	28,46	42,78	15,35	53,94%
- 5.2 Creation, development, modernization of the tourism infrastructure	39,90	66,09	1,05	2,63%
- 5.3 Promotion of Tourism	18,18	0,44	0,44	2,42%
Total	536,41	619,31	128,22	23,90%

Figure no 3 The status at 31.03.2010 of Regio Programme in North-West Region

As observed from the table above the biggest contracted amount are on the Axis 2 Improvement of Regional and Local Transport Infrastructure where are contracted 95.33 million Euro from the total of 105.99 million Euros, a 89.94% from the budget of the Axis.

The other Axis have contracted between 0%(Axis 1) and 19.46% on the Axis 5. The biggest concern comes from the Sub-Axis 4.2 Rehabilitation of polluted industrial sites where no projects have been proposed even if the total budget of this action is 28.46 million Euros. Large delays in evaluation and contracting of projects have been registered also in Axis 1 or sub-axis such as 3.1, 3.2, 3.4, 4.1, 5.1 and 5.2. In these cases despite the large amount of funds requested, sometimes over 250% over the allocated budget, the evaluation of the projects and contracting procedure are delaying the implementation of the projects. For example even if 82.32 million Euros have been requested on Axis 1 or 27.77 million Euros have been requested on Sub-axis 4.1 no projects have been contracted yet. In other cases even if the amount requested was much higher than the funds allocated (Axis 3.1, 3.2, 3.4 or 5.2) modest evaluation and contracting rates have been achieved: between 2.63%(Axis 5.2) and 25.77%(Axis 3.2). In the same time can be mentioned the delays in presenting feasible financing projects by the beneficiaries. And since 2010 is the half of the contracting period 2007-2013 all these analyzed facts demonstrate a low capacity of absorption of European Funding by the Romanian stakeholders.

The most important reasons identified for these facts as reflected within the analysis from this paper and from the numerous studies(Fundația Șoros Romania, 2009 or Departamentul pentru Afaceri Europene, 2009). Most of the factors causing a lower than expected absorption capacity in Romania can be summarized in the following lines:

- Slow actions of the institutions specialized in analysis and contracting of the financing projects
- Lack of proper specialized staff in the fields of European funded projects accession and management, mostly at the level of the beneficiaries
- Low level of information, low expertise and very low qualifications of the beneficiaries regarding the accession and management of European funded projects
- “Low percentage” of contracting specialized external consultancy at the level of the beneficiaries with direct effects over the low capacity for absorption of external financing, the lack of professional approach regarding the proposal and contracting of European projects, and the quality of the proposed projects.
- Low reaction at the level of beneficiaries and management authorities regarding the process of elaboration, proposing for financing or evaluation and contracting of projects
- Low request or wrong established eligibility criteria for some of the proposed financing programs causing low interest from the stakeholders, as in the case of REGIO – 4.2.
- The “continuous” modification and completion of the eligibility conditions imposed both to the beneficiary and to the project, most of the times after the financing round is open, causing the beneficiaries costly modification of the projects, or even causing the impossibility for the submission of the project or in some cases submitted projects to be declared not eligible.
- Low financial and management capacity of the beneficiary. Some of the proposed projects lack the co-financing in order to be implemented.

In order to correct these inconsistencies and to increase the absorption capacity for the programme direct actions should be taken both at the level at the management authorities and at the level of beneficiaries.

5. Conclusions

This paper tried to analyze the Romanian absorption capacity of the funds allocated through the REGIO programme, which is part of ERDF programme. Within the paper was presented the concept of absorption capacity and several opinions regarding its main elements: macroeconomic absorption capacity, managerial-administrative absorption capacity and financial absorption

capacity. Also the Regio programme, its main axis and its budget was briefly presented. In the last chapter of the analysis a thorough analysis of the implementation of REGIO in the Romanian North-West Region was carried out and several causes for the low absorption of European Funds have been identified. Since these causes are directly threatening the successful accession of EU a direct action should be taken both at the level of Programme Management Authorities and at the level of the beneficiaries. The process of improving the absorption capacity of European Funds is still at the beginning in Romania and will certainly become an important issue over the following years at all levels of the Romanian society and at the level of the European Funding Authorities as well.

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FINANCIAL INDICATORS FOR THE IMPLEMENTATION OF AN EUROPEAN FUNDED INVESTMENT PROJECT UNDER SOP IEC PROGRAMME – CASE STUDY OF A ROMANIAN SME

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The European Integration came with new challenges for the Romanian enterprises especially for the SMEs, the opportunities arising from operating on the European Single Market and the possibility for accession of European Regional Development Funds. The main programme designed to offer access for small, medium and large Romanian enterprises to European funding is the Sectorial Operational Programme “Increase of Economic Competitiveness”- SOP IEC. This paper will analyze the area of intervention “D1.1. Productive and environment friendly investments and preparation for market competition in which Romanian SMEs” are competing to access European funding in order to develop their activities or to extend them into new ones. One of the main challenges for these SMEs is to generate, fulfil and to respect the financial indicators of the programme, which are part of the financial analysis of the project.

Key words: Financial Analysis, Cost benefit Analysis, European Union, Financial Simulation, Structural Funds, SOP IEC

The article’s JEL code: D61, D92, O22, G38, O19, F36

1. Introduction

The European Integration came with new challenges for the Romanian enterprises especially for the SMEs, the opportunities arising from operating on the European Single Market and the areas eligible for the European Regional Development Funds (Droj, 2009). The Sectorial Operational Programme “Increase of Economic Competitiveness” (further referred to as SOP IEC) is one of the seven instruments (Operational Programs), which offer the financial support for the consolidation and modernization of productive sector through investments. The SOP IEC aims to strengthen the strategic focus of the Economic and Social Cohesion policies across Romania, and to make the correct and appropriate linkages to the European policies and the Lisbon Strategy for growth and job creation.

The **general objective** of SOP is the increase of Romanian companies’ productivity, in compliance with the principle of sustainable development, and to reduce the disparities compared to the average productivity of the European Union (Guvernul României, 2009). The target is an average annual growth of GDP per employed person by about 5.5%. This will allow Romania to reach an approximate of 55% of the EU average productivity by 2015.

The specific objectives of the SOP “Increase of Economic Competitiveness” are:

- Consolidation and environment-friendly development of the Romanian productive sector,
- Establishment of a favorable environment for sustainable enterprises’ development,
- Increase of the R&D capacity, stimulation of the cooperation between RDI institutions and enterprises, and increase of enterprises’ access to RDI
- Valorization of the IC&T potential and its application in the public (administration) and private sector (enterprises, citizens)
- Increased energy efficiency and sustainable development of the energy sector

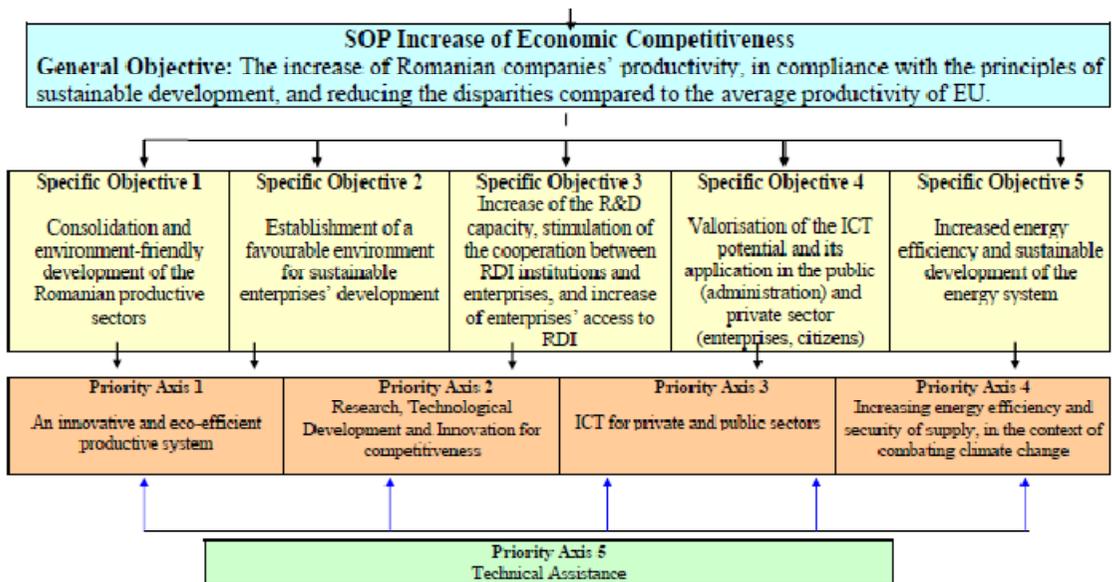


Figure 1. SOP Increase of Economic Competitiveness

(Extracted and adapted from the *Framework Document - Sectorial Operational Programme "Increase of Economic Competitiveness"*)

Taking into account both the identified possibilities for improvement of the competitive position of Romanian companies and the areas eligible for the European Regional Development Funds support, the following Priority axes have been identified in the SOP IEC:

- Priority Axis 1: An innovative and eco-efficient productive system
- Priority Axis 2: Research, Technological Development and Innovation for competitiveness
- Priority Axis 3: ICT for private and public sectors
- Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change
- Priority Axis 5: Technical Assistance

2. Short presentation of the Area of Intervention SOP IEC "D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs."

The Priority Axis 1: An innovative and eco-efficient productive system of the Sectorial Operational Programme "Increase of Economic Competitiveness" refers to the efforts of supporting enterprises, especially SMEs, and will concentrate both on improving the market conditions linked to the development of the industrial base, in order to revive the business environment and generate new innovative enterprises, as well as on developing of the business sector, improving the access to capital and fostering technological development.

From the above mentioned areas of intervention the main instrument of the SOP IEC in order to support and finance quality improvement of the production processes of the Romanian companies is the area of intervention "D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs."

The specific objective of this key area is represented by the consolidation and sustainable growth of the Romanian productive sector can be accomplished through:

- Revival of the productive sector based on extension and modernization, by investments in new technology, equipment, machineries and by acquisition of patents, trademarks, licenses,

- Innovation of production both concerning the production processes and the products,
- Adaptation to European and International Standards and certification of management systems,
- Access of the Romanian companies to new markets
- Promotion of sustainable development, decreasing of the negative impact on the environment and growing the international competitiveness.

3. Financial Analysis – Case study of an investment project proposed to be financed within the SOP IEC D 1.1

3.1 Establishing of the eligible company and the methodology for elaboration of financial analysis

In order to access European Funding within the SOP IEC D1.1. Programme the companies have to generate, fulfil and to respect the key financial indicators of the programme. The main purpose of the financial analysis is to use the project cash flow forecasts to calculate suitable net return indicators. The main financial indicators over which projects are selected for financing within the programme are: the Financial Net Present Value (FNPV) and the Financial Internal Rate of Return (FRR), respectively in terms of return on the investment cost, FNPV(K) and FRR(K). The methodology used for the determination of the financial return is the Discounted Cash Flow (DCF) approach. This implies some assumptions:

- only cash inflows and outflows are considered (depreciation, reserves and other accounting items which do not correspond to actual flows are disregarded);
- the determination of the project cash flows should be based on the incremental approach, i.e. on the basis of the differences in the costs and benefits between the scenario with the project (do-something alternative) and the counterfactual scenario without the project considered in the option analysis;
- the aggregation of cash flows occurring during different years requires the adoption of an appropriate financial discount rate in order to calculate the present value of the future cash flows.

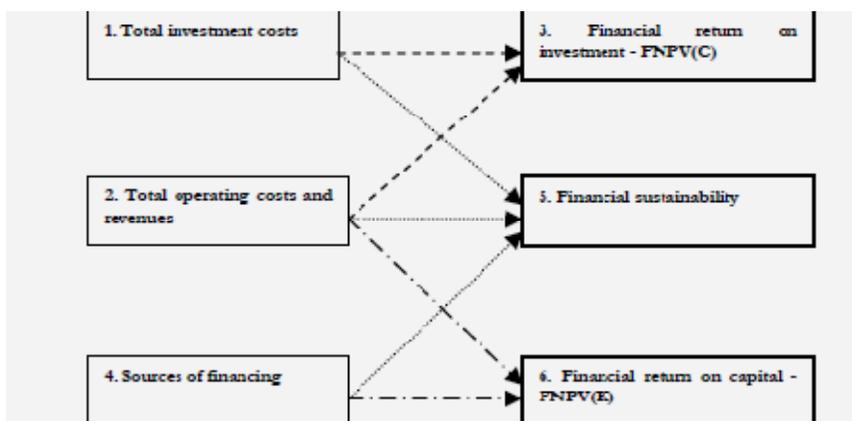


Figure 2 Structure of Financial Analysis

As seen in the Figure no. 3 the financial analysis should be carried out through subsequent, interlinked, accounts:

1. total investment costs
2. total operating costs and revenues
3. sources of financing

4. financial sustainability

5. financial return on the national capital: FNPV(K) and FRR(K)

According to the Guide of ROP IEC Programme, in order to obtain financing for an investment project FNPV(K) is requested to be higher than 0 and FRR(K) to be between 0 and 13.

$$FNPV = \sum_{t=0}^n a_t S_t = \frac{S_0}{(1+i)^0} + \frac{S_1}{(1+i)^1} + \dots + \frac{S_n}{(1+i)^n}$$

A simulation has been created over a project proposed by a company which we will define it as SC Test Company SRL, registered in Romania and eligible to access the programme. The company operates in the field of construction and is proposing for financing, in SOP Increase Economic Competitiveness, Priority axis 1, a project with the purpose of increasing its own competitiveness and production capacity by acquisition of a excavator on tracks and a compactor cylinder. The project proposed for financing should demonstrate its feasibility and sustainability through the income generated by the usage of the new equipment.

3.2 Financial Analysis

The first step within the financial analysis is the option analysis. EU Regulations require the proposer to provide the results of feasibility and option analysis (European Commission, 2008). The main result of such analysis is to identify the most promising option on which detailed CBA should be carried out. Sometimes this selection process is managed as part of the preparation on an operational programme or master plan. Once the feasible ‘do-minimum’ and a small number of ‘do-something’ alternatives have been identified, simplified CBA should be carried out for each option in order to rank them. A simplified CBA usually implies focusing only on the key financial and economic tables (see below), with rough estimates of the data, because in a differential approach the absolute values of the variables involved are less important than in a fully developed comparison of alternatives. The calculation of the financial and economic performance indicators must be made with the incremental net benefits technique, which considers the differences in the costs and benefits between the do something alternative(s) and a single counterfactual without the project.

As mentioned above the first analyses made for SC Test Company SRL were the comparison between the inertial scenario – case in which the equipment won’t be bought and the second scenario in the case of implementing the project with European financing.

Indicator	Year						NPV
	0	1	2	3	4	5	
Scenario with project – operational profit	275.653	602.010	565.098	537.826	490.554	440.602	2.452.337
Inertial scenario - operational profit	275.653	546.306	455.610	351.628	254.326	158.669	1.768.097

Figure 3 Option Analysis

As observed in the above table, the business plan prepared for the application form demonstrates that the annual net revenue in all five years of analysis is positive. The operational profit connected only to activities generated by the project increases exponentially in the period analyzed: 44.912 RON (year I), 53.000 RON (year II), 60.728 RON (year III), 63.456 RON (year IV), 73.504 RON (year V). For the proposed project the imposed discount rate is 5%.

Also extremely relevant is the analyses of the Cumulated Net Present Value which continuously increases reaching in the fifth year of analysis the amount of 2.452.337 RON for the entire company in scenario with project and 241.050 RON for activities related just to the project which also reflects an extremely high sustainability.

Year	Operational Cost	Total Benefit	Coefficient of Actualization	Actualized Operational Cost	Actualized Total Benefit	Net income	Present net income
0	0	0	0,952381	0	0	0,00	0,00
1	179.888	224.800	0,907029	163.164	203.900	44.912,00	40.736,51
2	199.000	252.000	0,863838	171.904	217.687	53.000,00	45.783,39
3	226.472	287.200	0,822702	186.319	236.280	60.728,00	49.961,08
4	258.944	322.400	0,783526	202.889	252.609	63.456,00	49.719,44
5	288.096	361.600	0,746215	214.982	269.831	73.504,00	54.849,82
TOTAL	X	X	X	939.258	1.180.308	X	X

Figure 4 Total operating costs and revenues generated by the project

Another important indicator in evaluation of the sustainability of the project is the annual turnover which continuously rises during the five years of analysis. Also can be observed that the annual turnover in the scenario with the financing project in comparison with the inertial scenario is increasing continuously reaching 8.4% in the fifth year.

As mentioned above the main financial indicators over which projects are selected for financing within the programme are: the Financial Net Present Value (FNPV) and the Financial Internal Rate of Return (FRR), respectively in terms of return on the investment cost, FNPV(K) and FRR(K). Below is presented the Financial Internal Rate of Return of the investment as calculated for the project.

Year	Cost of investment	Operational Cost	Total Cost	Total Benefit	Coefficient of Actualization	Actualized Operational Cost	Actualized Total Benefit	Net present value	Cumulated Net present value
0	432.684	0	432.684	0	0,91407	395.506	0	-395.506	-395.506
1	0	179.888	179.888	224.800	0,83553	150.303	187.829	37.526	-357.981
2	0	199.000	199.000	252.000	0,76374	151.985	192.464	40.478	-317.502
3	0	226.472	226.472	287.200	0,69812	158.105	200.500	42.395	-275.107
4	0	258.944	258.944	322.400	0,63813	165.242	205.735	40.494	-234.613
5	-329.576	288.096	-41.480	361.600	0,58330	-24.195	210.923	235.119	505
TOTAL		X	X	X	X	996.946	997.451	X	X

FRR/K=9,40%

Figure 5 Financial Internal Rate of Return on the National Capital FRR(K)

The financial internal rate of return for the investment, strictly connected with the activities generated by the project is 9.4% which shows that the project is eligible for financing.

The last step of the project is to establish the maximum proposed financing using the financial gap method. In order to do that the first step was to estimate the residual value which was calculated using Gordon method, was estimated for an average yearly rate of growth of 14%.

So the estimated residual value considered for the project is -329.576 lei.

Year	Total Cost of investment	IAF	Present investment cost	Total costs	Total benefits	Residual Value	Net income	Present net income
0	1.442.280	0,95	1.373.600	0,00	0,00		0,00	0,00
1		0,91	0,00	179.888,00	224.800,00		44.912,00	40.736,51
2		0,86	0,00	199.000,00	252.000,00		53.000,00	45.783,39
3		0,82	0,00	226.472,00	287.200,00		60.728,00	49.961,08
4		0,78	0,00	258.944,00	322.400,00		63.456,00	49.719,44
5		0,75	0,00	288.096,00	361.600,00		73.504,00	54.849,82
6		0,71	0			-329.575,00	-329.575,00	-234.222,80
Total	1.442.280		1.373.600	1.152.400	1.448.000	-329.575,	-33.975	6.827,43
	Estimated financing value			1.033.378				

Figure 6 Financial Internal Rate of Return on the National Capital FRR(K)

As observed from the above table the proposed value for financing is 1,033,378 RON and the main financial indicators for the project are: financial internal rate of return for the investment - 9.41% and FNPV is 241.050 Ron for the project and 2.452.337 RON for the entire enterprise. In these conditions, according the provisions of the ROP IEC guideline the project has been proposed for financing.

4. Conclusion

The European Integration came with new challenges for the Romanian enterprises especially for the SMEs, the opportunities arising from operating on the European Single Market and the possibility for accession of European Regional Development Funds. The main programme designed to offer access for small, medium and large Romanian enterprises to European funding is the SOP IEC. This paper analyzed the main financial indicators which have to be achieved by a project in order to be proposed for financing and also presented a case study of a Romanian company which successful realized a financial analysis and was later accepted for contracting, under this programme.

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THE ACCOUNTING PROCESS FOR ACCESSING EUROPEAN FUNDS

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The beneficiaries of structural funds are various entities¹ that can be classified on different criteria, and keeping the accounts for these entities can raise certain problems. Keeping accounts in Romania is organized in a double circuit. Information given to third parties, also used by the economic entity is supplied by financial accounting, and the confidential information, used only by the economic entity is supplied by management accounting. In accounting, reflecting the accession and the use of European funds by the economic entity, taking into consideration the classification of various entities, is done distinctly.

Keywords: structural funds, funds accounting, beneficiary entities

The beneficiary entities can be identified without approaching these exhaustive aspects, just by covering the entities classification on various criteria. A first classification can be done in terms of the great sectors in which the enterprises activate:

- 1.Primary sector – agriculture, extractive industry etc.;
- 2.Secondary sector – enterprises affiliated to industry and construction;
- 3.Tertiary sector – enterprises that have as an activity object commerce, transport, tourism, banking, insurance, teaching, health. In terms of the people who invest in its activity, we have:

- 1.Private companies – companies where the investor is represented by one or more individuals (private persons);
- 2.Public companies – the ones whose activities are possible exclusively because of public investments;
- 3.Mixed companies – companies with both private and public investors.

In terms of production management:

- individual production entities are the ones where a unique product or a small number of unique products are manufactured with the same technology;
- series production entities which produce batches of goods using a certain recipe or technology with a periodical change in the technological process (equipment, tools, confections etc.);⁸⁴⁴
- entities with mass production are the entities which manufacture, for long periods of time and in great amounts, one or more goods with the same recipe, technologies and equipments (sugar, bread, oil etc.).

According to the 1752/2005 Decree (presently OMFP 3055/2009) for approving the accounting regulations pursuant to European directives, entities are separated into two categories:

- large and very large entities;
- medium and small entities.

The tie-break criteria for these entities are: total assets (3.650.000 Euros), turnover (7.300.000 Euros), and the average number of employees during the financial year (50).

The accounting law makes the following assignation regarding the accounting management and administration: trading companies, national ventures, autonomous administrations, research-

⁸⁴⁴ We mention that Order 1752/2005 uses the concept of entity and not the traders, asset unit, enterprise, etc.

development national institutes, co-operative companies and other types of legal persons, are obliged to conduct and organize their own accounting, meaning financial accounting, according to present law, and management accounting adapted to the businesses characteristics. Public institutions, associations, and other legal persons with and without patrimonial purpose, and also natural persons that is involved in an income generating activity, also have the obligation to organize and conduct their own accounting, meaning financial accounting and if it is necessary, management accounting⁸⁴⁵.

The accounting process for Romanian entities is organized in a double circuit. Information given to third parties, also used by the economic entity is supplied by financial accounting, and the confidential information, used only by the economic entity is supplied by management accounting. Book-keeping for the entities is provided by the Accounting Law no.82/1991, re-edited as following:

- legal persons conduct their accounting in distinct departments, run by an economic manager, chief accountant or some other person commissioned to do so. This person must have superior economic studies;
- accounting can be also done based on a contract with natural persons or legal persons that are authorized according to O.G. no.65/1994 regarding the management for the accounting expertise and authorized accountants.

The responsibility for an inadequate application of the accounting regulations is taken upon the economic manager, the chief accountant or other commissioners, together with the subordinate personnel. If the accounting process is led based on a contract with an authorized legal or natural person, member of the Chamber of Experts Accountants and Authorized Accountants of Romania, responsibility is taken by them, according to the law and the articles of the contract.

Getting back to the types of entities, in the specialized literature, patrimonial units in which we organize and conduct accounting, are divided as following:

- economic units;
- public institutions – state organisms created in order to conduct certain social-cultural activities, not carrying out productive activities;
- humanitarian organizations built upon the liberty of association or participation principle, and they carry out political, social-cultural, religious, and some economic activities. In this category we have: political parties, syndicates, professional associations, cults, charity associations, associations and foundations.

Objectifying, the non-refundable structural funds eligible beneficiaries could be: any farmer, legal or natural person, that carries out agricultural activities, and who operates on the country's boundaries, its' size is equal or greater than 2 UDE⁸⁴⁶ and the entity has to be registered at the Register of Farms/Agricultural Register. Practically, the categories of beneficiaries which can access funds are:

- Authorized Natural Person, according to the 300/2004 Law with its following modifications;
- Family Association with integral private capital, according to the 15/1990 Law, with its following modifications;
- Trading Companies, according to the 31/1990 Law, re-edited, meaning: Partnership Firms, Limited Partnership/Commandite, Joint-Stock Companies, Companies with Limited Abilities;

⁸⁴⁵ Accounting Law no. 82/1991 republished, Official Gazette, Pag. 454/2008.

⁸⁴⁶ Economic size unit (ESU) is the unit expressing the economic size of farm standard gross margin determined by the farm (Commission Decision. 85/377/EEC). Economic size unit value is 1.200 Euros. In relation to farm size have shown a previous subparagraph its way down, both nationally and also internationally.

- Trading Companies with integral private capital, according to the 15/1990 Law and its following modifications;
- Agricultural Cooperative Companies, according to the 1/2005 Law;
- Manufacturers Group, according to the 338/2005 Law, but only with the condition that investments are used for the purpose of the groups interests. Manufacturers Groups are economic organizations (legal persons with a lucrative purpose and economic management) that run on their own statute.
- Agricultural Cooperative, according to the 566/2004 Law.

Theoretically, all of the entities listed above can become structural funds beneficiaries. But practically, structural programs are presented using guides where all the possible beneficiaries are presented, for example: private entities (micro-enterprises, small and medium enterprises), public institutions (schools, local public authorities), etc.

The reflection of the receiving and use of the non-refundable finances⁸⁴⁷ in the accounting is done following the existing standards. This is because in Romania, book-keeping is organized according to standards emitted by authorities and not based on general principles and rules.

The economic agents that benefit from the financial contribution of the European Community are obliged to keep track of the received and used finances using distinct analytical accounts.

Once our country adhered to the European Union, we had to adopt the community's *acquis* in our financial and budgetary area. The normative act about the Financial Rules regarding the European Community's general budget, no.1605/2002 and the Detailed Standards of implementing no.2342/2002 represent a very important regulation concerning what the EU believes to be an honest work regarding the financial responsibility in the public area administration. Being applicable for the European Commission Budget, it automatically has legal effects when talking about managing the EU financed project, implemented by member countries. In Romania, these Financial Rules has been implemented starting 2003, following the approval of the new Public Finance Law, no.500/2002, setting out a new environment for elaborating and managing the budget, establishing the role and responsibilities of the credit sequencers and leaders of the accounting-finance departments, carrying out the public funds administrative control, in the context of applying the principle of transparency and healthy financial management, and especially the principle of efficiency and effectiveness. The Accounting Law no.82/1991 modified by the Public Finance Law no.500/2202 have created a legal frame for the development and improvement of the management and performance of the public accounting system in Romania, that also has to follow new European demands:

- managing and presenting the accounts based on the determined right principle (of commitments);
- applying the general international accounting principles when making the financial standings;
- developing accounting destined for the cost of the programs.

In order to accomplish these demands, Romania has already been helped by the EU through a twinning-light program, when Scottish experts have evaluated the current system and handed out important recommendations regarding the introduction of some vital elements for the commitments accounting: registering debtors and creditors according to accrual basis, reevaluation and amortization of immobile assets, building provisions. Some recommendations have already been materialized through The Governments' Ordinance no.81/2003 and its applicability standards, in public institutions, reevaluation of immobile assets already being carried-out. Its results have been included in the balance sheet of December 31st 2003, and

⁸⁴⁷ Order no. 875 of June 16, 2000 approving the specifications to reflect the accounting operations of receiving and using funds from the European Community financial contribution and co-related funds, Official Gazette 377/2000.

starting January 1st 2004 all public institutions calculate and register the amortization of immobile assets.

To accomplish its role, the state organizes a vast network of public institutions. According to the Public Finance Law, the area of public institutions includes: the Parliament, The Presidential Administration, the Ministries, other central and local bodies of the state administration and institutions under it. Public institutions present a number of characteristics reckless of the area of activity, management etc. :

- patrimonial units of the state-at-law which carry out a political or executive activity, representing the power and state administration into society. Public institutions are bodies that compose, at a local or central level, the power apparatus and the state administration;

- the patrimonies of the public institutions are attributed to the public and private state patrimonies, or to local territorial administrative units. Public institutions built on an juridical paper inherit juridical personality needed for the patrimony administration and for taking commitments;

- as opposed to economic agents which create their patrimony based on subscribed and paid capital, public institutions do not include the economic category of joint stock. We cannot find joint stock in the patrimonial structures of a financial institution because they only have the quality of allotted patrimony administrators, whose proprietor is the state, represented by the Government and Local Committees. Public institutions do have a certain patrimony of material and pecuniary resources that they have to use respecting the legal standards and with maximum efficiency;

- managers of public institutions who are entitled to manage budgetary resources have the title of credit sequencers;

- expenditures of public institutions are financed under the form of budgetary credits. The use of budgetary credits has to be justified by the administrator at the end of every fiscal year;

- are not organized based on the principles of auto-management, because they receive monetary resources from the budget in order to accomplish their tasks, also having the obligation to pour to the budget all the tax incomes or other incomes obtained as a result of their activity. They have the right to partially retain these incomes in order to self-finance their activity;

- the public institutions objectives, provided by their statute aim the accomplishment of public service, but without aiming for profit. Public institutions are non-profit units that do not have lucrativeness indicators;

- in order for public services to function, public institutions need permanent capital that they obtain through budgetary credits for capital expenditures. The development and modernization of this capital through investments is also done using budgetary resources.

- the financial planning for these units is done using a budget.

There are two forms in which public accounting can exist: current public accounting and centralized public accounting. Current public accounting is organized and carried out by each institution in order to correctly register all patrimonial operations. According to the re-edited Accounting Law, all public institutions whose administrators have the title of credit sequencers are obliged to keep the books. The administrator holds the responsibility for accounting.

Centralized public accounting or periodical accounting is carried out by centralizing the annual and periodical financial situations. This accounting type works for superior credit sequencers and fiscal bodies, during the period of financial standings presentations and embodies data already centralized, given by the current budgetary accounting. Accounting the operations regarding the non-refundable financial contribution from the European Community is done in Euros and in national currency, at the INFO-Euro currency. The INFO-Euro currency represents an exchange rate between Euro and a national currency; it is communicated by the European Central Bank and can be found on the European's Commission website. The INFO-Euro is used for registering the current month operation (n) it is the exchange rate from the penultimate working day of the

antecedent month (n-1). This exchange rate is used by all public institutions that carry out activities financed through community funds: agents and implementing authorities, final beneficiary institutions like: goods, service or liquidity. Monetary elements expressed in Euros: liquidities and bank deposits, claims and credits are reevaluated at least once every trimester, when doing the financial statements, using the INFO-Euro exchange rate from the penultimate working day of the month when the financial statements are carried out.

Territorial - administrative units that have contracted, law accordingly, loans for financing non-refundable projects, have carried out payments and then received non-refundable external funds, in order to reimburse those loans, will fill out Appendix 15 "The account of budget execution of foreign loans - Expenses", Appendix. 16 "The account of the budget execution of domestic credit - Expenditure payments from loans" and Appendix 18 "The account of public execution of external grants funds - Expenditures" for payments made from these funds, including repayment of loans. The payments from external non-refundable funds are registered on Appendix 3 and 4 "Cash-flow Status", when it is carried out by the Contracting and Payment Department. Grant payments from foreign funds, reported by public institutions are in Appendix 6 "The account of execution for the public institution - Expenses", Appendix 7 "The account of execution of the public budget - Expenses", Appendix 18 "The account of the budget implementation of reimbursable external funds - Expenses" will be agreed with the data records of agencies / authorities for implementation, ie those included in special situations the transmitted direction of the Ministry of Finance. Through the normative papers earlier mentioned, we are trying to level our public accounting to European Standards, without neglecting the two key aspects of the reform:

- professional development of ministries and other bodies of the central and local administration specialists, and forming the trainers from the National Administration Institute and the eight regional centers for professional training, and none the less of managers from public institutions;
- evaluating the necessary of software and hardware for all public institutions, in order for the accounting process to be entirely computer processed, with on-line reporting facilities.

This way, the accounting process will give away complete information regarding the patrimony and the income and expenditure budget execution for managers in the central and local administration. They can use this information to improve the assets and funds management.

Financial statements are documents through which information regarding the financial position is presented (assets, liabilities, patrimony). Also they reflect performances, changes in the patrimonial structure and the company's cash-flow.

In Romania, financial statements are carried out following models established by the state authority, the Ministry of Public Finance

Bigger entities have to work out the following components:

- balance;
- profit and loss account;
- changes in the patrimony;
- cash-flow;
- explanatory notes for the annual financial statements.

Small and medium entities have to work out the following components:

- short balance;
- changes in the patrimony;
- explanatory notes for the short annual financial statements.

Optionally, small and medium entities can carry out a brief for the patrimonial changes or/and the cash-flow.

Europeanization and internationalization are major phenomenon that leads the way for the Romanian accounting system evolution, in order to harmonize it with the European Directives and converge with the Accounting International Standards. The aim is to control the financial

integrity of the patrimony and its results, through material integrity control and just dimensioning. In order to characterize an entity's activity during a certain period of time, we have to centralize and synthesize it under the shape of general information from the accounting process, this being one of the accounting's objectives, as a main component of the economic-informational system. The seamless presentation of accounting data is imposed by need of a precise structural representation of the financial position, the financial performance and other information regarding the entity's activity during a fiscal year. This purpose is accomplished through synthetic documents under the form of financial statements.

In conclusion, in the case of funds beneficiaries, the objective of financial statements is to mirror correctly and faithfully all of the elements with detailing in explanatory notes, especially under a narrative form.

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THEORETICAL AND PRACTICAL APPROACH REGARDING DENSITY AND PENETRATION INSURANCE ON ACCIDENT & HEALTH PREMIUMS

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In this paper is realized an theoretical and empirical approach regarding density and penetration on accident & health premiums. The analysis is performed on a sample of 33 countries and a horizon of 5 years (2004, 2005, 2006, 2007 and 2008), being tested 2 linear regression models. The results of study confirm a relationship between level of economic development and accident & health insurance activity insurance, but exclude the existence of the relationship between penetration factor and this type of insurance.

Keywords: insurance, accident & health premiums, density, penetration

JEL codes: G22, H51, H89

1. Introduction

The impact of the economic crisis has materialized in the stagnation of the volume of subscribed insurance premiums in general, and of accident & health insurance premiums especially. The most pressing problems are those related to legislation at the European and national level. Also, the implementation of health reform in some countries, the continuation of pension reforms, insurance deductibility and solvency requirements are a few of the other problems which must be solved in the future.

According to the Solvency II Directive, the Solvency Capital Requirements (SCR) correspond to the economic capital needed to limit the probability of ruin to 0,5%. That's why, insurance and reinsurance undertakings must identify their overall loss distribution. In order to determine the Solvency II economic capital, each company can use the standard formula or an internal model (global or partial). Internal model, calibration of SCR, MCR (Minimum Capital Requirement) and technical provisions, different set of premium and reserve risk etc. represent major problems for the European Commission (EC). That's why, on April 15, 2010 the EC released a draft technical specification for QIS 5 (Fifth Quantitative Impact Study), in which Romania was invited to participate (after its participation on QIS 4).

On April 8, 2010 the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) provided Consultation Paper 72 "Draft Level 2 Advice on Calibration of the health underwriting risk" defines efficiency indicators for health insurance. This paper supplied the propose calibration of the health underwriting risk module (premium and reserve sub-module). With this consultation paper, CEIOPS has endeavored to establish the increased market transparency through greater disclosure and reporting requirements, according Pillar III of Solvency II.

The preparations made by the Romania for the implementation of the health reform and the importance of insurance sector to economic growth represent the two main arguments of our

choice for the subject of this paper. In addition, EC considered that the premium risk and reserve risk stresses for accident and sickness obligations remain higher on European level.

2. Fundamental concepts of insurance density and penetration

The situation of the insurance market can be appreciated by using quantitative and qualitative indicators, among the latter the most important being the density and penetration.

Insurance density is expressed as the ratio between the total direct gross premiums collected and the total number of the inhabitants (population) of that country, expressing the average per capita.

Penetration of insurance is a synthetic indicator. It shows the contribution of insurance sector to the creation of GDP (gross domestic product). It is calculated as the ratio between the amount of direct gross premiums and GDP.

So, density and penetration ratios are two important indicators which demonstrate the efficiency of the insurance in general. We propose to use these indicators for the field of health insurance. In order to determine their values we use only accident & health premiums, GDP and population on the level of one country in a certain year under study. Several studies were conducted to uncover the relationship between them and other factors. The results were influenced by the application of health reform in some countries. Also, the development of insurance industry and wage changes influenced the conclusions made by the specialists. We present some of these studies available to us in the next section.

3. Literature review

Density and penetration insurance continues to be interesting subjects for specialist's researches. For example, Enz (2000) proposed the S-curve relation between per-capita income and insurance penetration. The results of Ma & Pope (2008) study show a positive relationship between international insurer participation and increased insurance penetration and density. Their empirical results imply that a strong presence of international insurers may enhance the importance of the insurance industry and increase the demand for insurance products within a given national market.

On the other hand, Zheng *et al.* (2009) proposed a new method, Benchmark Ratio of Insurance Penetration (BRIP) for comparing insurance growth across different countries, which not takes into account the overall scale of the insurance market of each country but also considers the population, economy and the relationship between the insurance penetration and stage of economic development.

Regarding our country, Badea & Novac (2008) believes that the continuous improvement of the insurance premiums, the insurance density and the insurance penetration rate support the importance of this sector of activity in the total economy. As the Romanian market became more sophisticated, the offer became more stable and the concentration of the market began to reduce itself as a response to the European insurers that entered our market.

The growth of health insurance is strongly correlated to the health reform applied in different countries. The appearance of health private insurance and the application of different characteristic schemes were generated and led to amendments and wage changes. These problems were also investigated by the specialists.

Buchmueller & Liu (2006) explored the effect of state-level underwriting reforms on health maintenance organizations (HMO) penetration in the small group health insurance market. They identified reform effects by exploiting cross-state variation in the timing and content of reform legislation and by using mid-sized and large employers, which were not affected by the legislation, as within-state control groups. The results of their study suggest a positive relationship between insurance market regulations and HMO penetration.

Danuletiu & Danuletiu (2006) inquired the evolution of Romanian insurance market and highlighted trends that characterized it (such as density and penetration ratio). Vistnes *et al.*

(2006) has explored the nature of employer decisions with respect to the employee premium contributions used for family health insurance coverage.

Scintee and Vladescu (2006) examined the health financing reform in Romania in order to find out to what extent the expected results were achieved, what were the main factors that influenced the reform process and in what way the main unsolved problems are to be sorted out.

Knott & Rich (2006) provide an overview of the development of the private-public, segmented health care system in the United States. They examined health policy by analyzing political values and institutions, which allows them to assess the strengths and weaknesses of the health care system and serves as a basis for recommending politically feasible options for reform in the future.

Schneider *et al.* (2007) quantify the extent of market concentration among physician organizations (POs) and health plans (HPs) and examine the relationship between concentration and prices.

Sen & Madheswaran (2007) shows in their study that GDP and Per capita GDP are often highly correlated with the proxy variables measuring insurance demand – density and penetration.

4. Hypotheses, variables and data sources

As we explained in the previous section, the level of economic development is connected to the health insurance market. Therefore we issue the following hypothesis:

H: The level of economic development is positively associated with health insurance.

Since we are interested on the effect of several economic factors on life insurance activity, we developed the following variables:

- Proxies for insurance activity: *density of accident and health premiums* computed as Accident and health premiums subscribed / Population (EUR/inhabitant) and *penetration of accident and health premiums* computed as Accident and health premiums subscribed / GDP (%)
- Proxy for level of economic development: *GDP per capita* (EUR/inhabitant).

The underlying econometric model is:

$$\text{Insurance activity} = \alpha_0 + \alpha_1 \text{Level of economic development} + \varepsilon$$

which can be expressed in the following two models:

$$\text{Density} = \alpha_0 + \alpha_1 \text{GDP per capita} + \varepsilon \quad (\text{Model 1})$$

$$\text{Penetration} = \alpha_0 + \alpha_1 \text{GDP per capita} + \varepsilon \quad (\text{Model 2})$$

Our sample comprises 33 European countries. To enhance the robustness of the research we collected data for 5 years (from 2004 to 2008) the source of data being <http://www.cea.eu>.

5. Data Analysis and Discussion of Results

For the analysis of our data we used SPSS 16.0 software. Since we lack the necessary space here to discuss the technical issues related to the analysis (please see Table 1 for these details), we explain the steps as we generated the findings.

According to our findings, GDP per capita is positively associated with the insurance activity proxies on various significance levels as t-values are positive, but the computed significance is acceptable only in years 2004 and 2005, as Panel A and B shows below. This influence cannot be statistically proved in the years to come (2006, 2007 and 2008) due to the scattered data; the reason we believe is the sample size, which is too small for this type of analysis.

Table 1. Results generated

Panel A. Model 1					
	2008	2007	2006	2005	2004

<i>Adj R²</i>	0.041	0.031	0.040	0.156	0.184
<i>t</i>	1.516	1.406	1.514	2.597	2.826
<i>(Signif.)</i>	(0.140)	(0.170)	(0.140)	(0.014)	(0.008)
<i>Expected sign</i>	+	+	+	+	+

Panel B. Model 2					
	2008	2007	2006	2005	2004
<i>Adj R²</i>	0.005	0.002	0.003	0.048	0.072
<i>t</i>	1.079	0.955	1.046	1.600	1.850
<i>(Signif.)</i>	(0.290)	(0.347)	(0.304)	(0.120)	(0.074)
<i>Expected sign</i>	+	+	+	+	+

According to model 1 GDP per capita is associated with Density. Our findings confirm that the relationship is positive in the entire period as expected ($t > 0$), but the significance of this relationship can be proved only for the years 2004 and 2005 (level of significance is 0.014 and 0.008 respectively). Based on this model the hypothesis may be accepted.

Model 2 expresses the relationship between penetration and GDP per capita. Our findings suggest there is some relationship between these factors, but the strength of this influence is rather low. The results show that only in year 2004 there is an acceptable significance level for the t-value (0.074). Therefore, this model does not provide empirical evidence for our hypothesis, which should be rejected based on these results.

However, on the basis of model 1 we accept the hypothesis that the level of economic development is positively associated with accident & health insurance with the amendment, that this relationship must be more deeply explored in the last three years in order to obtain more relevant statistical data.

6. Conclusions

The current financial crisis shows that the parameters for certain risk categories need to be adjusted, complex corporate structures and investment strategies examined in detail. Insurance domain is influenced by this crisis.

Financial services organizations face yet another major challenge in the European Union's new directive for insurers. Solvency II will have a profound influence on capital budgeting and risk management for these undertakings. Insurers should perform additional multi-period calculations for truly optimize their risk, because solvency capital requirements become higher according to substantially stress parameters proposed by QIS 5.

Implementation of health reform in some European countries transforms accident & health insurance in the European topical issue at this moment. Even if, nowadays, it represents an insignificant part of insurance activity, we believe that it will have a positive evolution in the future. For defining efficiency in insurance activity we can use some indicators, among which density and penetration are very important.

According to Consultation Paper of CEIOPS 72 "Draft Level 2 Advice on Calibration of the health underwriting risk" insurance penetration is used to measure the degree that a certain insurance product (covering individual or group risk) is acquired in the population. Health underwriting risk are split into 3 categories:

- Health insurance obligations pursued on a similar basis to that of life insurance (SLT Health);
- Health insurance obligations not pursued on a similar basis to that of life insurance (Non SLT Health);
- Health insurance obligations Catastrophe risk (Health CAT).

Differences in laws and in organization between public and private health systems across Europe have consequences on the variety of the types of products offered in each member state. These country specificities would be best captured by the allowance of entity specific parameters in the calculation of the health risk charge.

CEIOPS is aware of the diversity that characterizes health system across Europe. That's why it is taking into account the specificities of the different regimes. The result of this understanding is the comprehensive pool in health insurance.

In our study, we proposed to analyze the relationship between level of economic development and accident & health insurance activity. Our empirical findings suggest that there is a positive relationship between these factors (results for model 1 in Table 1). The results however could not be confirmed by model 2 for the penetration factor (which is another proxy for accident & health insurance activity), which is obviously one of the limits of this paper. We are aware that this study must be extended to other countries, possibly other years in order to increase the robustness of the conclusions, which is also our recommendation for further research.

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LA BONNE GOUVERNANCE DANS LE DOMAINE FISCAL

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The good governance in the tax area (i.e. more transparency, exchange of information at all levels, effective cross-border cooperation and fair tax competition) is the key element in rebuilding the global economy after the 2008 financial collapse.

This paper presents for consideration a series of steps to promote good governance in the tax area, entailing action both within and outside the European Union.

A better coordination of EU Member States' positions in their bilateral tax treaties with third countries and in international fora is necessary to ensure greater leverage in dealings with non-cooperative countries.

Keywords: fiscalité, bonne gouvernance, coopération fiscale, paradis fiscaux, évasion fiscale

The article's JEL code: H21; H26

1. Introduction

L'ouverture des frontières a facilité la libre circulation des capitaux mais aussi la fraude et l'évasion fiscales au sein de paradis fiscaux et centres financiers internationaux trop peu réglementés, qui refusent de reconnaître les principes de transparence et d'échange d'informations.

La crise économique et financière actuelle a accentué les préoccupations quant à la viabilité des systèmes fiscaux face à la mondialisation. La promotion de la bonne gouvernance dans le domaine fiscal est aujourd'hui reconnue comme la manière adéquate de répondre à ces préoccupations. L'Union européenne et ses partenaires ont un intérêt commun majeur à encourager la coopération fiscale et l'adoption de normes communes sur une base géographique aussi large que possible. Nombreuses initiatives visant la coopération internationale en matière fiscale ont été prises aux réunions européennes et mondiales comme:

- le Conseil Ecofin de 14 mai 2008⁸⁴⁸;
- le sommet du G-20⁸⁴⁹ en novembre 2008;
- le Conseil Ecofin de décembre 2008;
- le sommet du G-20 du 14 mars 2009;
- le Conseil européen des 19 et 20 mars 2009;
- le sommet du G-20 de Londres du 2 avril 2009,

⁸⁴⁸ La gouvernance dans le domaine fiscal a été définie pour la première fois dans les conclusions du Conseil Ecofin du 14 mai 2008 comme étant fondée sur les principes de transparence, d'échange d'informations et de concurrence fiscale loyale.

⁸⁴⁹ Le Groupe des 20 (ou G20) est un forum économique qui a été créé en 1999. Les membres du G20 sont représentés par les ministres des finances et les directeurs des banques centrales des 20 pays ou organisation suivants: Afrique du Sud, Allemagne, Arabie saoudite, Argentine, Australie, Brésil, Canada, Chine, Corée du Sud, États-Unis, France, Inde, Indonésie, Italie, Japon, Mexique, Royaume-Uni, Russie, Turquie et Union européenne.

- le sommet du G-20 de Pittsburgh du 24 et 25 septembre 2009.

Des conclusions de ces rencontres émergent la volonté de prendre des mesures à l'encontre des juridictions qui ne coopèrent pas, y compris les paradis fiscaux, en appliquant des sanctions visant à protéger les finances publiques et les systèmes financiers.

Les efforts d'amélioration de la coopération fiscale déployés au sein de l'Union européenne se fondent en grande partie sur les principes qui régissent depuis plusieurs années l'action de l'OCDE contre la concurrence fiscale dommageable. Le travail de l'OCDE dans ce domaine vise deux aspects.

D'une part, il s'agit de recenser, en vue de leur démantèlement, les régimes fiscaux préférentiels des 30 pays membres de l'OCDE, sur la base de critères similaires à ceux définis par le code de conduite de l'Union européenne dans le domaine de la fiscalité des entreprises.

D'autre part, l'OCDE a étendu son travail aux pays non-membres de l'Organisation, y compris un certain nombre de «paradis fiscaux»⁸⁵⁰, et obtenu, de la part de 35 de ces juridictions, un engagement politique en faveur de la mise en place d'une coopération loyale avec les membres de l'OCDE en ce qui concerne la transparence et l'échange d'informations dans le domaine fiscal.

La «Déclaration de Doha sur le financement du développement», adoptée à l'occasion de la conférence internationale de suivi sur le financement du développement [1], organisée par les Nations unies, contient un ferme engagement de la Commission européenne en faveur des réformes fiscales et appelle à consentir davantage d'efforts pour accroître les recettes fiscales en modernisant les systèmes fiscaux, en améliorant le recouvrement de l'impôt, en élargissant l'assiette fiscale et en luttant vigoureusement contre la fraude fiscale.

2. La nécessité de la bonne gouvernance dans le domaine fiscal

Parmi les facteurs qui plaident en faveur de l'amélioration de la coopération internationale au sein de l'Union européenne et à l'échelon international si l'on veut qu'elle soit efficace on peut distinguer:

- L'absence de bonne gouvernance dans le domaine fiscal encourage la fraude fiscale et l'évasion fiscale et grève lourdement les budgets nationaux et le système des ressources propres de l'Union européenne, d'un montant estimé par la presse économique entre 2 et 2,5% du PIB annuel de l'Union, soit entre 200 et 250 milliards d'euros.

- La mondialisation a compliqué la lutte contre la fraude fiscale à l'échelle internationale. Un grand nombre de multinationales se sont organisées pour tirer parti de l'évasion fiscale dans les divers territoires où elles exercent leurs activités; la disparité des régimes fiscaux d'un territoire à l'autre favorise les entreprises de grande taille, d'envergure internationale ou de création ancienne au détriment des entreprises de petite taille, d'envergure nationale ou de création récente.

- Il est fréquent que les pays en développement, précisément en raison du manque de gouvernance dans le domaine fiscal, ne disposent pas de la légitimité ou de l'autorité nécessaire pour taxer leurs citoyens; dans la définition de sa politique de gouvernance dans le domaine fiscal, l'Union européenne doit tenir compte des problèmes particuliers auxquels se heurtent les pays en développement et qu'elle doit les aider à surmonter ces problèmes.

⁸⁵⁰ Dans le rapport de 1998 intitulé «Concurrence fiscale dommageable – un problème mondial.» l'OCDE retient quatre critères essentiels qui permettent de déterminer si une juridiction est un paradis fiscal: i) l'absence d'impôt ou le prélèvement d'impôts minimes uniquement; ii) le manque de transparence; iii) l'existence de dispositions législatives ou de pratiques administratives empêchant un véritable échange de renseignements avec d'autres pays sur les contribuables bénéficiant de l'absence ou de la faiblesse de l'imposition dans cette juridiction; iv) l'absence d'obligation d'exercer une activité substantielle.

- L'action conjointe du G20 et des Nations unies, ainsi que les efforts réalisés dans le cadre des initiatives dirigées par l'OCDE ont débouché sur quelques résultats prometteurs en matière de gouvernance dans le domaine fiscal, mais ces résultats restent insuffisants pour faire face aux défis que représentent les paradis fiscaux et les centres bancaires extraterritoriaux (offshore) et ils doivent être suivis d'actions déterminantes, efficaces et cohérentes.
- L'OCDE évalue actuellement le montant des capitaux privés présents dans les paradis fiscaux à près de 1 000 000 000 000 USD (mille milliards USD), soit un montant cinq fois plus élevé qu'il y a vingt ans; plus d'un million de sociétés, principalement des États-Unis et des États membres de l'Union européenne, ont leur siège social dans des pays abritant ces paradis fiscaux.
- Il est prouvé que la crise financière a été engendrée en partie par de nouvelles formes d'instruments financiers complexes et de produits dérivés placés, dans une large mesure, dans des fonds domiciliés dans des territoires caractérisés par le secret des opérations; la crise financière a mis en évidence les risques liés aux paradis fiscaux et les conséquences de l'absence de bonne gouvernance dans le domaine fiscal.

3. Coopération fiscale au sein de l'Union européenne

Le marché intérieur est régi par des règles communes, notamment en matière de droit des sociétés et de fiscalité [2], qui doivent permettre aux entreprises et aux particuliers de tirer un parti maximal de l'ouverture des frontières. Ces règles ont notamment permis de réduire les coûts liés au respect de la réglementation et d'encourager les investissements transfrontaliers.

La législation communautaire laisse aux États membres une grande latitude dans la conception de leurs systèmes de fiscalité directe, de sorte qu'ils puissent les adapter en fonction d'objectifs et d'impératifs nationaux. Toutefois, au cours de la dernière décennie, ils sont convenus de différents mécanismes permettant d'enrayer l'érosion des assiettes fiscales et d'éliminer les distorsions dans la répartition des investissements. Ils ont par là reconnu que, seules, les actions nationales et bilatérales ne peuvent résoudre qu'une partie des problèmes liés à l'érosion fiscale, et qu'une coopération à l'échelle de l'Union européenne est essentielle.

Sur le plan juridique, la bonne gouvernance a déjà trouvé matière à application au travers de directives existantes:

- la directive sur la coopération administrative [3], qui prévoit l'échange d'informations entre autorités fiscales dans le domaine de la fiscalité directe;
- la directive relative l'assistance mutuelle au recouvrement de créances fiscales [4], qui établit un système dans lequel un État membre peut demander l'assistance d'un autre État membre aux fins du recouvrement de créances relatives à des taxes, impôts, droits ou autres prélèvements;
- la directive sur la fiscalité de l'épargne [5], qui garantit, moyennant certaines dérogations temporaires pendant une période transitoire, l'échange automatique entre les États membres des informations détenues par les banques.

A côté de ces instruments législatifs relatifs à la coopération administrative, existe aussi un accord politique entre les États membres visant à supprimer, au travers du Code de conduite dans le domaine de la fiscalité des entreprises, des mesures fiscales dommageables [6].

Ce dispositif est également complété par la vigilance de la Commission européenne à détecter et démanteler tout régime fiscal constitutif d'une aide d'Etat, problématique bien connue au Grand-Duché de Luxembourg [7], [8].

Au sein de l'Union européenne, la première grande série d'actions concernant la généralisation de la gouvernance dans le domaine fiscal vise à moderniser l'arsenal législatif existant.

En novembre 2008, la Commission a déposé une proposition de réforme de la directive sur la fiscalité de l'épargne, dont le but est de combler les lacunes existantes et de mieux prévenir l'évasion fiscale. Cette proposition entend également supprimer les distorsions présentes sur le marché entre produits financiers équivalents et limiter les formalités administratives imposées aux agents payeurs. [9]

Quant aux directives sur la coopération administrative et l'assistance mutuelle en matière de recouvrement de créances, elles sont en cours d'examen par le Parlement européen, qui devrait rendre son avis début 2010. Les amendements aux propositions proposent explicitement de supprimer le recours au secret bancaire, lequel permet d'éviter l'échange d'informations à des fins fiscales entre les administrations fiscales des États membres, la coopération entre États membres aux impôts de toute nature et l'instauration de l'échange automatique d'informations comme règle générale. [10] [11]

Hormis ces trois propositions, le Conseil poursuit également ses travaux sur la base d'un programme de travail révisé sur le code de conduite relatif à la fiscalité des entreprises adopté en novembre 2008. Le groupe de travail a accepté de poursuivre ses travaux sur la lutte contre les abus, la transparence et l'échange d'informations dans le domaine de l'établissement des prix de cession interne ainsi que sur les relations avec les pays tiers. Au titre de ce code, qui s'applique tant aux États membres qu'à leurs territoires dépendants ou associés, plus de 400 mesures relatives à la fiscalité des entreprises ont été évaluées et plus de 100 d'entre elles, jugées dommageables, ont été abrogées ou modifiées.

4. Coopération fiscale internationale

Au niveau international, la Commission européenne cherche de conférer à la bonne gouvernance un champ d'application le plus large possible.

L'un des instruments auquel l'Union européenne peut avoir recours pour encourager la bonne gouvernance dans le domaine fiscal dans les pays tiers est de négocier avec eux des accords sur la fraude fiscale qui comportent une clause d'échange d'informations. La Commission a engagé la négociation d'un accord de ce genre avec le Liechtenstein, qui a abandonné sa position de refus de toute coopération pour adopter une attitude coopérative.

Les mesures d'incitation financières que prévoit le 10^e Fonds européen de développement pour une série de pays des Caraïbes et du Pacifique constituent également un bon moyen d'encourager l'adoption des principes de bonne gouvernance. La Commission européenne a décidé de ne venir plus en aide à des pays en développement qui ne disposent pas d'une législation fiscale guidée par les principes de transparence, d'échange d'informations et de concurrence fiscale loyale.

Enfin, la Commission européenne veut promouvoir une approche internationale commune entre États membres en matière de mesures anti-abus visant à combattre plus efficacement ceux des pays tiers qui ne se conformeraient pas à ces standards internationaux communément acceptés. Lors de son sommet du 2 avril 2009, le G20 a dressé la liste d'une série de mesures de rétorsion possibles: renforcement des critères de divulgation d'informations de la part des contribuables et des établissements financiers, retenue à la source, refus des déductions de certains frais, révision de la stratégie des conventions fiscales, révision, par les établissements financiers internationaux, de leurs stratégies d'investissement, révision des programmes d'aide bilatéraux. [12] À Pittsburgh (les 24 et 25 septembre 2009), les dirigeants du G20 ont déclaré que les mesures de rétorsion à l'encontre des paradis fiscaux devraient être appliquées à compter de mars 2010.

5. Propositions pour renforcer le principe de bonne gouvernance dans le domaine fiscal au sein de l'Union européenne et à l'échelle internationale

Pour encourager la bonne gouvernance dans le domaine fiscal, il faut à la fois améliorer celle-ci au sein de l'Union européenne et mener des actions ciblant les pays tiers.

On estime que les actions suivantes sont nécessaires:

- l'Union européenne doit examiner diverses formes de sanctions et d'incitations, comme par exemple: l'instauration d'un prélèvement spécial sur toutes les opérations en direction ou en provenance de territoires qui refusent de coopérer, l'absence de reconnaissance par l'Union du statut juridique des sociétés constituées sur des territoires qui refusent de coopérer ou

l'interdiction faite aux établissements financiers de l'Union de créer ou de conserver des filiales ou des succursales sur des territoires qui refusent de coopérer;

- la création d'un système d'incitation adéquat pour le recouvrement des créances fiscales transfrontalières afin d'augmenter le taux actuel de recouvrement, qui n'est que de 5 %, en attribuant une proportion équitable des créances fiscales à l'administration qui les a recouvrées pour le compte de l'État membre demandeur, d'une part, et à l'administration de l'État membre demandeur, d'autre part;

- l'Union européenne devrait prendre des mesures pour prévenir le recours abusif au principe de résidence dans le cadre de régimes de propriété et de domiciliation fictives par lesquels des sociétés écrans ou des sociétés holding sans aucune activité permettent à leurs propriétaires de ne pas être imposés dans le pays où ils sont domiciliés;

- l'Union européenne devrait adopter, lors de l'application des mesures de lutte contre les abus, une approche commune effective, loyale et fondée sur la notion de montage artificiel définie par la Cour de justice;

- l'Union européenne devrait mettre en place un cadre cohérent de bonne gouvernance dans le domaine fiscal applicable à la politique européenne de voisinage, à la politique d'élargissement et à la politique de coopération au développement [13]; il est nécessaire d'établir un lien entre, d'une part, le soutien financier de l'Union européenne et le degré d'accès aux marchés communautaires dont bénéficient certains pays et, d'autre part, le niveau de coopération qu'offrent ces pays en ce qui concerne les principes de la bonne gouvernance dans le domaine fiscal; l'Union européenne devrait prendre en considération aussi fournir de l'assistance technique nécessaire pour aider les pays concernés à respecter leurs engagements en matière de bonne gouvernance dans le domaine fiscal; si un pays le demande, l'assistance technique pourrait également concerner la conception d'un système fiscal efficace permettant à ce pays de mieux tirer parti des ressources dont il dispose;

- l'Union européenne devrait réviser les normes comptables actuelles pour accroître la transparence; la mise en place d'une assiette commune consolidée pour l'impôt des sociétés contribuerait à résoudre, au sein de l'Union européenne, les questions de double imposition et des prix de cession interne au sein des groupes consolidés;

- les États membres doivent coordonner leurs politiques fiscales afin de renforcer l'application des règles de lutte contre l'évasion fiscale; il importe de veiller à ce que, par leurs conventions fiscales bilatérales, les États membres ne créent pas de possibilités de contournement des directives communautaires ou de la législation fiscale d'autres États membres. Dans le même temps, l'existence d'obligations de bonne gouvernance dans les accords conclus entre l'Union européenne et les pays tiers conférerait aux États membres un pouvoir de négociation plus grand dans leurs pourparlers bilatéraux avec ces pays;

- les États membres devraient également définir une approche plus unifiée envers les pays tiers, selon que ceux-ci appliquent ou non les principes de la bonne gouvernance dans le domaine fiscal. Ainsi, un pays qui applique ces principes pourrait être retiré des «listes noires» nationales des États membres afin qu'il ne fasse plus l'objet de mesures anti-abus pour les pratiques fiscales concernées. À l'inverse, les juridictions qui ne mettent pas en œuvre de façon satisfaisante les aspects clés de bonne gouvernance dans le domaine fiscal appliqués par les États membres de l'Union européenne pourraient faire l'objet de mesures de rétorsion coordonnées. [14].

6. Conclusions

D'une manière générale, le cadre législatif et réglementaire de l'Union européenne en matière de coopération fiscale peut être jugé satisfaisant: des directives en matière de fiscalité de l'épargne, d'assistance mutuelle et de recouvrement des créances fiscales ont été adoptées ou sont en cours d'examen. Reste à savoir comment et avec quelle diligence les États membres mettront ces règles communautaires en application.

Il est important de promouvoir la bonne gouvernance dans le domaine fiscal à la fois en dehors et au sein de l'Union européenne, tant au niveau communautaire qu'à celui des États membres. Si l'on améliore la bonne gouvernance dans le domaine fiscal au sein de l'Union, les États membres en retireront des avantages et l'Union pourra plus facilement convaincre les autres juridictions d'établir avec elle une coopération administrative efficace. Les États membres devraient en conséquence adopter dès que possible les propositions de la Commission européenne relatives aux directives sur l'assistance mutuelle en matière de recouvrement des créances et sur la fiscalité de l'épargne, et continuer à accorder l'attention nécessaire au démantèlement des régimes fiscaux dommageables dans le domaine de la fiscalité directe.

Le renforcement de la cohérence et de la coordination des politiques au niveau de l'Union européenne permettra de promouvoir la bonne gouvernance dans le domaine fiscal sur une base géographique plus large. L'objectif de l'Union européenne est de faire en sorte que l'approfondissement des relations économiques entre l'Union et les juridictions partenaires s'accompagne d'un accord sur les principes de la bonne gouvernance dans le domaine fiscal, suivi, le cas échéant, d'accords de coopération en matière fiscale.

Tout en respectant pleinement le principe de subsidiarité, il est nécessaire d'assurer davantage de cohérence entre la position des différents États membres dans les organismes internationaux traitant la fiscalité et les principes de bonne gouvernance définis d'un commun accord, tels que ceux établis dans les conventions fiscales bilatérales avec les pays tiers et au sein des organismes internationaux. Il faudra pour cela mettre en place une coopération accrue au niveau de l'Union européenne afin de garantir que la dynamique engagée en faveur d'une coopération plus ouverte et constructive en matière fiscale se poursuive au niveau mondial.

En conclusion, on attire l'attention sur la nécessité de garantir une transposition rapide au niveau national des directives déjà adoptées, d'accélérer la procédure pour celles qui sont en cours d'examen, d'appliquer des politiques plus cohérentes et mieux coordonnées au niveau de l'Union européenne et enfin d'assurer une plus grande cohérence entre les positions des différents États membres et les principes établis en matière de bonne gouvernance.

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BUDGETARY CLASSIFICATIONS' ROLE IN PUBLIC FINANCIAL MANAGEMENT

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Budgetary classifications are a vital condition for a sound budgetary management. To be a good and useful classification, some rules should be respected. The international experience could offer us guiding lines which contribute to this purpose. In our paper we tried to present some basic elements of a budgetary classification, stressing on their utility in practice: financial management, reporting, on various criteria, and electronic processing. In last part is presented a functional example of such a classification which proved its utility in Romanian public financial sector. This work was supported by CNCISIS-UEFISCSU, project number PNII-IDEI 1780/2008.

Keywords: budgetary classification, public financial indicators; principle of specialization

JEL: H6 - National Budget, Deficit, and Debt

1. Introduction

Any modern budget should be structured unitarily using general accepted criteria. The need of coherent structure is justified by the role of public budget in financial life of every state, local community or public institution. All countries improved their classifications in order to respond in the best way to their needs.

Budgetary classification is used in all stages of budgetary process: drafting budget proposals, execution of revenues and expenses, and reporting the result after budgetary year ends. The records made on classifications are used for statistical reports related to budgetary indicators.

A frequently used budgetary principle is specialization. This principle imposes using classifications for data ordered uniquely, in a logic way, and permitting comparisons in time. All budgetary processes are easier to unfurl if indicators have codes which respect classification order.

Nowadays classification tries to restructure indicators such a manner than budgets to help management, not to represent an obstacle. In budgetary management, line item budgets are less recommended because could reduce the efficiency of activities by imposing financial barriers to management. So, a too analytical classification should be used only in reporting, not in budgeting. Execution part of the budget should be dynamic, the managers having the right to decide expenses respecting the global ceilings imposed by budgets. Reporting part should be more explicit, using the whole classification items, being in consonance with other recent issues (accrual approach, chart of accounts correlations etc.).

The control level imposes classification complexity. If revenue recording is simpler because administration has to separate revenues on tax types, expense recording should be more complex because the control is multi-parametrical and stricter in order to assure efficient usage of public funds. A sound system of budget classification should at a minimum comprise a classification of revenues into various categories, and administrative, economic, and functional classifications of expenditures (Jacobs et al., 2009).

2. Taxonomy

Budgetary classifications should contribute to a better public fund management. This is why, in practice, are used different types of classifications: each trying to present different approaches of grouping the component indicators. The main questions should answer the revenues grouped on budgetary classifications are: What tax/income is paid? Which budget benefit form certain tax? and Who was the taxpayer?. The main questions should answer the expenses grouped on budgetary classifications are: Why is the money being spent? What is being purchased? and Where is the money being spent? (HISD, 2009).

The needs come from practice impose the type of classification used. The correlation between main classifications and purposes are presented below.

Table 1: Correlation between classifications and purposes

Classification criteria	Purpose
Function (only for expenses)	Historical analysis and policy formulation
Organization	Accountability and budget ration
Economic category	Statistics (GFS) and object (i.e., line item), for compliance controls and economic analysis
Program, activity, and output (only for expenses)	For policy formulation and performance accountability

Source: after Salvatore Schiavo-Campo and Daniel Tommasi - Managing Government Expenditure

Functional classification is largely used in order to present the expenditures grouped on domains. The standard functional classification was set up by United Nations and is known as COFOG. The ten divisions of the classification cover all the functions of the government. Majority of states and financial institutions developed their own classifications on COFOG.

Organizational (known also as institutional or administrative) classification presents the subordination relations between different institutions. These classifications are highly volatile because subordination systems are frequently changing, institutions are merging or splitting up, or changing their names. The role of this classification is to establish responsibilities for institutions regarding public fund usage.

Economic classification groups revenues on every tax type collected to the budget, and expenditures on destination. GAO emphasized the disadvantage of expenses' economic classification by not presenting the motivation of used amounts, but only destination (GAO, 1994).

Program classification is a policy oriented instrument helping public management to have a separate financial management on each policy, activity, or output. Classifying expenditures by program can serve two purposes: (1) identifying and clarifying the goals and objectives of government spending and (2) monitoring operational performance through performance indicators, which may relate to the inputs, outputs, or outcomes of a particular program (Jacobs et al., 2009).

Resource classification is used when budgetary systems have numerous components. Each component represents a resource and a separate gesture is required. In most nations' case the state budget is distinct from local budgets and from social security budgets.

Geographic location classification helps to obtain budgetary data from territorial point of view. For international comparisons the national data are used; for EU analysis the regional data are vital; for national level studies territorially divided information use geographical classifications.

Classifications on beneficiaries are used to monitor and evidence the beneficiaries of the public funds. Usually this classification is useful at donor budgets (budgets which assure numerous subsidies to different budgets which represent recipient budgets).

3. Characteristics

A budgetary classification should respect some basic principles. If not, applying classification become impossible driving to errors or incorrect interpretations. A sound budgetary classification should be:

- structured;
- comprehensive;
- non-redundant;
- open.

Structured classification have a clear and logical order of items inside classification, general categories are subdivided into specific ones. Usually, revenues are grouped on sources, while expenses on destinations, domains, institutions, and so on. For different levels of details are created parts, chapters, subchapters, articles, alignments etc.

A comprehensive classification means that any revenue or expense to be present in the classification. Most of them have after each main category a special position for other revenues or expenses in which are included small, insignificant, exceptional, and new (unknown at the moment of creating) revenues or expenses;

Non-redundancy (mutual exclusivity) imposes a clear separation between different items in the classification. For a unitary approach, classification issuers could present general rules of introducing revenues and expenses on classification, explanatory notes, and/or examples which help users to make no mistakes or wrong enclosure.

Because public financial indicators are changing in time, classifications should be open, respectively them should permit changes and new entries. A dynamic public sector must have a dynamic budgetary classification which keeps pace with public economy.

4. Coding

A classification can be used in practice by coding the indicators contained in it. The codification systems are vital for electronic processing of data. IT systems can make real time reports filtering and grouping information in base of codes used by budgetary classifications.

Coding systems used for budgetary classifications should contain several code modules, each placed uniquely in the code's structure. If a section is not applicable, there should be also coded (usually using zeros) in order not to move next sections from their positions.

Romanian coding system is presented below. This system was introduced in 2006 and was replacing a similar one from 1995. The coding sections were created in base of Public Finance Act and Local Public Finance Act which introduce the classification criteria. The codes are exclusively numeric, having at least two digit sections.

Table 2: Revenue coding in Romania

Structure	Meaning	Example
2 digit coding revenue chapter	Revenue chapters represent the main category of revenue	01 – corporate taxes 03 – personal taxes 07 – property taxes
2 digit coding for beneficiary budget	Each type of budget is coded	01 – state budget 02 – local budgets

2 digit coding revenue subchapters	Each chapter is subdivided in subchapters	07.02.01 – tax on buildings collected to the local budgets
2 digit coding revenue line	Some revenues are detailed also by lines. If not, the budgetary coding skip it and the IBAN coding use double X letters	07.02.01.02 – tax on buildings collected to the local budgets from legal persons
3-10 digit coding for taxpayer of beneficiary	Taxes collected by central administration are coded with taxpayer’s fiscal code (usually same with VAT code); other taxes are coded on beneficiary code (the fiscal code of the institution which collect that revenue)	07.02.01.02.12345678 – tax on buildings collected to the local budgets from legal persons; beneficiary local authority is that which have fiscal code 12345678

Source: synopsis based on RMFO no. 1954/2005

Table 3: Revenue coding in Romania

Structure	Meaning	Example
2 digit coding expense chapter	Expense chapters represent the domains established on the functional classification. In Romania COFOG represented the reference	51 – public authorities 65 – education 66 – health
2 digit coding the budget	Each type of budget is coded same to revenues	01 – state budget 02 – local budgets
2 digit coding expense titles	Expense titles represent the expense type established on the economic classification	10 – wages 20 – goods and services 71 – investments
3-10 digit coding the responsible institution	Each institution which spend public money is recorded on organisational classification	65.02.10.234567 – wages paid by a school (having the fiscal code 234567) from local budget

Source: synopsis based on RMFO no. 1954/2005

Analyzing the Romanian coding system, we can conclude that it respect the general guiding lines proposed by international financial institutions (especially IMF and UN). Coding systems permit to identify the revenues and expenses on the main classifications’ structure.

Conclusions

Budgetary classifications are vital for every budgetary management, especially nowadays when IT systems are largely used to record financial flows from public sector. A good structured

classification can become a useful management tool, while a faulty classification could be an impediment in managing institution's financial activity.

Internationally accepted guiding classifications are recommended in order to assure comparable information between countries and regions. In this respect, the initiative was taken by International Monetary Fund and United Nations, with a very positive result.

The most important things that we recommend related to public classifications are: (i) create professional classifications based on international guidelines in order to assure international comparability without other adjustments; (ii) every country and institution should adapt own classifications, but not renouncing to general guidelines; (iii) in execution classifications should be used at chapter level, and in reporting at most detailed level.

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ANNUAL FINANCIAL STATEMENTS – A SOURCE FOR THE FINANCIAL DECISIONS OF INSOLVENT COMPANIES

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The paper presents the importance of financial statements in determining the insolvency of a company. The first part of the article presents a case study and the main signals of bankruptcy: negative working capital, negative equity capitals, losses, etc. In the end of the paper we detail issues that are not observable and that are related to the actual management of the company.

Key words: working capital, working capital need, treasury, equity capitals, annual financial statements

JEL classification: G33

In Romania, the structure of annual financial statements was regulated by OMFP no. 94/2000 and 306/2000, then by OMFP no. 1752/2005 and recently by OMFP no. 3055/2009 and includes:

- the balance sheet;
- the short balance;
- the profit and loss account;
- the statement of changes in equity capital;
- the statement of cash flows;
- Notes.

Economically, it is useful for the economic agents to determine those indicators that can prevent insolvency based on the analysis of the data in the annual financial statements. The specialized literature presents for this purpose models like: the Z score recommended by E. Altman, the Canon Holder model, the model of William Beaver, the model of the Central Bank of France and the Cematt model. More recently, commercial banks have bankruptcy risk assessment methods, such as: the method of the Romanian Commercial Bank, the method of the Romanian Development Bank – Groupe Societe Generale, the method of Transilvania Bank, the method of Raiffeisen Bank, which are methods tailored for Romanian economy, with obvious results in the diagnosis of bankruptcy.

Although the causes that determine bankruptcy are varied, we believe that some have decisive influences in this regard, such as:

- the lack of order contracts after 1990;
- outdated technology;
- inadequate legislation for privatization;
- persistence of strikes;
- low productivity;
- property claims;
- inadequate price policies;
- Stock production; etc.

Steve Robinson in the book "Financial Management"⁸⁵¹ shows the easily identifiable problems based on annual financial statements, such as:

- the massive increase of the credit account (debts);

⁸⁵¹ Steve Robinson, *Financial Management*, Teora Publishing, Bucharest, 2005, p. 147

- the substantial increase in stock (inventory);
- reduction in liquidity;
- increasing the amounts borrowed;
- cutting back on future investments;
- Reduction in paid dividends.

Next, we will present the balance sheet structure of an economic agent⁸⁵² for two consecutive reporting periods. Therefore:

	N	-lei- N+1
The debit structure		
Total fixed assets, of which:	365408,0	238526,5
- intangible assets	-	-
- tangible assets, of which:	365310,0	238428,5
- freehold land	105451,2	-
- buildings	248743,0	235212,8
- plant and machinery	4998,2	2591,0
- motor vehicles	4109,7	624,7
- other fixed assets	-	-
- tangible assets in progress	2007,9	-
- financial assets	-98,0	-98,0
Total current assets, of which:	52289,2	33929,7
Inventory:	11638,7	
- raw materials	5744,7	
- semi-finished goods	5004,6	
- goods purchased for resale	35,0	
- packaging materials	854,4	
Other current assets, of which:	40650,5	33929,7
- clients and similar accounts	38182,4	33741,7
- other claims	1829,2	-
- investment papers	100,0	100,0
- bank accounts	7,2	13,0
- petty cash in lei	531,7	74,1
- other values	-	0,9
Suspense account	13699,2	-
TOTAL ASSET	431396,4	272456,2
		lei
The credit structure	N	N+1
Equity capitals, of which:	-208005,6	-1030585,5
- social capital	733701,2	595000,0
- uncovered loss	-	-939968,3
- loss	-943123,8	-685617,2
- other funds	1417,0	-
Long-term loans	147526,4	181565,7
Suppliers and similar accounts	43627,3	28047,7
Creditor clients	2289,2	1155,0

⁸⁵² Data are real

Other debts	445959,1	1092273,3
TOTAL LIABILITIES	431396,4	272456,2

Based on the comparative data of the two consecutive balances, the following can be highlighted:

- regarding intangible assets, freehold lands in the year N+1 was missing because lands were retroceded to their owners;
- the inventory was exploited, so in the year N+1 the company had no stock;
- clients and similar accounts dropped from 40650,5 lei to 33929,7 lei;
- suspense accounts have not occurred in the year N+1;
- from -208005,6 lei in the year N, equity capitals reached -1030585,5 lei, so the net asset is negative;
- long-term loans increased from 147526,4 lei to 181565,7 lei;
- unpaid supplied recorded a drop from 43627,3 lei to 28047,7 lei;
- other debts grew 2.5 times.

By calculating the net working capital with the help of the two known methods, results:

a) $NWC = \text{Permanent capital} - \text{Assets}$

b) $NWC = \text{Assets} - \text{Short-term debts}$

For the year N, we have:

a) $NWC_N = -208005,6 + 147526,4 - 365408,0 = -425887,2$

b) $NWC = 52289,2 + 13699,2 - (43627,3 + 2289,2 + 445959,1) = 65988,4 - 491875,6 = -425887,2$

For the year N+1, we have:

a) $NWC_{N+1} = -1030585,5 + 181565,7 - 238526,5 = -1087546,3$

b) $NWC_{N+1} = 33929,7 - 1121476 = -1087546,3$

The working capital in the year N, as well as in the year N+1, is negative and represents a signal that the company is in difficulty, and the working capital, as the main financing source of the current assets, can't finance these assets.

Next, we'll determine the company's treasury in the two analyzed years. In order to do this, we'll determine:

The need for working capital = Stocks + Claims – Operating debts, and it will result:

Year N: $11638,7 + 38182,4 + 1829,2 + 13699,2 - (43627,3 + 2289,2 + 445959,1) = 65349,5 - 491875,6 = -426526,1$

Year N+1: $WC_{Need} = 0 + 33741,7 - (28047,1 + 1155,0 + 1092273,3) = 33741,7 - 1121476 = -1087734,3$

The treasury has values in the two analyzed years:

Treasury = NetWC – WCNeed

Year N: $T = -425887,2 + 426526,1 = 638,9$

Treasury = Availability – Treasury credits = $100 + 7,2 + 531,7 = 638,9$

Year N+1: $T = -1087546,3 + 1087734,3 = 188,0$

$T = 100 + 13,0 + 74,1 + 0,9 = 188,0$

The values of the treasury in year N, as well as in year N+1, are low. The companies used drawn-in sources for financing, meaning delaying the payment of short-term debts.

Indicator	Year N	Year N+1
TOTAL operating revenue, of which:	-257463,7	125015,5
- revenues from sale of goods	8567,1	782,9
- sold production	423442,2	53479,6
- turnover	432009,3	54262,5

- stored production income	-689473,0	37503,0
- revenue from tangible assets production		33250
Operating expenses, of which:	670195,9	531739,8
- goods for resale	7470,9	726,2
- total material expenses	182126,2	66415,9
- third party services expenses	13244,6	22600,7
- taxes, duties and similar expenses	5341,3	340564,8
- total personnel expenses	111175,5	88763,2
- other operating expenses	394776	-
- adjustment expenses for fixed assets (depreciation)	311359,8	12669,0
Operating loss:	927659,6	406724,3
Total financial revenues, of which:	11,5	77264,4
- interest income	11,5	46,8
- other financial revenues	-	77217,6
Financial expenses, of which:	73892,1	71740,5
- interest expenses	73892,1	48335,5
- other financial expenses		23405,0
Financial profit		5523,9
Financial loss	73880,6	
Extraordinary revenues	59436,6	12951,5
Extraordinary expenses	1020,2	297368,3
Extraordinary profit	58416,4	-
Extraordinary loss		284416,8
Total revenues	-198015,6	215231,4
Total expenses	745108,2	900848,6
Total loss	943123,8	685617,2

By analyzing the data in the profit and loss account, the following will result:

- the operating revenues in the year N were negative due to the income from the stored production (debit balance);
- the operating revenues in the year N+1 were 125015,5 lei, being influenced by the revenues from the tangible asset production of 33250 lei;
- the operating expenses were higher than revenues in the two analyzed years;
- personnel expenses in the year N+1 were higher than the turnover, which were economically unjustified;
- operating losses were recorded in both years;
- the financial activity recorded loss in the year N, but brought financial profit in the year N+1;
- the extraordinary activity brought profit in year N, and extraordinary loss in the year N+1.

Overall, loss was achieved in both years.

Mihaela Onofrei, in the book “Financial Management”⁸⁵³ shows that “managers must identify early the signs of deteriorating financial statements of the enterprise, such as:

⁸⁵³ Mihaela Onofrei, *Financial Management*, C.H. Beck Publishing, 2006, p. 115

- achieving negative financial results;
- the existence of negative working capital;
- the inability to reimburse credits at maturity;
- the bankruptcy of suppliers and clients important for the enterprise;
- reduced availability or unavailability of a manager;
- the persistence of strikes.”

Steve Robinson⁸⁵⁴ shows that “they are problems difficult to identify”, so these “accounts do not reveal everything” and he goes on to mention the list of events that announce bankruptcy:

- accounting norms and practices – other than the ones that are standard – compared to the norms of the competition and with the norms existent in the concerned sector;
- fast increase of the sales volume, of the main accounts, of the working capital;
- the inability to reimburse credits at maturity;
- the inability to draw-up in time the financial reports and the account statements;
- combining the functions of the chairmen and chief executive, especially when these functions are associated with a large package of own shares;
- leading and charming personalities that are acting as managers of the company;
- frequent resignations from the managing board;
- sale of shares belonging to the company director (in the *Financial Times* magazine, for the companies listed in the UK), especially right before „closing” (seven weeks before announcing the financial results of the company);
- transition from asset acquisition to leasing;
- predatory behaviour of the management;
- unexplained transactions between the subsidiaries of a company.

We believe that since the company recorded negative operating revenues, negative working capital, losses and unjustified values in the year N, bankruptcy was imminent.

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⁸⁵⁴ Steve Robinson, *Financial Management*, Teora Publishing, Bucharest, 1999, p. 150

STATE BUDGET AND FISCAL POLICY INSTRUMENTS TO ACHIEVE ITS

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This paper presents the tools for carrying out the fiscal budget in Romania. An effective fiscal policy involves increasing budget revenues and reduce their costs of collection. Public expenditure, taxes and debt are tools of fiscal policy to achieve economic stability budget. They are also presented the interdependencies between fiscal policy and budget.

Key words: budget, collecting, fiscal policy, fiscal efficiency, public revenues;

Introduction

Every state, regardless of size or level of economic development interfere in the economy by the agency of fiscal policy for securing his financial resources in order to fulfil his functions but also to impel the development of economic sectors and also to dishearten the fiscal fraud.

The mains (principals) instruments witch the state can use to intervine in the economy are in the majority of the countries untaxes and taxes, which the state collect through various ways from the tax payers.

In Romania, as in the majority of the countries, the role of taxes manifest on the financial plan, they are the main means of raising public financial resources, that are necessary for financing public expenditures needed for collectives requirements.

Fiscal policy is a very important component of the financial policy, which is responsible for the collecting of public financial resources like untaxes and taxes. One definition in this direction was that of Condor Ioan who consider that "fiscal policy include (involve, contain) the total (ensemble) principles regarding the establishing and collecting the untaxes, taxes and other public revenues, which characterize the state option concerning and taxes"⁸⁵⁵. Gheorghe Manolescu claims, also, that "fiscal policy is constituted within the framework of public authority activity of establishing and utilizing the resources needed for public consumption and for the supply of public goods and services"⁸⁵⁶. Through fiscal policy is established the volume and source of public revenues, the methods of take over who will be utilized, the objectives to be follow and also the possibilityts that can be used to achive all these goals.

From these definitions result that fiscal policy represent a mechanism of taking over a part of the revenues earn by the economic agents, households and enterprises, for raising of funds who are necessary for public expenditures. The bundle between taxes and public expenditures was pointed by Paul A Samuelson, who see fiscal policy like "a process consisting in manipulating taxes and public expenditures"⁸⁵⁷ saying also that these is influencing the general distribution of national product between consumption and investments.

The objectives of fiscal policy

The budgetary policy influence macroeconomic objectives-production fluctuation, of prices and that of unemployment, fact that require to tackle this policy in connection with the fiscal policy, because both of them are elaborated at the same time by the public authorities. The fiscal policy of a state is reflected yearly by his budget. Within the framework of fiscal policy the priority is the establishment on one hand of the total volume of expenditures, on the other hand of the way

⁸⁵⁵ Condor, I., Fiscal law, published by Lumina Lex Bucurest, 2002, pg. 71.

⁸⁵⁶ Manolescu Gh., Economic policy. Drafts, instruments, experiments, published by Economic, Bucurest, 1997, pg. 265.

⁸⁵⁷ Samuelson, P.A., Political economy, published by Teora, Bucurest, 2001, pg. 364.

in which they can be financed those expenditures: from fiscal sources or by contracting some loans, each of these ones generating different economic effects.

The rationality of the fiscal policy decisions require to respect the following principles of taxation: currency, equity, honesty, efficiency and the convenience of taxation.

It comes out that ascertained the increasing of public expenditures included in the over-all budget from year to year, the accomplishment of state functions requires the adoption of a unitary fiscal-budgetary policy, who suppose that public revenues and expenditures can be approach in a unitary manner.

The fiscal policy is strongly connected with the ability of public authorities to use taxation and public expenditures to influence the national economy.

The fiscal system, with all his implications and functionalities, can not function without the existence of the fiscal machine-the engine who put in motion the fiscal mechanism. He must answer some morals and ethics demands in order to make the fiscal burden fair and not overwhelming, therefore more reasonable.

In keeping with special literature a reasonable fiscal system must fulfil some functions like: rally public revenues, stimulating economic function, social and control function, stimulate saving and investments in the private sector.

On the social plan the fiscal policy is utilized for reduction of inequalities between revenues of taxpayers, the taxation for taxpayers with big revenues being heavyer. Simultaneously the unfortunate taxpayers are protected through the agency of tax exemption. These ones are granted in order personalize taxation, by realizing a connection between revenues and taxes.

The objectives of the fiscal policy are: regulate market position and relaunch of the economy, restructure economic sector and economic growth, improvement of productive sector. In order to achive these goals, the state must reduce the fiscal burden simultaneously with a increase in public expenditures in a period economic crisis, while in a period of economic boom he must rise tax rates and also cut down expenses made from national budget.

The main problem of Romania fiscal policy in the area of revenues is finding a balance between the necessity of increasing revenues by raising rates as a principal source for covering expenditures, who are directioned towards to diminish poverty, and also the necessity of supporting business environment, who represent the principal factor for economic growth.

In this sense growing up revenues more rapidly than inflation rate and also the adjusting the fiscal burden at a level which is favourable for the development of business environment and investment capital will be an opportunity.

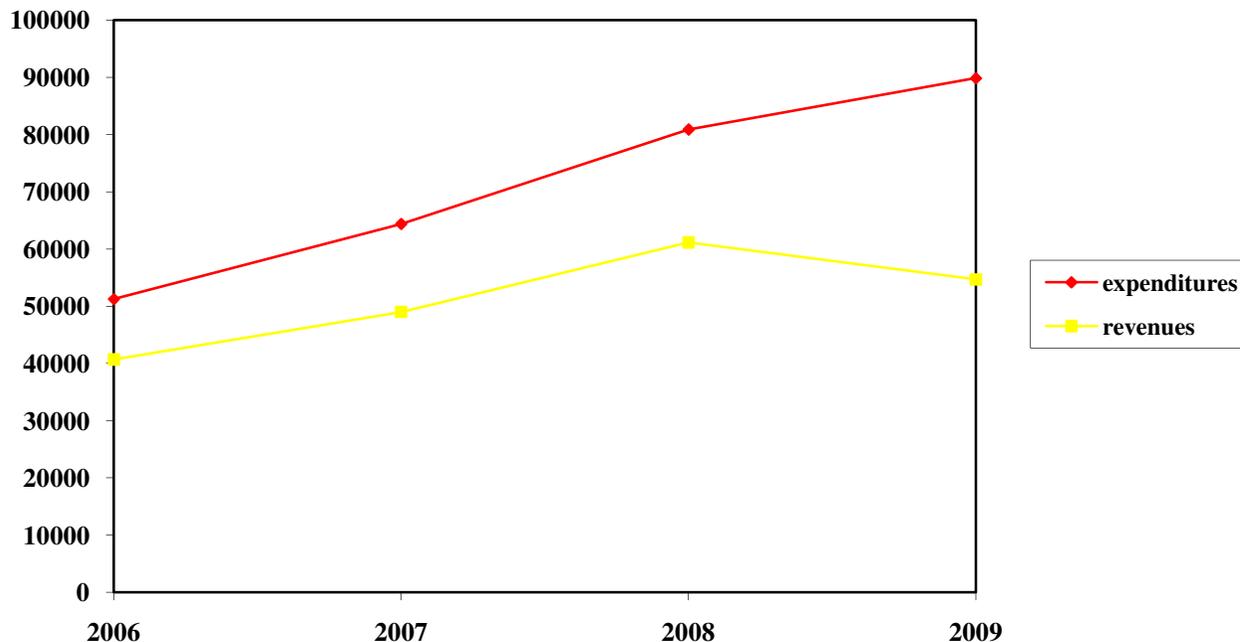
The method of analysis of the fiscal policy in Romania was based on the dates provided by Ministry of Public Finances.

The evolution of revenues and expenditures belonging to the national budget in the period 2006-2009

The revenues belonging to national budget increased between 2006-2008. In 2009 due to the economic crisis who affected Romania they drop significantly. By analysing the informations in the chart bellow we can observe that the public expenditure grew more rapidly than the revenues due to the poorly management of the public funds. One explication for the growth of revenues in the period 2006-2008 is the better gathering of fiscal revenues.

Figure 1. The evolution of revenues and expenditures belonging to the national budget in the period 2006-2009

The evolution of revenues and expenditures belonging to the national budget in the period 2006-2009



The data from below presents the execution of the state budget during the period 2006-2009.

Table 1. Revenues execution of the state budget

lei million

INDICATORS	2006	2007	2008	2009
REVENUES-TOTAL	40698,1	48984,6	61151,0	54678,4
1. Fiscal revenues	37900,1	44916,7	55133,6	48152,9
Tax on income, profit and capital earnings of which:	14122	14615,9	18563,2	15539,7
Tax on profit	7905,4	10528,8	13039,9	10617,1
Taxes and duties on goods and services of which:	23777,7	29332,8	35368,1	31789,8

Value added tax	13224	31243,2	40873,6	34322,4
Excise duties	9943,1	11207,8	12382,5	14272,1
Taxes on foreign trade and international transactions	2596,2	855,7	962,3	655,5
2. Insurance contributions	331	408,4	454,2	414,7
3. Non-fiscal revenues	2281,8	3113,5	3737,2	6352,3

Table 2. Expenditures execution of the state budget

INDICATORS	2006	2007	2008	2009
EXPENDITURES	51235,6	64373,5	80887,8	89851,7
Current expenditures	43118,7	58089,9	73131,3	84580,1
I. Staff expenditures	10174	13184,3	15834,4	15286,3
II. Goods and services	4322,7	3776,2	4605,3	4318,3
III. Interests	2120,2	2249,0	2942,0	5103,3
IV. Subsidies	5670,9	4997,8	5809,1	4966,3
V. Reserve funds		-	-	
VI. Transfers among general government units	5961,2	10997,4	13429,7	17873,8
VII. Other transfers	3892	9212,3	12825,1	13261,6
VIII. Social assistance	10050,3	11932,2	16085,1	18082,6
IX. Other expenditures	927,4	1740,7	1600,6	-344,1
Capital expenditures	5865,2	4164,9	5642,9	3171,0
X. Non-financial	5365,2	3825,1	5642,9	3066,0

assets				
XI. Financial assets.	500	-	-	105,0
Financial operations	2251,6	2118,6	2113,6	2502,9
XII. Loans	3,9	3,7	4,7	4,7
XIII. Credit refunds	2247,7	2114,9	2108,8	2498,2

Source of the dates; Ministry of Public Finances.

lei million

From the analysis of the dates from above we can observe that the fiscal revenues are holding a weight of over 90%, especially those who are proceeding from taxes and duties on goods and services (approximately 59% from the total revenues). Those who are proceeding from tax on income, profit and capital earnings represent approximately 30% from the total revenues, fact that shows the interest of the public authorities to let at the disposal of the private individuals and economic agents a bigger part from their revenues, in order to stimulate saving and investments in the private sector. This objective was attained by the introduction in the year 2005 of 16% unique quota taxation, thing that had led to a decrease of public revenues from tax on income, profit and capital earnings. But the introduction of profit minimum tax in the year 2009 was a mistake because a lot of economic agents closed down their business, fact that had repercussions on revenues attracted on the national budget from profit tax because they drop with 20%. Also we can see that the revenues from value added tax had diminished significantly because the people had to restrain their consumption of goods in this period of economic recession. The revenues from excise duties are significantly bigger from year to year because the exchange rate for euro/ron and the specific excise tax increased. The estimated revenues for 2010 are 66.654,3 million lei, much bigger than those of the year 2009 but the expenditures are 101.678,4 million lei with a budgetary deficit of 35.024,1 millions lei.

Upon close examination of the current expenditures we can observe that they grew every year. These ones are non-productive representing a definitive consumption of GDP. By opposite, capital expenditures (those ones who made for the development and modernization of public sector) diminished in this period of time. They are materialized in investments in the sphere of material or non-material production.

Measures taken by the state in order to reduce budget deficit

The state must take urgent actions in order to reduce current expenditures and also to increase capital expenditures who will generate further revenues, as a part of programme of reducing budget deficit. Some steps were made in this direction but there are a lots of thing to be made in the next years (for example a growth of the productive rate in the public sector).

The main objective for the fiscal policy during this period of time was maintaining budgetary deficit at a lower level by bettering gathering public revenues. There are still a lots of steps to be made in order to eradicate tax avoidance. First of all the fiscal authorities must render more frequent controls in order to uncover those persons who elude from payment their taxes to the budget. Another problem of fiscal policy is the frequent changes of fiscal legislation in force who made the taxpayer reluctant in opening a business.

The consequence of taxation pressure over the consumption, over production factors-labor and capital, represent an important element with a view to improving the tax system. By comparison with the others state from European Union, tax burden in Romania is much smaller. The fiscal rate IN Romania although it is smaller By comparison with the others state from European Union, cannot be appreciated without taking into consideration the level of GDP per person, who is smaller than that of others EU countries.

By observing the way in which the budgetary fiscal revenues evolved in the analysed period, both from the point of view of structures and weight of these, we can say that the fiscal policy promoted until the present day did not brought the stability needed for the development of a lasting and harmonious economic environment and none a real growth in the national budget revenues.

The state was forced to establish new taxes in order to cover the difference between growth of public expenses and that of public revenues who was smaller, by increasing tax burden.

Beginning with the year 2009, the budgetary policy is pursuing the correction of external and internal unbalances who has been let to amplify in the economy. This is a part of the macroeconomic program adopted in april 2009 as a response to the aid flow granted to Romania by the European Union, International Monetary Fund and others. In accordance with this program we forecast a budget deficit of 7% of GDP due to economic downturn. By reducing the country's budget deficit for 2010, and adopting a much more prudent fiscal policy, Romania would signal to the International Monetary Fund and foreign investors that the country was adjusting to the downturn in the external environment.

Conclusions

The state budget for the year 2010 is not realistic in the current condition of economic slowdown. The perspectives on the romanian economy on the short term are negative. Simultaneously the tightening of global credit lines will undoubtedly led to a decrease of the foreign capital invested in Romania, fact who will have repercusion over financing its current account deficit - which significantly adds to the risk of a depreciation of RON/EUR.

As to budgetary policy, government had one tough choices to make between raising budgetary revenues through tax increases or slashing expenditure (current expenditure) from national budget by mass dismissals from the public sector and by reducing public expenses with goods and services, finally the executive authority chose the second one who is very unpopular among the people. The preferred action from a macroeconomic standpoint is to cut non-productivity orientated spending. On the short time the adopted measure lead to unemployment, decrease of revenues as a result of some cancellations of pays rise who where given until decembre 2009.

In general, it does not seem particularly prudent to raise taxes in a period of slowing economic growth.

As a conclusion we can say that fiscal policy must be conceived like a combination between the stimulative elements and those restrictions in order to achive macroeconomic stability, materialized in the accomplishment of a lasting economic growth, in circumstance of deflation, of maintaining current account deficit in reasonable boundary who can be financed and that of consolidation foreign exchange reserves.

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THE EFFECTS OF THE MEASURES REGARDING SEQUESTRATION OF CASH IN TAX DEBTORS' BANK ACCOUNTS

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Fiscal administration seeks rapid intervention in the action of preventing the formation of budgetary arrears and accomplishing public financial resources at the time scheduled by the fiscal authorities to collect public financial resources. The establishing of the immediate measure blocking of bank accounts of economic agents who recorded debt to the consolidated general budget of the state, is an essential measure necessary to avoid the forward slip of other creditors, debt recovery actions, having as consequence the preventing of taxpayers as state debtors to organize their insolvency. The present study aims to draw attention upon the effects of blocking the bank accounts on the evolution of budgetary revenues through enforcement measures during 2006-2009, and the registering of more favorable results regarding collection should take into account the immediate legitimate interest of the budgeted creditor, but should also make sure that the rights of taxpayers are observed.

Keywords: bank account sequestration, compulsory enforcement, state-financed creditor, establishment of sequestration, sequestration of third party.

JEL code: G2, H2, H3

1. Introduction

Sequestration is the method of compulsory enforcement by which the fiscal creditor pursues, on behalf of his tax claim, the amounts that a third person owes the prosecuted debtor.

This involves blocking the actions of the sequestered third party, who is in his turn the debtor of the prosecuted taxpayer, of the amounts owed by the latter and the direct payment to the pursuing creditor.

The establishment of sequestration creates a legal relationship between the **state-financed creditor** (the state through the fiscal administration, a local community, etc.) and the **sequestered third party**, the legal relationship grafted on the existence of two other legal relationships: one between the creditor and the and, respectively, between the tax duty's debtor - as a creditor - and the sequestered third party.

Compulsory enforcement by sequestration may extend to any traceable amounts representing income and cash in lei and foreign currencies, securities or other intangible movable property owned and / or due under any title to the debtor by third parties or which are to become due to the debtor and / or will get hold of in future on the basis of the existing legal relationships.

The amounts representing the incomes of the debtor as a natural person, accomplished as an employee, in the form of salaries and other forms of periodic income resulting from employment, pensions of any kind, as well as any aid or benefit of special purpose are subject to prosecution only in the conditions foreseen in art.409 in the Code of Civil Procedure.

2. Sequestration of bank accounts

The sequestration is established by the executing agency by establishing a notice of the attachment, which is transmitted sequestrated third party, by registered letter, accompanied by proof of receipt along with a certified copy of the writ of compulsory enforcement. The sequestration is not subject to validation. The debtor will also be informed about the **establishment of sequestration.**

After the establishment of sequestration the sequestrated third party is required to make statutory deductions immediately and transfer the amount into an account designated by the executionary body to the full recovery of the budget debt, while communicating in writing about the existence of other creditors.

The sequestration involves three parties in opposition: one who administers or request its application (in this case, the Administration through its implementing agency) called the creditor, who is obliged to him/her - called sequestrated debtor, and sequestrated third party (the taxpayer's debtor).

3. Conclusions

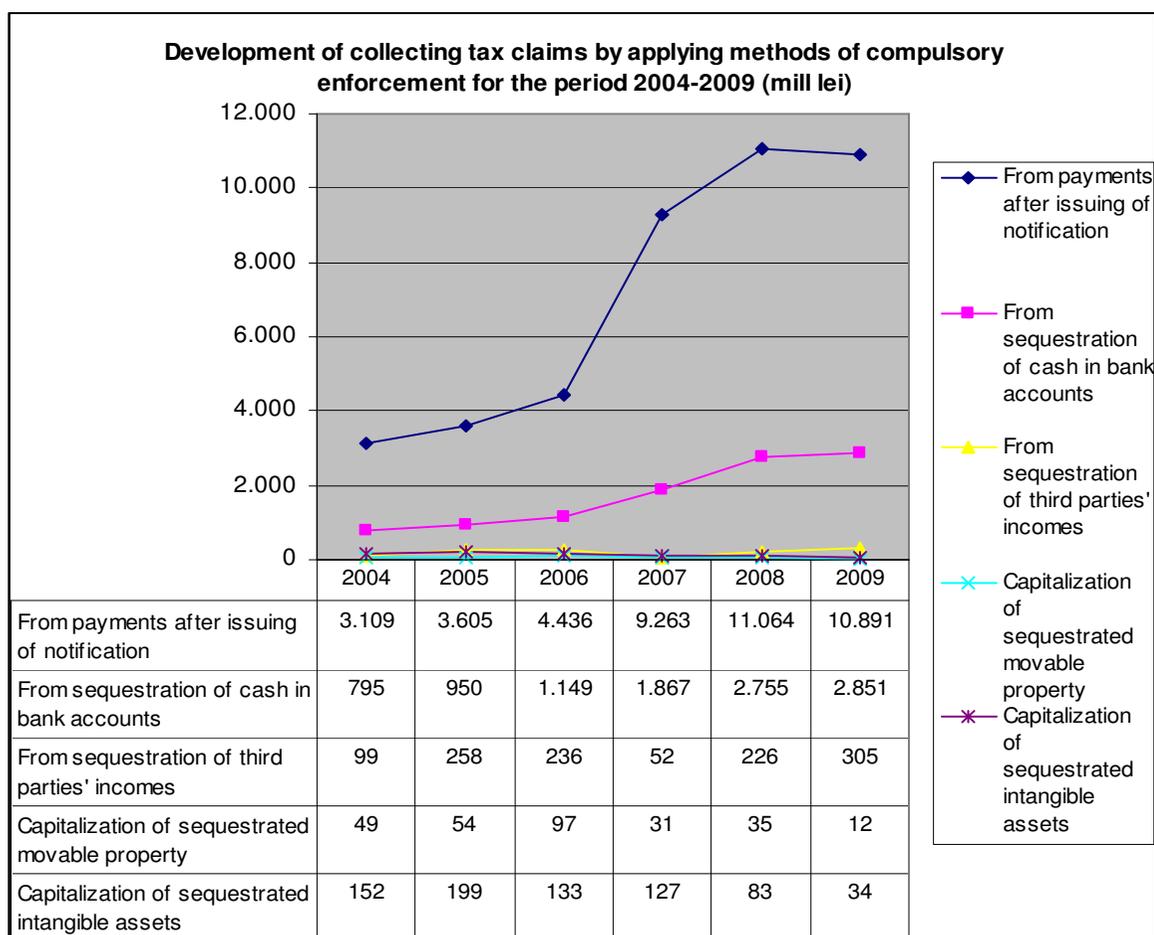
The collection of tax claims is a priority activity of the National Agency of Fiscal Administration, which seeks to rapid intervention within the action of preventing the formation of budgetary arrears and the acquiring of public financial resources to meet the deadlines set by the fiscal authorities to support the budget implementation at the level of public services according to the budget forecasts regarding the grounding of public institutions' budgets.

The premises of reaching the indicators regarding the collecting of budget revenues through the proceedings of compulsory enforcement of the sequestration of bank accounts should, according to our opinion, follow several directions of medium-term action such as:

- Development of IT systems for managing tax claims, including in the menu of the IT application the subsystems of fighting tax claims through the procedure of sequestration so as to ensure a complete collection of tax claims with the correct identification of the source of sequestrated incomes from accounts blocked by the executionary bodies.
- The setting-up of a database at the level of the National Agency of Fiscal Administration by the interaction and collaboration of public institutions, banks, central and local public authorities to enable the fiscal bodies the rapid identification of movable and intangible assets, as well as the incomes of taxpayers –debtors of the state, by the help of the responsible fiscal management structures.
- The organization of a database on administrative and fiscal solutions issued in situations of judicial action on established tax claims and the administrative and fiscal jurisprudence rendered by competent judicial courts in the cases of eliminating measures relating to the enforcement of tax claims, a database available to all civil servants in the administrative body, granting access to setting up unitary practices of management.
- The improvement of procedures for allocating the causes of prosecution and compulsory enforcement of pursued tax claims on inspectors, allowing a hierarchical control of performing the duties specific to public office and thus raising the specific responsibility of the territorial fiscal body.
- Development of educational guid books on collecting tax debts on methods of enforcement, which should focus on specific aspects of implementation and enforcement measures, to identify new measures of raising government revenue collection in a term not exceeding 15 days over the tax duty's due date.
- Development of existing procedures, development of brochures and other instruments to regulate the recovery of goods seized, the distribution of amounts aquired by capitalization or, according to case, by blocking the bank accounts for overdue tax debts.

- Establishing a system of **performance indicators** to measure the rate of budget revenues collected by compulsory enforcement measures for potential taxpayers from among debtors and in the process of monitoring the state's revenue collection procedure.
- *Identification and improvement of criteria for granting the scores for risk assessment regarding the collection of tax claims, within an IT integrated system / subsystem for risk analysis on incidents regarding lack of returns, allowing access at any time to the frame of taxpayers who have debts, and who increase **the risk of not succeeding to collect the tax claims**, subject to the application of functional measures of collecting and compulsory enforcement.*

The compulsory enforcement by income sequestration, either cash in RON or foreign currency belonging to the debtor or owed to him by a third party or legal entity is the most easily realizable blocking of debtor's incomes by the office fiscal executioners. The IT applications for the tax claims' administration should be improved by including a subsystem for generating within the entire database of notifications regarding the sequestration of cash (executionary form MPF-NAFA code 14.13.12.99 / a) towards every bank at which the debtor taxpayers dispose of bank accounts.



Source: www.anaf.ro NAFA report of performance

Enhancing the measure of blocking the incomes in bank accounts by setting up the sequestration on debtor taxpayers' bank accounts mostly was the method of compulsory enforcement which contributed to the acquiring of budgetary resources. If in 2006 the returns by sequestration of bank accounts stood at 1148.68 million lei, the efforts of public administration by their NAFA

territorial offices were materialized by the blocking of bank accounts in 2007, the amount collected this way rising to 1866.99 million lei for the state's consolidated budget.

The computer issuing of the notifications regarding sequestration of bank accounts and monitoring the collection of tax claims reached a peak in 2008 with the issuance of a number of 1,645,026 notifications establishing bank sequestration, by which 2754.98 million lei were compulsory collected, the results being far superior to those registered by the fiscal administration in the previous years.

The year 2009 represented the turning point regarding the special administration of taxpayers, including the management system of large and average taxpayers and also of new taxpayers, so that at the end of the year the 1434 largest taxpayers, respectively the 19,114 average taxpayers have supported the general consolidated budget with 60% of the revenue. The contribution of the measure of blocking revenues from budget accounts was not neglected, and by issuing a number of 1,813,391 notifications regarding bank sequestration the amount of 2850.68 million lei was collected for the general consolidated budget of the state, given the conditions of the increasing financial difficulties of businesses as a result of the deepening of the economic crisis in Romania. To better fulfill its mission regarding the collecting of public money NAFA through the territorial fiscal agency will require better future planning of the revenues administered also by the increased efficiency in all areas. This way, strengthening the budget revenue forecasting methods and therefore genuine implementation of performance contracts, will be crucial prerequisites for optimizing results in the collection of public financial resources.

We consider that the procedure of tax claim sequestration allows the state-financed creditor to recover the tax claims by blocking the tax claim that the debtor has towards a third party in the hands of the latter (sequestered third party). Like other ways of compulsory enforcement, this procedure is justified by the lien mentioned in the Civil Code of the creditor on the property of his debtor; the debtor's assets consisting of not only the possessions of the holder, but also the debtor's tax claims which represent intangible property rights.

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ANALYSIS OF THE CONTRIBUTIONS TO SOCIAL SECURITY STATE BUDGET

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Abstract: In this paper I have tried to create a global image of the macroeconomic phenomena which are the landmarks of the beginning of this millennium: globalization, the economic-financial crisis and their impact on the contributions to social security state budget. This paper aims at presenting the effects of the economic-financial crisis on the state budget based on the analysis of the evolution of the revenue to the social security budget in connection with this contemporary phenomenon, taking into account the financial element as well as the measures adopted by the Romanian government in order to fight the effects of the crisis. The economic crisis of the new millennium has modified the role of the state because the dimension of the difficulties (unemployment, bankruptcies, etc.) has given the governments the mission of stabilizing the economy so as to bring a remedy to the recession.

Keywords: Social security contributions, budget, revenue;

JEL Code: G32

Introduction*The public powers have been forced to intervene in the economy in order to deal with the rise of unemployment and the state intervention has accelerated due to difficulties in integrating the active citizens into the world of work.*

Finding a solution to this financial crisis involves many options in terms of policies going from macroeconomic level (including monetary policy and the fiscal one) to microeconomic (including the recapitalization of the financial institutions, regulations for capital adequacy and the requirements of the corporate governance), with reforms that vary in depth. At the level of fiscal policy, the state intervened in this period on different levels and the significant changes have been felt including in the field of state social security.

Taxes represent one of the oldest financial sources, which appeared once the state organization has been finalized with the purpose to supply the financial resources necessary to ensure the state functions. If we consider the obligativity of the taxes, then *"their payment to the state is a duty imposed to all physical and juridical persons who attain revenue from a certain source or possess a certain kind of property for which, according to law, they owe taxes"*⁸⁵⁸.

In a different perspective, the tax is a pecuniary levy imposed to private persons by the state, as definite title and without immediate and direct counter performance, in order to cover the expenses⁸⁵⁹.

1.1. Contribution rates

⁸⁵⁸ Văcărel I. and collaborators – Public Finances, 4th edition, Didactical and Pedagogical Publishing House, Bucharest, 2006, p.408.

⁸⁵⁹ Cătinianu F., Șeulean Victoria, Donath Liliana – Public Finances, Mirton Publishing House, Timișoara, 1997, p. 191

Among these contributions are included the contributions of the enterprise to social security, the contribution of the enterprise and the personnel to the unemployment insurance fund, the contribution of the personnel to supplementary pension.

Social security contributions (in Romanian CAS) can be determined as follows:

CAS = gross salary attained x tax rate

From 1 January 2009 contribution rates related to salaries were increased (compared with those valid in December 2008), then from 1 February 2009 they were increased again.

Contribution rates valid from 01.02.2009 are as follows:

CAS employer (for normal working conditions): 20,8%

CAS employee: 10,5%

Starting with 2009, contributions rates to social security are⁸⁶⁰:

- a. 31,3% for normal working conditions, owed by employer and employees, out of which 10,5% owed by employees and 20,8% owed by employers;
- b. 36,3% for special working conditions, owed by employer and employees, out of which 10,5% owed by employees and 25,8% owed by employers;
- c. 41,3% for special working conditions, owed by employer and employees, out of which 10,5% owed by employees and 30,8% owed by employers;

Contribution to social health insurance (in Romanian CASS)

The social health insurance fund consists of the contribution to social health insurance owed and paid by the employers and the contribution to social health insurance owed and supported by the insured persons.

Health insurance, the contribution of the employer: 5,2%

Health insurance, the contribution of the employee: 5,5%

Other contributions:

Holidays and benefits fund: 0,85%

Unemployment fund, the contribution of the employer: 0,5%

Unemployment fund, the contribution of the employee: 0,5%

Employees' guarantee fund: 0,25%

ITM commission (usual case): 0,75%

Work accidents and professional diseases: cf. code CAEN (0,15% - 0,85%)

Revenue tax (after deductions): 16%

The biggest increase affects the contribution of the employer to the state pension fund (Romanian CAS), which raised by 2,8 percent, from 18% in December 2008 to 20,8% in February 2009, which represents a relative increase of 15,55% for the expenses of the companies with the CAS owed by the employer.

For special working conditions from 1 February 2009 the contribution of the employer became 25,8%, and for special conditions it became 30,8%.

The contribution of the personnel to the pension fund (CAS) rose as well, but less, with 1 percent, from 9,5% to 10,5%, which represents a relative increase of 10,53%.

As follows I will present a comparative table which illustrates the modifications to each contribution between December 2008 – February 2009.

Table 1.1. Contribution rates to state social security

Contribution	2008	January 2009	February 2009	Rate for 2010
CAS - employer	18.00%	18.50%	20.80%	20.80%
CAS - employee	9.50%	9.50%	10.50%	10.50%
Health insurance -employer	5.20%	5.20%	5.20%	5.20%
Health insurance - employee	5.50%	5.50%	5.50%	5.50%

⁸⁶⁰ According to OUG 226/30.12.2009 concerning financial budgetary measures - M.O. 899/31.12.2008

Holidays and benefits fund	0.85%	0.85%	0.85%	0.85%
Unemployment - employer	0.50%	0.50%	0.50%	0.50%
Unemployment - employee	0.50%	0.50%	0.50%	0.50%
ITM commission	0.75%	0.75%	0.75%	0.75%

This last modification of the CAS rates was made through the Law of the social security state budget⁸⁶¹.

The year 2010 has brought the following modifications:

- the medium gross salary used for the fundamentation of the social security state budget has been raised from 1693 lei to 1836 lei;
- the death aid rate has been raised from 1702 lei to 1836 lei for the insured persons and the pensioners and from 851 lei to 981 lei for members of the family of the insured persons or the pensioners.

1.2. The evolution of the budgetary revenue from contributions to insurance

1.2.1. The dynamics of the budgetary revenue from contributions to insurance for 2006-2009

In presenting the dynamics of the budgetary revenue from contributions to insurance I have tried to give a global image of the level attained by these categories of taxes in the period analysed.

The data are grouped for a period of four years (2006-2009), making a comparison between the state budget before the financial crisis and the budget affected by the economic environment we are going through.

The present revenue of the state budget consists of:

- contributions of the employers including contributions to social security fund owed by employers and by unemployed people;
- contributions of the employers to insurance for work accidents and professional diseases;
- contributions of the employees:
- contributions to social security owed by insured people;
- the contribution of other insured people;
- optional contributions of the insured people;
- contributions to insurance for work accidents and professional diseases;
- contributions to social security private funds;
- repayment contributions to state social security.

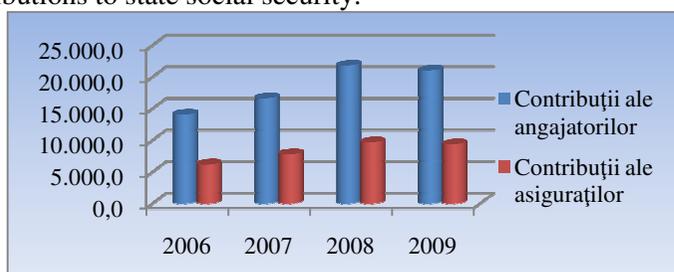


Fig. 1.1. The evolution of the main categories of budgetary revenue from insurance contributions

The general evolution of the contributions to social security was a positive one for the period 2006-2009. The employers' contributions rose in 2007 in comparison with the previous year by aprox. 18,34%, which represents an increase of aprox. 2.574 million lei. The sums owed to the state budget by the insured people rose more rapidly by 26,3% but with more reduced sums of 1.620 million lei due to the reduced rates owed of the employees. The period 2007-2008 faced a continuous growth of the contributions to social security. Thus, the contributions owed by employers rose in 2008 as compared with 2007 by 31,1%, respectively by 5.166 million lei, and as compared with 2006 the growth reached the value of 7.740 million lei, respectively 55,14%.

⁸⁶¹ Law no. 19 per 2009, published in Official Monitor no. 122 from 27.02.2009.

If the revenue to the state budget coming from the employers' contributions grew significantly in the period 2006-2008, the revenue coming from the employees' contributions slowed down its rhythm of growth. Thus, in 2008 as compared with 2007, the employees' contributions rose by only 24,1% compared with 26,35% in the period 2006-2007. In absolute values the evolution of the employees' contributions in 2008 can be translated through an actual growth of 1.876 million lei.

2009 is the year in which both the global crisis and the legislative changes have noticeable effects either in deficits or in increases that are below the levels expected in the previous years. In numbers, 2009 brings a decrease in the budgetary revenue coming both from employers' and employees' contributions compared with the previous period. In percentage the employers' contributions to social security fall by 3,6 % in 2009 as compared with 2008, a small decrease with serious repercussions on the decisions adopted by the government in the field of social security. The absolute decrease of the contributions owed by the employers is of 786,4 million lei. The employees' contributions decrease as well but in a slower rhythm of 3,2%, respectively with 309,9 million lei.

1.2.2. The importance of the social security contributions to the budgetary revenues

The contributions to social security are included in the category of fiscal revenue and contribute to forming the state budget revenues.

In general, the fiscal revenue represents approximately over 90% of the total budgetary revenue. Due to this, the social security contributions to the state budget revenues are extremely important, showing how much they contributed to attaining these revenues.

Moreover, the social security contribution is considered the most important of all the categories of obligatory contributions because "in exchange of this contribution the state commits itself to paying the public pension, this system being based on the principle of social solidarity, the contributions paid by active persons during a budgetary period being the source of payment of the pensions during the same period"⁸⁶². Thus, it is easy to notice how any disequilibrium either concerning the active persons' contribution or the number of pensioners can have negative effects on the public system of pensions.

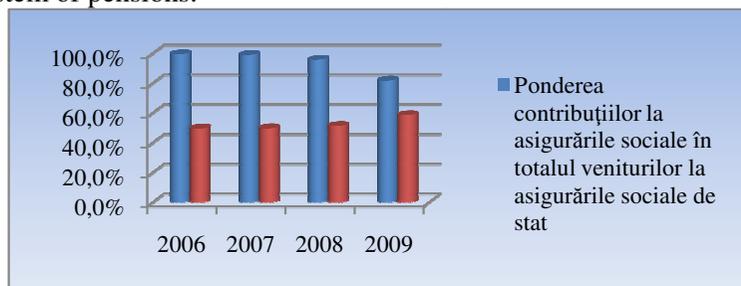


Fig.1.2. Percentages of the social security contributions from the total budgetary revenues

It can be observed from the previous chart that the percentage of the social security contributions from the total revenues to the state social security for the period analysed is in continuous decrease from 99,5% in 2006 to 81,8% in 2009, respectively a 20% decrease for the entire period. However, the most significant change takes place in 2009 when the percentage of the social security contributions from the total revenues to the state social security decreases from 95,8% to 81,8% due mostly to a decrease of the sums coming from social security contributions and a steady increase of the total revenues to the state social security.

The losses registered by the social security contributions from the total revenues to the state social security in 2008 and 2009 can be explained by the subventions given from the state budget.

⁸⁶² Iulian Viorel Brașoveanu – Analyses of the fiscal policy in Romania and other states of EU, ASE Publishing House, București, 2009, page 79.

Thus the increasing trend registered by the total revenues to the state social security was attained due to some government subventions of 1.379,6 million lei in 2008, respectively 5.397,5 million lei in 2009. These subventions supported the rhythm of growth of the present revenues to the state social security in order to minimise the effects of the small increase and even the decrease registered in these categories of revenues in this period.

A more significant indicator for us, the percentage of the social security contributions from the total budgetary revenues has an opposite evolution. This growth is in the period analysed from 49,6% in 2006 to 58,6% in 2009.

Although this indicator has an ascending trend, the rise is not really positive because at the same time the level of budgetary revenues in general has decreased. Thus, after an increase of approximately 50% in the period 2006-2008, the total budgetary revenues decreased in 2009 by 15,3%, respectively by 9,392,5 million lei.

This led to an increase in percentage of the social security contributions from the total budgetary revenues and gave this rise a negative character. The growth of this indicator could have generated a favourable situation if it had happened together with an increase of the level of social security contributions at a more rapid pace than the increase of budgetary revenues but it did not happen in this case.

1.2.3. The structure of the social security state revenues in the period 2006-2009

Regarding revenues to the social security state budget, the fiscal revenues occupy the central place, with over 90% of the total resources at the state's disposal. The governmental policy in this field can be observed in the structure of these revenues.

The values of each category of contributions to the social security state budget are presented in figures 1.3. Employers' contributions and 1.4. Insured people's contributions

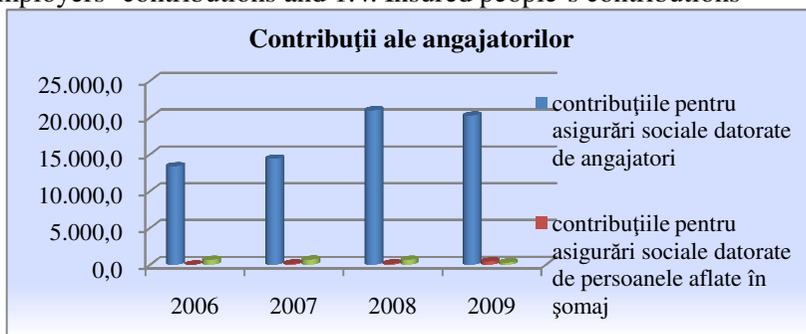


Fig.1.3. Employers' contributions

It can be observed here the major importance held by the social security contributions owed by employers in forming the revenue to the social security state budget. For the whole period analysed the percentage was 85%. The smallest value of just 86,7% compared with the total contributions owed by employers was registered in 2007 and for the years 2006, 2008 and 2009 their value does not go under 95% of the total.

The contributions to the social security owed by unemployed people and the contributions to insurance for work accidents and professional diseases reach less significant values. For the first category the tendency is of growth with the maximum value of 442,8 million lei in 2009, a value which is much higher than the values of the previous years. For the second category of contributions the general tendency is of decrease, a normal evolution for the times we live in and which will be developed in the following pages.

Moreover, one of the measures adopted by the government to fight these effects consisted in extending the period of receiving unemployment benefits with three months for 2009 and tax exemption for employers' and employees' social security contributions for maximum three months if the employees are on technical unemployment.

The measures adopted by the government which are meant to reduce the effects of the economic-financial crisis led to these oscillations of the sums collected for the social security state budget but they managed to save a small number of work places. The initial plan to create work places stipulated more measured which were abandoned on the way among which tax exemption for social contributions for hiring an unemployed person with a salary of maximum 1.000 lei.

The main objective of the economic policies is macroeconomic stability and realizing the most important structural reforms so as to create the proper conditions for a positive evolution of the Romanian economy. In the field of public finances it is desired to achieve a reduced budgetary deficit both through changes in the fiscal legislation and through improving the collection of budgetary revenues and arrears.

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COMPARABLE VALUATION METHOD – A NEW APPROACH. CASE STUDY: A ROMANIAN FLEXOGRAPHIC PRINTING FIRM

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This study presents the valuation scheme of a flexographic printing industry firm. The industry, the technology used and most importantly the firm being young ones, it is not possible to use the classical comparable valuation methods. The new approach in this matter is to use as benchmark financial ratios not those related to the price of the firm (as P/E, P/S, P/BV, P/CF, P/CAPEX), but those related to the structure of the income statement, financial and operating leverage using 13 Romanian and 6 Hungarian reference firms' data. Our main contribution to this line of research is to solve the problem of lack of reference data regarding the price, the benchmark companies not being listed on any stock exchange.

Keywords: mergers and acquisitions, corporate valuation, free cash flow, comparable valuation method, benchmarking

JEL codes: G31, G32, G34

Introduction

The purpose of the study is – from a theoretical point of view – to present how an acquisition target's value could be estimated with the help of a modified comparable valuation method the firm being part of a young industry, the classical financial ratios used in the comparable valuation methods not being available and – from a practical point of view – to estimate the theoretical price an acquirer might pay for our analyzed firm, a Romanian flexographic printing firm with a two year past. As stated by numerous financial analysts, valuing companies early in the life cycle is difficult, partly because of the absence of operating history and partly because most young firms do not make it through these early stages to success, this being the main reason for which we choose comparable valuation methods as a base for our valuation. We look for solutions that could offer us a way out from an apparent lack of benchmark data.

Damodaran (2009) enumerates a range of practices that come into play in the most common approach used to value young firms, which is the venture capital approach:

- Top line and bottom line, no detail:

It is difficult to estimate the details on cash flow and reinvestment for young companies. Consequently, many valuations of young companies focus on the top line (revenues) and the bottom line (earnings, and usually equity earnings), with little or no attention paid to either the intermediate items or the reinvestment requirements.

- Focus on the short term, rather than the long term:

The uncertainty we feel about the estimates that we make for young companies become even greater as we go further out in time. Many analysts use this as a rationale for cutting short the estimation period, using only three to five years of forecasts in the valuation.

- Mixing relative with intrinsic valuation:

To deal with the inability to estimate cash flows beyond short time periods, analysts who value young companies use relative valuation as a crutch. Thus, the value at the end of the forecast period is often estimated by applying an exit multiple to the expected revenues or earnings in that year and the value of that multiple is itself estimated by looking at what publicly traded companies in the business trade at right now.⁸⁶⁴

- Discount rate as the vehicle for all uncertainty:

The risks associated with investing in a young company include not only the traditional factors – earnings volatility and sensitivity to macroeconomic conditions, for example – but also the likelihood that the firm will not survive to make a run at commercial success. When valuing private businesses, analysts often hike up discount rates to reflect all of the concerns that they have about the firm, including the likelihood that the firm will not make it.

- Ad hoc and arbitrary adjustments for differences in equity claims:

Equity claims in young businesses can have different rights when it comes to cash flow and control and have varying degrees of illiquidity.

Our main goal is to value the company from an acquirer's point of view who, being in the same industry, can deal much easily with many of the difficulties enumerated reducing many of the risk factors and sources of uncertainty.⁸⁶⁵

Brief Review of the Empirical Literature on Benchmarking

Comparable valuation methods consist in the comparison of valuation multiples and operating metrics for a target company to those of different firms in a peer group. Peers may be grouped based on different criteria, such as industry, company size, or growth, this being the base of the benchmarking process.

The popularity of the multiple valuation methods can be attributed to their relative simplicity compared to other company valuation methods like discounted cash flow techniques. As we will show, we think that the two methods can be combined to achieve our goal, especially in case of a company which's stocks is not traded on any stock exchange and is part of a young industry whose companies are not listed on stock exchanges.

Several studies and surveys demonstrate that practitioners frequently use financial ratios or multiples for the valuation of companies (see Graham and Harvey, 2001, Manigart et al., 2000, Lie and Lie, 2002, Liu et al., 2002, Courteau, 2003, Asquith et al., 2005, Roosenboom, 2007, Fidanza, 2008, Mînjînă, 2009). It also turns out to be surprisingly successful in comparative empirical studies by Kaplan and Ruback (1995) and Gilson et al. (2000).

In his study focusing on equity valuation using multiples, Fernandez's (2001) basic conclusion is that multiples almost always have a broad dispersion, which is why valuations performed using multiples may be highly debatable. However, Fernandez shows that multiples are useful in a second stage of any valuation: after performing the valuation using another method, a comparison with the multiples of comparable firms enables financial analysts to gauge the valuation performed and identify differences between the firm valued, and the firms it is compared with. These are the two approaches that we would like to merge in our valuation method: usage of financial ratios while utilizing another valuation method. Dittmann and Weiner (2006) investigate the which comparables selection method generates the most precise forecasts when valuing companies with the enterprise value to EBIT multiple, while Henschke and Homburg's study (2009) addresses the problem of differences between firms and the impact on valuations based on multiples. They investigate the extent to which industry-based multiples ignore additional firm-

⁸⁶⁴ This will be the base idea of our study, too.

⁸⁶⁵ Damodaran, A., 2009. Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges

specific information and develop measures for identifying peer groups that are not comparable with the target firm. They find that differences between firms lead to systematic errors in the value estimates of different multiples but that these errors can be predicted very accurately by comparing the financial ratios of the target firm with the financial ratios of its peer group. They show that when adequately controlling for differences between firms, valuation accuracy is improved substantially and all considered value drivers perform almost equally well. Mînjină's paper (2009) examines the valuation performances of seven multiples on a sample of Bucharest Stock Exchange-listed firms. Mînjină finds that accuracy levels of multiple valuations are generally lower than those obtained using the same methods on more developed capital markets.

Financial Analysis of the Target Company

Before analyzing the financial data concerning our firm, we have to choose the benchmark data that we are going to use as reference. We analyzed 13 Romanian and 6 Hungarian firms from the flexographic printing industry chosen partially taking into consideration the findings of Dittmann and Weiner (2006) and Henschke and Homburg (2009) being partly influenced by the available data.

Table 1: Simplified Income Statement of the analyzed firm (RON)

	2008	Jan.-July 2009
Operating revenue	2506587	2286148
Operating expenses	3369880	2750791
Suppliers	1646825	1592776
Employees	718482	488066
Services (including depreciation)	1004573	669949
Operating result	-863293	-464643
Financial revenue	37714	5616
Financial cost	641278	144825
Financial result	-603564	-139209
Income before income taxes	-1466857	-603852
Net income	-1466857	-603852

Source: The firm's official financial statements

The first striking observation is that the firm is in loss. In fact, one of the main problems in estimating a recently started business's price is typically the fact that most of these firms are not bringing any benefit to the equity owners in the first years of their existence. The gross margin is negative, while the benchmark data show positive values. The question that has to be answered is how we value a company in a similar situation.

The second also surprising fact that we can observe that not only the net income is negative, but also the operating result, the oddity of this situation being strengthened by the fact that we didn't find this situation at none of the benchmark firms we analyzed. In the next section our goal will be to solve this valuation problem.

Table 2: Financial ratios of the analyzed firm and benchmark averages in Romania and Hungary

Ratio	Hungary	Romania	Our Firm
Sales/Employees (RON)	350.000	280.000	105.000
Gross margin (%)	6,5%	0.5%	-26,35%
Operating margin (%)	11,5%	n.a.	-20%

An important measure of the efficiency of a firm is the sales/productive employees ratio. The problem is that while it is much easier to procure the total number of employees of a firm, it is rather difficult to do the same with the number of productive employees. But supposing that the proportion of the productive and non-productive employees does not vary substantially from one firm to another, we will calculate the ratio by dividing the total sales (operating revenue) by the total number of employees. The values of the ratios show large disparities especially between the analyzed firm and the benchmark ones: our firm's sales/employees ratio is one third of the benchmark data.

The problems that we can read out from the ratios calculated from the data found in the income statement plus a few technical data are:

- There is a 50% unused capacity in the firm – which explains the low value of sales/employee ratio and the negative value of the operating margin (the operating expenses including depreciation)
 - Either the material costs are too high, or the firm's price calculation method is incorrect – confirmed by the negative value of the operating margin
 - The benchmark data also show that the employee expenses divided by the total number of employees (average expense per employee) is much higher at our firm than in the case of the benchmark firms
 - The lease contract proposes a 6 year payback period, although the investment's payback period is higher, which causes financing problems on medium run
 - The benchmark data also show that the collection period at our firm is much higher

Methods of Optimization from the Acquirer's Point of View, Synergy Possibilities

Resulting from the problems enumerated above, we cannot predict future cash flows without optimizing the data affected. Otherwise the firm would not be worth more than its equity which is negative by the time of the analysis – the only possibility would be to sell the data base and network of the clients of the firm – a small amount oppositely to the potential of the firm. We will make further calculations with the assumption that no enterprise would buy this firm to operate it as it operated before the acquisition. The optimization possibilities come from the benchmark data that we worked with also at the financial analysis of the target company - in order to make the most of this company from a financial point of view one should:

- Utilize to the maximum the capacity of the machines - the buyer should be in a lack of capacity (which would increase the Sales or Operating Revenues with 100%)
- Optimize the operating margin by introducing a new price calculation method and/or by reducing material costs
 - Introducing a new performance-based wage calculation method
 - Renegotiate the terms of the lease contract by prolonging the payback period or perform an equity infusion (the acquirer)
 - Shorten the collection period by introducing some discipline through a more complex commercial credit system using a pre-defined discount system for early cash collection and establishing clear procedures and default interests for those who exceed the expiration of the commercial credit

We can also enumerate a few synergy possibilities for the buyer:

- Joint logistics
- Joint administrative personnel
- Better territorial coverage
- Better knowledge of the technology

- Better sales opportunities

All these factors lead to a better cost management and higher revenue.

Calculation of the Free Cash Flow

In the course of the free cash flow (FCF) calculation we assumed that we can benefit from all of the optimization and synergy possibilities listed above and we assume that in the course of the next 6 years no substantial investment will be made. All the other maintenance costs are included in the operating expenses.

Table 3: FCF calculation

Indicator	2010	2011	2012	2013	2014	2015
Growth rate	56%	10%	7%	7%	5%	5%
Operating revenue	7406734	8110767	8678520	9286017	9750318	10237834
Operating expenses	7061682	7566360	8004684	8474815	8831479	9206813
Operating result	345051	544407	673836	811202	918839	1031020
Income tax without tax shield	0	0	0	129792	147014	164963
NOPLAT	345051	544407	673836	681409	771825	866057
Depreciation	689277	678272	667444	656788	646302	635983
Increase in net working capital	178200	165726	129729	138670	106315	111526
FCF	856128	1056953	1211550	1199527	1311812	1390515

Source: Authors' calculations

Estimation of the Discount Rate

We use the weighted average cost of capital (WACC) as discount rate, with an optimized debt-equity ratio. To estimate the expected rate of return of the shareholders we use the capital asset pricing model (CAPM). For the change in the WACC caused by the change in leverage throughout the years, we either use Miles and Ezzell's method, or, if we also want to include the operating leverage change too, we can use the numerous levered-unlevered beta corrections found on the market (Modigliani and Miller, Harris and Pringle, Damodaran, Myers, practitioners). For the first year of the forecasted period:

$$\text{CAPM: } E(r_e)_{2010} = E(r_f) + \beta * [E(r_m) - E(r_f)] = 6,5\%^{866} + 1,24 * (13\% - 6,5\%) = 14,56\%$$

$$\text{WACC} = r_e * E/V + r_D * (1 - T_c) * D/V = 14,56\% * 45\% + 10\%^{867} * (1 - 16\%) * 55\% = 11,172\%$$

Estimation of the Firm's Value – Results and Conclusion

Using the classical FCF derivation method we find that:

Table 3: FCF calculation

Indicator	2010	2011	2012	2013	2014	2015	2016
WACC	11,17%	11,30%	11,45%	11,70%	12,10%	12,40%	
Dicounted FCF	770094	853229	875188	770544	741043	689569	
Terminal value							2453533
Firm value	7153198						
Debt value	4071000						
Addit.cap.requirement	716000						

⁸⁶⁶ National Bank of Romania's policy rate, www.bnro.ro

⁸⁶⁷ 5,5% in Euro

(equity infusion)

Equity value after the
merger 2366198

Source: Authors' calculations

Knowing that no method will determine a single price for the target; the outcome of the analysis will be a range of values: [2 000 000 – 2 700 000]. This is the approximate interval the price will move in – we tend to consider the lower limit more realistic because all the optimized data might not be possible to pursue.

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NATIONAL EXPERIENCES REGARDING CORPORATE GOVERNANCE – „PROPER PRACTICE” CODES

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This paper is about the principles of proper governance codes, which even though have blossomed in all parts of the world for more than a decade, the degree in which companies adopt the codes vary in different countries, and the decision to adopt a certain code does not automatically guarantee efficient corporate governance. The paper tries to identify the mechanisms needed for implementing the codes and that will lead to higher efficiency.

Key words: corporate governance, proper practice codes, efficient management

Cod JEL: G38

1.Introduction.

In 1978 the first country which issued a code of proper governance was the United States, the second country was Hong Kong in 1989, then the pace of issuance increased, especially after 1992 when the UK Cadbury Report was issued. By mid 2008, in 30 years, 64 countries have issued 196 separate codes of proper governance, some countries having more than one code of proper governance (The most notable being the United Kingdom and the United States with 25 codes each) others having only one code (such as Argentina or Austria) issuers of which are joint investors, employers associations, professional associations and governments, stock markets and their regulators⁸⁶⁸. It seems that there is a link between the development of capital markets and the number of codes issued. Countries with capital markets not only larger but deeper, have more codes of proper governance, proper governance need increases with increasing numbers of public firms because agency problems occur between dispersed owners, and managers or between majority and minority shareholders. Spreading codes for proper governance in the world was aided by stimulating international entities such as the World Bank and Organization for Economic Cooperation and Development (OECD), which began to emphasize the need to improve corporate governance institutions in general and in particular to help countries to grow and develop.

2. General principles.

General principles of proper governance structure refers to: a balance between executive and non-executive directors, a clear division of responsibilities between the chairman and chief executive, need to provide timely and quality information to management, formal and transparent procedure for appointment of new executives, balanced and understandable financial reporting and internal control system to maintain a good quality.

On how the codes are implemented once are developed and adopted as a guiding principle of government has identified two mechanisms for implementing the code - mandatory or voluntary regulation. Classic examples of two alternative approaches to implement codes are law-for

⁸⁶⁸ Aguilera,Ruth& Cuervo-Cazurra,A.(2009), *Codes of Proper governance*, în *An International Review*Vol 17, Issue3, p376-387

example, Sarbanes-Oxley Act of 2002, the U.S. and an approach “to comply or explain”-for example, the UK Combined Code in 2003. Although most of Proper governance Codes have similar problems, the specific content of codes for proper governance varies significantly across countries, by capturing the needs of different corporate governance systems. Implementation of codes increased over time, firms tend to adopt a growing percentage of codes recommendations despite their voluntary nature.

Although proper governance codes have been developed worldwide for more than a decade, the extents to which companies adopt codes vary across countries, and the decision to adopt a code does not give an automaticall guarantee of effective corporate governance. Thus in the UK British companies listed on London Stock Exchange met to a large extent Cadbury Report recommendations, the degree of compliance with the UK Combined Code is developing over time. Regarding the assessment of compliance with the provisions of the German Code of Proper governance for a significant proportion of companies complying with these provisions, almost half of them are already implementing the full German Code as the company’s guiding principle. Extending the analysis shows a high level of acceptance of recommendations of codes and a marked willingness to comply in the future, institutional environment and, in particular, capital market development resulting in large part the degree of monitoring compliance with the code, even if just for informal and legitimation.

3. Experiences regarding corporate governance.

All studies of proper governance stress the importance and growing interest shown for this area. Codes of proper governance became a central issue in politics and scientific research. To a fad that would disappear once the new ideas appear, codes of proper governance have increased relevance and continue to spread worldwide. Has also made a considerable progress on understanding the various code of proper governance worldwide, companies adopting codes, and code impact on performance.

From what was shown most codes tend to agree with the mechanisms that support more effective governance, and Board with independent members and the creation of committees, however, cross-national differences are significant. For example, the codes vary greatly because they are developed to address corporate governance issues that are specific to a particular country. Whereas such codes issued in different countries actually have different recommendations, comparing their adoption and effectiveness in improving corporate governance throughout the country faces severe limitations because it used different standards.

Another interesting aspect is that the issuers would outline codes; codes are issued by the stock exchange of countries, executives of associations, employers associations, investors and investor associations, professional associations or governments. These different types of issuers have different objectives and therefore codes that will create separate targets. Thus, recommendations on best practice Board considered the behavior largely dependent on the issuer. Similar applicability of proper governance vary dramatically as issuers, speaking directly to the debate between the effectiveness of regulations mild versus harsh legislation. The government and the stock exchanges have the power to impose penalties for non-compliance practices. In contrast, investors and investor associations have only the power to impose practices through shareholder activism at meetings, while other borrowers - associations of principals, professional associations and employers associations - have a limited ability to persuade companies to follow the recommendations codes.

It should not be neglected the importance of transnational institutions for the creation and dissemination of proper governance. Such transnational institutions like the World Bank and OECD have actively promoted proper governance by helping developing countries understand how to improve corporate governance practices. These trans-national issuers by promoting a common set of practice, regardless of country characteristics, may indirectly contribute to the

convergence of codes across national governance practices. In other words, it moves to a particular model of corporate governance (eg, Anglo-Saxon or Continental), but to a model of governance more generally global.

It must be noted that the recommendations contained in Codes of proper governance have evolved over time as some corporate governance issues are resolved other problems occur instead. This development problem that the codes treat was treated with revision of previous codes and new codes addressing governance issues new and different. This co-evolution of corporate governance issues and content codes emphasizes another source of differences across countries and codes developed in each country. Countries with sophisticated capital markets require more advanced codes recommendations, while countries with small capital markets probably require simpler code addressing basic problems.

Research concerns the causes of corporate failures after the crisis of the '80 in Britain, manifested by Sir Adrian Cadbury, have resulted in the Cadbury Report in 1992. Subsequently, other reports have come in support of Lord Sir Adrian Cadbury Report, outlining the idea of critical weaknesses that manifest themselves in top management. Cadbury Code, issued in 1992, established the first basic rules of running a company take the form of 19 recommendations to achieve increased efficiency while nondiscriminatory behavior to shareholders.

The Paul Ruttman report was published in 1993 that consider how to implement the recommendations of Cadbury, concluding that any stock exchange listed company should report on internal control.

Published standards of public life by Lord Nolan in 1994 reiterate the need for developing an ethical public sector; Nolan code representing a solid set of seven principles that should guide public life.

Richard Greenbury report in 1995 contained a code of proper practice wage determination and disclosure of directors, while establishing the need for a remuneration committee, to avoid poor performance and even establish compensation mechanisms for their enforcement. In the same year Ronnie Hampel report was to amend and improve certain references from Cadbury Report on the structure of boards, the role of director's nonexecutive role of shareholders.

Based on the recommendations provided by the Cadbury report and other observations on corporate governance, published in 1998 *the combined code* has become a mandatory requirement for listed companies' shares.

Charlie Mc Creevy launches the „*explain or apply principle*”, that companies are obliged to justify any deviation from corporate governance codes.

In October 1998 the finance ministries of member countries of the G7 called for transparency, quality, consistency and comparability of information on capital markets, bringing the Organization for Economic Cooperation and Development (OECD), in collaboration with the international regulatory bodies to complete by May 1999 drawing up a code of principles for sound management of firms. In 1999 the OECD published its corporate governance principles, recognized by the Financial Stability Forum as one in the 12 basic standards for sound financial systems. These principles formed an essential part of the Collection of Standards and Codes conducted by the World Bank and International Monetary Fund. International Organization of Securities Commissions with other private sector bodies as the International Corporate Governance Network (ICGN International Corporate Governance Network) has adopted these principles. In addition to many national codes on corporate governance principles have been a reference point. Revision of OECD principles made in 2004, was born from the need to adapt to economic and political change, following consultations with officials and non-OECD countries, members of various professional bodies and business representatives from trade unions and civil

society, additions being particularly information related to transparency and board responsibilities and remuneration of the administration board⁸⁶⁹.

Corporate governance systems have specific features of developing economies how they apply their culture. Thus, if German corporate governance model is based on the internal control system is centered on the existence of strong shareholders, based on high concentration of capital, as manifested by shareholders that are linked by common corporate interests, while at the same time take part in both its management and control („insiders”), being focused on the banking system, banks exercising strong influence and control over the companies, in contrast to Anglo-Saxon model is characterized by dispersion of capital, the chief financier stock market, transparency of information, lack of involvement of public authorities in the economic environment, the significant role of accounting existence of a stable economic environment, high levels of liquidity, customary law system, common law.

Corporate governance system in North America is a traditional model that is based on three levels and two legal relationships: a legal relationship is established between shareholders and directors, under a contract of mandate (agency in common law) and the second is legal established between directors and managers, managers have the authority derived from that of administrators. In this model, called model maximizing shareholder income, the entire company is focused on risk capital provider, which is also the residual income claimant. Shareholders select the board of the Company. Decision making system based on: Actions means a vote and elect management board decisions are assumed to maximize the value of shares held by shareholders. Share value is based on the present value of the projection of future dividends, the net profit derived. These models to Japanese corporate governance system is distinguished by its features, the main feature being that the groups of „keiretsu” - groups representing economic results from the combination of several companies through cross holdings (English cross equity) firms within the meaning representation Grouping the boards of other entities⁸⁷⁰, containing one or more central entities (eng.core members) class with small affiliated companies. Characteristic of these types of groups is given multidimensional cooperation between entities that are part of the pool. In this context frequently encounter dialing mechanisms for funding the banking entity in the group, or to transfer employees from the same landing value of the group, or the existence of an entity specializing in the marketing of products made in the group (specifically trade houses called Japanese „sogo sosa”) observing the strong influence of Japanese culture.

Examination of issues of corporate governance convergence is both relevant and necessary, is interesting to study the principles that can justify, primarily Anglo-American model, with a shareholder orientation and the foreign financing and, secondly, the continental European model Japanese and characterized by a greater orientation toward policy makers and funding from the inside.

Convergence of corporate governance refers to the tendency of corporate governance models, specifically national or supranational, to merge their practices and theoretical perspectives. Complete convergence implies that national differences would disappear and eventually a universal model of corporate governance be adopted.

Although there argue that convergence is manifested by the Anglo-American model, these voices argue, would be superior to its alternatives, the specific failures of the Anglo-American corporate governance, corporate success in the party concerned, interior-oriented systems and economic

⁸⁶⁹ OECD,(2004), *Principles Of Corporate Guvernance*, ediția revizuită, disponibil la <http://www.oecd.org.html>

⁸⁷⁰ Mușetescu, R.(2006) „Integrarea globală a piețelor financiare și impactul asupra guvernanței corporative a firmelor locale” Jurnalul Economic, p 73-90

development in regions outside the Anglo-American states that would be difficult to transfer to a private practice of corporate governance from one context to another and expect ca aceasta să funcționeze eficient. Also introducing mechanisms such as the U.S. takeover of management discipline in Germany or Japan would be extremely disruptive for managerial incentives and screening systems present there.

Although manifestations of convergence differences remain for decades, the trend is to consider globalization as a convergence of corporate governance. Arguments both pro and against convergence there certainly is that, in essence, although convergence would create the conditions for efficiency should be based on the need for diversity. Other factors outside the economic legal and they are in deeper social norms underlying various governance structures. Thus culture is beyond the law and economic systems, cultural diversity teaching against convergence. Model of corporate governance around the world have drawn as culture to give a much more accurate and useful. However, the idea that legal structures and economic rules that the Constitution corporate governance systems are the culture, and therefore justified the possibility that corporate governance models differ between cultures, could be related to cultural relativism. As far as cultural relativism claims that different values may be held by different groups, it involves imposing constraints on the values of a group to another group. This concept is closely related to the actions and arguments of moral relativism that works, however, at both individual, and group (cultural and / or national).

We can identify in corporate governance, above legal and economic structures, a set of values, attitudes and / or fundamental beliefs. Understanding this basic morality may therefore provide penetration into corporate governance structures, moral principles and philosophies that can be most easily identified with the most prominent models of corporate governance from the Anglo-American model, followed by continental and Japanese models.

Not be said that corporate governance failures necessarily follow these patterns in Anglo-American or European countries - there are too many differences between companies and the above theoretical discussion was limited to traditional extremes. Yet in some ways, the morality that underpins corporate governance can be seen now in successful companies. Although specific reference to corporate governance annual reports focus specifically on issues management, there are other aspects of these reports involve broader perspective on corporate governance.

We can conclude that business and morality are not always considered ordinary partners. Few would suggest, however, that business relations would be possible without some minimum of trust and fairness. Similarly, it is not unreasonable to argue that directors have certain moral obligations to those who provide funding, regardless of their legal requirements and enforcement capacities. In turn, the corporation may be seen as a mechanism that contributed significantly to society in the past and has the potential to continue to do so, all over the world. Despite differences in approaches to both theoretical and the practical application of corporate governance in different jurisdictions, there is a certain extent a common morality of corporate governance. Successful operation of the corporations is generally considered beneficial because it provides different socio-economic „goods”. The four „virtues” of corporate governance responsibility, accountability, clarity and transparency are accepted as characteristics of good corporate governance not only in the 30 OECD countries, but in others as well.

A closer examination of the principles that support corporate governance patterns prevailing Anglo-American and the Continental European / Japanese suggests that differences in the relationship between corporations and society. Differences in underlying models of corporate governance lead to the question whether it is appropriate consider the convergence of these models.

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EFFECTIVE TAX BURDEN BORNE BY COMPANIES: A REVIEW AND A NEW METHODOLOGY

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Measuring the effective tax burden of companies was appealing to many famous economists. The present paper makes a review of the methodology used in assessing the tax burden of companies, and starting from this point, proposes a new framework based on micro backward-looking methodology, which extends the fiscal variables taken into account by considering the tax savings generated by alternative ways of personnel remuneration such various vouchers granted to employers. This line of research is in accordance with the extension of tax incentives granted to companies that lower the fiscal burden, but are not taken into consideration when computing the effective tax rate borne by companies. Some partial results of the research show that the magnitude of such tax incentives can be quite significant, but the research has to be extended to a larger sample of firms.

Keywords: effective tax burden, micro backward-looking methodology, alternative ways of personnel remuneration

JEL codes: H22, H25

Effective tax burden: a review

The problem of tax incidence on corporations is one of large interest in the academic world, having its beginnings in the works of Modigliani and Miller. Later, important contributions were made by Hall and Jorgenson, Harberger, Stiglitz, King, DeAngelo and Masulis, Auerbach, Poterba, Devereux, Shah, Summers, Desai and many others. An excellent review can be found in Graham, John R.⁸⁷¹. Key areas of interest focused on the incidence of taxation on financial structure (Modigliani & Miller, Stiglitz, DeAngelo & Masulis), the enterprise value (Auerbach), the cost and return on investment (Hall & Jorgenson, Summers), the location of enterprises and investment (Devereux, Shah), the fiscal adjustment and financial results (Desai), etc. One can notice a tendency to extend the tax variables taken into account: if the initial research aimed at taking into account only corporate income tax, later the research area was expanded by including the dividend tax, capital gains tax, in pursuing the integration of corporate income tax and personal income tax, and thus determine the tax incidence both on companies level and investors level. Also, the diversification of fiscal techniques resulted in taking into consideration various tax incentives such investment tax credit.

In line with these developments, in the context of globalization in recent years, research conducted worldwide focused on determination of effective tax rates of companies, which often is very different than statutory rate set by the existing legal framework. Enterprises have become increasingly concerned to maximize available tax benefits, and decreasing tax liabilities through legal means of payment (tax sheltering).

Currently, there are two major orientations to determine the average effective tax rate borne by companies:

⁸⁷¹ Graham, John R. - A Review of Taxes and Corporate Finance, *Foundations and Trends in Finance*, Vol 1, No. 7 (2006).

The first orientation is based on data from financial reports (so-called micro backward-looking methodology), in which effective tax rate is determined as the ratio between tax liabilities and income (profits) current. Important contributions were made by Collins and Shackelford⁸⁷², Buijink, W., Janssen, B., Schols, Y.⁸⁷³ and Nicodème, G.⁸⁷⁴.

Collins, J.H. and D.A. Shackelford (1995) manage to classify countries surveyed in decreasing order of the tax burden borne by companies in the following order: Japan, UK, USA and Canada. They also show their evolution over time of these effective tax rates, at the confluence of the reduction in statutory tax rates and increase the tax base.

The study of Buijink, W., Janssen, B., Schols, Y. (2002) is among the first ones based on the consolidated financial information of EU companies that try to capture their real tax burden. They see the difference between statutory tax rate and effective rate as an indicator of fiscal facilities that benefit enterprises. They calculated three types of effective tax rates: tax / taxable income, tax / net turnover, tax - deferred tax / taxable income. Their conclusions are: tax facilities differ substantially among EU countries and the differences between effective tax rates among member states are greater than those between statutory rates.

Gaetan Nicodème (2007) compared effective tax rates for 11 EU countries (EU 15 less Greece, Luxembourg, Ireland and UK), USA and Japan. He uses the unconsolidated financial information to better capture the specific national tax framework and expand the number of companies included in survey. The conclusions he reached may be summarized as follows: in Europe, the effective tax rates, calculated after Martinez-Mongay (2000)⁸⁷⁵, as the ratio between tax and gross operating profit are no higher than those the U.S. and Japan; over the period of the 90's, although increased, the effective tax rates in Europe remained significantly below those of two other major economic powers. In Europe, countries with the highest taxation are Germany, Italy, Denmark and the Netherlands, while in Austria and Sweden (surprisingly) the tax burden of companies is lower. Also, energy and water sector, transportation and communication enjoy an easy fiscal charge, while trade is charged more heavily.

The second orientation is based on neoclassical investment theory, where the average effective tax rate depends on effective marginal tax rate and capital cost (user cost of capital - see Hall and Jorgenson) - so-called micro forward-looking methodology. It aims to assess effective tax burden supported by investment projects, based on a methodology initiated by King and Fullerton⁸⁷⁶ and further developed by Devereux and Griffith⁸⁷⁷. Recent developments of this methodology takes into account restrictions imposed by tax

⁸⁷² Collins, J.H. and D.A. Shackelford (1995) - Corporate Domicile and Average Effective Tax Rates: The Cases of Canada, Japan, the UK and USA, *International Tax and Public Finance*, Vol 2, 55-83.

⁸⁷³ Buijink, W., Janssen, B., Schols, Y. (2002) - Evidence of the effect of domicile on corporate average effective tax rates in the European Union, *Journal of International Accounting, Auditing and Taxation*, 11, 115-130.

⁸⁷⁴ Nicodème, G. (2007) - Comparing Effective Corporate Tax Rates, *Frontiers in Finance and Economics*, Volume 4 (2007), Issue 2, 102-131.

⁸⁷⁵ Martinez-Mongay, C. - The ECFIN Effective Tax Rates, Properties and Comparisons with Other Tax Indicators, *Economic Paper*, No 146, European Commission.

⁸⁷⁶ King, MA and D. Fullerton (1984) - *The Taxation of Income from Capital*, Chicago: University of Chicago Press.

⁸⁷⁷ Devereux, Michael P. and Rachel Griffith (1999) - *The Taxation of Discrete Investment Choices*, Revision 2 - The Institute For Fiscal Studies *Working Paper Series* No. W98/16.

authorities in some countries to not affect the net result with tax savings realized by the enterprise as a result of various facilities that can benefit (Polito, Vito, 2009⁸⁷⁸).

Research conducted worldwide is based heavily on this methodology. Even European Commission⁸⁷⁹.

The study of Oestereicher, Andreas, Timo Reister and Christoph Spengel (2009)⁸⁸⁰, based on a powerful research tool called European Tax Analyzer - ETA - developed by the research team at ZEW (Center for European Economic Research) Mannheim, contains Romania's situation in terms of effective average tax burden of Romanian companies. According to the methodology Devereux & Griffith, Romania ranks 4 in Europe, both in large enterprises, and small and medium size enterprises. But the study did not consider social contributions, which, in our opinion, would be likely to fundamentally change the conclusions.

The new methodology regarding effective tax burden

The methodology proposed consists in determining effective tax rates by taking into account tax incentives and tax savings generated by various instruments such alternative personnel remuneration. The same company may have different financial ratios in the absence/presence of these tax incentives/savings, and this is likely to lead to further clarification on the incidence of fiscal variables on financial management of enterprises. At this point, it should be noted that researches undertaken so far *not quantify the alternative ways of personnel remuneration in determining the overall effective tax rate of enterprises*. The effective tax rate we propose is based on micro backward-looking methodology and is computed as a *ratio between taxes paid by companies and gross operating profit*. When sizing the taxes borne by companies we consider tax savings generated by alternative personnel remuneration. Basically, we will compute the effective tax rates in these two ways and will try to identify the differences between them and the impact of such tax incentives on overall performances of companies. The decision of a company to pay its employers using alternative forms such different kind of vouchers bears a strong tax incentive, as these vouchers can not borne any social contributions payments. Thus, the effective tax rate is smaller than that of a company who decides to pay its employers in cash.

$$ETR_1 = \frac{Taxes}{Gross_operating_profit}$$

$$ETR_2 = \frac{Taxes - Tax_savings}{Gross_operating_profit}$$

The tax savings generated by alternative personnel remuneration (such meal vouchers) have to be computed. The general belief says that this form of remuneration is negligible,

⁸⁷⁸ Polito, Vito (2009) - Measuring the Effective Tax Burden in the Real World, *Fiscal Studies*, Volume 30, Number 2, June 2009, pp 247-278 (32), Blackwell Publishing).

⁸⁷⁹ Commission of the European Communities (2001) - Company Taxation in the Internal Market, available at

http://ec.europa.eu/taxation_customs/resources/documents/company_tax_study_en.pdf.

⁸⁸⁰ Oestereicher, Andreas, Timo Reister and Christoph Spengel (2009), Common Corporate Tax Base (CCTB) and Effective Tax burdens in the EU Member States, *ZEW Discussion Paper*, No. 09-026, Mannheim, available at <ftp://ftp.zew.de/pub/zew-docs/dp/dp09026.pdf> and later in *World Tax Journal*, 46-66).

but we will show that its magnitude is underestimated, and the effects on the overall performance of a company may be quite significant. We use gross operating profit as it is more relevant for company's core activities. The tax savings incurred by meal vouchers remuneration are depicted in the following formula:

$$TS = c_g MV, \text{ where,}$$

c_g = global social contributions rate;

MV = meal vouchers granted to employers.

In principle, data concerning meal vouchers granted to employers are available in the financial reports of listed companies. Social contributions borne by companies include those for pensions, unemployment, medical services, work accidents and occupational diseases, vacations and indemnities, and for payment of wage claims. The rates usually vary on annual basis depending on fiscal legislation.

In order to compute the effective tax rates in the two variants depicted above, we will use the financial data for Aerostar company for fiscal years 2007 and 2008.

Table no. 1. Relevant financial data for Aerostar company during 2007 and 2008

		2007	2008
1	Gross operating profit (RON)	10,021,848	6,666,747
2	Corporate income tax (RON)	771,691	1,581,534
3	Other taxes (RON)	1,068,799	1,062,281
4	Social contributions (RON)	11,121,992	12,047,148
5	Meal vouchers (RON)	2,737,340	2,855,417
6	Global social contributions rate (RON)	31.6%	29.35%
7	Tax savings (RON)	864,999.44	838,064.88
8	$ETR_1 (2+3)/1$	18.36%	39.66%
9	$ETR_2 (2+3-7)/1$	9.73%	27.62%
10	Tax savings/Gross operating profit (7/1)	8.63%	12.57%

Source of data: S.C. Aerostar S.A. Financial Reports available at <http://www.aerostar.ro/financiar.php?PHPSESSID=a6deb4c8d97d80f06a5a67108a2b29fb;>

One can notice the differences between the two effective tax rates, which are quite significant (from 18.36% to 9.73% in 2007, respectively from 39.66% to 27.62% in 2008). Moreover, if the company did not choose to pay the employers using vouchers, its gross operating profit would have been lower by 8.63 percents and 12.57 percents respectively. So, using such alternative personnel remunerations schemes determines an increase in gross operating profit, as the company capitalizes the tax savings generated by such instruments.

This is only one example that illustrates this new methodology that we proposed. To be relevant, the study must be extended by taking into consideration a sample of companies for which data are available. Generally, listed companies provide such data, so, this may be a good starting point. Unfortunately, there is no source of data that can provide all-in-one information related to tax incentives granted to companies in various forms, and, by consequence, such a study will have to surpass the difficulty of getting the necessary data.

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EXCISES HARMONIZATION IN THE CONTEXT OF ECONOMIC CRISIS IN ROMANIA

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This article tries to present the major aspects concerning the excise harmonization in the context of economic crisis in Romania. The paper realizes an analysis of the harmonization steps in the European space underlining the current situation when the revenues from excises represent a valuable source of financing the public expenditures. In Romania the harmonization process is not accomplished entirely, but the last increasing of the excises are due to this process.

Keywords: excise duty, tax harmonization, tax revenues

Cod JEL: H23, H3, G18.

Introduction

Excise duty is an indirect tax, a consumption tax payable on certain categories of goods including alcoholic beverages, gasoline, tobacco products, coffee, electricity and certain other items. The tax is payable on import and sales of locally produced items on the domestic market and is set as fixed euros amount per unit ("specific excises") or as a percentage of a specified taxable base (ad-valorem tax). Excise taxes have an important role in the budgetary and fiscal policy of every government because are used not only for obtaining the public revenues, but also for other purposes like to discourage consumption of specific commodities; taxes on alcoholic beverages and tobacco products are the obvious examples. Tobacco taxes can be considered as instruments for adjusting externalities through increasing the price by an amount that corresponds to the measured externalities. The same situation can be considered for the energy excises when the negative externalities- pollution- can be reduced through the revenues obtained from this excises. The issue of tax harmonization is a continue process for all EU member states. Even if the excise duty revenues have only 3.1% of GDP and 10% of the total revenues in the 2009 in Romania, the importance and the consequences of excises are considerable for our economy. In the European Union countries the highest share of excises revenues in gross domestic product is in Bulgaria 5.8 % of GDP and for EU the average is 2.5 %.

First issue is excise harmonization, a continuously process for Romanian fiscal system. According to the harmonization process in Romania, we have few directions for realizing excises harmonization:

- a minimum tax rate;
- taxation object: establishing the categories of goods and services imposed with excise;
- collecting procedures for transport, depositing and commercializing the goods imposed with excises.

Why is so important the harmonization process of excises? The answer is: because of the consequences and the major impact of this process from economic and social perspectives. The

major consequence is price increasing, not only for the products imposed with excises, but also for many other categories of goods whose price includes indirectly excises. For instance, fuels excises can be considered inflationary, because conduct to a generalized price increase. On the other hand excises on alcoholic drinks and tobacco are used for protecting the population health. The impact of increasing these excises is not always reducing the harmful consumption. But, instead increasing excises has a major impact of tax evasion. For instance, for cigarettes the excise rate was 64euros/1000 cigarettes and now is 74 euros and because of this excise increase many economic agents prefer to commercialize the cigarettes without paying the excise duty. Another consequence of excise harmonization is removing the luxury excises starting with this year 2010. How proper is this measure for our budget in this period of economic crisis when the budgetary expenditures cannot be covered because of the lack of fiscal revenues? For these arguments our research tries to evaluate the current situation of excises in Romania comparative with other states member of EU with similar harmonization process.

Harmonization process

The main objective of excises harmonization was to establish minimum rates of taxes for avoiding price distortions in the European Union. The aim of the state is to reduce consumption especially referring to the environment protection (e.g. from energetic products and electricity in the area of excise taxes) or the negative externalities (e.g. medical costs of smokers) which are not included in the price of product. Only in the case of zero elasticity of supply and demand it is possible to reduce overconsumption. In this case excise taxes increase the effectivity of tax system.

Another problem is regressivity of excise taxes. Consumption of products, which are liable to excise taxes at taxpayer with the increase of his income, reduces it. Taxpayers with low incomes face relatively higher tax burden. Moreover, it is proved that the consumption of tobacco and alcohol is relatively higher at poor people or countries.

In the European Union space excises harmonization represents a special issues imposed by the follow reasons:

- even if excises are not general consumption taxes like VAT, are applied on fuels. This category of goods represents in the now days an essential raw material necessary for realizing any products, thus we have excises indirectly in almost of the goods. For this reason an increasing or a decreasing of excise tax rate produces chain effects in the prices and can leads to some intercommunity distortions between EU countries;
- the role of excises in tax competition is significant because this category of taxes can induce the propensity of the member states for the reduced tax rates.

So, in this context we have the first measure to excise harmonization in 1993, in the EU quite late, because the excises have a reduced role comparing with VAT in the budgetary revenues. In relation to internal market a number of directives were adopting in this field. All the systems of excise duties have been implemented in the EU as a part of the internal market since 1st January 1993.

Excises harmonization is based on the follow instruments: object harmonization, tax base harmonization, tax rates coordination and fiscal procedures harmonization. The next table illustrates this level of excises harmonization and the main results for European Union.

Table no. 1

Harmonization level	Explications	Results
Tax object	Defining the products imposed: alcoholic beverages, manufactured tobacco products and energy products (motor fuels and heating fuels, such as petrol and gasoline, electricity, natural gas, coal and coke).	The members states have the right to impose excises on the other products, but only if this excises not imply custom duties procedures. But this kind of excises is discouraged because the receipts are very low.
Taxation base	Defining the taxation base and establishing the exemptions.	The taxation base was established as the maximum retail selling price for cigarettes, Plato degree for beer, hectoliters for alcohol. The exemptions are mentioned for every category, for instance for the energy products used as raw materials.
Tax rates	Even if minimum tax rates were introduced in 1993, there are may variation (for ex. for cigarettes we have a variation factor from 4 to 1 between the countries with minimum and maximum tax rates for excises) ⁸⁸¹ .	For some countries was established a schedule for tax rates increase, is the situation of Romania also. The maximum tax rate for excise cigarettes is in Ireland 260 Euros/1000 cigarettes and minimum is in Poland only 64 Euros.
Fiscal procedures	The taxable event is generally the production and the import in EU of excisable goods. The tax liability is suspended until the moment of consumption.	Thus was established fiscal warehouse regime under national fiscal authorities.

EU legislation in the area of excise duties on these products was mainly adopted in the context of the establishment of the Internal Market on 1 January 1993, which involved the abolition of controls of a fiscal nature at internal borders between Member States. This legislation, which has been further developed since, can be divided into three main categories according to the European Commission:

- The structure of the tax to be applied to a particular group of products. The structure of taxation means the definition of the product categories, the way in which the excise duty is calculated (e.g. per hl; per degree alcohol; per 1000 pieces, etc.), the scope of possible exemptions, etc.
- The minimum rates of duty that Member States have to respect for each type of product. Above those minimum rates, Member States can freely fix their own rate levels.
- General provisions that apply across the product categories. These provisions concern in particular the production, storage and movement between Member States of excise products.

⁸⁸¹ Negrescu D., Comănescu A., (2007), *Fiscal Harmonisation Trends in the European Union. Challenges for Romania*, Study no. 5, Project SPOS 2007 – Strategy and Policies Studies, European Institute of Romania, București

The initial idea was to harmonize both the structure and the tax rates of excise duties system. The harmonization efforts were (as well as in case of the value added tax harmonization) transferred rather to the structural field and only the minimum tax rates were set.

Analogically to VAT, the principle of destination was selected for the excise duties – goods subjected to excise duties are taxed in the country of consumption so that there would be no market deformation (principle of origin with existence of different tax rates does not ensure the tax neutrality). With effect from 1st January 1993 tax base harmonization is ensured by the uniform custom tariff and since the same date the minimum tax rates has been set.

Excise duties harmonization in the EU is based on three groups of directives⁸⁸²:

- **horizontal directive: directive no. 92/12/EEC**, which serves as general regulation for the production, holding and transport of products subjected to excise duty;
- **structural directive** – related to harmonization of structure of excise duties; is structuralizing excise duties into excise duty on mineral oils, alcohols and alcoholic beverages and tobacco;
- **four directives on approximation of tax rates of** above introduced excise duties.

Current situation of excises in Romania

Excise duty is a consumption tax payable on certain categories of goods including alcoholic beverages, gasoline, tobacco products, coffee, electricity and certain other items, considered luxury products, but excluded from taxation starting with this year. The tax is payable on import and sales of locally produced items on the domestic market and is set as fixed EUR amount per unit or as a percentage of a specified taxable base. The excise duties in respect to the main categories of goods are given in EUR in the table below:

Table no. 2

CATEGORY OF GOODS	EXCISE DUTY RATES FOR 2010
Alcoholic products	Up to EUR 750 per hl
Cigarettes	EUR 48.5/1000 cigarettes +22% of the declared maximum retail price= EUR 74.01/1000 cigarettes
Car fuels	EUR 347- EUR547 per ton
Electricity	EUR 0.5 or EUR 1/MWh
Coffee	EUR 153- EUR 900 per ton

Taxpayers are normally required to submit monthly tax returns and pay the excise duties for excisable goods by the 25th of the following month, with certain exceptions. In case of imported goods, the related excise duty, if applicable, should be paid at the time of making import declaration at customs.

The fiscal warehouse regime allows the production, transformation and/or storage of products subject to harmonized excise duties (e.g., beer, wines, other fermented beverages, intermediary

⁸⁸² European Commission, http://ec.europa.eu/taxation_customs/taxation/excise_duties/

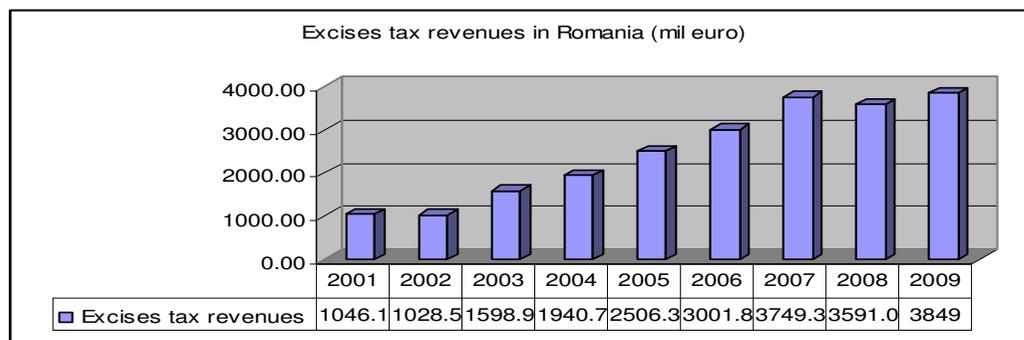
products, ethyl alcohol, tobacco products, and mineral oils) without the payment of related excise duties. Generally, the fiscal warehouse regime cannot be used for retail sale of such products.

The Fiscal Code allows production (and storage) of electricity and natural gas outside fiscal warehouses. In certain condition, the excisable goods could be moved under an excise duty suspension regime within the territory of the Community. The movement of the excisable goods under the suspension of excise duty must be covered by an administrative document and be supervised by national authorities. For this purposes, a computerized system for monitoring movements of the harmonized excisable goods under suspension excise duty within the Community, named EMCS (Excise Movement and Control System) will be implemented starting with 1 April 2010. Starting with 2010 non-harmonized excise taxes – consumption levies on luxury products – are removed, except for those charged on coffee.

Methodology and results of excises analysis in Romania

Our analysis starts with the evolution of tax receipts from excises, beginning with 2001 until 2009. The absolute data reflect an upward trend until 2008, when the Romania has to face to economic crisis, but the trend is resumed in 2009.

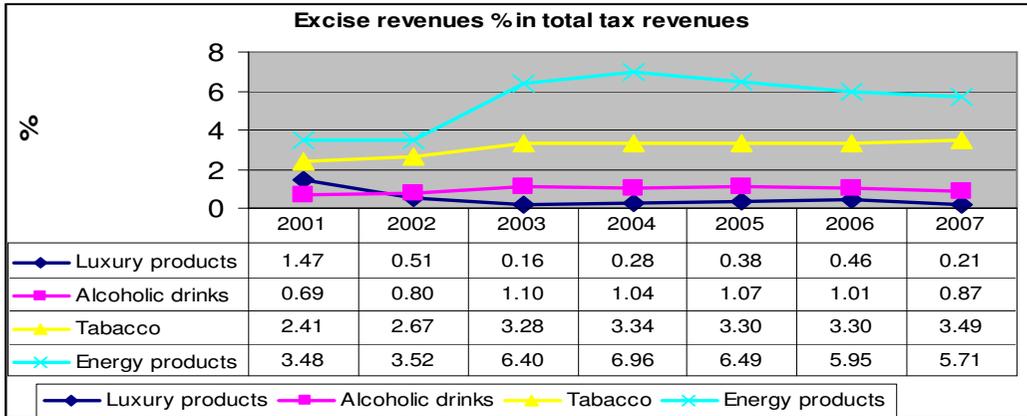
Figure 1



Source: The author's calculation based on the Eurostat and Finance Minister Data

The structural analysis of excise tax receipts is more important because reveals the major categories of goods which provides revenues for the budget. In the next figure is a structural evolution based on the classification of excises: harmonized excises applied of three categories of goods: alcoholic drinks, tobacco, energy products and non-harmonized excises for luxury products. For all harmonized excises the receipts as % of total revenues have upward trends from 2001 until 2007.

Figure 2

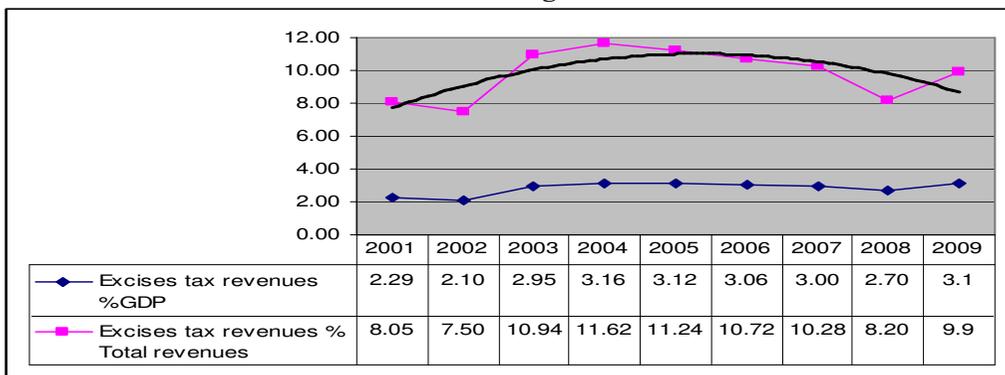


Source: The author’s calculation based on the Eurostat and Finance Minister Data

Only the excises on luxury goods have decreased from 1.47% of the total revenues to 0.21%, reflecting the lower importance in financing the public expenditures. This trend is explained by increasing the tax evasion in the case of luxury goods. Removing this luxury excises means a small decrease of tax receipts, but in the economic crisis every source of revenues is important. More than that luxury excises are a good mean to realize the fiscal equity and are not regressive like a possible increasing of VAT rate.

Excises for energy products are a reliable source of revenues, more than a half of the excises receipts are from this category, almost 6% of the total revenues. These excises also have the greatest inflationary impact reflected in the price increasing for the majority of goods.

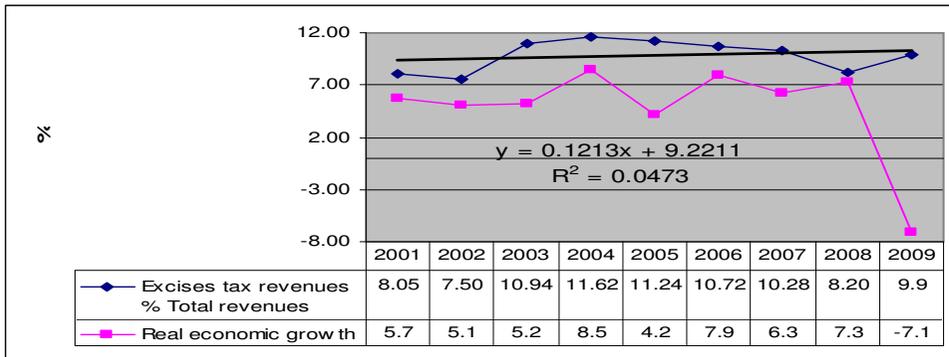
Figure 3



Source: The author’s calculation based on the Eurostat and Finance Minister Data

Evolution of excise tax revenues as % of GDP varies from 2.3 % in 2001 to 3.1 in 2009 with slight variations, with an important decrease in 2008. The impact of economic crisis had an important decrease of all tax revenues, especially in the case of VAT and corporate taxes.

Figure 4 Correlation between excises and economic growth



We try to verify the correlation between the economy evolution and excises receipts for 2001-2009 in Romania. But from the previously figure we have a low correlation between economic growth and excises, this low correlation is explained through the fact that excises revenues are a stable source of public budget financing, because are imposed on the goods with inelastic demand and for this reason the evolution of economy has a reduced impact of excise receipts.

Conclusion

Removing excises for luxury goods is not a proper decision for this period of economic crisis, when countries like Greece increase these excises for obtaining many revenues for financing the budget deficit. The decision to scrap the excise on luxury goods occurs at a time when some tax advisers suggested the authorities an extra charge on luxury products such as expensive buildings and cars, in order to collect more money to the budget strapped by the crisis. On the other hand, the harmonization process has to be accomplished in conformity with EU requirements.

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INFORMATION ASYMMETRY THEORY IN CORPORATE GOVERNANCE SYSTEMS

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The evolution of corporate ownership structure, in particular the resolution of asymmetric information among stockholders, managers and creditors, requires very complex research. This paper aims to investigate how asymmetric information determines stakeholders to behave and how financial decision bears upon the performance of the organization.

JEL classification: G1, G3

Keywords: asymmetric information, financial decision making, corporate performance, leverage, stockholders.

1. Introduction

Modern theories converge on the idea that the objective pursued by stakeholders is to maximize corporate value. In 2004 the OECD issued a document, *The OECD Principles of Corporate Governance*, that underlines that corporations need to be run, primordial, in the interest of shareholders (OECD 1999, 2004). This means that the old concerns in the field, as to maximize profit in terms of cost of production, have been abandoned and now the emphasis is on this new paradigm of maximizing corporate value. But this aim is achieved when trends of the corporate value are increasing, since the value of shares plenary comprises the performance of companies. Hence shareholders choosing investments that generates a high return will tend to force corporations to seek a high return.

But in the corporate governance systems, the company is seen as a set of expectations that each stakeholder establish in their relationship with the company. This is like a sort of polycentric vision of the corporate governance systems, having in the center the company around which stakeholders attempt to govern.

Regardless of the theories underlying corporate governance systems, there is a system which generates flows between the company and stackholders that regardless of their nature (informational, financial, material, etc...) has a number of features formed on the basis of apparently conflicting interests that exists between the company and its stackholders.

When referring to streams caused by company-shareholder relationship (Jensen, Merckling 1976) it is not surprising that shareholders will seek to identify forms (dividend or earnings differentials in the price of the shares) to recover the fastest way possible the capital they have invested. In turn the company will try during it's development periods to convince shareholders to let at its disposal financial resources that could be distributed as dividends to avoid the possible risk of de-capitalization of the company. Yet this conflict of interests between the company and its shareholders may affect in a long-term the companies performance. Actually identifying this

conflict of interest and resolving it through a specific management approach can lead to long term sustainability of corporate performance.

Interesting are also the flows caused by the relationship between the company and its suppliers, respectively its customers. Its a category of flows formed upstream the company, between the company and its suppliers in which the society acts as the client and it legitimately aims to obtain raw materials at the best price and the best quality. The other party, the supplier, is convinced that when the transaction took place he has obtained the best price. Conflicting interests of companies and suppliers are more than obvious. While the price is "high and low" because the supplier is confident that the price he gets is a price that meets his interests (meaning good) while the company is confident that the material is obtained with the lowest price that will lead to selling prices of its products accepted by its consumers.

The same apparently conflicting interests can be found in the company-customer relationship (Flynn et al, 1990). But this time the company is in a position to deliver products and services at prices they considered to satisfy at least the companies stakeholders interests. On the other hand the consumer, who in the new theory governing the markets, in which the consumer is considered "the king", is convinced that through the transaction he has received the highest quality product and at the appropriate price.

Analysis of these flows may continue with the study of the relationship between the company and its financial creditors (Morellec, Schurhoff 2010). Usually this category of flows appears under the development and the investment financing of the company for business expansion. What kind of interests are manifested in these types of flows? Financial creditors are interested in obtaining the best interest for the capital which they provided to the company. Or such interest is borne by the selling prices of goods and services produced by the company so that the pressure exercised on the consumer, which may at any time to change its supplier of products and services. Furthermore the company hopes to obtain a gain from the investment made and financed by its financial creditor, so from the net profit and the amortization to be able to repay the loan and interest due to the financial creditor. The implications of this category of flows doesn't stop here. Because the interest will erode the profits of shareholders they will require that the rate of return they expect to be satisfied after debt repayment to financial creditors at least equal to the duration over which the loan was incurred to finance investments required. And there are conflicting interests. Financial lender considers the loan offered at the best interest rate while the company is convinced that she contracted a liability at an interest rate as low. This category of conflicting interests must be supplemented by the interest that the shareholders show, they give up the lender for financial gain, so that for long term they can increase their earnings to.

Flows of goods and services or financial resources are not considered limited. They may be supplemented by flows between the company and human resources (its labor force) or between the company and the state as beneficiary of taxes. These flows of links regardless of their nature are governed by information held by human resources who are responsible with taking the decisions. The information is held in a different way by individuals making their behavior also different. This is the first step that leads us to believe that any flow links between the company and its stakeholders, are based on elements of information asymmetry leading to different behaviors of individuals with influence over the medium and long term on the companies performance.

An agency relationship develops whenever there is a relationship between economic actors and the welfare of one person depends on the actions of the other party; that is, when the welfare of the principal is influenced by the action (or inaction) of the agent (Howard, Snowdon 2005).

A first attempt to define the asymmetry of information in corporate governance theory shows that it is in possession of information in different ways by individuals involved in running streams between the stakeholders and the company, under which individuals have different behaviors and different decisions which may affect the performance of companies.

It is the objective pursued by this research to study factors governing the flow of information asymmetry between the company and stakeholders that are based on the corporate governance system.

2. Information asymmetry and individual behavior in corporate governance system

In the previous paragraph we tried to outline the definition of informational asymmetry in the corporate governance system, which revealed that individuals involved in all streams of links between the company and stakeholders do not have the same information, at the same point of time. This means that individuals will have different behaviors and can take different decisions that may impact on company performance.

Therefore in the theory of information asymmetry, the information that individuals have it's important and the decisions they can take with the information they hold. Place a natural and legitimate question for the companies stakeholders namely: How to measure information asymmetry and its impact on the companies performances?

In an attempt to measure information asymmetry there were taken as the basis for the research the most important flows in the corporate governance system, namely: flow links between the company and its shareholders. In a first step we examined the information asymmetry between the two shareholders who invest in financial markets. To generate the ecuational model of measurement for the information asymmetry we was established the following research hypotheses:

- a) on the financial market there are two investors who are characterized by information asymmetry, according to information they hold about companies where they are to invest;
- b) each investor has a certain amount of information on which companies are to invest and has some form of rate expectations on earnings that they hope one will get from the capital that they invested;
- c) each company provides a standard volume of information covered by the Securities Commission's financial market and while each company has a certain volume of information that is standardized to provide a certain visibility.

Suppose that between the two investors there is an information asymmetry arising from holding a different volume of information for the investor (I_1) against investor (I_2), so that the first investor holds information of the standardized rate of net profit that the company provides to its investors ($InfI_1$) while the second investor has the same information on the net gain rate ($InfI_2 = InfI_1$). Both information are part of standardized information and the same for any two investors. In addition to the first, second investor is aware that one of the companies on the capital market is to develop an investment that will lead to an increase in long-term gains to be granted to investors every year during the period of investment. This information is denoted $InfI_2^1$.

The two investors are subject to information asymmetry because the volume of information they hold is different. The first investor has the amount of information that is equal to $InfI_1$, while the second investor has a volume of information formed by the addition of $InfI_2 + InfI_2^1$. Absolute deviation $\Delta InfI = InfI_2 + InfI_2^1 - InfI_1 = InfI_2^1$ is the form of measurement of information asymmetry in which the first investor is to the second investor. If $\Delta InfI = 0$ we can say about the two investors that they have the same volume of information and are not in situations of information asymmetry.

The question that appears, is determined by how the two investors will behave. To answer this question it is essential a thorough analysis of investor expectations that the two have. Yet expectations are determined by the common interest they have. If investors are rational when

they will watch the market to have a capital gains rate to meet their expectations (Kothari, Nikolaev, Loutschina, 2006). The rate of earnings is an standardized information and is provided freely for those two investors.

To address the behavior problem of the two investors in a situation of information asymmetry is necessary to establish the level of information $NInfI$, for which the two investors will act the same. Regarding this level of information that determines the behavior of the two investors we can distinguish a few situations in which, depending on the information, the investors will take the same decisions or contrary their decisions will be opposite, namely:

The first situation corresponds to a common level of expectations for both investors and the rate of gain that the company offers meets the interests rate they seek. Their expectations are met by the rate of gain (r_c) that the company offers, so although they are in a situation of information asymmetry they decide to invest in shares that the company offers. The conclusion that emerges is that in situations of information asymmetry investor behavior is the same if their expectations are the same.

The second situation corresponds to different levels of earnings that investors expect from their investments. Thus if the rate of gain noted (r_{c1}) that the first investor expects and (r_{c2}) the rate of gain expected by the second investor, and with (r_c) the rate of success the company provides, we will identify the following types of behavior caused by information asymmetry:

a) If the rate of earnings provided by the company is above the expectations of both investors, even in the situation of information asymmetry they will take the decision to invest in company shares;

b) If the rate of earnings provided by the company is below the expectations of both investors then their behavior will be different, the first investor will not invest in company shares because of the fact that it offers a rate of return to capital that would not meet his demands expected for the invested capital. While the second investor is in the same situation as the first, that the expected rate of return is below its requirements, yet he knows that from the investment in the company is next to be obtained a bonus for its shareholders so that, after the company's investment the expectations of its shareholders would be fully realized. The second investor who finds himself in a information asymmetry, decides to invest in the financial market, so he acquires a volume of actions, depending on his available capital.

If we note +1 the situations of where investors that are in a situation of information asymmetry decide to invest in financial markets and -1 where investors chose not to invest when they are in a situation of information asymmetry, form the function of informational asymmetry, in which information is marked $Inf_1, Inf_2, \dots, Inf_n$ the function will look like this:

$$f(Inf_i) = \begin{cases} 1 & \text{if } r_c \geq r_{c1}; r_{c2} \text{ si } \Delta Inf \neq 0 \\ 0 & \text{if } r_c = r_{c1}; r_{c2} \text{ si } \Delta Inf \neq 0 \\ -1 & \text{if } r_c < r_{c2} \text{ si } \Delta Inf \neq 0 \end{cases}$$

Limits for this function established by information asymmetry, are determined the function refers to a market where there are only two investors who are really in a situation of information asymmetry but also is considered the situation where the two do not communicate with each other, no exchange of information between them taking place. Information asymmetry research will continue at a later stage, a market consisting of N investors, where the asymmetry function can establish investment trends that investors are investing in a company, taking into account that the function market information asymmetry is determined by existing investors in the financial market crowd.

3. Implications of informational asymmetry on the possible performance of the company

It is important to investigate the implications the asymmetry information has on the companies performance. But this implications are determined precisely because the two financial market investors are in a situation of information asymmetry leading to different behaviors. So assume that both investors decide to invest in the company. This corresponds to a value of function of information asymmetry equal to +2, respectively $f(InfI) = +2$ and a situation where $r_c \geq r_{c1}; r_{c2}$ and if the volume of investments made by the two investors are noted $V_1 = N_1 \times V_p$ and $V_2 = N_2 \times V_p$, this means that the company will attract from the capital market a level of financial resources equal to $V = (N_1 + N_2) \times V_p$. Thus, the impact on company performance is determined by the cost savings that the company would be contracted out if the same level of resources for the banking market would pay an interest rate level equal to r_d . Let us denote by k_a the cost shares, this means that the difference between the interest rate margin and cost actions will determine the cost of the two funding sources denoted m_f .

In these circumstances, if $m_f \geq 0$ we are where the information asymmetry will lead to cost savings equal to $E_c = (r_d - k_a)(N_1 + N_2) \times V_p$, which will have a positive influence on company performance, while $m_f < 0$ will cause a negative impact on company performance as determined by the same formula for cost savings. This may correspond to the opportunity to procure funding sources for the banking market as the interest rate is lower to cost operations. Or cost shares can be found in this situation only when the expected rates of earnings investors are characterized by irrational exuberance.

If both investors are subject to information asymmetry and one of them decides to invest and the other identifies other investment opportunities on financial markets then this situation is characterized by the fact that the rate of gain that although the company offers lower rates to gain both investors, however, the second investor hope that he will gain a bonus if the company will achieve the investment expansion that is planned, so he will make the investment.

For this situation, an investor decides to invest and the other gives up the information asymmetry function has the value $f(InfI) = 0$, while $r_c < r_{c1}; r_c \geq r_{c2}$ and the volume of investment that the two investors make is determined by the second investor who buys shares $V_2 = N_2 \times V_p$. The company is in a situation where to procure the necessary financial resources, the lack of investment which would have made the first investor will procure from the banking market which as is known to pay an interest equal to r_d .

Cost savings is also lower than in the first situation analyzed and will be determined using the formula $E_c = (r_d - k_a)N_2 \times V_p$ with specific situations for positive margin financing, where the positive effect on company performance, while negative margin financing there will be a deterioration in company performance.

The cases analyzed concern the impact on companies performances, being limiting in terms of the number of investors who invest on the financial markets. But the information asymmetry specific to the companies stakeholders can be analyzed in conjunction with other indicators of profitability which usually are followed by the stakeholders. Actually eliminating the negative impact that information asymmetry has on company performance can be achieved only by increasing access to non-standard information available about the company. And by increasing the visibility of information that the company offers its stakeholders, there is the risk that the different interpretation of the information provided by the company, investors not to behave the same.

For a market with two investors in a situation of information asymmetry the results obtained upon the companies performance are very different, drew the conclusion was that information asymmetry influence the performance of companies even if they record a performance attractive for investors.

4. Conclusions

Corporate governance system consists of flow links that are established between the company and its stakeholders, involving material, human and financial resources in order to help maximize business value. Link flows are based on information moved from the company to its stakeholders in which most often manifests conflicting interests. The price of raw materials necessary for the company, for example, may both large and small from the market perspective but also from the company's suppliers perspective.

This information is not shared proportionally between stakeholders making it appear the concept of information asymmetry that defines the state in which two individuals at the same time not have the same amount of information. This fact makes the two investors have different behaviors depending on the information they hold and the expectations they have. Information asymmetry function has a value equal to +1 when the investor decides to invest in the company, or this happens only if the profit rate they offer is superior to the investors expectations. Information asymmetry function has a value equal to -1 when the rate of earnings provided by the company is below the hoped value for by investors. There is however a situation where although the function of information asymmetry is equal to -1, the investor decides to invest in the company since he has information that in the next period the company would develop investment to expand business activity and thereby ensure that earnings growth are to meet long-term investor interests. Information asymmetry impact on company performance is also a very interesting research topic. It was found that there are situations for positive values of the function of information asymmetry, which causes a positive impact on company performance and company value equal to the indirect cost savings resulting from resorting to other categories of funding sources, such as te banking market. There are also situations where information asymmetry has a negative impact on company performance because not all investors choose to invest in the company or investors' expectations contrast ratio is above the interest rate charged on the banking market.

Model has also limitations. It refers to a market which consists of two investors which in reality there isn't, but respecting the hypothesis that the specimen could be extended to N investors. Also to consider the hypothesis that investors do not communicate among themselves and develop links between the flows from the company and its shareholders. Future research about information asymmetry should continue to expand the market for N investors, taking into account the fact that they communicate among themselves and with the expansion flow links that are established between the company and the other categories of stakeholders, underlying modern business activity.

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RECONSIDERING THE FUNDING SOURCES FOR THE HEALTH SYSTEM IN ROMANIA

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An optimal health system must ensure that all citizens have free access to medical services, and to determine the effective use of funds. We therefore reach the conclusion that the health financing system that best meets the optimal criteria is the public one. We believe that a system of public health funding should be based not only on contributions, but also on funding from the state budget; therefore it should combine the two public sources. If it were based solely on contributions, then the earnings should be volatile towards the economic cyclicality, and would not ensure the fiscal sustainability of the system. The private health financing system should be based on private insurances, and not on direct payments as it is in the current case, private insurances should have a predominantly complementary nature (covering the co-payments for those that are forced to bear them), and only in the case of rich people it can be substituted.

Keywords: public expenditure, health expenditure, private health insurance, social health insurances.

JEL Classification: H51

The sources of financing the health expenditures are divided into two main categories: the public sources and the private sources (direct payments from patients to health providers ; immersive for drugs and certain medical services; the procured funds by non-governmental organizations that can carry out charitable activities in health care domain; private health insurances; direct payments made by private companies), these sources combine together in order to finance health in proportions that vary from country to country.

According to the data published by the World Health Organization in the paper “The World Health Statistics 2009”, the average health expenditure worldwide in the year 2006 accounted for 8.7% of GDP. Extremes occurred in the U.S., with 15.3% of GDP, and in Southeast Asia, of only 3.4% of GDP. In absolute size, the health spending per capita averaged about \$ 716, the highest level being in the U.S. of \$ 6,719, and the lowest in Southeast Asia, of \$ 31. The European average is 8.4% of GDP to health, funded at a rate of 75.6% from public funds, 24.4% from private sources, the private health insurances amount on average to 22.1% from the total of all the private sources of funding and expenditure per capita on health is \$ 1,756⁸⁸³.

Romania granted to health in 2006, a rate of 4.5% of GDP, going down from the levels in the year 2000 by 5.3%. In a rate of approximately 77%, the health expenditures are covered by public funds, from which 85% come from the health insurance contributions, while 23% from private funds, the external funds in 2006 were being invalid. The private funds come at a rate of 96.8% from direct payments of the beneficiaries of health services (out-of-pocket payments); the private health insurances own only 1.7% of all private funds.

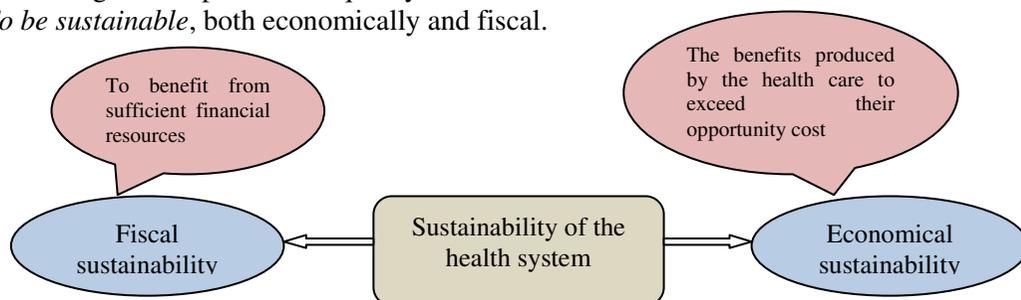
The health expenditure per capita in Romania is of \$ 256, hovering well below the world average of \$ 716, and to the European average of \$ 1,756. Denmark, for example, gives a rate of 10.8% of GDP, financed at a rate of 86% from the public funds, and the expenditure per capita is of \$

⁸⁸³ Date preluata din lucrarea World Health Statistics 2009, publicată de World Health Organization, pag. 107-117.

5,447; Luxembourg allocates 7.3% of GDP, the public funding is 91%, the private one of 9% is based on a proportion of 18.7% on the private health insurances and the expense per capita is of \$ 6,506. *It is noticed that Romania is still far from these values, so the definite conclusion is that the level of health financing must be increased, both on public resources and on the expense of the private sources, this can be done by increasing the private health insurances, which in Romania own an insignificant share.*

An effective system of financing needs to be found, that would meet the actual needs and that would ensure that no citizen makes a considerable financial effort that significantly reduces its standard of living when they get sick⁸⁸⁴, so, the system **should respect the following principles**⁸⁸⁵:

- *The ability to generate sufficient resources*, through which comprehensive and quality services will be provided to the citizens.
- *To ensure fairness*, both in terms of establishing a system of financial resources (equity in financing) and also providing health services to the population (with equity access) so that each person should contribute according to his income and anyone would have free access to the health services.
- *Risk pooling*⁸⁸⁶, this means aggregating risks over time and between citizens, criterion based on the premise that no individual may predict the time and severity of his illness, so he cannot individually manage this risk of illness, that is why it is appropriate to be centrally managed in an institutional setting. Arguments in favor of the healthcare risk aggregation are based on considerations of fairness and efficiency.
- *To ensure efficiency*, both in collecting resources (administrative costs low) and in the distribution phase (maximum effect on unit cost).
- *To help ensure quality of service*, this criterion is closely related to the adequacy of funding and its sustainability. Through a lack of funding it will not be able to acquire the latest technology, the skilled personnel cannot be adequately motivated and all these have a negative impact on the quality of healthcare.
- *To be sustainable*, both economically and fiscal.



In building an optimal system of financing health we must start from identifying the **beneficiaries** of the health services, namely:

- A first direct beneficiary from the health services is the **individual**, because the quality and longevity of his life is determined by his health.
- **Private enterprises** because they are benefiting from the intellectual and physical capabilities of employees and a healthy person will have a higher yield from an illnesed one, which eventually translates into higher profit. And the enterprises using labor to operate bring damage to the health of employees, and therefore their involvement is needed in the health financing system.

⁸⁸⁴ *The European Health Report 2009*- Health and Health System, elaborat de World Health Organization Regional Office for Europe.

⁸⁸⁵ Murgea Mihaela Narcisa - *Modalități de finanțare a sistemelor de sănătate* , pag.322-324.

⁸⁸⁶ Peter C. Smith și Sopia N. Witter - *Risk Pooling in Health Care Financing: The Implications for Health System Performance*, The World Bank, 2004.

- *The society as a whole*, because a healthy population has an increased productivity, a greater innovation capacity, which stimulates growth and technological progress, with direct impact on enhancing national competitiveness.

Starting from the health service users there can be identified *sources of financing* the health system, namely:

- *The public funds* due to the benefits enjoyed by the society. In Romania, the state funds these services, both on account of taxes, general taxes, special purpose health fees collected from the state budget and local budgets and on account of the contributions paid by employees and employers to the national health insurance fund. Note that over 85% of public funds come from the national fund for health insurance; the actual financing from the state budget is reduced to 15% from the public funds, meaning 0.67% of GDP. The question is whether these funds are sufficient to ensure the funding system, under which the private finance is only 23% of the total funding, and relies on direct payments to individuals. The reality provides the answer to this so-called dilemma. Funds are by far not enough. On one hand because the percentage of GDP is much lower compared to the developed countries of the Union, on the other hand the GDP in Romania is lower than in other countries, except Bulgaria. What can be done to improve the situation? *A first proposal* is to undertake measures to reduce the undeclared work. If this is successful, then the revenue from the health insurance contributions will automatically increase. *A second proposal* is to apply the health insurance contributions to the pensions that are above the minimum wage, not just to those over 1,000 lei, as all employees, regardless of their income level and age and health state pay contributions and it would be fair that pensioners with pensions above the minimum wage to help, given the fact that they consume a large portion of these services. *A third proposal* is that the state recognizes the importance of a viable system of health and welfare that ensures the citizens welfare and the country's economic and social progress, to recognize health, along with education as a national priority, and to act accordingly, increasing the proportion allocated to the health budget because funding should support new medical equipment and the construction of new hospitals, to create a quality infrastructure; and the current rate, of less than 1% of GDP allocated from the state budget is very low. To attract new financial resources to health domain, the government introduced the levy of vice, on alcohol and tobacco, and the clawback system. It remains to be seen whether these mechanisms will give the expected results. But I believe that the vice tax (for cigarettes the sum of 10 Euros/1.000 cigarettes; for cigars with € 10 euro/1.000 pieces; for smoking tobacco the sum of 13 Euros / kg; for beverages drinks 2 Euros / per liter of pure alcohol⁸⁸⁷) will do nothing but increase tax evasion and the smuggling of such products, leading to lower revenue from excise duties. *Applying the clawback system* starting with October 1 2009, in order to collect additional funds necessary to fund the health system in view of its under-funding in Romania to the EU average, but this system is poorly understood, and applied in its current form, will generate adverse effects. As it is understood in Romania and how is implemented this clawback system requires that all medicinal products manufacturers which unfold once Romanian market to help fund the public health system by 5% to 11% from the revenues from the sale of medicines . Applying the clawback system in its current form will lead to both reducing the number of pharmaceutical companies and the number of products available on the Romanian market, which will affect the industry, and especially the patients. In the developed countries this clawback system is used, but is seen as a safety mechanism in case of exceeding the budgets approved by producers and financiers and it applies "only to what exceeds the initial budget and is funded through the reimbursement system"⁸⁸⁸.

⁸⁸⁷ Legea 95/2006 actualizată.

⁸⁸⁸ <http://www.capital.ro/articol/sistemul-clawback-poate-duce-la-disparitia-a-30-din-medicamente-26490.html>.

- ***From the private sources of health financing***, which should come from both individuals and legal entities that must be involved in the process of health financing. A solution for this conclusion would be to boost the private health insurance by individuals and / or employers, as benefits offered to employees, but that would not come to the detriment of the social insurances. The private health insurances are very poorly developed in Romania, compared to the other EU countries, or with the U.S. ones, where these insurances represent the peak in this area, the U.S. health insurances are largely private, the state funds this service only for disadvantaged people and for people over 65 years, but the U.S. is not the model that we should follow, because although it has the highest allocation to health per capita, many citizens are not caught in any health insurance scheme, a fact that has serious consequences, which shows the disadvantages of this system.

The private health insurances in Romania, in the year 2008 represented only 1% of the total insurance market in Romania, but this is a market that has potential in the future. Such insurances are relatively new on the Romanian market, they entered our market only in 2005, and the number of companies offering this product was low. Analyzing the situation of the private insurances in the European countries, it notes that they are contracted by people with a higher education, and a high financial strength, rising barriers for the elderly and the sick, because the private health insurance companies follow a risk selection, regardless of fairness, of freedom of access to services, their purpose being to obtain the highest profit possible. It is however necessary to develop the private health insurance sector, which will increase the quality of the services provided, but will also have a role that will reduce the out of pocket payments made by individuals, and the informal ones, that affects the living standards especially for the poor and their access to such services. The private health insurances can be complementary, meaning they provide financing for public services of health and medicines, or can be auxiliary, meaning they cover medical services not offered by the public health system, or in some cases (eg Germany) foster the social ones.

The potential benefits to determine the need for private health insurance concerns: limiting the public spending for health, increasing the choice among consumers of such services, stimulating private initiative in providing health services, stimulating competition between the public and the private sector involved in increasing the quality of services, increasing choices for people with a good financial standing⁸⁸⁹.

The co-payments should be set carefully so that they would achieve its desire "to give value for money", but do not to impede the access to the medical services for disadvantaged people. In this respect it should be maintained some exceptions from the payment of the co-payments, which will be borne by the state budget for the poor people, whether or not they are retired, and for the chronic patients.

Another form of health financing from private sources, involving citizens and economic agents are the ***subscriptions to private health clinics***, that recorded a higher rising than the private health insurance system in Romania. In 2008, the subscriptions to private clinics value in Romania were about 3.6 times higher than the private insurances. These subscriptions are purchased by individuals, but as practice has shown, these were purchased in proportion of over 70% by legal entities because of the obligation to ensure the occupational health services for employees. Gradually, however, given that employers want to give employees other benefits in addition to those included in the mandatory occupational medicine, that have extended the service plan, this was also due to the fact that these subscriptions are fully deductible for the employer. The private health insurances are not so attractive for employers towards their

⁸⁸⁹Sarah Thomson, Thomas Foubister, Elias Mossialos - ***Financing Health Care in the EU. Challenges and Policy Responses***, European Observatory on Health Systems and Policies, 2009, pag. 57.

subscriptions due to their limited deductibility (250 Euros per year per employee, what exceeds is considered a non-deductible expense). However, the range of health services offered by subscription is smaller than those offered by the private health insurance, and are subject to a single clinic, while the insurance gives the customer the liberty to choose from several medical clinics.

Conclusions

An optimal health system must ensure that all citizens have free access to medical services, and to determine the effective use of funds. A comparative analysis of the situation from various countries concluded that this goal can be achieved only through a system of public financing. For example, if the U.S. health financing is largely private, but even with the highest health expenditure per capita in the world, has the highest rate of people who do not receive any form of health insurance: nor from the private insurance because they don't have enough money, nor from the public one because they are not poor enough.

It is advisable to increase the interest in the private health insurance, particularly among people with a good financial situation, and should be viewed as a mean of raising necessary revenue for funding health, especially in Romania where we notice that the sector suffers from acute underfunding. However, so that it is not understood that I support the disengagement of the states involvement in financing the health system because it is entirely appropriate for the state to involve itself in order to ensure the fairness of the system, because the private health insurance companies, which are profit driven, will be interested to attract healthy persons, meaning with low risks and a high income.

Related to the clawback system, the Romanian government should stop this tax applied in its current form, as it does nothing but harm the private initiative. This system should be applied, as it was originally conceived, and as it is used in other countries, as a safety mechanism, in exceptional cases.

The direct payments used in sizeable proportion in Romania for funding health from private sources, whether represented by the full payment of the service, or by co-payments, affect the people's free access to these services. The poor or the elderly could reduce the consumption of such necessary care due to the inability to pay, and the reality in the countries applying these co-payments as forms of financing has proven that this lead to no considerable increase in funds for health, nor enhanced the quality of the services, that's why we must maintain some exceptions from their payment, or they must be even eliminated.

France can be considered as a model in terms of health financing system, the state covers between 70-80% of health expenditures, the rest being covered from private sources, mainly from private health insurances. Thus it succeeds to take care of the health of the middle class and poor people, allowing the rich to pay for high quality health services. This should be the objective of Romania also. The German system is similar to this one, in Germany all persons are obliged to a health insurance, but health insurance is mandatory only for those with an annual income under 48 000 Euros. People who have an annual income above this limit (less than 20% of total population) may choose to end a private health insurance, that takes the place of the public one, about 75% of them decide to remain in the public system, and only 10% of the population have private insurance.

We therefore reach the conclusion that the health financing system that best meets the optimal criteria is the public one, but here a problem arises, namely, the structure of the public financing system, should rely on the social health insurance contributions, or on the funding from the state budget from general taxes. I believe that a system of public health funding should be based not only on contributions, but also on funding from the state budget; therefore it should combine the two public sources. If it were based solely on contributions, then the earnings should be volatile towards the economic cyclicity, and would not ensure the fiscal sustainability of the system. The contribution revenues are sharply reduced in periods of recession, when the unemployment

increases, also, the underground economy and the illegal employment also affect these samplings.

In the current case of Romania, it is appropriate to extend the funding from the state budget, which is currently very low, approximately 15% of the total public funding for health system relies too much on the contributions to the social health insurance borne by employers, employees and by some retirees. The state must bear to ensure the people that do not participate to the contributory system and also the capital expenditures and investments in the Romanian health system should be a priority for the government because it is obvious the lack of modern equipment, inadequate hospital beds, and these real problems cannot be solved in the absence of adequate financial support from the state. In a funding system based primarily on social security contributions, strengthening the states involvement through funding from the state budget contributes to increase the financial protection of the health system but also increases the equity in terms of populations access to health services⁸⁹⁰.

The private health financing system should be based on private insurances, and not on direct payments as it is in the current case, private insurances should have a predominantly complementary nature (covering the co-payments for those that are forced to bear them), and only in the case of rich people it can be substituted, but in this case the mandatory health insurance should be imposed, so that there are no persons that would not receive any form of health insurance.

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⁸⁹⁰Sarah Thomson, Thomas Foubister, Elias Mossialos - *Financing Health Care in the EU. Challenges and Policy Responses*, European Observatory on Health Systems and Policies, 2009, pag. 54.

THE SELECTION OF OBJECTIVES BY FISCAL POLITICS

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Summary: The multitude of fiscal politics` objectives supposes a rational and a well-informed selection of them. Fiscal politics handle specific instruments and levers , producing effects which are hard enough to be quantified and reactions, which most of the time are unforeseen by the payers in their quality as productive or final consumers. The perfection of the proposed alternatives is necessary on the one hand , but hard to be realized on the other hand.

The substantiation of fiscal politics aims two types of decisions, irrespective of the time horizon for which the politics promote the objective. Namely, it refers to the changes inside the fiscal system and, on the other hand , to the changes that are produced in payers` behavior.

The changes inside the fiscal system on their turn , will be materialized in legislative adjustments and in adjustments of fiscal procedures.

Fiscal legislation based especially on Fiscal Code (Law 571/ 2003) also contains other secondary normative acts, such as orders, government decisions, methodological norms and fiscal law` s application instructions.

Taxes settled on the settlements specific to the domain generate different and sometimes even opposite conditions of senses, but they also influence the environment, which is the social and economic one , especially and the payers` behavior particularly.

Influences on the behalf of taxes will also manifest on fiscal system , on budgetary one in extension and on institutional system in general.

The most important reactions , from the fiscal politics point of view , are those that proceed from economic agents.

Taxes, the functionality of fiscal system, its relations with the payers and influences looked on economy are settled by juridical laws, specific subjective laws.

The functionality of fiscal system alters depending on the functionality of each undermechanism for each tax partly.

As any mechanism , the taxes mechanism too can be burden by the influences from economic environment. Some of these , such as repeated updates of fiscal legislation , fiscal dodge , measures of fiscal harmonization , reconciliation of accounting evidence with the fiscal one, the system of transfer prices, and others are some actual issues of the present fiscality.

- 1) Too thick adjustments of fiscal legislation produce incoherence in the activity of office workers in the fiscal domain and in the same time produce difficulties for payers who, on their turn, spend an important part of their precious time for maintaining their relation with fiscal organ.
- 2) Different fiscal pressure for physical persons and for the juridical ones generates different effects on payers , influencing their decisions regarding the kind of tax and the chosen contributions to be owed.

If tax benefit payers who owe proportional quotation benefited by a huge decrease of fiscality degree, just as economic agents of microindustrial units type , not the same thing can be said about payers, physical persons , even in the conditions in which proportional quotation took place of the progressive quotations in trance starting with the year 2005. It cannot be said the same thing because the incomes of physical persons , especially those realized by work, are liable to contributions to social insurances budget, to health insurances budget, to unemployment insurances budget and also to special

funds , of risks and accidents , of insurance of salary lacks and others, specific to some domains of activity.

- 3) Fiscal advantages and fiscal constraints , in the 3rd place, present a specific and direct influence on payers.

It is known from daily life that tax payer is interested first of all by avoiding the fiscal law and by acceptance of the possible advantages offered by it.

Fiscal advantages are grouped in two components , namely fiscal deductions and decreases of taxes. Fiscal deductions are parts of taxed basis , incomes , property , expenses, activities, exonerated from imposition, sometimes conditioned or other times unconditioned.

Fiscal deduce riles from imposable base as incomes are found in fiscal practice as scot free income, as personal decreases, as monthly fixed sums, or conditioned by the existence in payer`s intersidereal of other persons without incomes, as well as contributions and social dues, syndicate dues or parts of monthly or annual incomes conditioned by the expense of these incomes, these being justified with payment documents of different kinds.

Decreases to taxes payment represent parts of calculated taxes which, according to fiscal law, are not paid. If the deductions are 100% , we talk about the exemption from taxes, even if it was calculated depending on legislative settlements.

Iffiscaldeductions are handled with a view to a selective encouraging of consumption, fiscal decreases are destined to encouraging of offer.

Encouraging the consumption on fiscal ways aims especially the tax on physical persons` incomes , actually aims the unproductive consumption , but also the productive one by warming up of the demand.

Global and familial imposition of physical persons` incomes offers multiple possibilities of encouraging the expense of incomes and sometimes of saving.

Decreases on tax payment are most of the time conditioned by the benefit reinvestment , by the sale of the production at export or other similar conditions.

In the same category is included the external fiscal credit which actually aims paid tax abroad and which will be recognized till the tax level that would have been paid in the country, actually an usual credit (the procedure of usual credit).

Such a fiscal measure regarding the exemption from taxes on reinvested benefitis settled by Law 329/ 2009 , witha well- established aim, that of encouraging the production of offer by sustaining the productive consumption. This fiscal measure with an effect of lever , otherwise salutary, must be looked at by the viewpoint of evolution of production structure in the next few years, period that will pick up all the results of the politics promoted in this way.

But the next question is put, namely, if and for how long, the initial structure of production will not suffer modifications at consumers` demand. On what period of time will resist the same structure of raising the production as a result of tax` reinvestment.

The main issue is that of perfection of fiscal politics alternatives and of choosing of its orientation to consumatory fiscal politics or to that which aims the offer.

Most of the time fiscal politics end with unexpected results, different from the initial intentions. For example, we do not know without a projective documentation , if still after an year or more , consumers will buy objects of domestic use with current facilities , or simpler, we do not know if the next year too, the sales of beer -xxl- will raise. The most exposed domains to such a dissolution are the high-tech ones. Sometime the simpler measures can be more efficient than decreasing or increasing of fiscal charge.

We have to emphasize that in this context another problem appears , undetached by fiscal politics , namely the problem of fiscal equity, a large issue which from quantitative reasons, we put it off for another study of specialization.

Also, the issue of budgetary finance is bound up directly with the evolution of budgetary returns as a result of changes in fiscal politics. The budgetary deficit at which it comes to as a result of increasing the expenses and / or reducing the taxes ` level can lead to a rapid increase of public debt.

Credits for financing the budgetary deficit can determine the increasing of interest rate , fact which determines the economic agents (sellers and buyers) to loan less and, at the same time, to spend less than they have planned to , thus fiscal politics directed to offer will cancel the measures directed to consumption.

More than that, the issue of rate interest comes to light, without which fiscal politics cannot be promoted , no matter of its orientation. Influences from and to rate interest are known especially from the context of keinesian politics.

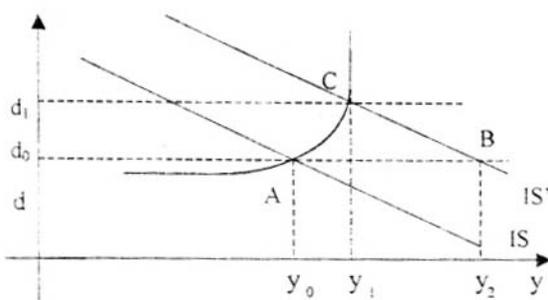
The most important aim would be maintaining under control the report between offer and demand , and if we have in mind a macroeconomic model of a closed economy, with a public sector included in it, than the equilibrium on properties and services market takes place , when the aggregate demand is equal to the aggregate offer.

If the fiscality increases , that the state `s incomes increase too, and also increase the productive and unproductive expenses. Through the mediation of consumption, the aggregate expenses (G) will be influenced directly.

$$\Delta Y = \Delta G \left(\frac{1}{1-m} \right)$$

In which $\left(\frac{1}{1-m} \right)$ is the multiplier of government expenses.

But if the taxes decline, the aggregate expenses will be decreased and the multiplier of taxes will have a negative sign , because by the increase of taxes the intern product is decreased and conversely, so it is a conversely proportional relation .



Y = I.G.P. (internal gross product)

D = the interest rate

If the fiscality rate grows, the IS curve will move towards left with the value of taxes ` increase multiplied with the fiscal multiplier. The effects will be reverse, leading to a reduction of economic activity. Fiscal politics can be such conceived that the action of fiscal multipliers and of public expenses to generate the least negative effects and the most searched ones. Of the tax as

instrument of random regulation of some given economic situations or of some social reports and it has secondary consequences of the followed aim, namely, that of complication of the fiscal system and of rendering more difficult of fiscal activity or appears the risk of reverse or belated effect, which once released cannot be controlled or eliminated.

The modifications of fiscal laws suppose a certain time and the rhythm of changes in fiscal politics is not always the wanted one . that is why when it is decided a choice of a variable in fiscal part, it is necessary an analysis of effort as well as of this change effect on short time or in the future. These decisions are marked by the permanent and acute need of resources at the state budget, fact which generate difficulties and conditions in the most efficient choice of modalityways of financing the public needs and the state budget especially.

There are three possibilities of financing them : from taxes, public credits and currency emission. It seems that financing from taxes is the most efficient modality of counteract the random effects, but with results on long time , because fiscal laws remain operative on longer periods of time usually.

In an economy lacked of economic increase and of an absolute unutilisation of labor , with a temperate fiscality (fiscal neutrality) , the only possibility to relaunch the economy is to increase the public expenses, followed by an increase of global demand and of consumption.

Not all the time the effects of government politics are the expected ones and at least the following two reasons have to be referred to,for whichfiscal politics could have unexpected and unwanted effects, namely, allowing the govern to have a deficit the constraints on expenses and the politic responsibility of those who take decisions regarding the budget are modified (that leads to huge and successive deficits , as well as to rapid increase of public debt) , in order to cover the expenses that outrun the incomes fromtaxes , state has to borrow money. This credit for financing the budgetary deficit can determine the increase of interest rate, fact which willbe felt in the activity of economic agents.

They will ask less credits and will spend less than they would have wanted to.

The system of budgetary expenses and incomes makes up the basis of a detailed analysis of a country ` ssocial –economic situation , following to be established the imposed measures for macroeconomic regulation.

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REASONS ABOUT THE CONCILIATION OF NET ACCOUNTING RESULT WITH FISCALITY

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The determination of the result of fiscal exercise supposes the utilization of accounting information just like they are offered by financial situations elaborated at the end of the yearly financial exercise. The net accounting result is adjusted such as Fiscal Code asks to be, on the account of non-deductible fiscally expenses and of scot free incomes. In this context the harmonization of fiscal settlements with the accounting ones supposes the joining of knowledge and techniques specific to these two domains.

The accounting information lies at the basis of the establishing the net accounting result and, finally, of the fiscal result. The net accounting result represents the difference between incomes and expenses at the end of financial exercise, inclusively the expenses with the taxbenefit, actually, represents the final balance of the account of benefit and loses.

Fiscal law does not totally know the expenses that sanctioned the accounting result, so that this will be adjusted according to the fiscal law with so-called non-deductible expenses and with untaxed incomes. In this context contability is a source of information for fiscality, and on the other side, these two have on their basis different principles and rules.

Each payer, juridical persons, but also authorized physical persons, elaborate financial situations and fiscal declarations, more than that, they are obliged by the operative legislation for those two domains. Thus, according to the point 12 of Methodological norms of application of Law no. 571/ 2003 regarding Fiscal Code, approved by Government Decision no. 44/ 2004, incomes and expenses that are considered in the establishing the untaxed benefit are those registered in contability according to the accounting settlements stipulated in Contability's Law no. 82 / 1991, republished, with further modifications and completions, as well as any other elements similar to incomes and expenses, from which are deduced untaxed incomes and are added non-deductible expenses, according to the stipulations of article 21 of Fiscal Code.

The basis of this relation is bound up directly with the calculation of taxed benefit, as taxed basis for tax benefit. As it is known the legislation that correspond to tax benefit, as well as in general, modifies itself at short periods of time, while the accounting settlements have a more reduced dynamics.

As fiscal legislation differs in simple adjustments from the accounting one, the instrument of adjustment – conciliation is fiscal declaration, by which accounting result is adjusted to the level of fiscal law's demands.

Contability, on its turn, offers a conciliation solution between those two results by the application of IAS 12 – Tax benefit. This norm presents the modality of reconciliation between accounting benefit and the fiscal one, the used instrument being the tax on adjourned benefit, also for intermediary reports IAS 34 is applied – Intermediary financial report.

It is known that accounting result is determined by closing the incomes and expenses accounts, as a result of recognitions in the exercise's result according to the operative accounting settlements.

But as a rule, fiscal result differs from the accounting one and in these cases for establishing the tax benefit it is necessary to process the information from the accounting evidence by elaborating an account of fiscal evidence in which will be included all the adjustments made on the accounting result in establishing the tax benefit and inclusively of owed tax benefit.

For establishing the adjourned tax benefit, the economic agent has to recognize a credit or a debt, in conditions in which it is possible that the retrieving or the discount of the accounting value of a debt to determine the effectuation of some bigger or less future payments regarding the current tax benefit, than it would normally be their value if such a retrieving or discount would not have fiscal consequences.

The conciliation contability – fiscality in the context of this standard supposes a certain treatment regarding the bodily and non-bodily immobilizations, financial immobilizations, stocks, depreciations and provisions, own capitals, interest expenses, incomes from the rate of exchange differences, registered in the contability of current tax benefit and of the adjourned one and some others of the same kind bounded up with the active and passive patrimonial entities.

The main aim of this scientific approach in this domain is to discover and to delimitate the generating connections of organizational potential and of efficiency between taxes that form the actual fiscal system and the connections between the components of fiscal system and between this and payers.

We consider that a special importance in the adjustment of accounting result, has the interpretation of non-deductible and partly non-deductible expenses. Thus, the protocol expenses are deductible according to a quota of 2% applied upon the difference that results from the total of taxed incomes and the total of the expenses added to taxed incomes, others than the protocol expenses and expenses with tax benefit, expenses on official trip pays accorded to employers for official trips in Romania and abroad, it is deductible according to a quota of 2,5 times the legal level established for public situations. Social expenses are deductible according to a quota of 2% applied on the value of expenses with staff salaries, responsibilities, in the bounds established by the speciality organs of central administration, expenses representing meal tickets, accorded by employers, are deductible depending on the limit established by annual budgetary law.

Also, the made expenses, in the name of an employee to the schemes of optional pensions, in the limit of a sum representing the equivalent in RON of 200 EURO in a fiscal year for each participant, expenses with the premiums of voluntary health insurance, are deductible in the limit of a sum representing the equivalent in RON of 200 EURO in a fiscal year for each participant.

Other expensive partially deductible are those for functioning, entertaining and repairing of the job dwellings, expenses of functioning, entertaining and repairing an added premises in the own dwelling of a physical person, used for personal purpose, deductible in the limit that corresponds to the surfaces put at the society's disposal in the base of contracts made between parts, expenses of functioning, entertaining and repairing of the cars used by the leaders and managers of juridical persons, deductible reduced at the most one car to a physical person with such responsibilities.

More expenses are not deductible in their totality as registered expenses and which sanctioned the result of the exercise, such as expenses on tax benefit, inclusively those representing differences from previous years or from last year, as well as paid taxes abroad.

Are non-deductible taxes with restraint at source paid in the name of physical and juridical persons which are not resident for the incomes realized in Romania. Expenses on adjourned tax profit, registered by payer, are also non-deductible.

Expenses with the goods as stocks established absent in financial administration or degraded and non-imputable, inclusively the tax on corresponding added value, expense with the non-repaid value of bodily actives which are not in the administration or are destroyed, for which have not been made insurance contracts, also it is not a deductible fiscally expense, inclusively the tax on corresponding added value. The expense with the non-repaid value of bodily actives which are absent in administration or destroyed, that surpluses to the retrieved value on the basis of insurance contracts that were made, inclusively the tax on corresponding added value, depending on the case, it is not deductible fiscally.

Expenses representing losses of value of participation titles, as a result of the social capital's value reduction at the commercial society at which are owned the titles or as a result of quotation's modification on exchanging market, are not deductible expenses at the calculation of taxed benefit, because beforehand they had been deductible and thus the deductivity would double and fiscal result would be falsified. The expenses representing the value of participation titles, transactioned or cessioned, do not come under the incidence of these stipulations.

In the case of sales of the participation titles, taxed benefit is determined as difference between the value obtained from the sale and the nominal value in case of 1st sale or the acquisition price or fiscal value defined according to art. 27 of Fiscal Code.

At the removal from financial administration of the participation titles it can be used one of the methods used for removal from financial administration of the stocks.

In order to deduct the expenses with the services of management, consulting, assistance or other services it has to be accomplished in the same time more conditions, namely, services have to be efficiently performed, to be executed on the base of a contract which to contain data concerning the performants, the execution dates, the explanation of made services, as well as the prices, respectively the total value of the contract and the separation of this kind of expenses to be made on the whole period of contract progress or on the period of realization of contract's objective; the effective performance of services is justified by works situations, reports reception, work reports, market studies or any other corresponding materials.

For the services of management, consulting and technical assistance performed by those persons that are not resident, but are affiliated to payer, at the analysis of transaction for establishing the expenses' deductivity, we have to refer to the involved parts, to the nature of performed services, to the recognition elements of expenses and incomes on the basis of explanatory documents which to certify the performance of these services.

Other expenses, such as those with interest and with exchanging differences or those with repayment suppose a more special treatment and Fiscal Code gives the proper attention to these expenses, namely: expenses with interest are totally deductible in case in which the capital obligation extent is less or equal to three. The capital obligation extent is established as report between the borrowed capital with term of repayment after an year and own capital, as average of the values extant at the beginning of the year and at the end of the period for which is established the tax benefit. By borrowed capital we understand all the credits and loans with term of repayment after an year.

If the capital obligation extent is above three, the expenses with interest and with net loss from the currency differences are not deductible.

In the case in which expenses with currency differences of the payer outrun the incomes from currency differences, this difference will be considered as an expense with interest.

For the deduction of expenses with currency differences are taken into considerations those corresponding to credits that compete for establishing the capital obligation extent.

In the case of credits obtained from other states, the deductible interests are limited to the level of reference interest of National Romanian Bank, adequate to the last month of the quarter, for credits in RON and the level of rate interest of 9 % for credits in foreign currency.

The deduction of repayment expenses is limited depending on repayment system.

Expenses adequate to acquisition, producing, building, installing or bettering of repaid fixed means are recovering from fiscal viewpoint by the deduction of repayment.

The deduction of expenses with provisions' setting up supposes a consideration from two parts, namely, firstly as a deductible expense or a non-deductive one for the part that does not respect the deduction conditions and secondly are considered as reserves for the protected objective.

Expenses with the added value tax for the given free or for sales under the market price are not deductible and in the same time it puts a special issue from fiscal viewpoint, namely, the added value tax is a consumption tax that is not included into the goods' price, but it only consorts it,

and still the means of taxes` administration encroach upon the general procedures and rules specific to some well – individualized taxes.

The consumption taxes are now included into the goods` price , an abnormality at least as significant as the exemption from added value taxes without a deduction right , which also is included into prices although the general rule does not suppose that.

The adjustment of net accounting result with the stipulations of fiscal laws represents one of the issues of conciliation between contability and fiscality, a large enough problem regarding the proportion of the operations specific to payers , but also to fiscal organs bound to the elaboration of fiscal declaration regarding the tax benefit and to their processing and control.

The relation contability – fiscality would be simpler and easier to conciliate if the fiscal legislation would be simpler and would prove a bigger independence than the accounting evidence.

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FINANCIAL RATIO ANALYSIS USED IN THE IT ENTERPRISES

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In the present paper the authors show the modality of analysing the IT entities using Du Pont method.

Key words: Return On Equity, Return On Assets, Leverage

Cod JEL: G32

1. Introduction

Ratio analysis is the method or process by which the relationship of items or group of items in the financial statement are computed, determined and presented. Ratio analysis can be used both in trend and static analysis. There are several ratios at the disposal of an analyst but their group of ratio he would prefer depends on the purpose and the objective of analysis.

A ratio “is one figure express in terms of another figure. It is a mathematical yardstick that measures the relationship two figures, which are related to each other and mutually interdependent.”⁸⁹¹ As accounting ratio is an expression relating two figures or accounts or two sets of account heads or group contain in the financial statements.

Ratio is work out to analyze the following aspects of business organization such as: solvency, stability, profitability etc. In the next figure is a depiction of the ratio analysis relationships with specific aspects of business organization.

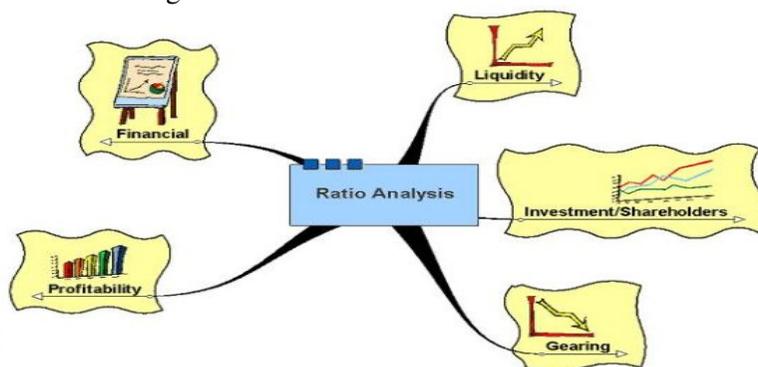


Figure 0. Ratio Analysis

(Source: <http://pakistanmba.jimdo.com/>)

⁸⁹¹ <http://pakistanmba.jimdo.com/>

In interpreting the ratio of a particular firm, the analyst cannot reach any fruitful conclusion unless the calculated ratio is compared with some predetermined standard.

2. Case study

Our research is based on the financial information for the I.R.I.S. Group (Belgium), Sybase (USA), Access Commerce (France), BMC Software (USA), Sopheon (Netherlands), Keyware Technologies (Belgium), Lectra (France), Linedata Services (France), Esker (France) and Dassault Systems (France).

All the companies presented in this essay are listed to the New York Stock Exchange, under the technology industry, software and computer service sector.

Financial ratios are usually used to evaluate five aspects of operating performance and financial condition: return on investment, liquidity, profitability, activity and financial leverage. We have applied these ratios to the software cluster, based on financial reports.

In this study we present the financial analysis ratios based on Du Pont System.

The returns on investment ratios give us a “bottom line” on the performance of the cluster, but don’t tell us anything about the “why” behind this performance. For an understanding of the “why”, a method that is useful in examining the source of performance is the Du Pont System⁸⁹². The Du Pont System is a method of breaking down return ratios into their components to determine which areas are responsible for a firm’s performance.

$$ROA = \frac{EBIT}{Total\ Asset} = \frac{EBIT}{Sales} * \frac{Sales}{Total\ Asset} = ROS * Asset\ Turnover.$$

Return on sales (ROS) or operating profit margin, indicates the percentage of each sales euro represented by operating income. Asset turnover indicates the number of sales euro produced by each euro invested in operating assets. In the next table is a depiction of the ROA, ROS and asset turnover for the five years of the analysis.

Year	ROA	ROS	Asset Turnover
2004	6,48	11,45	0.5655
2005	4,92	8,53	0.5766
2006	6,66	11,69	0.5701
2007	7,71	14,27	0.5405
2008	8,85	15,61	0.5671

Table 0-1 Return on Asset’s Components

We can see that although the asset turnover increased from 2004 to 2008 (from 0.5655 to 0.5671), ROS increased (from 11,45% to 15,61%) and the ROA increased a lot (from 6,48% to 8,85%).

The return on assets ratio that uses net income can be broken down into its components in a

similar manner: $ROA = \frac{Net\ Income}{Sales} * \frac{Sales}{Total\ Asset} = Net\ Profit\ Margin * Asset\ Turnover$

We can relate the basic earning power ratio to the return on assets, recognizing that:⁸⁹³

$$Net\ Income = Earnings\ Before\ Tax * (1 - Tax\ Rate).$$

It results that:

$$Net\ Income = EBIT * \frac{Earnings\ Before\ Tax}{EBIT} * (1 - Tax\ Rate). \text{ Therefore, we can say that:}$$

$$Net\ Income = EBIT * Equity's\ Share\ of\ Earnings * Tax\ Retention\ %.$$

⁸⁹² This method of analyzing return ratios in terms of profit margin and turnover ratios, referred to as the Du Pont System, is credited to the E.I. Du Pont Corporation, whose management developed a system of breaking down return ratios into their components. This is due to American Management Association, *Executive Committee Control Charts*, AMA Management Bulletin No. 6, 1960, p. 22

⁸⁹³ Frank J. Fabozzi, Pamela P. Peterson, **Financial Management and Analysis**, Second Edition, John Wiley & Sons, Inc., Hoboken, New Jersey, 2003, p. 727

Going back to ROA, we will obtain the following expression:

$$ROA = \frac{EBIT}{Sales} * \frac{Sales}{TotalAssets} * \frac{EarningsBeforeTax}{EBIT} * (1 - TaxRate)$$

Therefore, we can say that: ROA=ROS*Asset Turnover*Equity's Share of Earnings*Tax Retention.

The breakdown of a return-on-equity ratio requires a bit more decomposition:

$$ROE = \frac{NetIncome}{Shareholders' Equity} \text{ and } ROA = \frac{NetIncome}{TotalAssets}$$

$$ROE = ROA * \frac{TotalAssets}{Shareholders' Equity}$$

It results that: The ratio of total assets to shareholders' equity is referred to as the equity multiplier. The equity multiplier, therefore, captures the effects of how a company finances its assets, referred to as its financial leverage.

ROE=ROA*(Equity Multiplier or Financial Leverage).

$$ROE = \frac{NetIncome}{Sales} * \frac{Sales}{TotalAssets} * \frac{TotalAssets}{Shareholders' Equity}$$

It results that:

ROE=Net profit Margin*Asset Turnover*Equity Multiplier.

Applying this break down (of ROE) to the software cluster, it results the next table:

Year	ROE	Net Profit Margin	Asset Turnover	Financial Leverage or Equity Multiplier
2004	8,74	8.46	0.5655	1.8275
2005	7,59	6.77	0.5766	1.9436
2006	11,27	9.38	0.5701	2.1058
2007	11,84	9.90	0.5405	2.2134
2008	15,50	12.28	0.5671	2.2269

Table 0-2 Return on Equity's Components

Considering the above mentioned break down on, we calculated ROE by using its components, to determine which areas are responsible for the increase/decrease of ROE.

We see that although the asset turnover increased (from 56,55% in 2004 to 56,71% in 2008) and although the use of financial leverage increased also (from 1,82 in 2004 to 2,22 in 2008), net profit margin also increased (from 8,46% in 2005 to 12,28% in 2008), and the return on equity also increased from 8,74% in 2005 to 15,50% in 2008).

3. Conclusions

Looking at the calculated financial ratios, in conjunction with industry and economic data, we can make judgments about past and future financial performance and condition.

On the other hand, the Du Pont system breaks down return ratios into their profit margin and activity ratios, allowing us to analyze changes in return on investments.

These ratios are related closely to a firm's operating cycle, which tells us how long it takes a firm to turn its investment in current assets back into cash.

Profitability ratios tell us how well a firm manages its assets, typically in terms of the proportion of revenues that are left over after expenses.

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AGRICULTURAL INSURANCES – MEANS OF DEVELOPPING THE ROMANIAN AGRICULTURE AMONG THE E.U. COUNTRIES

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The experience of the developed countries has shown that it is completely delusional to try and create a modern agriculture without the powerful development of agricultural insurances.

Agriculture has always been one of the most important economic branches in Romania, as it has the highest value of all European countries by GDP (8-12%). This field represents an important direction in the economic development, especially due to the high potential of the agricultural development in the E.U. countries.

The present paper tries to illustrate the potential of agricultural insurances, their necessity, the general presentation of the domestic agricultural insurance market and that of the European Union's as well as the search for viable solutions of development in agriculture by the aid of insurances.

Keywords: agricultural insurances, agriculture, the European Union.

JEL Classification: G22, G19, Q14.

1. Introduction

Agricultural insurances are an important means of developing the Romanian agriculture among the EU countries. The reasons are the following: according to statistics, of the entire Romania territory of 23,8 million hectares the Romanian agricultural area is 14,7 million hectares (61,7%) out which only 9,4 million hectares are agricultural areas utilized for farming. Romania is the seventh European country in terms of agricultural area (after Spain, France, Great Britain, Germany, Italy, Poland) and the fifth in terms of agricultural area utilized for farming (after Spain, France, Germany and Poland)⁸⁹⁴. This makes the problem of rural development of great national and international relevance, as it also focuses on our country's huge economic potential among the EU member states.

In this context, Romania can become a strong competitor on the European Market if it knows how to use its resources and the EU financial support. Furthermore, the developed countries have proved that a successful agriculture cannot exist without a strong development of agricultural insurances, which are still not given the right status, though lately they have been granted more attention than usually.

2. The necessity of agricultural insurances

Insurances represent an element of reducing the economic uncertainty and a means of resuming the temporarily suspended activity. Insurances do not reduce the variety risks, but people are better prepared to face them. In the context of a free, undirected economy, any personal investment is exposed to risks and uncertainty; especially in agriculture where, due to specific problems regarding the production process – the large output cycle, the slow turning of capital, the rate of profit which is much lower compared to other economic branches – a strong protection of investments is required.

Agricultural insurances are extremely useful, because risks appear due to uncontrollable climatic changes. Hence, a modern agriculture with insurance services develops as farmers begin to change their way of thinking and understand that insurance means protecting themselves and

⁸⁹⁴ General view on Romania's agriculture and rural development, <http://www.madr.ro>.

most of all, protecting their agricultural investment. In our country, agricultural producers have restricted access to insuring their production, mainly because of the lack of financial possibilities to pay the insurance premium. In this case, insurances are accessible only to (trading) companies or to experienced economic agents. The bigger the natural disasters in the past years, the greater the necessity of insurance is, especially if we take into account the negative effect and the caused damages in economy.

3. Tapping the potential of agricultural insurance

The potential of agricultural insurances is high even if at present this type of business gives modest outputs. It will start to develop when agricultural producers become aware of the dangers their agricultural holding might be in and of the need of insurances to help them resume their temporarily suspended activity.

We may say that the Romanian market for agricultural insurances is emerging, and may become very successful in the industry of insurances. This market requires fair products adapted to the farmers' needs and possibilities, products that should represent a balance between the price of the policy, paid by the insurant, and the higher and higher risk in the crop, paid by the insurer. Although our country has some exceptional primary agricultural resources, due to both climatic conditions and to the agricultural area utilized for farming which is far more extended than in the European Community, the agriculture sector is still one of the most unprivileged fields.

If at present only 17% of the agricultural area utilized for farming is part of a form of insurance, and the average percentage in the European Community is approximately 65-70% of the insured potential, it is apparent that in Romania there is still a part of 48-53% (to meet the standards of the European Economic Community countries) of the insurable potential likely to be taken into consideration for insuring. The success of the rapid development of the agricultural insurance sector is mainly determined by the legislative coherence in the field of agriculture and, last but not least, by the ability of the insurance companies to offer insurance products of high quality and to treat their clients as partners of a shared, profitable business for both parties⁸⁹⁵.

4. The Romanian agricultural insurances

By means of an efficient development of rural areas, it is essential that the insurance industry should be responsible with the farmers' protection and with reducing costs from public money. The acceleration of agricultural crises, as a result of more and more frequent climatic changes in Romania (mainly the excessive drought, floods in extensive areas, strong storms) is the primary cause of all loss in the Romanian agriculture. The lack of investments in this field, the insecurity of the country's awarding grants to the agricultural producers, as well as the refusal of the insurance companies to comprise in the portfolio insurance such catastrophic risks as droughts and floods have led to a major deadlock in agriculture.

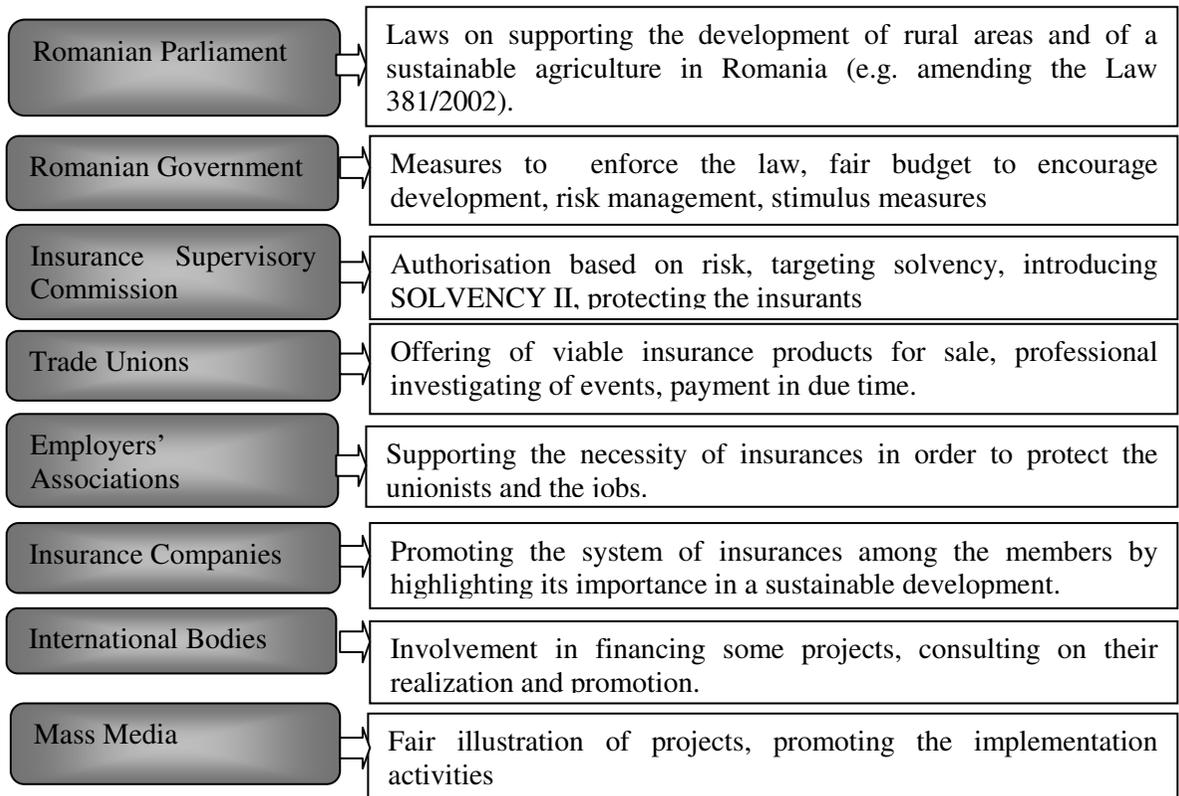
Romania is a great agricultural power; it is the world's sixth country with an exceptional potential, and we must try to fully exploit it⁸⁹⁶. The new European context requires an active system of insuring the farming, especially if we consider the fact that Romania is four times less insured than the European standards state.

In order for the insurance system in the rural areas to be successful, one must apply the following:

⁸⁹⁵ Ionete Andreea, *Interviu cu Anghel Burghilă*, <http://www.lasig.ro>, (2008).

⁸⁹⁶ Eremia C., *Protejarea producătorului agricol prin asigurare*, *Lumea Satului*, no. 21, (2008).

Figure no 1: Who has to be involved in the insurance system of a professional rural area?



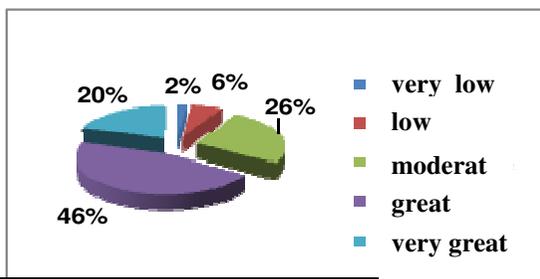
Source: Ciobotaru P.N., *Managementul riscurilor în agricultură*, <http://www.xprimm.ro>, (2009).

One question that may arise is if enforcing a complex program of transferring the financial risks is a solution to bring the economic sector afloat.

Thus, the Government should take part in improving legislation on agricultural insurances as well as in paying compensations; it should create secure and stable conditions in order to help improve the activity in this branch of the national economy. It is necessary that, regardless the conditions, the producers should preserve the ability to resume the production activity and to ensure constant market supply with foodstuffs. Locally, regionally and nationally, the food market should not be put at risk. It is also important that the role of the associations of producers in the development and efficient working of an agricultural insurance system in rural areas increase⁸⁹⁷.

Opinion Poll...

Graphic no.1: To what extent are insurances a solution in supporting the development of the Romanian agricultural sector?



According to Sergiu Costache's consumer survey 'To what extent are insurances a solution in supporting the development of the Romanian agricultural sector?' published in The National Conference of Agricultural Insurances in march 2009, most of the people who have taken the survey consider that insurances are a

⁸⁹⁷ Tabără V., *Cu natura nu te joci...*, Lumea Satului, Nr. 7,(2009).

solution for developing the national agricultural sector.

Source: Costache S., *Sondaj de opinie*, <http://www.xprimm.ro>, (2009).

5. A European perspective on agricultural insurances

In the European Union countries, the Government directly supports the sector of agricultural insurances by giving 50-80% of the insurance premiums related to natural risks. As for the major risks whose effects lead to important losses of agricultural productions on a large scale, the Government should take responsibility in supporting the farmers with the help of a specially created and administered fund. Such funds are: The National Solidarity Fund in Italy, The National Agricultural Disaster Guarantee Fund in France and The National Insurance Fund in Agriculture in Spain.

In the European Union countries, the governments give compensations by paying huge amounts of money for the insurance funds, which could not have been definitely paid by the private sector (insurance/reinsurance companies). Farmers are granted access to these funds only if they buy the insurance policy related to the natural risks that take place on confined areas. It is important that, by supporting the farmers' insurance policies, the government should bring its contribution to the stabilization of the production, as well as to the farmers' incomes and to the functionality of the insurance system of the rural areas' activities.

Spain is the country with the best developed agricultural insurance system in Europe, and most of the risks that might lead to a declining output are covered by insurance. The government, the farmers' associations and the insurers have agreed on the fact that a system of insurance for farmers, determined by a specific law, is the best solution to the management of the agricultural catastrophic losses.

France, Italy, Austria and Luxemburg also have a viable insurance system, and the loss of production is covered by insurance for most risks. The generally accepted solution is that of a basic insurance, for hail, to which a supplement for insuring the output is added; this supplement is partially paid by the government and it is useful for the most important risks that are characteristics to each and every one of the above-mentioned countries.

In Portugal and Sweden, as well as in most of the Central and Eastern European countries such as Bulgaria, the Czech Republic, Hungary, Romania, Slovakia and Slovenia, there is a basic insurance to which one can supplementary add, if available, an insurance for combined risks. This means that only hail and a small number of natural risks are covered by insurance.

There are also other countries in which the insurance for hail or other types of insurance for single risk are the only ones available. On markets as Belgium, Germany, Holland or Great Britain, the demand for other types of agricultural insurances is almost inexistent. Furthermore, there are no public subsidy formulae for agricultural insurances.

North-European countries are generally characterizes by a low level of demand for agricultural insurances, but solutions are still given in some countries: one example is 'the Corp Compensation Scheme' in Finland, whose role is to compensate for production losses caused by catastrophic natural risks.

A particular case is that of the systems in Greece and Cyprus, where there is a public system of agricultural compulsory insurance.

If the specialists' forecasts will prove to be true, in 2050 the European countries will have a different agricultural profit, which will lead to a different risk management scheme and, implicitly, to the need of adapting the insurance systems⁸⁹⁸.

⁸⁹⁸Ghetu, Daniela, "Agricultura asigurărilor. Sisteme de asigurări agricole din Uniunea Europeană", in PRIMM Asigurari & Pensi, no. 8 (2008), p. 16-19.

Unlike the European Union market, agricultural insurances in our countries are cheaper and not so common. In Italy, more than 905 of the agricultural area is insured, while in our country only 1 million out of 9 million hectares is insured.

In Italy, there is a tradition that people do not even sign the policy. They take out a multiannual policy for 5-10 years and when the policy expires, the insured's duty is to send the insurer a note in which he states that he agrees to renew the policy and the sum he pays to do so.

There is a big difference so as to the taxes. If in Italy the value of the insurance is no less than 6% of the entire insured money, in Spain it is 7%, in Holland, more than 9%, in Romania there are companies that do it for 0,8-0,9%. The average is 2,5%.

The insurers explain the low taxes by stating that some companies have bidden for very low prices so as to enter the market. But the insureds have become accustomed with these taxes and look for the best offer. Yet, the important agricultural insurance companies do not accept negotiations of this type, although the risk of not fulfilling the target is high⁸⁹⁹.

6. Promoting agricultural insurances

With a view to have a competitive agriculture and insurance system there are two categories of solutions: some that depend on the insurance companies and some that depend on the regulatory authorities in the domain, here referring to the Insurance Supervisory Commission and the Minister of Agriculture.

Some of the measures that could stimulate the development of agricultural insurances are:

- one of the measures is the granting of at least 50% of the insurance premium;
- improving existing legislation in this field, because it has a particular feature that needs special attention (e.g. by amending Law 381/2002);
 - paying for the losses in due time, so that the farmers could resume their temporarily suspended activity;
 - the need of reconsidering the product offer by the insurers and adapting them to the farmers' needs and possibilities;
 - reorganizing the insurance system by means of a public-private partnership or other methods such as the Ministry's imposing of minimum taxes, based on risk management, or the companies' taking over of catastrophic risks, taking into account the country's involvement in creating a fund that would cover these risks or a reinsurance company for agriculture.

7. Conclusions

Agricultural insurances play a significant role in stimulating agricultural investments and stabilizing the agricultural farmers' incomes. Granting the insurance premiums may be a starting point in a sustainable development of both the agricultural insurance sector and the Romanian agriculture.

The potential of agricultural insurances is high even if at present this type of business gives modest outputs. It will start to develop when agricultural producers become aware of the dangers their agricultural holding might be in and of the need of insurances to help them resume their temporarily suspended activity. Thus, we have to highlight the development of the energy crop insurances (for instance, rapeseed).

Agricultural insurances are influenced by the division of the real property, the creation of a large number of private producers whose output is non-productive, the abandoning of farms and the lack of financial support from the Government and the banks. Moreover, the lack of high technology, of financial support for agricultural producers, as well as the poor information on

⁸⁹⁹ European funds will give an impulse to agricultural insurances, <http://www.asigurari.ro>, (2008).

insurance given to the farmers are the main obstacles in developing the agriculture and the agricultural insurance market.

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CONSIDERATIONS ON THE MEASURES TO COUNTER THE RISK OF BANKRUPTCY FOR SMES DURING THE FINANCIAL CRISIS

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The financial crisis in Romania has expressed in an eloquent manner and meant large negative effects, such as external factors generated by trigger of the financial crisis in Romania in October 2008 and internal factors for society that fundamentally influenced the decreasing of funding in 2009.

Promotion of private initiative is, in our opinion, one of the methods that attenuate the financial effort of state for social segment which generates costs and, is producing revenue for the state. In this paper we promote the idea of opening a fundamental process of restructuring the SME's management mentality, that of safeguarding of the enterprises with existing instruments, but also with new proposals to the Government, for regeneration as soon as possible of the country's economic and human factors capable of working.

Keywords: bankruptcy, SME, Reorganization, companies, crisis, fusion.

JEL code: G - Financial Economics. G01 - Financial Crises.

1. The influence of internal and external factors on financial indicators in 2009

-Global economic recession has affected all Romanian companies, from largest to smallest. Moreover, access to the funds that the bank could provide for business was locked by the state. Basically, through the Ministry of Finance which borrowed from private banks almost all the money from market to pay salaries and pension budget, the Government, indirectly, locked the national economy. Thousands of companies throughout the country unreasonably have long waited the repayment of VAT to which they were entitled, and that the financial taxation delayed to make it, deadlines being exceeded with months. Instead, for every invoice issued, but not received, the state further requires for firms to pay VAT de-capitalising them and pushing them towards bankruptcy. Establishing flat tax to be paid even by companies which were not registered profit, has determined in 2009, that 120.509 companies to suspend its activities.

-Currency depreciation; it equaled or exceeded the substantial discounts of cars sellers that showed discounts and promotional prices about 30 - 40%.

-Transactions with new cars had a significant rebound, and volumes were decreases of 50% or even 60% compared to the same period last year, some car dealers being forced to close their showrooms and to lay off some employees.

-Romanians real income levels have been affected by currency depreciation: those who had paid rates have experienced the strongest rate shock. Payment amounts were not to be neglected, the rates increased from one quarter to another and even 30%, while nominal revenues remained constant or even declined in condition of rising unemployment. This could lead only to overdue and late payment, short-term liquidity problems, increasing leases terminated, an influx of requests to reschedule the payment obligations.

-Decrease of the credit line

2. Financial crisis outside Romania

Except Poland, where the number of bankruptcies in the first nine months of 2009 remained below 1.000, in all other countries, the recession has felled many SMEs. Romania is by far the most affected, given that in the first six months of 2009, over 100.000 SMEs went into bankruptcy, from a total of 600.000 registered at the ministry.

Germany. German SME's bankruptcies mean problems for Europe. Germany's economic recovery could slow because more and more midsize companies - the skeleton of industry - can not face with market's conditions and bankruptcy. This situation has a negative impact on euro area, under the condition in which, according to The Wall Street Journal, Germany, has the largest economy on the continent⁹⁰⁰.

In **Poland**, 497 companies have declared bankruptcy in the first nine months of the year 2009 compared with 317 during the entire 2008, according to Coface, the credit insurer. In the first half of 2009 the SME sector has been hit by falling demand and by the tighter credit conditions.

In **Hungary**, SMEs have been affected by evaporation of demand and by reducing the access to financing, but unlike Poland, the current situation shows no improvement. Industrial production continues to be 20% lower than in 2008, and SMEs production has fallen by a fifth.

In the **Czech Republic**, 6591 entities (companies and individuals) were asked in the first nine months of 2009, the reorganizing under bankruptcy protection, up 70% compared to last year. 58% of all complaints are made by companies, according to Creditreform, credit agency. Czech Union of SMEs said that access to credit is the main problem with which is facing the sector. Lack of funding leads to postponement or cancellation of investment plans.

3. The situation of economic crisis in Romania

Usually the financial crisis means an economic environment that is characterized by an acute lack of liquidity, which goes to more expensive credit bank. In Romania the beginning and end of crisis is marked by certain indicators that presented in Fig. no. 1.

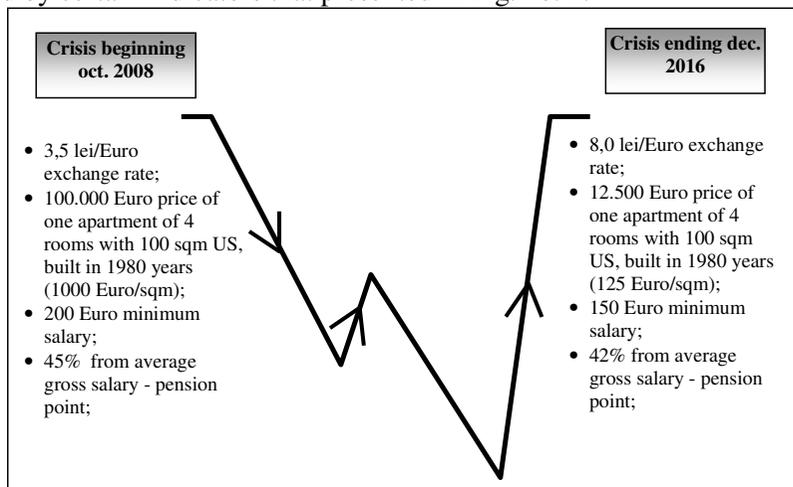
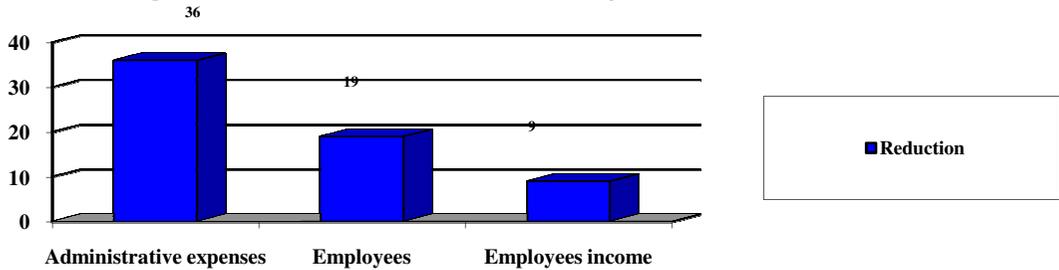


Fig. no. 1. Features of the financial crisis in Romania

In **Romania**, 90% of SME's are affected by economic and financial crisis, difficult economic situation leading to increased number of bankruptcies. Among the measures that companies have taken to decrease the impact of economic crisis, 36% of them have reduced administrative costs, 19% have reduced the number of employees and 9% have reduced the income of employees, as represented in the chart below.

⁹⁰⁰ <http://www.zf.ro/business-international>.

Fig. no. 2. Anticrisis measures taken by Romanians SME's



Year 2010 has not yet good signs for Small and Medium Private Enterprises in Romania. Last year alone, over 190 thousand SMEs and authorized individuals have ceased. Specifically, we present in table from below, cases that favor bankruptcy and measures to avoid bankruptcy, some of them being even proposed by SME and NCPSMER (National Council of Private Small and Medium Enterprises in Romania), as measures for the economic crisis.

Causes that promote SMEs Bankruptcy	Measures to avoid SME's bankruptcy
<ul style="list-style-type: none"> -Depreciation of national currency. -Lower transaction with cars. -Decrease real estate transaction. -Reduce your credit line. -Reduced access to financing and funding hinder. -High costs of interest. -Exports decline. -Low income. -Increasing the CAS's costs. -Introduction of minimum tax. -Sales decrease. -Price increases. -Incapacity of paying. -Entering into insolvency. -Declining real incomes of Romanians. 	<ul style="list-style-type: none"> -Reducing costs through layoffs. -Employee salary reduction. -Reducing administrative costs. -Icing liquidity. -Simple bookkeeping and halving the tax on buildings⁹⁰¹. -Allocating of minimum 0.5% of GDP for the foundation and development programs for SME's⁹⁰². -Widespread of the absence of taxation of reinvested profits and reinvested dividends. -Ministry of SMEs of programs on an emergency immediately after the 2009 budget approval. -VAT payment when goods are delivered, services are rendered or works are executed. -Elimination of abusive controls on companies. - Encouraging exports through subsidies. -Creating Counter-Guarantee Fund of the credits in the first half of 2009. -Significant and urgent reducing of extra-taxation. -Simplification of procedures for accessing structural funds and increasing access to consulting services in this area⁹⁰³.

4. Anti-crisis measures taken by Government

⁹⁰¹ <http://www.financiarul.com>, April 1th, 2010.

⁹⁰² <http://www.newschannel.ro/stiri/masuri-anti-criza-pentru-imm-uri>.

⁹⁰³ Idem.

Boc government took steps that led to the cancellation of firms. By eliminating the taxation for microenterprises with 3% of incomes, Boc government put most common obstacle to self-employment solutions. In addition, by introducing flat tax, hundreds of thousands of small companies, generally with a single employee, were closed.

Also, there are many companies that are in bankruptcy, but have not yet said so. Many require judicial protection, asking for insolvency, to be safe from creditors.

Among **crisis measures** already taken by the Government is allocating the largest share of GDP over the past 20 years, for investment, facilities for hiring unemployed and purchase of nearly 17.000 homes through "First Home" program.

Continuing Rabla program, building houses for rural specialists, rehabilitation of thermal and county road blocks, First Silo Program, NHA housing selling to tenants, supporting SMEs and local authorities which are accessing EU funds by providing state guarantees and technical unemployment are other measures already taken by the Government and presented by Emil Boc.

Among the measures to support businesses, the premier noted reinvested taxed profits, deferred payment of outstanding obligations, accelerating tax refund, state aid, incentives for energy and chemical industry, reducing taxes and tariffs parafiscal. Among crisis measures, Emil Boc recalled including VAT at 19% and maintaining a flat at 16%⁹⁰⁴.

But all these measures seem not to be the best and not sufficient for the effective exercise of SMEs because, due to other measures adopted by the Government such as the introduction of flat tax, there are favorable conditions for progress.

5. Considerations on anti-crisis measures

Experts say the biggest problem of business is restricted access to credit, and bad news is that banks will not finance companies resumed in 2010, because it will analyze the situation of companies which will seeking loans on the balance sheet situation of 2009, which "looks disastrous."

On the other hand, banks have their own reasons to think twice before approving a loan. In 2009, arrears over 90 days were recorded in loans, over three times higher than in 2008 and represented 75% of all amounts due.

Neither in terms of tax payment obligations to the state, companies did not do better. Experts recommend to the companies with debts of more than 30 thousand lei and debts to the budget over 30 days, to avoid insolvency and forced execution by preventive composition with regulated by Law 381/2009. Preventive composition is an amicable settlement between the debtor and creditors that hold at least two thirds of the value of receivables.

5.1. How to put protected from insolvency?

According to the law, insolvency or bankruptcy of the debtor's assets are characterized by insufficient cash funds available to pay outstanding debts.

It is considered that it may declare bankruptcy when the debtor, after 30 days in arrears, has not paid its debt to one or more creditors. Bankruptcy is imminent when the debtor proves that it can not pay at maturity, outstanding debt incurred with the funds available from the due date.

For companies trying to save his business, the next step is the **process of reorganization**.

6. Reorganization - measure against bankruptcy risk for SMEs

In the current economic situation is expected as part of economic agents continue to encounter difficulties in activity and even to go insolvent.

Unfortunately, most of those traders who go into insolvency, unnecessarily are trying to recover the activity of society through their own efforts, without resort to specialized

⁹⁰⁴ Source: Wall-Street.ro.

consultants in the field and without the use of legal provisions designed just for protection. Such attempts of recovery leads mostly with a failure, so that society finally comes to bankruptcy, without any possibility of economic recovery.

Law no. 85/2006 of insolvency ("Insolvency Law") specifically provides judicial reorganization, as a extent of recovery of economic activity of a company in a state insolvency or in impending insolvency, being real chance of recovery and continuing a business that normally would be under bankruptcy.

6.1. Reorganization procedure in the Romanian legislation

Unlike the laws of other states, Romanian legislation does not regulate the judicial reorganization procedure, which still can not remove a conventional reorganization. This method of reorganization involves, in practice, debtor negotiations with major creditors on rescheduling the debt payment, but in such a procedure the debtor has no legal protection⁹⁰⁵.

Judicial reorganization, aim the "redressing of the debtor and payment of liabilities in terms of restructuring the company and its activity"⁹⁰⁶, and saving in this way, a company in default, but still viable.

Judicial reorganization is triggered by an application for entry in insolvency which the debtor in insolvency or in a state of imminent insolvency or a creditor, submit to the Court. In this application the company must accompany the several pieces, among which the declaration by the debtor and shows its intention to enter into the reorganization procedure.

After introducing the application and verification of documents submitted by the debtor, if the legal requirements are met, the judge will order the opening of the general procedure. By this decision to initiate proceedings, the judge will appoint an judicial administrator. To qualify the reorganization procedure it must be proposed such a plan by the debtor, by the judicial administrator or by the creditors. **The plan should contain concrete ways to restructure the company, which may take the form either the debtor's restructuring and continuing future business or liquidation as part of the debtor, or a combination of two previously proposed methods.**

Reorganization of the company closes when you have met all payment obligations assumed by the reorganization plan.

6.2. Advantages of entry into reorganization proceedings

There are several advantages of opening the reorganization procedure for a company in difficulty, such as:

- From the date of opening of the reorganization law there **are suspended all judicial or extrajudicial actions** aiming to achieve claims against the debtor or his property. Thus, under art. 36 of Law no. 85/2006, the law suspended all judicial or extrajudicial actions to achieve the claims against the debtor or his property, so that no creditor can no longer operate separate companies in insolvency proceedings to recover his claim. Also under this article there are suspended any levy of execution or attachment of company accounts. All payments made during the insolvency proceedings will be made by a single bank account, which can not be stopped.
- **No longer pay outstanding debts than under a reorganization plan without paying interest or penalties.** From the opening of proceedings, under art. 41 of Law no. 85/2006, no interest rate, increase penalty or charge will not be added to claims arising, prior to the opening of proceedings (excluding guaranteed debt). Thus, by stopping the flow of interest and penalties, it is prevented the increasing liability company.
- The possibility of **rescheduling payment of debts** by creditors, etc.

⁹⁰⁵ <http://www.avocatnet.ro>.

⁹⁰⁶ Csaba Bela Nász – The opening of insolvency procedure, C.H.Beck Publisher, Bucharest, 2009, pag. 42

- The company that was willing to open insolvency proceedings may be subject to judicial reorganization under a reorganization plan, through which can be obtained in certain circumstances or may even require, rescheduling of payments to creditors during the reorganization, which may take up to three years, with possibility of extension for another year.
- In judicial reorganization, the debtor business is conducted by a special administrator named by the company management, who may even be the administrator. Thus, leadership activities of the debtor may remain in the hands of the debtor's former management bodies, which are best placed to continue the company's activities. Their work is supervised by the judicial administrator.
- According to art. 77 of Law no. 85/2006, applications for the recovery procedure or other rights shall be exempt from stamp duty, which is an advantage in making steps to recovery.
- In the judicial reorganization, the company operates on the principle "business as usual", remaining an economic market player, and can keep customer brand and heritage.
- During insolvency, the company does not pay and does not charge VAT.

7. Mergers - another measure to counter the risk of bankruptcy during the crisis

Fusion is a "technical and legal process through which the restructuring of companies is done"⁹⁰⁷, when two or more companies come together to form a single society. Fusion brings benefits related to strengthening of the company's market, getting a larger share local market or even expansion into other geographic regions. Another advantage of fusion is related to business saving and personnel rescue in conditions of market competition and its impact on business. Vertical integration of business is another benefit of the fusion, so that it shortens the chain of production and distribution. For example, a furniture manufacturer may purchase a wood supplier to eliminate the problem of raw material acquisition. Because it will be reduced certain costs, it will increase company's profits. Another advantage of the fusion is diversifying its product portfolio by launching its own range or buying a player that already offers that product. Fusion also offers an advantage in terms of taxation.

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FOREIGN INVESTMENT INFLUENCE ON OWNERSHIP AND CONTROL IN JAPANESE FIRMS

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Corporate equity structure, whether is in a market-based system like US or a bank-based system like Japan is prone to changes due to foreign investment. Protection from outside investors varies greatly around these systems. Where protection is good, market-based systems flourish. These systems have certain advantages as they appear to foster innovation and to encourage the release of capital from declining industries. Bank-based systems may be better suited to established industries. These systems also help protect individuals from direct exposure to stock market risk. But, no matter the system, agency problems are inevitable. The paper looks at the past changes of the Japanese corporate ownership composition under the influence of foreign investment.

Keywords: Economic Systems, Capital and Ownership Structure, Corporate Governance

JEL Classification: G32, P51

Who owns a corporation? In the US or UK, we would just answer „stockholders”. Some stockholders have more influence than others, but simply because they own more shares. In other countries ownership is more complex. US have a market based system because it has large stock and bond markets. Japan has a bank-based system because most debt financing comes from banks. Japanese households bear relatively little equity risk. Most of their savings go into bank accounts. The role of banks goes far beyond just lending money. They are tied-up in an extensive cross-shareholding within group companies.

Protection from outside investors varies greatly around the world. Where protection is good, market-based systems flourish. These systems have certain advantages as they appear to foster innovation and to encourage the release of capital from declining industries. Bank-based systems may be better suited to established industries. These systems also help protect individuals from direct exposure to stock market risk. No matter of the system, agency problems are inevitable. That is why we can never expect managers to give 100% weight to shareholders’ interest and none to their own. Laws and regulations can specify what managers can’t do but can’t tell them what they should do. Once managers have discretion, they will consider their self interest as well as investors’ interest.

Corporate governance systems vary around the world. These differences result from different legal systems, systems of corporate finance and corporate ownership as well as divergent norms around the firm’s responsibilities to its various stakeholders. (Dore 2000). While much research has considered how these differences originated and why they persist (Hall and Soskice 2001, Jackson 2002), less research has considered what happens when different systems of corporate governance come into direct contact. These different systems of corporate governance came into direct contact in Japan. Perhaps the latest example would be the acquisition of the Lehman Brothers brokerage operations by Nomura in 2008.

Foreign ownership of shares of Japanese firms increased from about 10.5% in 1996 to 28% in 2007 and then dropped to 23.6% in 2009 (TSE 2010). This increase in foreign ownership came as shareholders, primarily banks and insurance companies – slowly sold their shares as a response to financial crisis and changing of accounting standards. While financial institutions held 41.1% of all shares in 1996, by 2009, their share ownership had dropped to 32.4% (TSE 2009).

This change in ownership brought two very different notions of corporate governance into direct conflict. In Japan, shareholders tend to be stakeholders with long term interest in the firm, in addition to the expected return on their equity investment. Banks, for example, held shares as part of a broader relationship of managing financial transactions and supplying loans. Corporations held shares of their suppliers and buyers. These interconnected and complementary sets of relationships supported the fundamental attributes of the corporate Japanese system.

Foreign portfolio investors, on the other hand, had very different interests. They stood apart from the Japanese corporate relational system and had less interest in ongoing business relationships with Japanese firms. These foreign portfolio investors were familiar with the shareholders movements from USA and Europe.

Trends in foreign investment in Japan

From 1996 to 2008, the percentage of publicly listed Japanese shares held by foreigners have continuously increased from 10.5% in 1996 to 28% in 2007, then to drop to 23.6% by 2009. The increase in foreign share ownership in Japan reflected a larger worldwide trend. Foreign ownership of listed French firms increased from approximately 12% to 42.3%, while ownership of shares in the UK by foreigners increased from about 17.2% to 36.3% in the 2007. These numbers indicate that this increase in foreign investment was not limited to Japan, but was a worldwide phenomenon. One of the reasons could be the rise of the institutional investors, especially pensions funds. (P. Druker 1997). This trend accelerated as the money managed by institutions increased and as pensions became more willing to invest their funds in equity.

In the 1990s, US investors invested 94% of their assets domestically, while UK investors kept 82% of their assets in the UK (Useem 1998). Slowly moving into the 2000 years, institutional investors began to move their money abroad, as investors were looking to diversify their portfolios across currencies and economies.

The leading foreign investors in Japan were American and European, especially UK funds (Shirota 2002). Most foreigners were institutional investors. In 2009, only 0.5% of foreign investors in Japanese publicly listed equities were individual investors. (TSE 2009).

Foreign direct investment, where foreign investors take a large and strategic stake in a Japanese firm or set up their own operations, received much publicity. Among the one that received the most attention was the Renault's purchase of a controlling stake in Nissan. Signed in 1999, the Renault-Nissan Alliance has built a unique business model that has created significant value for both companies. These investments made by foreign funds had effect on corporate governance and other economic and financial reforms.

A study made by the American Chamber of Commerce in Japan indicated that foreign direct investment in Japan, defined as strategic investment with the intention of transferring management resources and know-how, was quite low in an international comparison. In 2006, foreign direct investment in Japan was 1.1% of GDP, while that in the UK was 32.4%, Germany was 22.4% and US 27.9%.

Composition of Ownership

To further explore the identities and objectives of foreign stockholders we examined the ownership of the Tokyo Stock Exchange First Section non-financial firms in 2008. In 11 firms, foreigners had controlling stakes of over 50%, while foreigners owned over 33.3% of an additional 34 firms (this is the level that allows for veto rights over board decisions). In a substantial number of firms, foreign ownership was over 10%. We identified cases in which the purpose of the foreign shareholder could be classified as strategic. These were cases in which a foreign corporation (not a bank or investment fund) was one of the top 10 shareholder and the investment was for strategic, rather than portfolio purposes. Especially in auto and pharma

sectors, foreign investors could be considered strategic. These leaves a substantial number of large and well-known firms of whose shares 30% or more were in the hands of foreign portfolio investors, including Sony or Canon, table 1.

Foreign investors had very different interest from the majority of Japanese investors. They had different set of obligations to their beneficiaries than Japanese funds. The US pensions had clear obligations of fiduciary duty mandated by law, as well as the UK funds. Furthermore, in most cases foreign investors were investing purely for return on investment, where Japanese investors were often wrapped in a web of other ties and obligations with the firms whose shares they held, and their own affiliated banks and corporations. Japanese institutional investors tended to be closely linked to banks or to corporations that had other interests in the firms that they were investing (Hiraki 2003).

Table 1: Share ownership by Market Value (All Listed Companies) %

Year	Govt	Financial Institutions								Business Corp.	Securities Corp.	Individuals	Foreigners
		Financial Institutions Total	City & Regional banks	Trust Banks			Life Insurance Co.	Non-life Insurance Co.	Other Fin. Institutions				
				Trust Banks	Investment Trusts	Annuity Trusts							
1996	0.3	41.1	15.1	10.3	2.2	1.8	11.1	3.6	1.0	27.2	1.4	19.5	10.5
1997	0.2	41.9	15.1	11.2	2.0	2.4	11.1	3.6	0.9	25.6	1.0	19.4	11.9
1998	0.2	42.1	14.8	12.4	1.6	3.8	10.6	3.5	0.9	24.6	0.7	19.0	13.4
1999	0.2	41.0	13.7	13.5	1.4	4.7	9.9	3.2	0.8	25.2	0.6	18.9	14.1
2000	0.1	36.5	11.3	13.6	2.2	5.0	8.1	2.6	0.9	26.0	0.8	18.0	18.6
2001	0.2	39.1	10.1	17.4	2.8	5.5	8.2	2.7	0.7	21.8	0.7	19.4	18.8
2002	0.2	39.4	8.7	19.9	3.3	6.0	7.5	2.7	0.7	21.8	0.7	19.7	18.3
2003	0.2	39.1	7.7	21.4	4.0	5.8	6.7	2.6	0.7	21.5	0.9	20.6	17.7
2004	0.2	34.5	5.9	19.6	3.7	4.5	5.7	2.4	0.9	21.8	1.2	20.5	21.8
2005	0.2	32.7	5.3	18.8	3.9	4.0	5.4	2.2	1.0	21.9	1.2	20.3	23.7
2006	0.2	31.6	4.7	18.4	4.4	3.6	5.3	2.1	1.0	21.1	1.4	19.1	26.7
2007	0.3	31.1	4.6	17.9	4.7	3.5	5.4	2.2	1.0	20.7	1.8	18.1	28.0
2008	0.4	30.9	4.7	17.5	4.9	3.5	5.5	2.2	1.0	21.3	1.6	18.2	27.6
2009	0.4	32.4	4.9	19.0	5.1	3.6	5.4	2.1	1.0	22.4	1.0	20.1	23.6

Source: TSE 2010 Statistical Highlights

Institutional investors, such as trust banks, tended to have close equity relationships with banks, and would vote according to the interest of its affiliated bank, which was likely to have close lending relationship with the firm. A corporate pension fund might hold shares in an important business partner of the corporation and would not dare to press too hard as a shareholder. Thus, Japanese domestic institutional investors were part of a system of close relationships that went beyond shareholding stakes and thus were unlikely to demand the same level of returns, as an investor that was looking only at the return on investment, table 2.

Table 2. Share ownership by type of investor

Share ownership (100 mil Yen)				
	Year 2008		Year 2009	
	Value	%	Value	%
Total	4,002.313	100.0	2,601.532	100
Govt & Local Govt.	15.646	0.4	11.356	0.4
Financial Institutions	1,237.432	30.9	843.415	32.4
City & Regional Banks	189.341	4.7	127.247	4.9
Trust Banks	702.372	17.5	495.578	19.0
(Investment Trust)	195.035	4.9	132.129	5.1
(Annuity Trust)	140.545	3.5	92.918	3.6
Life Insurance Co	219.017	5.5	140.579	5.4
Non-life Insurance Co	88.531	2.2	55.159	2.1
Other Financial Inst.	38.168	1.0	24.849	1.0
Business Corporations	851.372	21.3	583.890	22.4
Securities Companies	62.214	1.6	26.803	1.0
Individuals & Others	729.476	18.2	522.095	20.1
Foreigners	1,106.171	27.6	613.971	23.6

Source: TSE 2010 Statistical Highlights

Foreign investors in Japan could influence firms to adopt their desired corporate governance practices through exit – the threat of selling their shares – and through formal and informal exercise of voice – exercising voting rights and making their opinions known through less formal channels. The threat of exit, as well as more informal channels, exercise of voice, provided more effective ways of influence. Foreigners were less likely to wield influence through exercising voting rights, though this had begun to change in the 2000s.

Corporate governance practices

For the past 8 years, the Japan Corporate Governance Index Research Institute surveyed Tokyo Stock Exchange First Section firms in their corporate governance practices. Based on these surveys, the JCGIndex measures how close a firm's governance adheres to Anglo-American standards. Practices evaluated include how a firm sets its performance objectives, accountability of the CEO, structure of the board of directors (size, independence, responsibilities), compensation system, management of subsidiaries, internal audit and control, and disclosure and transparency.

The JCGIndex ranges from 0 to 100. A firm that would receive 100 points, would have a significant number of independent directors on its board, and a board that had adopted a committee structure (of audit, compensation, and nominating committees dominated by independent directors). The firm would set its performance goals based on matrices valued by shareholder (return on invested capital) and the CEO would be accountable for achieving these goals, table 3.

Firms that scored higher on the JCGIndex tended to have larger percentages of foreign ownership. Another important aspect would be that firms that scored high in board structure and function, had higher levels of foreign ownership than low scoring firms. Firms that received high scores on this component had relatively high levels of board independence as measured by presence of independent directors, criteria for board appointments and the ability and authority of the board to monitor the CEO.

Table 3. JCGIndex Japan 2008

Category	Mean/Total	Achievement rate
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	possible points	(mean/total possible points)
Corporate objectives and CEO responsibility	10.6/28	37.9% (36.9%)
Structure and function of the board of directors	10.7/25	42.8% (36.9%)
Management system	17.2/27	63.7% (61.7%)
Transparency and communication with shareholders	13.4/20	67.0% (67.3%)

Source: JCGR Corporate Governance Survey 2008 Final Report (at the date when this article was written, the 2009 Survey was not yet released)

These correlations between the JCGindex and its various subcomponents and foreign ownership demonstrate an association, but not causation. In other words, it is not clear from these results whether foreign investors gravitated to firms that were closer to an Anglo-American ideal of governance. We can only presume that corporate governance issues were a key focus of questions by foreign investors, suggesting that at least some of the causation was due to foreign investors pressuring firms to change.

Conclusion

We examined the foreign portfolio investors and their effect on corporate governance in Japanese firms and observed that:

- Foreign portfolio ownership of Japanese equity increased significantly
- Foreign investors were advocates of Anglo-American style corporate governance
- Foreign investors influenced Japanese firms both through exit and voice. Their propensity to buy and sell shares gave them strong influence over share price in general and made exit a particular threat to firms.
- There has been a clear relationship between foreign investors and practices related to corporate governance

Though it is impossible to establish a definitive direction of causation between foreign ownership and corporate governance practices, it is clear that the increase in foreign ownership was linked to the transformation of corporate governance practices in Japan since the early 1990s. Whether foreigners actually influenced firms to change their governance practices or firms changed their governance practices to attract more foreign investors, increased board independence, disclosure and transparency, downsizing and asset divestiture occurred in response to an increase in foreign portfolio investment in Japan.

While the research presented suggested that foreign investors are associated with a shift towards Anglo-American governance practices in Japan, this does not mean that there is likely to be wholesale convergence and that Japan is on course to be exactly like the US. How much is Japanese corporate governance going to change is hard to tell, there are several scenarios, but for sure we will see changes in the years to come.

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IMPACT OF FINANCIAL CRISIS ON CONSTRUCTION FIRM'S COST OF CAPITAL

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The average cost of debt is negatively related with size, tangibility, firm growth, the leverage ratio, and the ratio of long- to short-term debt and positively to profitability. We find that the recent international crisis did have a significant impact on the set of firms in our sample, but affected the way in which leverage and the interest to debt ratio relate to firm fundamentals. In this article, we want to study the impact of financial crisis on the cost of capital using a sample of construction companies.

Keywords: asset pricing cost of capital, financial crisis, CAPM

Cod JEL: G12, G01, G14

1. Introduction

An appealing feature of the subprime crisis for research purposes is that it stands as a purely exogenous shock on the corporate sector, the crisis had its origin in the U.S. housing sector. In inquiring about the influence of financing factors on real investments, it is extremely difficult to disentangle supply and demand forces. For instance, a given observed contraction in real assets may be forced by the withdrawal of lending flows by their suppliers or to a voluntary corporate decision to stay aside from the credit market after the reevaluation of expected cash flows in the midst of an economic downturn. Even an exogenous credit supply shock like the one taking place since 2007-2008 may have reshaped the demand for funds in response to a widespread wave of pessimism.

The problems on the international financial markets affected the construction industry, which was heavily dependent on banking credit. Non-residential construction, which accounts for half of the construction output, was strongly hit, while residential decreased only slightly in 2009 and civil engineering, which depends on public funding, was the only one maintaining above the line.

The construction sector in Romania climbed 6.9% in december 2009, in comparison to a month before, recording the biggest leap in the European Union. The total decrease in 2009 year in comparison to the last year was 15.1%. In chart no. 1, we present the evolution of constructions during 2005-2009.

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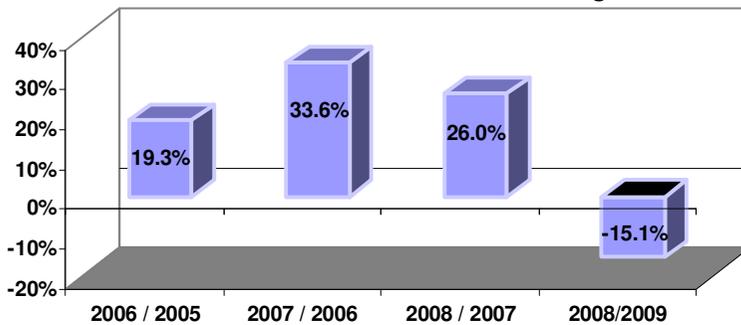
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Chart no. 1

Evolution of the value of construction during 2005-2009



Source: www.insse.ro

Since december 2008, however, construction dropped 7.1%, Romania ranking 8 in the EU. In november, Romania recorded the third decline in the construction sector in the EU – 18.9% - in comparison with the same months of 2008. Apart from Romania, the only EU country to record a growth in the construction sector was Spain – 6.2%. The biggest declines were recorded in Slovakia (-11.3%), Slovenia (-8.1%) and Bulgaria (-7.9%).

2. Methodology research

We propose to study the impact of financial crisis on the cost of capital. We choose the construction sector (construction of buildings and civil engineering), because it is one of the most affected sectors of the economy. The sample includes ten companies, which are listed on Bucharest Stock Exchange: Impact Developer & Contractor S.A. (IMP), Cominco S.A. Bucuresti (COBS), Comnord S.A. Bucuresti (COSC), Concefa S.A. Sibiu (COFI), Constructii Bihor S.A. Oradea (COBJ), Imotrust S.A. Arad (ARCV), Socot S.A. Tg. Mures (SCTO), S.C. Transilvania Constructii S.A. (COTR), Compania Energopetrol S.A. (ENP), Condmag S.A. (COMI).

To determine the cost of capital, we use the capital assets pricing model (CAPM) and weighted average cost of capital (WACC).

2.1 Cost of equity

The cost of equity can be defined as the minimum rate of return that a company must earn on the equity-financed portion of its investments in order to leave unchanged the market price of its stock. Most companies use the Capital Asset Pricing Model (CAPM) to calculate their cost of equity capital. In the CAPM definition, the cost of equity is equal to the return on risk-free securities plus the company’s systematic risk (beta) multiplied by the market risk premium:

$$\overline{R}_a = R_f + \beta_a * (\overline{R}_M - R_f);$$

Where:

R_f = Risk free rate

β_a = Beta of the security

\overline{R}_M = Expected market return

$R_f - \overline{R}_M$ = Premium risk

The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the risk-free rate in the formula and compensates the investors for placing money in any investment over a period of time. The

other half of the formula represents risk and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market over a period of time and to the market premium risk.

The CAPM says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. If this expected return does not meet or beat the required return, then the investment should not be undertaken. The security market line plots the results of the CAPM for all different risks (betas).

Beta coefficient is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is the tendency of a security's returns to respond to swings in the market. A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. A beta of greater than 1 indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it's theoretically 20% more volatile than the market. Many utilities stocks have a beta of less than 1, offering the possibility of a higher rate of return, but also posing more risk. The formula for the beta of an asset within a portfolio is:

$$\beta = \frac{Cov(R_a, R_M)}{Var(R_M)} ;$$

Where:

R_a = the rate return of the asset

R_M = the rate return of the market.

Risk-free rate is the amount obtained from investing in securities considered free from credit risk, such as government bonds from developed countries. The interest rate of U.S. Treasury Bills is frequently used as a proxy for the risk-free rate.

The equity market risk premium represents the returns investors expect to compensate them for taking extra risk by investing in the stock market over and above the risk-free rate. In other words, it is the difference between the risk-free rate and the market rate. It is a highly contentious figure. Many commentators argue that it has gone up due to the notion that holding shares has become more risky.

2.2 Weighted Average Cost of Capital

Weighted Average Cost of Capital is an average representing the expected return on all of a company's securities. Each source of capital, such as stocks, bonds, and other debt, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure. The resulting rate is what the firm would use as a minimum for evaluating a capital project or investment:

$$WACC = \frac{E}{V} * Re + \frac{D}{V} * Rd * (1 - Tc) ;$$

Where:

Re = cost of equity

Rd = cost of debt

E = market value of firm's equity

D = market value of firm's debt

V = E + D

Tc = corporate tax rate

The WACC of a firm increases as the beta and rate of return on equity increases, as an increase in WACC notes a decrease in valuation and a higher risk.

Broadly speaking, a company's assets are financed by either debt or equity. WACC is the average of the costs of these sources of financing, each of which is weighted by its respective use in the given situation. By taking a weighted average, we can see how much interest the company has to pay for every dollar it finances. A firm's WACC is the overall required return on the firm as a whole and, as such, it is often used internally by company directors to determine the economic feasibility of expansionary opportunities and mergers. It is the appropriate discount rate to use for cash flows with risk that is similar to that of the overall firm.

Compared to cost of equity, cost of debt is fairly straightforward to calculate. The rate applied to determine the cost of debt (R_d) should be the current market rate the company is paying on its debt. If the company is not paying market rates, an appropriate market rate payable by the company should be estimated. The measure can also give investors an idea as to the riskiness of the company compared to others, because riskier companies generally have a higher cost of debt. As companies benefit from the tax deductions available on interest paid, the net cost of the debt is actually the interest paid less the tax savings resulting from the tax-deductible interest payment. Therefore, the after-tax cost of debt is $R_d (1 - \text{corporate tax rate})$.

3. Data and estimation

The sample of ten companies is studied during the period 2005-2009. We select the companies whose stock price increased significantly, respectively they had a significant market capitalization and volume of transactions on the Bucharest Stock Exchange, during the analyzed period.

For the coefficient Beta, we use the daily stock return prices of the analyzed companies and the daily returns of BET index during 2002-2009. The Beta coefficient is determined individually for each year. Thus for 2005, we consider daily stock return from 2002-2005. We consider the daily stock return from 2003-2006 for the beta coefficient from 2006. We kept this method of calculation for all five years. Table nr.1 lists the beta coefficient values during 2005-2009.

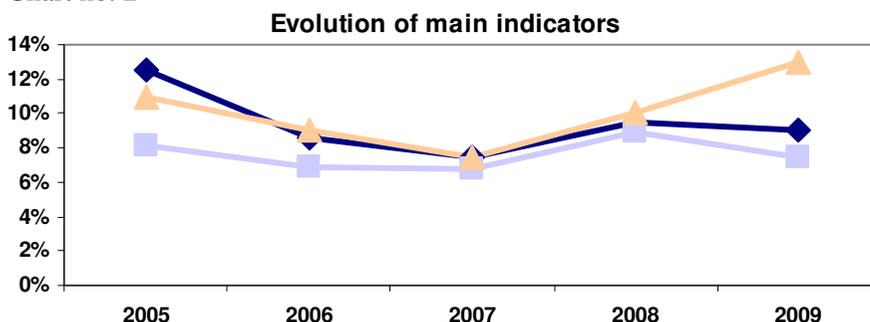
Table no. 1

Evolution of coefficient BETA					
Tiker	2005	2006	2007	2008	2009
IMP	0.610	0.592	0.709	1.048	-1.671
COBS	0.032	0.297	0.382	0.613	0.679
COSC	-0.164	0.085	0.195	0.571	0.735
COFI	0.048	-0.067	0.331	0.694	1.032
COBJ	-0.003	0.020	-0.080	-0.042	0.057
ARCV	0.063	0.067	0.102	0.527	1.062
SCTO	0.001	0.018	0.530	0.538	0.686
COTR	0.101	-0.957	-1.039	-0.326	-0.320
ENP	0.783	0.789	0.779	0.755	0.261
COMI	0.275	0.386	0.381	0.822	0.942

Source: Author's calculations

Chart no. 2 contains values of the indicators that we need to use for the Capital Assets Pricing Model. The free risk rates are taken from National Bank of Romania. The risk premiums and cost of debt are obtained from Moody's reports.

Chart no. 2



Source: <http://pages.stern.nyu.edu>, www.reuters.com, www.bnr.ro

Using the CAPM and the data from the previous two tables we obtained the cost of equity for the companies from our sample. In table no. 2 we show the obtained values. We can see the strong impact of the financial crisis on the cost of equity. In 2006, its value decreased from the previous year, but from 2007 year to 2009 year, resumed its upward trend.

Table no. 2

Cost of equity					
Tiker	2005	2006	2007	2008	2009
IMP	17.49%	12.71%	12.34%	18.83%	-3.48%
COBS	12.76%	10.66%	10.10%	14.95%	14.07%
COSC	11.16%	9.19%	8.83%	14.59%	14.49%
COFI	12.89%	8.14%	9.75%	15.68%	16.71%
COBJ	12.47%	8.74%	6.95%	9.12%	9.42%
ARCV	13.02%	9.06%	8.20%	14.19%	16.93%
SCTO	12.51%	8.73%	11.11%	14.29%	14.13%
COTR	13.33%	1.96%	0.41%	6.60%	6.61%
ENP	18.91%	14.08%	12.81%	16.22%	10.95%
COMI	14.75%	11.28%	10.10%	16.81%	16.04%

Source: Author`s calculations

We obtained the percentage of equity and debt on total capital from the financial statements of the analyzed period. Finally, using weighted average cost of capital model and the information obtained in previous tables, we highlighted the value of the cost of capital. The values obtained are shown in table number 3.

Table no. 3

Weighted average cost of capital					
Tiker	2005	2006	2007	2008	2009
IMP	14.28%	10.63%	10.36%	15.12%	1.99%
COBS	11.56%	9.50%	8.36%	11.54%	13.41%
COSC	11.05%	9.08%	8.28%	12.34%	13.89%
COFI	11.62%	8.71%	8.26%	11.85%	14.28%
COBJ	11.92%	8.84%	7.14%	9.42%	10.75%
ARCV	12.69%	9.06%	7.94%	12.22%	14.75%
SCTO	11.53%	8.87%	9.15%	11.78%	13.48%
COTR	12.07%	5.96%	4.08%	7.30%	7.67%
ENP	16.55%	11.80%	10.06%	12.16%	12.33%
COMI	12.71%	9.83%	8.89%	14.10%	14.88%

Source: Author`s calculations

During 2005-2007, the cost of capital decreased significantly from 25% (Comnord S.A.) to 66% (Transilvania Constructii). In this period the construction sector had a favorable environment. In 2008, the value of construction and assembly works in Romania increased by 34% nominally (26% in real terms), to RON 83bn (€22.5bn). The fastest growing segment was non-residential, which increased by 37%. The situation is due to the fact that Romania, a country with a very rapidly developing economy, needed mainly non-residential buildings, such as office space for services and industrial buildings. Structural works are by far the ones covering the largest share of costs of a construction project, followed by installation and equipment and site preparations. The smallest shares are held by finishings and rental of construction equipment.

The cost of capital increased, during 2007-2008, from 21% (Compania Energopetrol) to 79% (Transilvania Constructii) due to the appearance of the financial crisis. The crisis had a negative effect on the cost of equity, stock returns and private physical investment. In 2009, we can see that the growth is not so big, it is from 1% (Compania Energopetrol) to 21% (Imotrust Arad, Concefa Sibiu).

The value of the cost of capital for Impact Developer company is small, because its stock price decreased significantly during 2007-2009 (its value was under the nominal value of the stock).

4. Conclusions

Increasingly more companies found that loans can not be consider a certainty. It seems that more restrictive lending standards and rising interest rates are "new rule" not only on international markets, but also in Romania. A feature of Romanian companies is that they rely primarily on financial banks institutions, calling rarely to publicly traded bonds. As the liquidity crisis continues to limit available funds on international capital markets, the ability of banks to provide capital is affected.

The cost of debt constitutes a key transmission channel from macroeconomic shocks to the corporate sector, with a direct bearing on firms' growth and probability of default, a better understanding of its drivers should be welcome.

Construction was the most important factor of the strong economic growth of Romania over the past several years. However, the problems on the international financial markets affected the construction industry.

The segment which will continue to grow in 2010 is civil engineering. As Romania will face a falloff in GDP in 2009, the government will want to overcome its effects by increasing public spending, and infrastructure is a top destination for state-funded investments. For that, the funding coming mainly from the EU has to be unblocked, by improving and simplifying procedures which have been dragging investments in infrastructure – particularly in the case of road construction, which accounts for roughly half of the civil engineering construction output. Additionally, civil engineering construction can benefit from the lower prices of construction materials compared to the past few years.

We propose for next studies to use a bigger sample and to study the impact of crisis on companies cost of capital by the methods of Godfrey and Espinosa (1996), Erb, Harvey and Viskanta (1996), Damodaran (1998) and Estrada (2000).

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FISCAL FEDERALISM AND FISCAL DECENTRALIZATION IN AN ENLARGED EUROPEAN UNION

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Fiscal competition and tax harmonisation are two of the main current issues in the enlarged European Union. Achieving these goals and thus improving the EU economic governance is partially dependent by the way we understand and practice the so-called fiscal federalism and fiscal decentralization at the national and European level. Our paper aims to emphasize the similitude and differences between fiscal federalism and fiscal decentralization and revealing the way in which the functioning of the European Union is affected by them.

Keywords: fiscal federalism, fiscal decentralization, financial autonomy

JEL Code: H77

The Legal Content of Fiscal Federalism and Fiscal Decentralization

The matter of fiscal federalism is not new, but its complexity and its special implications upon the functionality of public budgetary systems, and implicitly upon the mobilization and the judicious use of public financial resources, determine its being brought to attention in many contemporary works regarding the European integration process. As concept, fiscal federalism is often related to fiscal decentralization and sometimes even considered similar to it, although the two notions appear as different due to their own formulation. Thus, decentralization would mean, as its name itself suggests, the fact that power naturally belongs to the centre, which decides to transfer it to the lower levels, for reasons related to a better management of local interests or at least more adequate to the preferences of the members of the local community. On the other hand, fiscal federalism would imply the pre-existence of competence sharing in what concerns the mobilization of public revenue, (fiscal) decentralization not being necessary any longer, at least at first sight. In other words, the federal system of power structuring is intrinsically based on a larger decentralization than the unitary state system of organization. Such a view is false, because practice shows that there are very decentralized unitary states (e.g. Denmark, The Netherlands), as well as very centralized federal states (Austria). Because decentralization (fiscal, implicitly) is inherently possible and present, just as centralization, in any state community, the problem that arises is to differentiate it from federalism (implicitly fiscal). In what concerns us, we believe that the main differentiating element of the two notions is the legal and not the economic content. Thus, the federal organization of certain states is, as the case may be, either the product of the tradition of state organization or the result of applying certain requirements for making the management of public sector problems more efficient. Federalism, as a (constitutional) state organization method, supposes an allocation in essence of (public) political power by delimiting it on several levels, ensuring its constitutional and decisional sanction for each of the entities forming the state, by means of their own Constitution and their own decisional bodies, even in what concerns the ability to legislate (at the level of each federal state). One may notice, in these conditions, that, within the federal type of state organization, it becomes essential the fact that the constitutive states are independent, as the decision-making autonomy of the main government levels (federal and federated) is sanctioned by means of the fundamental document, simultaneously and differently allotted both at the central level and at the level of the constitutive states of the federation and protected from any possible decision-making conflicts by

means of the bicameral structure of the Parliaments. Actually, while federalism is a constitutional way of organizing public power, which affects both the legislative power and the executive and judicial ones, decentralization is a (main) way of exercising power, which only applies to the executive power.

The Economic Content of Fiscal Federalism and Fiscal Decentralization

However, in what concerns the economic approach, what is essential for the federal organization of public power (the presence of a separate Constitution at the level of each federated state) loses its significance, the important thing being the fact that each government level has its own competence in managing and providing public services, which is essentially something in common with decentralization, as a principle of exercising the executive power. In these conditions, fiscal federalism is defined as a set of principles which stand at the basis of delimiting revenue sources and budget expenditures between the central level and the inferior government levels, sometimes even without taking into account the type of state organization. This set of principles, which may be applied to the relationships between the components of the public budget system on the revenue side, whatever the form of organization of public power from the point of view of state structure, leads to the practical implementation of what we call “fiscal decentralization”, manifesting, in practice, in the form of a general (normative) framework that this requirement takes. It is this framework, through its concrete implementation in the European states, which individually start to promote it because of the necessity to satisfy certain “national” internal requirements, that may determine, in the context of the European integration process, a series of undesirable dysfunctions (distorted competition, fiscal evasion, limited fiscal harmonization, etc.). These potential negative effects are first a result of the fact that the principles under discussion are applicable or applied differently in each state, with differences noted especially between the unitary and the federal states, as they are not able to represent a “universal recipe”. Although “universalization” of the set of principles considered to be the content of fiscal federalism (in the sense of them being universally recognized) may be found in the related literature and in practice, each of these principles involves a certain degree of relativity, in the sense that it has to be connected to the requirements and the actual reality in each state. Moreover, one and the same principle may be interpreted and applied more or less nuanced, thus leading to a particular way of promoting fiscal decentralization. For example, the subsidiarity principle applied to the mobilization of budget revenues or the principle of assuring a certain level of local autonomy involve judgements that are subjective in their nature, regarding the extent and the beneficial effects of allowing competences to the local government level, thus leading to different manners of applying subsidiarity and to different interpretations of the degree of local autonomy. On the other hand, the theoretical foundations of fiscal federalism and its applicability are still submitted to observations and reconsiderations, sometimes even by those who put them forward (Richard Musgrave, Charles M. Tiebout, W.E. Oates), “a second generation” of fiscal federalism being invoked.

Fiscal Federalism at National and European Level

Beyond the conceptual differences that we presented, the economic content of the two notions is relatively close, referring to delineating the competences of central and local authorities related to their “rights” regarding the mobilization of public revenues and their use, and, according to some, “the big challenge is to ensure a transparent financing system for sub-national administrations”⁹⁰⁹. We notice that, according to such a view, what is considered to be essential to fiscal federalism is the relationship between public authorities on different levels, which

⁹⁰⁹ Moșteanu, T., Iacob, M., *Fiscal Federalism*, Theoretical and Applied Economics, 2007, vol. 11, p. 21, <http://econpapers.repec.org/>

consists in financially involving the one at the superior level in order to support, if necessary, the authorities at the inferior levels. From this point of view, an analogy may be made between “internal” and “international” fiscal federalism, the latter concerning the relationship between national and supranational authorities or international organizations (in international finances). Judged by appearances, such a manner of practising financial relations would not be related to fiscal federalism, because the latter has a legal (constitutional) basis which lends it a regular and compulsory character, while the involvement of the international organizations has an optional, incidental character, involving both the request from the national authorities and the acceptance of the international organization. However, we notice that phenomena such as global warming or world security, which concern all nations, not only some of them, objectively determine a joint, even unitary, approach to solving such needs, by means of common supranational institutions or organizations. This phenomenon, related to such mutations as globalization or the European integration, gives rise to the need to establish separate revenue sources for supranational authorities, able to ensure the resolution of the problems in their competence, which sets the basis for building a system typical for “fiscal federalism”. In the specific context of the European Union organization and functioning, some claim that the establishment of a European tax system is just a matter of time⁹¹⁰. A convincing example in this respect is considered to be the action mechanism specific to the European Union, in which the common institutions manage problems for the benefit of all Member-States, thus taking over financial resources to its own budget from the resources of the states involved, in the context in which many of the tax-related decisions are harmonized by means of normative documents issued at this level. Although the prevailing view is that total relinquishment of fiscal authority is not something that can be taken into consideration, the decisions regarding taxation (especially indirect) are at least partially in the competence of the Union, which is exactly what forms the core of fiscal federalism. The existence of a system in which the competences regarding the management of certain problems are attributed to national and European-level authorities on a differentiated or complementary basis, combined with the presence of a taxation and intergovernmental grant framework can only be qualified as fiscal federalism. However, in the related literature there are also some studies that dispute the presence and the applicability of fiscal federalism in the European Union, either in the larger context of multilevel governance finances⁹¹¹, or considering that it exceeds the conventional framework of fiscal federalism by being exceedingly decentralized⁹¹². The argument they put forward is that, in attributing the functions to the different government levels (in this case, to national and European-level authorities), the reasons specific to fiscal federalism (such as macroeconomic stabilization, which central authorities must have in view) are subject to a different interpretation, in the sense that only the monetary policy may be decided at the supranational level and not the fiscal policy. The argument may be considered valid, but it must be approached in a cautious manner. It must be noticed that the authors in question themselves mention as a premise for the analysis that fiscal federalism is not a set of universally applicable rules, but rather a set of benchmarks to follow (on a differentiated basis, o.n.) in delimiting the competences related to the management, taxation and spending of the financial resources thus mobilized. As a result, we believe that the analogy between “internal” and “international” fiscal federalism subsists, with the note that in the latter case the implementation method is different. The different manner of promoting fiscal federalism at the supranational level has an explanation which is as simple as it is convincing: as long as the relationships of public power are differently

⁹¹⁰ Moșteanu, T., Iacob, M., *Fiscal Federalism*, Theoretical and Applied Economics, 2007, vol. 11, p. 21, <http://econpapers.repec.org/>.

⁹¹¹ Oates, W., *Fiscal Federalism and European Union: Some Reflections*, Societa Italiana di Economia Pubblica, 2002, <http://www.unipv.it/websiep/wp/132.pdf>, p. 2

⁹¹² Eichgreen, B., *Saving Europe's Automatic Stabilisers*, in Baimbridge, M., ș.a., *The Impact of the Euro - Debating Britain's Future*, Macmillan, London, 2000.

legally sanctioned at the internal level and at the level of international cooperation, the attribution of the competences of taxation, spending or management of public matters outlined based on these relationships will be, in its turn, different. It is without doubt that the attribution of some competences, such as macroeconomic stabilization or the redistribution of revenues meant to prevent poverty or to protect those with low income, to the supranational (European) level may have weaker effects than the management of these aspects by the national government levels, but this does not affect the core of fiscal federalism. Moreover, the rules applicable to fiscal federalism promote subsidiarity, which requires that a certain task be attributed to the government level closest to the place (level) where the problem has arisen, on condition that the management of the problem in question cannot be better dealt with at a superior level (in order to avoid distortions). In other words, if the distinctiveness of the relations between the European Union and its Member-States requires that certain aspects such as those mentioned above be managed by the national authorities, we are talking about fiscal federalism.

In the context of the European integration process, taking into account the characteristics of the political and administrative organization of this entity compared with the known composite forms of state or with the unitary states, until not long ago, the prevailing view was that, at least from the point of view of budgetary revenues (in effect, of taxation), the transfer of the decision-making process in this respect to the Union level would be a forbidden and inadequate assignment of “sovereignty”, considering that as long as taxes are the main support (from a financial point of view) of the sovereign manifestation of states, no member-nation would be willing to give up such rights. However, it can be noted that, if the presence into a functional association in the genre of the European Union is desired, whatever (legal, constitutional) qualification we may confer to it as a form of organization, it is first necessary that all the parties involved take on a relative “loss” from the point of view of decision-making power, because the minimum consensus necessary to any such association in order for it to function in good conditions may not be otherwise gained. In our case, it can be noted that generous objectives such as ensuring free circulation, undistorted competition, a high living standard, at similar levels in the member countries, are accepted on a large scale, but it is not always admitted that reaching them involves a joint action of the Member-States, conceived for reasons of coherence and unity of action at the supranational level, of the Union. In other words, just as the Member-States, especially the unitary states, ensure their functionality and compatibility between the different interest and government levels by means of a minimum degree of centralization (reduced by decentralization, local autonomy, subsidiarity), the European Union is able to efficiently reach its shared objectives in a similar way. This opinion is also confirmed in practice (at least partially in what concerns the Member-States), due to the use of the single currency, and the unity of the monetary policy designed and promoted by the European Central Bank⁹¹³.

Taking into account the previously set forth arguments, we believe that the opinion expressed by the majority of those interested in the matters related to the working of the European Union in the sense that sovereignty cannot be relinquished, especially at the fiscal level, must be reconsidered. A first argument is that the decision-making right in certain areas at the European level lacks efficiency as long as there aren't any efficient implementation instruments. An eloquent example in this regard may be the evolution of the last years in what concerns the budget deficit, in some of the Member-States of the European Union, ironically and almost paradoxically exactly those considered as the initiators of the rule regarding the 3% limit on the budget deficit. States such as France, Italy or Germany are recording budget deficits that exceed this limit, at the same time with a breach of the rule regarding the maximum indebtedness level of 60% of the GDP (in the case of Italy, over 100% in 2007), which, according to the rules, would lead to these countries

⁹¹³ Oates, W., *Fiscal competition and European Union: contrasting perspectives*, *Regional Science and Urban Economics*, no. 31, 2001, pp. 133-45.

facing financial sanctions. Faced with such a situation, the countries in question proposed as a method of resolution, without asking for the rule to be removed, that the causes of the deficit be separately analyzed for each state. For example, Germany invoked the use of 4% of the GDP for the necessities of reunification, at the same time proposing that the contributions to the Community budget may not be taken into consideration, and President Chirac put forward the productive character of certain expenditures which would justify their being taken out of the calculation when determining the budget deficit (“the research and development expenditures of today ... are the riches of tomorrow”). In these conditions, it can be noted that the lack of an efficient instrument of constraining the actions of the national authorities may give rise to dysfunctions at the Union level, being necessary to attribute extended competences to this level. In the case of direct taxation of income, although we agree with the idea that macroeconomic stabilization for 27 countries simultaneously at the Union level would not necessarily be more efficient than the separate action, at the national level, we have to remark that, in the present conditions, there is a fiscal competition which may lead to distortions in allocating resources. The single rate implemented by some European states, without any restriction, is generating differences that may have negative effects. Although it is not entirely necessary that the European Union implement the so-called „European taxes”, as there are problems mainly related to recording and evaluating the taxable matter, determining the tax value, levying or keeping track of and collecting tax claims, it is obviously necessary to harmonize taxation bases or direct tax rates. Two mentions must be made: harmonizing does not automatically mean “standardizing” (in the sense of setting the same taxation rate at the level of all the states, but only setting ranges between which these rates may vary), and harmonizing taxation rates without harmonizing taxation bases (for example, the unitary setting of the elements that stand at the basis of calculating the taxable profit) would strip the entire action of its efficiency. This statement has its origin in ascertaining that economic and budgetary systems are not based, in their functionality, solely on related decisions of a subjective, administrative nature, but have at their basis the so-called system of incorporated stabilizers, which first includes the taxes applied by the Member-States. Their reaction to the economic context may be a beneficial one as long as, in their position, the reasons they started from took into consideration the future implications on other Member-States (taking into account, first, the action of economic operators in the context of free circulation). Moreover, we believe that the indispensability of establishing a system such as fiscal federalism within the European Union derives from accepted economical reasons, knowing that the fiscal policy (in its narrow meaning, of tax policy) and the monetary policy must be considered related parts of the general, economic and social policy of a state entity; their positive effect can only be ensured as long as the measures devised and promoted for each of the two areas are harmonized and lead to (or support) similar results and are not opposed, annihilating each other’s desired effects. In this respect, the free practice, by the Member-States, in the absence of a constraint which is possible under a fiscal federalism type of organization, of expansionist fiscal policies may lead to inflationist effects, thus harming the effectiveness of targeting inflation through the European monetary policy.

From another perspective, that of understanding taxes (beside public expenditures) as a means of achieving solidarity between the members of the entity in question, we notice that in what concerns the European Union, tax is not yet perceived as such an instrument, interstate solidarity being rather limited, still⁹¹⁴. As a matter of fact, in most cases, redistribution of resources within the European Union is discussed only from the perspective of the expenditures supported by the Union budget, without the necessary reference to related resources and the implications of their collection based on the product generated in the Member-States, the matter

⁹¹⁴ Collignon, S., *The European Republic – Reflections on the Political Economy of a Future Constitution*, London, 2003, pp. 104-105

of the resources of the Union budget being the object of separate discussions. The positions expressed in this regard are often contradictory: on the one hand, they say that the Union does not have any competences related to direct taxation (especially of income); on the other hand, they require that financial resources be attributed through the system of supranational transfers. Such opinions are also favoured by the fact that, in the context of the absence of disruptive phenomena (at least until now, when the financial crisis is settling in more and more), which would require that more attention be paid to (macro)economic adjustment and stabilization, the European Union as well as the Member-States have channelled their attention primarily to the aspect of the redistribution of resources (for example, by means of the structural funds, which have economic and social cohesion as a purpose).

Conclusions

In conclusion, we think that fiscal federalism cannot be considered in any way a phenomenon incompatible with the European organization or an inhibiting factor for it. It must necessarily be designed and promoted at this level, without it being understood that it should be applied in its conventional formula, which is not allowed by the characteristic itself of the political and administrative organization of the European Union. Centralization becomes an absolutely necessary trend in the Union, but it must be carefully applied and must not be in any way interpreted as a possibility or a potential danger of “levelling” the Member-States of the Union, by excessively reducing or erasing national differences. The management of asymmetries in the economic and social development at the Union level, as well as of the transfer of undesirable effects from some states to others in the context of free circulation (especially of workers and capitals), requires, in an absolutely rational and necessary manner, that the European Union takes on extended competences and that the Member-States recognize to a larger extent the importance of interstate solidarity and joint action.

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THE IMPACT OF FINANCING POLICY ON THE COMPANY'S VALUE

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National and international financial system offers companies a wide range of funding sources. The choice of one or more of the available sources and their combination are major aspects of the company's financing policy. Managers must keep in mind that the call to one or other of potential funding sources is not a minor and independent decision, but has profound implications on the company's value. Weighted average cost of capital can be used as the discount rate or the selection of investment projects.

Keywords: financing policy, cost of capital, capital structure, company's value.

JEL code: G32

1. Introduction

Financing policy at microeconomic level is significantly influenced by how the economic mechanisms function at regional, national and even global. Romania is characterized by a relatively unstable socio-economic situation and, which raises serious toll on the business results of Romanian companies, irrespective of quality management at the microeconomic level. Considering the specifics of economic and financial environment in the context of analysis of the influence these areas have on the the finance decision at microeconomic level, one cannot ignore elements such as inflation, changes in interest rates or exchange rate in economy⁹¹⁵.

Although these macroeconomic factors are especially useful for the substantiation of policy finance companies, there are other factors that influence financing policy, factors related to the company's internal environment. Taking into account these observations, and various other related to financing policies, we may wonder why some sectors of the activity tend to have companies with a high rate of borrowing compared to other sectors. But analyzing the role of the financial lever, the cost sources of funding or fees paid by the company, we can explain these changes in borrowing rates, and how the company's value is affected by the financing policy.⁹¹⁶ Among these factors, we consider the cost of financing sources as the primary factor in foundation financing policy, having the greatest impact on company results and hence on its value.

Financing policy, which underpins the company's capital formation, is mostly assumed by the company's management and less by the "providers" of capital (shareholders, creditors). This can be achieved in two ways: internal financing and external financing. But each of these sources implies a specific cost to achieve them, cost which the manager should know, considering also the indirect implications of choosing one or other of these financing arrangements.

⁹¹⁵ Oprean Camelia, *An analyses of Romanian companies financing decision under macroeconomic influences*, MPRA Paper No 14716, 2008.

⁹¹⁶ Fabozzi F., Drake Pamela, *Finance. Capital Markets, Financial Management and Investment Management*, John Wiley & Sons, Inc, New Jersey, 2009.

2. The cost of financing sources – essential factor of company policy

Due to its crucial role in all production factors, capital has a privileged position in all theoretical approaches aimed by business activity⁹¹⁷. So, we can appreciate the capital as all funding sources available to the company that can be used to purchase all the elements of the asset⁹¹⁸. Considering the source of the company's capital is composed primarily of two components: equity and debt.

2.3.1 The cost of equity – determination methods

Equity cost represents the rate of return required by shareholders is the company to pay for their investment in the company. If the rate of return is lower than the opportunity cost, then the business value decreases, and if the rate of return is higher than the opportunity cost, then the business value increases. The rate of return expected by shareholders is an opportunity cost based on expected return of investors to invest the same risk. In the absence of resale transactions of existing shares, shareholders will earn dividends only. If the future flow of dividends is known, the discount rate that equales the present value of dividends by the current price action will be the required rate of return for investors. The difficulty of the model lies in determining the exact level of future dividends. Therefore, research in the field tried to find ways of estimating this rate of return expected by investors, which the most significant are presented in the following table:

Table 1

Methods for determining the cost of equity

Crt. Nr.	Method	Formula
1	Gordon-Shapiro Model	$k_e = \frac{D_1}{V_0} + g \quad (1)$ <p>: $\frac{D_1}{V_0}$ = the dividend yield per share g = the growth rate of dividend per share.</p>
2	Model of determining by PER (market capitalization ratio)	$PER = \frac{1}{Rrf} = \frac{1}{k_e} \quad (4) \quad k_e = \frac{d * (1 + g)}{V_t / EPS_t} + g \quad (5)$ <p>: d – dividend rate EPS_t – earnings per share at time t V_t/EPS_t = PER_t</p>
3	Capital Asset Pricing Model (CAPM)	$k_e = Rf + \beta * [E(\bar{R}) - Rf] \quad (6)$ <p>: Rf – risk-free interest rate β – Title volatility, systematic risk expression relative to market portfolio E(\bar{R}) – expected return on market portfolio</p>
4	Arbitrage Pricing Theory Model (APT)	$k_e = Rf + \sum_{k=1}^K b_{ik} * \bar{\lambda}_{ik} \quad (7)$ <p>: b_{ik} – sensitivity coefficient of the company at the risk factor k $\bar{\lambda}_k = \sum_{t=1}^T \lambda_{kt}$ - average risk premium in the period under review T – number of periods analyzed</p>

⁹¹⁷ Nistor I., *Teorie și practică în finanțarea întreprinderilor*, Ed. Casa Cărții de Știință, Cluj-Napoca, 2004.

⁹¹⁸ Berceanu D., *Deciziile financiare ale firmei, Ediția a II-a*, Ed. Universitaria, Craiova, 2006.

		$Rf = \lambda_{0t}$ - risk-free rate at time t K – number of risk factors
5	Updated cash flow model, for preferred shares	$V_0 = \sum_{t=1}^n \frac{Div_t}{(1 + k_p)^t} = \frac{Div}{k_p} \quad (8)$: Div_t – forecasted dividend to be distributed for year t $Div_1 = \dots = Div_n = Div = \text{constant}$ k_p – cost of capital for preferred shares
6	Rata rentabilității financiare	$Rrf = \frac{\pi_{net}}{Cpr} \quad (10)$: π_{net} – net profit Cpr – equity value

Source: Processing after Pirtea M., Cristea H., Nicolescu Cristina, Boțoc C., *Managementul financiar al companiei*, Mirton Publishing House, Timișoara, 2010.

2.3.2 The cost of lent capital - determination methods

To estimate the cost of borrowed capital can be used two types of methods:

A. A company's exogenous methods such as:

- Negotiations with potential manufacturers;
- Based on market interest rates on loans with similar risk issued instruments;
- Based on actual interest rate subsidy payed by firms in the same sector.

B. A company's endogenous methods:

In addition to exogenous methods, the company can estimate the cost of debt taking into consideration the interest rates on loans issued by the company, called yield to maturity method, YTM. Yield to maturity is the interest rate that would be won by one investor on similar instruments, which bought the title at the current price and that keeps it until maturity.⁹¹⁹ The cost of borrowed capital will increase over the yield to maturity under the impact of administrative costs, the various fees involved with a new issue. In these circumstances, the cost of debt (k_d), under the impact of taxation, is given by the following formula:

$$k_d = YTM * (1 - I_\pi) \quad (11)$$

I_π – profit tax rate

One of the significant risks that are facing the creditors of companies is the risk of default by the company issuing debt (bankruptcy risk). Effect of bankruptcy risk should be considered in determining the discount rate, but also the expected value of cash-flow analysis of investment project sites. In these circumstances, estimating the expected profitability by the creditors imposes the determination of the payments' sensitivity, depending on the macroeconomic indicators. Therefore, a second method for determining the cost of debt is the CAPM model, which involves calculating the β coefficient for debts:

$$k_{dat,t} = Rf_t + \beta_{dat} * [E(\bar{R}) - Rf_t] \quad (12)$$

unde: Rf_t – rate of return on a risk-free bond at time t

$E(\bar{R}) - Rf_t$ - risk premium for the market portfolio at time t

⁹¹⁹ Stancu I., *Finanțe*, ediția a IV-a, Ed. Economică, București, 2007.

Using this formula, however, leads to determining the expected value of return to creditors, that is usually different from the actual value. The report of the two values is determined by the risk of non-payment of obligations to creditors and the likelihood of bankruptcy. In case of the two events, then the actual amount will be less than expected value, otherwise being above the expected value.

2.3.3 The weighted average cost of capital -influence on the company's financing policy

Choosing a means of funding is determined on the one hand by its cost and secondly by the company's current financial structure.⁹²⁰ Optimal financial structure corresponds to the minimum cost of used capital, weighted average cost (WAC) being determined using the following relation:

$$WAC = \sum_{i=1}^t w_i * k_i \quad (13)$$

unde: w_i – shared capital, by the sources of origin
 k_i -the cost of the i source of financing
 t – the number of financing sources

The principle underlying the determination of weighted average cost of capital calculation takes into account the WAC in accordance with how the cash-flows that have to be updated are denominated. For this, the following elements should be considered:

1. The taxation of cash-flows. If these are taxed, then the CPM will be determined after taxation its parts:

$$WAC = k_{debt} * (1 - I_{\pi}) * \frac{Debts}{Total\ capital} + k_e * \frac{Equity}{Total\ capital} \quad (14)$$

2. Using nominal rates, if cash-flows are expressed in nominal sizes.

WAC can be used as discount rate in assessing cash-flows of a company's investment projects. Using WAC as the discount rate is an appropriate valuation method based on updating the sites of future cash flow, because the whole value of the company has invested capital (own or borrowed). Thus, the economic asset value will be given by:

$$V_0 = \sum_{t=1}^n \frac{CF_t}{(1 + WAC)^t} + \frac{VR_n}{(1 + WAC)^n} + V_{ar} \quad (15)$$

unde: CF – cash-flows of the company, on the three types of activities
 V_{ar} – value of redundant assets

WAC calculation proves its usefulness also in selecting investment projects, being the minimum threshold below which investors will not accept to fall, representing an investment return required for the company that has an identical risk of the same company as a whole. If the new project has the same risk as a whole company, then WAC can be used in determining the net present value (NPV), as a criterion for selection of investment projects:

$$NPV = \sum_{t=1}^n \frac{CF_t}{(1 + WAC)^t} - I_0 \quad (16)$$

unde: I_0 – value of initial investment
 CF_t – annual forecast cash-flows forecast, after tax.

⁹²⁰ Pirtea M., Cristea H., Nicolescu Cristina, Boțoc C., *Managementul financiar al companiei*, Ed. Mirton, Timișoara, 2010.

If the investment project has a different risk than the company's, then the discount rate of cash flow may differ from the value of the company's WAC. In this case, the CAPM model is recommended for determining the discount rate, in which the right SML (Security Market Line) is the geometrical point of all updated rates of investments, proportionally to the risk adjusted to the rates of investment.

3. Creating value – effect of the company's decisions

Intelligent investment decisions make the shareholders richer. For example, if a company can borrow 8%, when the interest rate is 9%, then it can be said that the company manager did a good deed for shareholders.

Unfortunately, this is easier to be said than done. The problem is that financial markets competition is more intense than in most product markets. On product markets, generally, businesses can find competitive advantages that allow positive NPV investments. For example, a company may have only a few competitors who specialize in the same line of business and in the same geographical area. Or can be able to seize the patent, technology or on the recognition and customer loyalty. All these offer the opportunity to obtain higher profits and to find positive NPV projects⁹²¹.

But there are few protected niche in the financial markets and you can not patent issuance of new securities. In addition, you are facing on these markets always a fast-moving competition, including all other companies seeking capital, not even considering the state, the local administrations, the financial institutions, the foreign and individuals companies ranging from New York, Tokyo or London funding. Investors who have a surplus capital are many and intelligent. Most likely, these investors assess the value of securities at least as well as issuers.

Of course, when a company calls to loans, it wants that the borrowed resources to cost less than market interest rate. But if the loan is a good deal for shareholders, it must be a bad deal for creditors. So there is a dilemma linked to how a company is likely to deceive investors constantly forcing them to pay a surcharge for the securities issued. The answer is very obvious, very small, generally companies should assume that they issue securities which are sold at true value.

But the real value is a slippery potential expression, the actual final value does not mean future value, because differences may occur between predictions and the actual recorded level (we do not expect investors to be observers by chance). Fair value reflects a price which includes all current information available to investors on an efficient capital market, all securities being valued at a fair price. In such circumstances, the sale of securities at market price can never be a positive NPV transaction

4. Conclusions

Funding sources must be selected in accordance with the objectives to finance and economic environment in which it operates. Also, the company's financial strategy must always follow the indicators "net income per share", "gross dividend per share" or realistic "net dividend per share" because any investor bases his investment decisions according to actual earnings.

For a capital investment to be justified, the profitability of invested resources must at least equal the same risk return investment alternatives, and we formulate the idea that the cost of capital is an opportunity cost.

If WAC analysis is performed in terms of business, then we are talking in terms of cost that you must pay for dispende sources of funding. But analysis can be performed from the perspective of investors who wish to obtain a certain gain from their investment in the company, and then talk in terms of profitability.

All these hypotheses argues that it is hard to win or lose based on funding strategies, either smart or stupid. It is difficult to win, which means finding cheap sources for funding, because investors demand fair market conditions. At the same time, it's hard to lose, because competition among investors prevent any of them, in terms of requirements, rather than reasonable conditions.

⁹²¹ Brealey R., Myers S., Marcus A., *Fundamentals of corporate finance*, 5th Edition, McGraw Hill/Irwin Publishing House, New York, USA, 2007.

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ANALYSIS OF THE VALUE ADDED BY THE ADDITIVE METHOD

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Calculating the value added by the additive method (analytical) study concerns the component value through creative participation factors to be paid.

Keywords: Value-added methods, factors

Cod JEL:G32

Introduction

Value added (VA) is represented and expressed as the entity in the economic cycle through its activities within a specified period, usually the financial year.

The indicator measures the entity's economic- financial performance, growth of value added index to show a tendency to it than that of the production year and it is in continuous growth.

The importance of value-added analysis is reflected in the following aspects:

- Value added is the main source of self-financing economic activity;
- Value added is the source of remuneration of staff;
- Value added is the source for financing the budget;
- Value added is the source to increase reserves for the entity.

Determining the value added by the additive method

Additive or analytical method is a method which involves adding the structural distribution of newly created value, which includes: personnel expenses = wages and social protection expenditure = (PE); taxes and no VAT charges (T+C) ; financial costs (FC); depreciation of fixed assets (DFA); and net added value (NAV) after deducting depreciation.

In this respect, there are two possibilities for calculating the value added:

1) Based on net income for the year

VA = Personnel expenses + expenses, taxes, and similar taxes (including income tax) + financial expenses+ adjustments to financial expenses: tangible and intangible assets + other operating expenses (compensation expense) + extraordinary expenses+ net income. Minus: other operating income, financial income, extraordinary income and income from operating subsidies.

2) Based on results of operations

VA = personnel expenses + expenses, taxes, and similar taxes + other operating + value adjustments of tangible assets + adjustments on provisions+ operating result.
Minus: other operating income.

Calculation models emphasize the role of investment consumption represented by depreciation expense and provision for depreciation of assets, which reflects the contribution of production equipment along with other factors to create gross value added(GVA).

By excluding depreciation and provisions for impairment of assets (DIA), obtain net value added:

$NVA = GVA - DIA$

NVA = Net value added

GVA = Gross Value Added

DIA = depreciation and provisions for impairment of assets

The model for calculating the value added provided by the analytical method allows analysis of: the factors increase or decrease, the value added structure depending on the capital intake and its allocation to pay labor and capital inputs contributing to the new value created.

Value added factor analysis aims to increase or decrease factors that depend on structural elements of the indicator considered.

For example, the value added calculated by the analytical method based on net income, uses data from the following table:

Table 1

Nr. crt.	CALCULATION ELEMENTS -lei-	Financial year		Deviations (±Δ)	Indices (%)
		Previous	Current		
1.	Personnel expenses (PE)		4336434	+979056	129,16
2.	Taxes, charges TOTAL (T+C) (+)	3726156	4912292	+1186136	131,83
3.	Financial expenses (FE) (+)	1044330	1837828	+793498	175,98
4.	Value adjustments on tangible and intangible assets (VATI) (+)	1365560	1456270	+99710	107,35
5.	Value adjustments on assets (VAA) (+)	135200	121300	-13900	89,71
6.	Adjustments on provisions (AP) (+)	256300	195300	-61000	76,20
7.	Other operating expenses (OOE) (+)	159445	132273	-27172	82,96
8.	Extraordinary charges (EXC) (+)	98450	104530	+6080	106,18
9.	Net Result (+)NR	4431192	8223928	+3792736	185,59
10.	Other operating income (OOI) (-)	2277610	3592006	+1314396	157,71
11.	Extraordinary income (EXI) (-)	118930	123450	+4520	103,80
12.	Revenues from operating grants (ROG) (-)	1265400	2562456	+1297056	202,50
13.	Financial income (FI) (-)	1379870	1908670	+528800	138,32
14.	Gross value added (GVA)	9523201	13133573	+3610372	137,91
15.	Net value added (NVA)	8166641	11677303	+3510662	142,99

$GVA = PE + (T+C) + FE + VATI + VAA + AP + OOE + EXC + NR - OOI - EXI - ROG - FI$

1. Changing the value added:

$$\Delta GVA = GVA_1 - GVA_0 = 13.133.573 - 9.523.201 = +3.610.372 \text{ lei}$$

$$(\Delta r = I_{GVA} - 100 = 137,91 - 100 = +37,91\%)$$

2. Factors influencing are:

$$\Delta = \Delta PE + \Delta(T+C) + \Delta FE + \Delta VATI + \Delta VAA + \Delta AP + \Delta OOE + \Delta EXC + \Delta RH + \Delta OOI + \Delta EXI + \Delta ROG + \Delta FI, \text{ în care:}$$

$$\begin{aligned}
\Delta PE &= PE_1 - PE_0 = +979.056 \text{ lei} \\
&(\Delta rPE = 979056/9523201 * 100 = +10.28\%) \\
\Delta(T+C) &= (T_1+C_1) - (T_0+C_0) = 4912292 - 3726156 = +1186136 \text{ lei} \\
&(\Delta r(T+C) = 1186136/9523201 * 100 = +12.46\%) \\
\Delta FE &= FE_1 - FE_0 = 1.837.828 - 1.044.330 = +793.498 \text{ lei} \\
&(\Delta rFE = 793498/9523201 * 100 = +8.33\%) \\
\Delta VATI &= VATI_1 - VATI_0 = 1.456.270 - 1.356.560 = +99.710 \text{ lei} \\
&(\Delta rVATI = 99710/9523201 * 100 = +1.05\%) \\
\Delta VAA &= VAA_1 - VAA_0 = 121.300 - 135.200 = -13.900 \text{ lei} \\
&(\Delta rVAA = -13900/9523201 * 100 = -0.15\%) \\
\Delta AP &= AP_1 - AP_0 = 195.300 - 256.300 = -61.000 \text{ lei} \\
&(\Delta rAP = -61000/9523201 * 100 = -0.64\%) \\
\Delta OOE &= OOE_1 - OOE_0 = 132.273 - 159.445 = -27.172 \text{ lei} \\
&(\Delta rOOE = -27172/9523201 * 100 = -0.29\%) \\
\Delta EXC &= EXC_1 - EXC_0 = 104.530 - 98.450 = +6080 \text{ lei} \\
&(\Delta rEXC = 6080/9523201 * 100 = +0.06\%) \\
\Delta NR &= NR_1 - NR_0 = 8.223.928 - 4.431.192 = +3.792.736 \text{ lei} \\
&(\Delta rNR = 3792736/9523201 * 100 = +39.83\%) \\
\Delta OOI &= OOI_0 - OOI_1 = 2.277.610 - 3.592.006 = -1.314.396 \text{ lei} \\
&(\Delta rOOI = -1314396/9523201 * 100 = -13.80\%) \\
\Delta EXI &= EXI_0 - EXI_1 = 118.930 - 123.450 = -4.520 \text{ lei} \\
&(\Delta rEXI = -4520/9523201 * 100 = -0.05\%) \\
\Delta ROG &= ROG_0 - ROG_1 = 1.265.400 - 2.562.456 = -1.297.056 \text{ lei} \\
&(\Delta rROG = -1297056/9523201 * 100 = -13.62\%) \\
\Delta FI &= FI_0 - FI_1 = 1.379.870 - 1.908.670 = -528.800 \text{ lei} \\
&(\Delta rFI = -528800/9523201 * 100 = -5.55\%)
\end{aligned}$$

By summing, we verify the equality:

$$\begin{aligned}
&\Delta PE + \Delta(T+C) + \Delta FE + \Delta VATI + \Delta VAA + \Delta AP + \Delta OOE + \Delta EXC + \Delta RH + \Delta OOI + \Delta EXI + \\
&\Delta ROG + \Delta FI = 979.056 + 1.186.136 + 793.498 + 99.710 - 13.900 - 61.000 - 27.172 + 6.080 + \\
&3.792.736 - 1.314.396 - 4.520 - 1.297.056 - 528.800 = +3.610.372 \text{ lei} = \Delta \\
&(10,28 + 12,46 + 8,33 + 1,05 - 0,15 - 0,64 - 0,29 + 0,06 + 39,83 - 13,80 - 0,05 - 13,62 - 5,55 \\
&= +37,91\% = \Delta r)
\end{aligned}$$

Conclusions

Changing the value added is the consequence of the increase or decrease of the elements of distribution.

Taxes, as items of expenditure are factors influencing the net result of the company and hence, are influential factors in increasing or decreasing the value added. Structural analysis of the value added concerns shares of participation of the allocation of elements to create added value, which reflects the contribution of each input corresponding intake.

Labour contribution

$$LC = \text{Personnel expenses/Value added} * 100$$

Contribution to State

$$CS = \text{Taxes, charges/Value added} * 100$$

Contributing to creditors

$$CC = \text{Financial expenses} / \text{Value added} * 100$$

Contribution to investment

$$CI = \text{Depreciation and provisions} / \text{Value added} * 100$$

Contribution to business

$$CB = \text{Net result} / \text{Value added} * 100$$

The structure of the value added reflects shares of participation from the capital intake to achieving new value created, given the fact that the increase in value added cointerests all participants in the life of the entity.

1) *Personnel undertaking*: the personnel costs directly attributable to the form of salaries or indirect form of social benefits and shares profits

2) *Intake capital*: the interest paid to creditors and dividends paid to shareholders

3) *State*: through taxes and corporation tax receipts

4) *Undertaking*: depreciation and wear itself by offsetting assets through depreciation and provisions for depreciation and self-financing their development

Factors of value added incorporate two distinct parts: one corresponding added cost for the enterprise and another that is a sampling of results. Added cost is the cost of the undertaking's activity, which it added to goods and services purchased from outside.

Sampling result is net income component and it is distributed to the inputs in the form of dividends, income tax, self-financing.

Analyzed as a sum of added costs and interest in the result, the value added provides an insight into the evolution of these costs, hence useful for management.

The structure of value added depending on the contribution of capital intake, on components, given the costs of product additions and deductions, is made by a scheme that requires prior knowledge of the distribution of the net profit by destination: legal reserves, their sources of financing (self-financing), worker participation in profits and dividends to shareholders.

Intake capital are: working with personnel costs and employee participation in profits; creditors and shareholders through dividends and financial costs; the state through taxes including income tax and enterprise, through depreciation and provisions for depreciation, the result put in question reserve self-financing.

Table 2

Value added	=	Added costs	+	Shares in the result
I. Work	=	Personnel expenses	+	Profit participants
II. Capital shareholders	=	Financial expenses	+	Dividends
III. State	=	Taxes, charges	+	Tax income
IV. Enterprise	=	Depreciation	+	Self-financing

Distribution of added value, calculated by the analytical method, based on equity and share intake according to the structure pattern leads to: added costs and levies in each corresponding product.

Value added structured like this, is on one hand a performance indicator, since it allows to assess the effectiveness of the company for its actions, and the second is an indicator of the degree of economic integration, given the external input consumption.

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PRIVATE EQUITY – CHALLENGE OR A CHANCE?

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The purpose of this study is to present the advantages and the opportunities of the private equity funds impact on the Romanian economy, and also identifies the economic disadvantages that can derive from applied strategies. For this reason we can consider private equity as a challenge and a chance at the same time, because beginning with choosing the investment domain, sector, company and the investment strategies the private equity funds can drive to performance for the investee companies, and implicit can have an important impact on the business environment and not in the least to the entire economy.

Keywords: private equity, involvement, economic and social implications, investment cycle, divestment;

JEL classification: G24, G34, E44

1. Introduction

Given that financing of a company in need of capital can't be realised by own sources, bank loans or on behalf of "the 3 F's" (Family, Friends or Fools), new forms of financing have been created such as account funding through venture capital funds and/or private equity.

In the current economic context, the private equity industry has become a solution of solving the lack of liquidity for various companies because this industry plays an active role on the entire market that can have an major impact on rehabilitating the states economies which have been affected by the financial crisis.

This industry is considered an alternative source of financing for companies that are target for investment funds and also represents a good way of investing on long term, during all stages of the business – from start-up strategies to expansion or replacement strategies. Beside this, private equity financing has become more attractive because these funds have and may provide financial resources for companies in need of large amount of money. This funds have the necessary amounts on behalf of the advantageous strategies applied on the exit, that have provided substantial benefits for up to several times the amount originally invested.

This situation has been considered as an alternative in the context that banks (the most used financing sources till nowadays) have increased the costs of borrowed capital and have roughen the borrowing conditions as a derived response to the actual lack of liquidity on the economy.

2. Private equity advantages

In the actual economic context, the industry of private equity is considered to play an active role in the rehabilitation of the economies affected by the financial crisis, by providing important sources of liquidity in the economy that cannot be obtained through in debt. Private equity is to be a long term investment during all stages of business - starting with initiative strategies up to corporate restructuring strategies.

Through time, has been set that the private equity backed companies have obtained several benefits, such as:

- Retrieving cash from selling a stake of the company to an investment fund, cash in need to accelerate the development of the company. Thus, in addition to bank loans, another option is to attract financing for companies in the ownership of a private equity fund.

- Once a company has been absorbed by the fund and becomes a portfolio company, investment funds bring along professionalization, new practices, new people and market experience.

Considering the recent evolution of the private equity industry, this financing form has created a particularly environment around it. It has been said that because of this, economy has been entered into „private equity era” (Stoica V, Corbu I, 2006), situation that has several advantages, such as:

- Industrial structure is renewed rapidly due to technological progress which shortens the life cycle of products and consequently the life cycle of investments;
- Medium and long term loans can not meet new industry requirements which give rise to very high financial risks;
- Frameworks and company employees want to be more empowered and to participate actively in increasing the capital firm.

3. Private equity actions – Case of Sicomed - Zentiva

In representing the efficiency of the involvement of investment funds in the companies targeted, this article will continue with the Sicomed Bucharest company case study and the observation of the financial indicators in relation to the evolution of the employees.

Indicator	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
-RON- Turnover	6155164 5	7936937 0	10104600 0	12745544 1	14580000 0	17534766 4	19231316 4	24209661 8	19399664 0	21850584 8
Net Profit	8776403	1859978 0	13264000	13063000	18100000	19486464	15997222	23074860	4258101	23184647
No of employees	na	na	na	2000	1670	1140	918	1012	821	738
<i>Period before SCD taking over from the private equity</i>		<i>SCD private equity take-over period</i>	<i>The period of the Fund involvement and the restructuring of the merged company</i>				<i>Fund Exit and the taken from SCD - Zentiva</i>	<i>The company's reorganization under the Sicomed – Zentiva's merger</i>		

Source: www.zentiva.com, www.mfinante.ro

Considering the involvement of fund investment in the company we can say that: both entities can benefit from - the fund as a result of leaving it at a momentum can multiply their initial investment several times and the company which benefits from the investment fund, receives a major influx of cash on account of the amounts invested, amounts that can ensure the recovery and / or development of the business.

Actually, if we refer to the situation after the fund had exit from Sicomed, followed by the takeover by Zentiva, Czech Republic, another company in the same line of business, Sicomed has received:

- Restructuring – starting with the restructuring and the redevelopment of the technological infrastructure and the working environment up to the management and staff restructuring;
- Replacement of the production lines with some new ones, modern and which fulfill the latest requirements as far as manufacturing conditions are concerned, which are associated with specific production of medicines;

- Development of new production lines, due to changes in the portfolio of products that are designed to be completed by the Romanian company;

- Introduction of new principles of organizational culture;

Besides these positive aspects, undoubtedly negative sides appeared that have resulted on account of the impossibility of full integration of the old society Sicomed in the standards and the Fund's investment strategies and also into the acquiring company. These aspects can be observed in the reduction of the number of staff employed after 2000, the year of the involvement of the fund.

4. Private Equity Involvement during the Investing Process and Exit time

On one hand, it has been observed that the companies have registered a growth of financial wealth, in terms of high turnarounds, high profits and a better financial position on market, the implementation of new technologies, etc, a situation that is comparable with all the benefits that can derive from a positive involvement of a private equity fund.

Analyzing the related data on the economic impact of private equity industry (PE thereafter), namely the data from *PricewaterhouseCoopers (PwC)* report on the Economic and Social Impact of the private equity funds we intend to verify if the conclusions presented on the reviewed report are common with the real situation of Romanian PE backed companies.

The PWC report sustains that private equity industry has a positive influence on the economy, it contributes to revitalization and restructuring of the existing industrial companies and it consists in financial support and growth potential. For this reason, the private equity industry has become an important pillar of the global economy.

At European level, following the involvement of these funds in the economy, there have been significant increases related to the rate of employment in the sectors covered by these funds, as it follows:

Table 2 - The increase of employment in Europe by sector of activity

<i>The number of employees in companies funded by private equity & venture capital investment</i>	<i>% of increases</i>
Biotechnology	+46,9%
Medical services and pharmaceuticals	+46,3%
Electronics and telecommunications	+38%
Industry	+25,2%
Production of goods for consumption	3,9%
The average employment	+30,5%

Source: Processing by PWC Report on the Economic and Social Impact of the private equity funds

The research report, provided by Technical University of Munich in November 2005, has demonstrated the contribution of investment funds such as Private Equity and Venture Capital on the labor market. Thus, from an empirical study examining the number of new jobs created over the period 2000-2004 showed that were created over 1 million funded companies hiring in Europe, including over 430 000 jobs were created in companies financed by buyouts, and about 630 000 jobs were created among companies backed by venture capital infusions.

Furthermore, the employment rate in the analyzed period, 2000-2004, it was increased with an average of 5.4%. Specifically, it was increased 8 times over the average increase of employment in Europe (0.7%)

In these circumstances, it was the found that private equity firms create more jobs than listed companies (a 5.5% annual growth in Europe between 2001-2004, compared with average annual growth of 0.7% for countries EU), or, most often improves the performance of portfolio companies. Beside all this, the profitability of the portfolio is sometimes higher than similar companies listed, which, ultimately, helps millions of people who contribute to pension funds that represent the largest category of institutional investors.

Therefore, since the PWC report presents the positive aspects of the private equity economic impact, we can assume that as well, can be expected negative aspect. Beginning with this assumption, the study attempts to identify the effects of the private equity involvement in the Romania`s economy by observing this aspects on a private equity backed company (i.e. Sicomed - Zentiva).

In the case of Sicomed the turnover`s growing evolution, presented in the figure 1, with an average of 21% per year (in real terms a growth of 3% over the inflation rate) demonstrates the positive involvement of the fund in the investee company, a company that has benefit of restructuring strategies (organizational, managerial, technological, etc).



Figure 1. The turnover`s and profit`s evolution from investment (2000) up to divestment of the fund (2005) – case of Sicomed - Zentiva

On the other hand, from a social point of view, the Romanian companies that have been embedded in a fund portfolio, have registered an unfavorable influence among the number of employees, although private equity funds have developed a number of advantages on business investment and restructuring.

In other words, these funds have acted only in terms of economic efficiency of these companies on short and medium term, instead the human factor became the one that required restructuring. On account of the restructurement of the company following the management change, some production lines are altered and the funds were put into position of reducing the number of employees through layoffs since the funds involvement (through operations like takeover or buyout). In the following figure it can be observed the evolution of the number of employees while the funds involvement (from 2000 to 2005) and after the Sicomed acquisition of Zentiva in 2005.

During the involvement of the investment fund, starting with 2000 were dismissed over 50% of employees to over 2,000 employees reading in 2005 when it reached a total of 918 employees. All these staff reductions were justified by the management by the need for a restructuring plan in the Romanian company Sicomed Bucharest. In compensation, all the layoffs were redeemed by the inclusion in a social project organized by the company and named "Advice and assistance for reintegration" of over 1 million EUR. The employees included in this restructuring program have obtained a financial redemption - they had to choose between the receipt of four compensatory wages or inclusion in this project for six months, while receiving a monthly salary and professional services capabilities assessment, training courses, setting job interviews, offering legal advice and financial consultances for starting new for businesses.

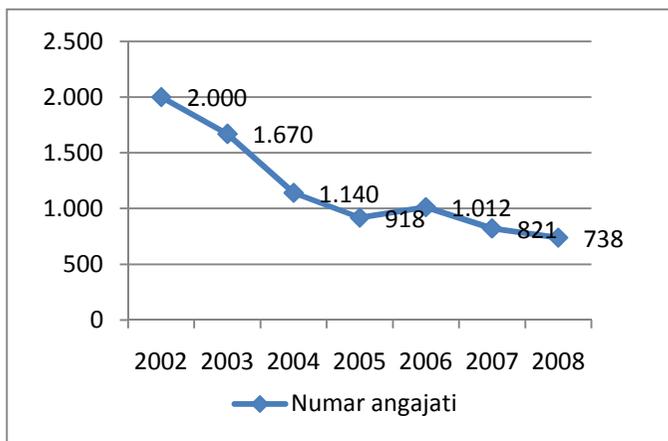


Figure 2 - The employees evolution for Sicomed & Zentiva between 2000-2008

As you can see in figure 2, throughout the involvement of the fund, the number of employees was reduced from year to year, with an average decrease of about 22% per year. The largest number of redundancies being made in 2004, at a rate of decrease in the number of employees with over 31%.

After 2005, with Zentiva's involvement in Sicomed activities, as the beginning of any company, the first year (2006) was marked by the recording of a growth in the number of employees. Employability was at the level of 10.24% higher than in 2005. However, in the coming years, 2007 and 2008 the restructuring continued, with rates of redundancy of 18.87% and 10.11%. Also, in 2007 the reducing of the number of employees took place that is from 1012 (2006) to 821 employees at the end of 2007, change that was realized with proper wage compensation for redundants.

Some personnel changes were made also for reviewing and modifying the market wage level at the standards of group Zentiva - changes that have increased staff costs by over 30% in 2007, which led to the redundancies.

Throughout those 4 years since the formation Sicomed-Zentiva were made redundant 200 people, the current number of employees was only 738 people in the recent report of the company.

With reference to the entire period analyzed, from 2000-2008, during the involvement of the fund and after the divestment of the fund from the company, the number of employees has been reduced from over 2,000 employees to 738, with a medium reduction in staff of 63.1%.

For Sicomed, the investee company, the employees reduction has become a favorable part, because this restructuring process has led to higher turnarounds, results that can be translated in terms of productivity growth and efficiency.

This downsizing cannot be limited solely to the Sicomed-Zentiva business case, it can influence in a certain way all the economic activity. Any redundancy in the number of employed people in the economy could increase the unoccupied population (i.e. the number of unemployed). Reducing the number of employees only in the Sicomed with over 63%, above the European average employability of 30%, generates an average vacancy rate of over 30%, which may show that the reduction in the number of employees in Sicomed has increased by 30% unemployment rate at the industry level, or even in Bucharest, with the assumption that employability rate that it is reached at European level it's also reached in Romania.

5. Macroeconomic implications

Reducing significantly the number of employees due to the influence of these funds, and the corresponding increase in unemployment rate on their behalf, has implications not only on the labor market (through loss of jobs increases the number of unemployed), but also on economy as

a whole. Job cuts will lead to a decreasing of the income, which will result in reducing the demand for goods and services as a result of reduced household consumption in their care to spend and save money. Moreover, at the macroeconomic level, it may record a restriction of activity on account of the inability of covering the supply of goods and services by reducing the demand for them. Subsequently, the lack of activity is to be registered due to degradation of the national production assessed by reducing the level of GDP, with direct consequences for national economic growth. Reducing domestic production will reduce economic growth. That is the recording of negative growth rates, and even economic downturns, that is a stage forerunner of economic crisis.

It should be noted that this study was summarized only to the economic and social implication driven by the involvement of a investment fund of PE in a Romanian company only. The withdraw of these conclusions to a macroeconomic level, has been realized with the purpose of observing the possible incidences on to the macroeconomic indicators, especially if the case of Sicomed Zentiva might be registered by other entities.

Moreover, the negative social implications of company activities must be completed by all the effects observed - that relate to the growth of the business and financial results assessment.

Surprisingly, on account of the number of employees, Sicomed has registered continuously an increasing turnover from year to year. The same situation could be noticed at the profit level, as reviewed in the figure 1. For this reason, we can make positive assessments related to reducing the number of employees – this downsizing, which is due to the re-engineering process and restructuring strategies, has been made in order to have an efficient production, rationalizing the use of resources, to facilitate labor, to reduce medium costs, etc.

Noting all these facts, it has to be said that the restructuring of staff, in this case, was set to be a social cost into/through the innovation and technical progress, cost that is going to lead later to higher competition between companies, and to a continuous improvement of products (diversification and/or quality improvement standard), all into the development of each business. Assessments related to effects of the crisis that influence the reduction of the number of employees can not be done yet, because these personnel changes have been found to have a rationale mean that relate directly to the restructure of the activities and to the replacement of manufacturing technologies, and not on account of restriction of activity.

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CURRENT TRENDS IN TAX HARMONIZATION AND COMPETITION WITHIN THE EUROPEAN UNION

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This article treats on the fiscal harmonization process within the European Union being indispensable for assuring loyalty in the competition on its single market, given the fact that different system of taxation had direct and powerful impact on the prices level and on choosing the location for production and distribution activities.

Both direct and indirect taxation distort the four fundamental freedoms of the single market. Most of the European Union's regulations regarding fiscal harmonization resemble to the Directive regarding especially the indirect taxes: VAT, Excises.

The fiscal reforms from the member states have to be conceived in such a manner that they take into account the necessity of fiscal harmonization on EU level, creating a reasonable compromise between each country's sovereignty and the desideratum of removing fiscal barriers from the normal functioning of the single market.

Keywords: fiscal harmonization, fiscal reform, VAT, income tax, fiscal europeanization

JEL codes: H21, F36

1. Considerations on fiscal pressures within the European Union

If we take a brief look back in time at the Romanian fiscal system during the transition period, an important stage in the evolution of Romanian fiscal system represents the fiscal reform from 2005, when one has replaced the progressive tax on individuals incomes with a 16% flat rate and the reduction of the income tax from 25% to 16%, which lead to an increase of fiscal incomes with about 7% of GDP. The objects of the reforms depended on the support of the fair distribution of the profit as a result of economic increase, business climate improvement and consolidation of Romanian competition.

The Romanian particularity, in comparison with the old EU member states, before the 1st May 2004 consists in the incomes structures raised from the national budget. In Romania, as well as in the other recently adhered Central and Eastern European countries, the fiscal incomes are mainly composed of indirect taxes – VAT, excises, customs duty, while in the old EU member states, the distribution of the three tax categories – direct taxes, indirect taxes, social contributions to the incomes – is relatively close.

Table no. 1: The evolution of fiscal incomes from VAT (% of GDP) in the period 2000-2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU- 27	7	6.8	6.8	6.8	6.8	6.9	7	7.1	6.9
Belgium	7.2	6.9	6.9	6.8	6.9	7.1	7.1	7.1	7
Bulgaria	9.7	9.1	9.2	9.8	10.7	12.1	12.4	12.1	11.5
Denmark	9.6	9.6	9.6	9.6	9.8	10.1	10.3	10.4	10.1
France	7.3	7.2	7.1	7.1	7.2	7.3	7.3	7.2	7
Austria	8.1	8.1	8.2	8	8	8	7.7	7.7	7.8

Romania	6.5	6.2	7.1	7.2	6.7	8.1	7.9	8.1	8.1
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Source: <http://epp.eurostat.ec.europa.eu/>

VAT represents one of the most important income resources, but in creating the national and the EU budget. European Union's average is 6.9% of GDP. From receipt point of view, Romania exceeds the European average with 8,1% of GDP, the countries with the highest fiscal incomes being Denmark and Bulgaria.

Table no. 2: Evolution of fiscal pressure (% of GDP) in the period 2004-2008

	2004	2005	2006	2007	2008
EU- 27	40.1	40.4	40.9	40.9	40.5
Belgium	46.9	46.9	46.5	46	46.5
Bulgaria	33.1	34.0	33.2	34.2	33.3
Denmark	50	51.7	50.5	49.9	49
France	45	45.4	45.7	44.9	44.6
Austria	44.9	43.9	43.5	43.8	44.4
Romania	27.7	28.5	29.2	29.8	29.4
Great Britain	36.7	37.6	38.4	38.1	38.9

Source: <http://epp.eurostat.ec.europa.eu/>

From the table above we can remark that the Romanian fiscal system is at an average level in comparison with the European Union's countries, being considerably under the fiscal pressure⁹²² level of France and Denmark. A higher fiscal pressure is specific to the developed countries: Belgium, France, Austria. Although the fiscal pressure in Romania is under the EU-27 average of 40,5%, from tax payers' point of view it is high. When analysing the fiscal pressure of some EU countries we have to take into account their development level, the purchasing power of the country; according to these criteria Romania can be still considered a country with a developing economy, in comparison with the developed countries: France, Germany, Austria, etc.

Further on, we limit our analysis to only three European Union countries: Bulgaria, France and Romania. The reason of choosing these states consisted in the fact that Bulgaria adhered to the UE in 2007, as well as Romania who has a fiscal system similar to that from France. The analysed tax types are: tax on the incomes of persons, profit tax and VAT.

Bulgaria

The tendency of the tax on the persons incomes is in decrease reaching in 2008 a share of 10%. The proportional single tax rate is perceived on the incomes from six different sources, existing only a few fiscal exemptions. This rate is applied both on the incomes of the resident persons and on the incomes made in Bulgaria by non-resident persons. Pensions and other payments made from the social assurances budget are exempted from taxes. Similarly, the incomes resulting from interests of the savings deposited in banks in Bulgaria or other EU country are excepted from imposition.

During the last decade, the taxation of commercial societies' profits in Bulgaria became more and more profitable for the development of businesses. From a 40% rate in 1995 for large companies, the rate has been reduced almost each year, reaching a rate of 10% on the 1st of January 2007. There exists even exemptions from taxation even up to 50% for initial investments and the investments in computers, softwares and mobile phones. The investments in new assets for the purpose of promoting the energetic efficiency benefits from an exemption of 50% from the profit tax. Another measure of business encouragement, effective since the 1st of January 2009, is the

⁹²² We've taken into account the fiscal pressure calculated generally as a report between the fiscal incomes+social contributions and VAT

exemption for 5 years from tax payment for those who make profit from the following activities: agriculture, hi-tech, infrastructure.

The VAT standard rate has been reduced from 22% to 20%. The rate reduced to 7% is applied for the accommodation in hotel if it is about an organised travel.

France

Since 1999, one of the main purposes of fiscal policies was to reduce the taxes on the incomes from salaries, taking into account the specific situation of each family. The tax on the income of persons is perceived annually on the income resulting from any sources, in progressive rates on instalments. In 2008, the maximum rate was 40% applied to the incomes higher than 69.505 Euro. A remarkable character is the high number of the applied exemptions. The incomes resulting from investments, such as bank interests, incomes resulting from the profits on the capital market are charged with a proportional rate of 16%.

The profit tax affects each profit made in France by the companies and other legal entities, the standard rate being 33,33%. The large companies with an asset turnover exceeding the threshold of 7.630.000 Euro and with a taxable profit of 2.289.000 Euro have to pay a surtax with a 3.3% additional rate.

France has a VAT standard rate of 19.6% and two reduced rates. A reduced rate of 5.5% is applied to the absolutely necessary products and on the restaurant services and the reduced rate of 2.1% for newspapers, plays and approved medicines.

Romania

Since 2005, the tax rate on the incomes of persons are proportional, unique of 16%. This rate is applied to the incomes resulting from independent activities, from the concession of goods, from salaries and agricultural activities. Moreover, the incomes of the employees whose main activity represents software development are exempted from income tax payments. Benefits in kind are charged normally. The incomes from pensions are charged with 16% , but only those exceeding 1000 RON/month, that is about 235 euro.⁹²³

Since 2005, the profit of commercial societies is also charged with the same proportional, unique 16% rate, reduced from 25%. In the context of international financial crisis and the current government's desire to limit tax dodging, there has been introduced since April 2009 a minimal tax on the profit of commercial societies, established according to the total incomes registered at the end of the last year.

Romania has a VAT standard rate of 19%, two reduced rates, one of 9% and one of 5%. The 9% rate is used for medicines, medical equipments, books, newspapers, the right to access some cultural and hotel accommodation services, while the 5% rate is applied for providing social and some private housings.

2. Current trends regarding tax harmonization within the European Union

At the same time with the intensification of European economic integration, persons and individuals gain a greater freedom to benefit from the opportunities given by foreign economies. Thus, international fiscal competition increases together with the increase of capital and work force mobility. Fiscal harmonization proves indispensable for assuring loyalty in the competition on the EU single market, given the fact that the different system of taxation has a direct and powerful impact on the level of prices and on the choice of the investment's location. At the same time, it is an extremely complicated process because the modification agreed on the tax affects the entire national fiscal system.

⁹²³ Romania's Fiscal Code up dated

Fiscal harmonization ambitions can be thus categorized on three levels.⁹²⁴ Two of them would be the avoidance of immediate imbalance resulting from the opening of borders, EU fiscal system smoothing⁹²⁵. Both direct and indirect taxes distort the main four freedoms of the EU single market. But the most EU directives refer to VAT and excises, which are indirect taxes. Concerning the direct taxes, EU's *acquis* regards the profit tax, capital gains tax and less the tax on the incomes of persons. Most of the dispositions regarding direct taxes are left at each state's disposal, a fact that represents an attribute of their sovereignty. From the point of view of the harmonization of taxation elements, we can refer to several aspects: kind of taxes, imposition rate, taxation base and way of management.

According to a study one reached the conclusion that the more developed countries, such as France or Germany, having large taxation base, are for the harmonization of direct taxes, in comparison with the less developed countries which are skeptical regarding the process of harmonization of these taxation categories. Romanian fiscal system integrates itself in the typology of East-European fiscal system, rendering this market more attractive by means of a direct taxation, more reduced in comparison with the Western-European fiscal system.

Fiscal disparities at EU level determined the European Commission to initiate the implement of a common system of taxation of the profit made by the companies located on the European Union's territory. The system has the determined purpose to remove fiscal obstacles between European transactions. This probably represents the beginning of the fiscal europeanization. The fiscal europeanization can also have the meaning of dependence of the European Union's main institutions. Thus, there would gradually lose the national fiscal autonomies, or parts of them, and the fiscal system would no longer represent a national problem, but a Community problem.

A European measure in fiscal harmonization represents the implement of the common consolidated base of the profit tax (Common Consolidated Corporate Tax Base, or CCCTB), having as main object to facilitate the economic operations realised by the companies from the European Union, but it has no compulsory character, but an optional one. The application of the common base means actually the use of some common regulations regarding the calculation of taxation base for the profits made by the EU companies.

The Commission's proposition for a common base of taxable profit at EU level, letting continually the freedom to national governments to establish their own rate of profit tax is pragmatic and reasonable. This would simplify the profit taxation of the companies which carry on their activities on EU territory, without affecting the competition and restricting the freedom of national governments to establish tax rates considered adequate.

The common consolidated corporate tax base is not the only object of the European Union concerning the fiscal harmonization of direct taxes, but it has also in view to create a common taxation system, applicable to fusions, divisions, assets assigning and shares changing within companies belonging to different EU member states and a common profit tax system among offices and head-quarters.

3. European Union's fiscal paradises – a form of disloyal fiscal competition

A major problem that the European economy is confronting with represents the fiscal paradises, known also as fiscal shelters or "fiscal heavens". Actually these are key-areas of the European economy through which there are circulating freely and continually financial flows drawn as a magnet by the facilities offered by these areas. We can appreciate the fact that these have represented actually the stimulus of the capital migration at international level and even the fiscal europeanization. Generally these are characterized by globally specializing in different services,

⁹²⁴ H. Sterdyniak, M - H. Blonde, G. Comilleau, J. Le Cacheux, J. Le Dear, *Vers une fiscalite europeenne*, Ed. Economica, Paris, 1991, p. 79-97.

⁹²⁵ Tulai C., Șerbu Simona, *Fiscalitate comparată și armonizări fiscale*, Editura Casa Cărții de Știință, Cluj-Napoca, 2005, p.136-138.

mainly bank services, serving the interests of multinational companies. These constitute the meeting point of "white money" with "black money", implying no discrimination, even though these fiscal shelters have strict laws concerning "black" money laundering to assure that financial institutions headquartered there are not used illicitly. Moreover, they have special departments investigating any possible regulation violation. The offshore banks have strict methods of "acknowledging the client", the well known anonymous accounts are just a myth.

Within the European Union we can meet several fiscal paradises, such as Luxembourg, Cyprus or Malta. Some EU member states have become "black" money laundering centres without being fiscal paradises such as Latvia, Poland or even Romania.

There are also "fiscal heavens" outside the Community absorbing important financial flows from the European Union, such as Liechtenstein, being one of the most old fiscal paradises from the world and offering the best services of private banking in the entire world. The case of Switzerland, very well known, constitutes a problem for the European Commission, fighting with the removal of Swiss fiscal system. Monaco is a fiscal paradise more oriented towards persons, as it is not charging incomes, dividends or direct line of successions or capital increase of persons. Thus, the lack of taxes has drawn a high number of "tax refugees" from the European Union, having money earned mainly outside of Monaco.

We consider that the current global economic and financial crisis is due partly to these "black holes" of global economy, because there exist many companies having repatriated their profits in offshore centres and, thus, the states they have invested in lost possible considerable budget resources, achieving a "chain" reaction: budgetary persons have no longer been well enough remunerated in order they may pay their loan rate, the banks confronted with serious financial problems because of many bad credits, leading to the release of global crisis. The lack of a political will to put an end to these "black holes" of financial globalisation makes them to flourish and to put into danger the global financial stability. The developed countries tolerated and are still tolerating the existence of these fiscal paradises because they assure profits to the large companies, but they don't see the long term effects of this phenomenon. We cannot ignore the fiscal paradises when debating a global problem, taking into account the fact that analysts assert that about 70% of the tolerated monetary volume are circulating from the shade of fiscal paradises. Thus, as long as there are fiscal paradises, there will also exist economic crisis. Their cycles are legitimate as long as the problem of fiscal paradises is not removed.

4. Conclusions

By means of the European System Accounts (ESA95) it has been tried to bring to a common denominator the classification of national accounts and within the taxes and EU contributions. The European system of national and regional accounts is a compatible framework on international accountancy level for the systematic and detailed description of a total economy, as well as of its components and relations with other economies. ESA95 is according to the revised orientations from the entire world regarding accountancy at national level, System of National Accounts (1993 SNA, or simply SNA).⁵

Within the European Union's common fiscal policy there exist also the tendency of modernizing Community and national regulations concerning VAT, as well as the stimulation from fiscal point of view of the research-development field or the resources use according to the Community principles of long-lasting development.

Since quite a long time, rumours are heard about the introduction of a common tax in the European Union which shall finance EU's activity. But the institutional (especially the unanimity regulation of the member states discussed again in the Treaty of Lisbon), technical and political

⁵ <http://circa.europa.eu/irc/dsis/nfaccount/info/data/ESA95/en/titelen.htm>

(fear from federalism and budgetary derivation) obstacles still remain numerous and, thus, the introduction of such a resource seems less realist for medium term.

Regarding the recently debated fiscal standardization, there exists a series of arguments for, among which: the necessity of fiscal debureaucratization, as a component of institutional debureaucratization; a step towards the legislative fiscal stability at national level; a state's foreign business would adapt itself more easily to the economic environment of that country; many conventions at international level would no longer be necessary; the smoothing of fiscal legislation would support a better circulation of monetary capitals and, as a consequent, of the main three freedoms and, of course, the fact that there would be no longer divergence, fiscal contrasts at European level, between areas with high fiscal relaxation and those with too much fiscal pressure. Of course, this standardization would be carried into effect only after the ending of national fiscal reforms and only for long term. On Utopian scheme, a fiscal union would be established.

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THE AUDIT OF THE EUROPEAN FUNDS - THE ROMANIAN CASE PARTICULARITIES

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The European funds are committed to improving the economic and financial state of the eastern European countries. Therefore they have to be performing spent. The financial audit has an extremely important duty from this point of view. In Romania case there are some particularities which are, at the same time, the possible ways to improve the financial audit activity as well. The vital thing among them is to improve the independence of the financial audit and to take in account the necessary report between internal and external audit. A proposal is made here.

Keywords: financial audit, internal audit, external audit, the Authority of Audit, the European fund, Court of Accounts.

Paper JEL code: M42

The European funds as a lever for the economic growth of the European Union newly entered members

The enlargement process of The European Union needed to be well prepared from many points of view. Among them, those referring to the economic and financial aspects have been considered extremely important. Therefore, The European organisms have decided to give financial support, in order to improve their economic state, to the countries that ask for becoming members of The European Union. It is mainly the case of the eastern European countries that, in a huge majority, inherited a poor economic situation.

Romania, as a country that gained its freedom in 1989, expressed its will to become member of the European Union immediately after nineties. It lasted more than sixteen years and needed both financial support and a long period of exhausting efforts for negotiations. Starting with the January the 1st of 2007 Romania managed to meet the conditions and entered European Union as a fully-rights member. Since than a new European Union policy concerning the financial support has been applied.

There have been two kinds of supporting funds like that: pre-adhesion funds and post-adhesion funds. They actually have had a similar goal, mainly to help the country in restructuring the economic sector and in adopting the European rules concerning the economic and political organization, the rules that are called “the European acquis”. In this way the European funds have been used as a lever to improve the economic infrastructure and to bring a better performance in financial sector. Nevertheless the post-adhesion funds aimed at giving help differently from those of the former period.

The types of the European funds in Romania case and their objectives

The funds that Romania has received from The European Union came differently in type and goal before 2007 from since then. Thus, the former funds referring to the previous period of 2007 consisted in:

- Funds under the SAPARD program (The Special Pre-Adhesion Program for Agriculture and Rural Development) which is a financial support coming from the European Community (the European Counsel decision, number 1268/1999). It was given for the period of 2000 - 2006 in an amount of 153.000 thousand euro annually. The objective of the entire Program consists in:

- to set up a necessary frame for a performing agriculture implementation
- to take over the EU community acquis regarding the agricultural free market

Over the course of the all these funds the Romanian government have had to contribute an overage of 25% from the sum of the funds. That is why the accessed funds have been, sometime, much less than that in right. According with the Agency for the Fishing and Rural Development Payment, at the end of 2008, only 84.05 % have been consumed from the entire amount of the allotted 1,521,450 thousand euros over the period of 2000-2006. Romania has not had the financial possibilities to access all of the funds because of its financial state. That means, however, that in this period, a 1,521,450 thousand euros was allotted for the Romanian economic growth despite the fact that only 1,278,740 thousand euros has been really paid.

- ISPA– Instrument for the Pre-Adhesion Structural Politics – a programme that began with January of 2000 as a result of the European Council decision, 1267/1999. With the allotted 2,783,864 thousand euros till December of 2008 the programme aimed at:

- improving the internal standards of the environment so as they comply with those of the European Union
- connecting the internal transportation webs with those of the Europe

- PHARE– Help for the Economic Reconstruction of Poland and Hungary – which brought to Romania, accordingly with the Finance Ministry report, at December of 2008, 1,187,955 thousand euros mainly for the purpose of:

- developing of the democracy, human rights and minorities respect
- achieving public administration and justice system reform
- improving the over- border cooperation

On the other hand, the tools for the financial support delivery have been wealthy diversified and improved after the January of 2007. Thus, essentially one can identify the following instruments which are still working in order to provide European funds for the Romania's economic, financial and social sectors:

- The European Agricultural Fund for Rural Development which provide money for developing all the agricultural activities and rural infrastructure.
- The European Fund for Agricultural Guaranty that is in charge with the stimulation of the agricultural products export accordingly with the European standards.
- The Structural and Cohesion Funds which are compounded from three accurate-purposed funds such as:
 - The European Fund for Regional Development for giving financial support to those regions that are less developed in fields such as: education and health system infrastructure and local economy
 - The Social European Fund that backs measures to fight against unemployment and for improving the quality of the life
 - The Cohesion Fund as a structural instrument to give money for improving the infrastructure and the environment for those countries that realize a GDP of less than 90% from the European average

All these funds have to be spent in accordance with their specific objectives and within a total compliance of the European Commission rules. Therefore, a requirement that was strongly asked even from the beginning of the adhesion negotiations referred to an effective control on the spending process of the both internal public money and especially for that coming from European Union. It is to watch over the regularity, reality and transparency of the money spending process. To comply with such a demand Romania set up, since 2005, a new special organism in charge with the external financial audit on the European funds. This is called The Audit Authority and is working within The Romania Court of Accounts. Its organization and competences had to and should have to enable it to meet both the European Commission requirements concerning the

needed reasonable assurance on the legality and the performance of money spending process and, at the same time and not less important, the financial audit international standards.

The Audit Authority as an independent organism on European funds external financial audit

In order to audit all the European funds and to give a positive answer to European Commission demands concerning the external audit as a duty of any member of European Union Romania decided to set up The Audit Authority.

This is an independent organism inside The Romania Court of Accounts in charge with so-called external public audit on European funds both pre and post adhesion process. It is thought to work independently from The Court of Accounts and from any other institutions dealing with the European funds management. It is organized both at the central and regional level and actually belongs to The Romania Court of Accounts just administratively. All the professional rules and proceedings are similar with those of The European Court of Accounts and in accordance with the European Commission requirements.

According to its special law, The Audit Authority has a wide range of competences which are to make sure it successfully manages to be a real audit institution. By the law, they quite accurately are:

- to assess the conformity of the control and management systems for the European Programs internal institutions in charged
- verifications upon all the expenses statements of the entities in charge with the European funds management
- reports to European Commission concerning the irregularities found over the course of the money spending process
- control of the reality and legality of that part of money coming from national participation
- issues the so-called audit certificate upon the annual financial statements of those entities that use money
- follow-up regarding the recommendations issued at the end of the audit missions

The law states also that the Audit Authority is entitled to ask for documents and information to any entity which, in a way, may have a connection with the European funds.

It is committed to carrying different types of audit missions, such as:

- audit of conformity aiming at giving a reasonable assurance that the management and control systems work properly at any program level
- audit of system called to identify the strengths and weaknesses of the different systems involved in programmes application
- audit of the transactions having as objective to give reasonable assurances that financial statements which are sent to European Commission are accurately made up
- audit at the end of any programme with the goal of issuing the “closing declaration”

The most important thing defining The Audit Authority activity consists in being an independent audit institution and, as a result, its financial audit activity complies with the demands of international standards. The independence as an ethical principle is a real one and it is secured by the followings:

- it is an external audit and therefore it is alleged to have no material, moral, social or any other kind of connections with those audited. It is really possible to be avoided any interests conflicts as a result of its external statute. All the advantages of the external audit comparative with the internal audit, from this point of view, are possible
- being organized inside The Romania Court of Accounts, beside The Parliament, it is financed by the public money so that there is not possible any negotiation, concerning financial aspects between the auditors and those audited. More than that, it is not at all

possible any agreement, between those two parts, concerning the facts such as: whether or not to be audited, what is the period of time that has to be audited, which is the exact, date the audit mission takes place, which is the cost of the audit. If such things do not intervene in the audit activity it surely is more independent, more trustful and more effective

Taking in account the way of how the independence principle is enforced in both organization of The Audit Authority and in the performing process of audit (its competences) one may conclude that European funds have the right conditions to be audited. How the things are going practically? What might it be done to improve the activity of the entire audit on external funds so as to increase the performance in using them? Being still at its beginning, one could think of some methods, to make it more effective. On this purpose we have to look into The Audit Authority reported results and to compare them with the real expectations.

Conclusions and proposals

As we can see Romania made real progresses as far as the financial audit on the European funds are concerned both in its organization and in an effective exercising. Nevertheless, the European Commission and Romania as well are interested in a more effectiveness and not less important in enforcing all the principles regarding the financial audit so as they are issued and approved by the international professional organisms. In our opinion, toward both directions there are still reserves to be exploited so that the performance of the using process of the European funds to be improved. We refer to the principles of the Ethic Code and to International Standards of Audit.

The International Standards state that there is an important connection between internal and external audit. It is also known how important internal audit for a performing management is, as it is stated by the Corporate Governance Code. Professionally, each of those two forms of financial audit - external and internal audit - has their own functions and therefore, they have to work independently not rejecting of each other. From the management performance point of view, in any field, it is compulsory to organize and perform the internal audit in order to give assurances and advice to the management representatives that their goal will be accomplished. The internal audit is also responsible, in the International Standards vision, with the entire internal control of any entity.

The Authority of Audit is thought to work beside Court of Accounts as an external financial audit. It performs the functions of an external audit and, as we put down, it has a more independence than any other types of audit. As we could see the main goal of an external audit consists in giving assurances that the money are legally or properly spent. In case of the European funds, the purpose of the external audit is mainly to certify that the rules of the European Commission regarding the spending process of money are applied. In this situation the external audit of the European funds appears as a certification organism.

Taking in account the specificity of the internal audit and the connection between it and the external audit it appears that it is also a real need for an internal audit concerning the European funds. The main purpose of any internal audit, accordingly with the international standards, is to give assurances and advice for management so that it accomplishes its goal.

In case of the Romania financial audit on the funds coming from the European Union there is only an external audit exercised by the Authority of Audit. Despite the fact that it is well organized and effectively performed it can not carry out the functions of the internal audit.

There are many governmental agencies which deal with the European funds. In many cases the Government is in charge with the responsibilities of accessing European funds and with their spending. Therefore it is necessary the Government to organize and exercise its own audit which would be an internal audit. Its main goal would be to help governmental agencies management to improve their internal control system so that to be able to prevent the irregularities in spending process of the European funds. As usually the internal audit would give advice to management

system in improving the internal control in order to cover all the risks concerning external funds matter.

As it is obvious enough by studying the last report of the Court of Accounts, referring to the European funds spent during the 2008, there are many and diversified irregularities the external auditors found. It is too late such mistakes to be discovered only after a year or more as it occurs in case of the Authority of Audit. If an internal audit, inside the Government, had been organized it would have been able to contribute to an effective internal control at the agencies level so that many if not all of the irregularities to be previously stopped.

Our proposal from this point of view goes to one of the following variants: either to set up a new financial audit inside the Government having the functions of the internal audit or passing the Authority of Audit from Court of Accounts to the Government changing at the same time its actual functions of the external audit into those of an internal audit. The external financial audit would be exercised, in this last case, by the Court of Accounts itself. It would not be need for any change of the Court of Accounts law because it states such competencies being, from this point of view, in accordance with other such institutions from Europe. It is not less important to notice that in this case a certain superposition of competencies of those two institutions (Court of Accounts and Authority of Audit) concerning the European funds audit would disappear.

The more accuracy the better effectiveness of the financial audit activity.

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SOLVENCY INDICATOR IN THE CREDIT COOPERATIVES

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Abstract

Solvency ratio is the best known indicator of banking prudence, with the priority to ensure the ability of credit institutions to meet the borrowers default and mitigate competitive inequalities between different national systems.

Key words: caution, solvency, own funds

Cod JEL:G32

Introduction

Banking capital is the necessary tool to protect the bank in case of unexpected losses. As a restriction on capital adequacy of banks is, in fact, determining the size of conventional capital according to certain criteria that were proposed and accepted by the partners.

Basel agreement established the capital adequacy system, namely:

- minimum capital requirements are related to credit risk, depending on the structure of bank assets. It creates a specific relationship: the more risky loans, the capital requirement is higher;
- shareholders intake is considered the most important type of capital, each bank itself must participate with a minimum rate required depending on the degree of risk;
- minimum total capital requirements are set at 8% of total risk weighted assets;
- risk for off-balance sheet transactions is included in the calculation by converting specific commitments in equivalent credits;
- capital requirements were roughly standardized between countries, which removes the competitive advantage that banks in a country could have on banks in other countries, according to the rules or different accounting systems.

Solvency ratio, of capital adequacy, has been an ongoing concern of bank management and prudential regulations, due to its significance on bank soundness and safety deposit. Furthermore, it has an important competitive dimension, well capitalized banks are more attractive and competitive to attract resources and to expand business.

Solvency ratio 1

Under existing banking legislation⁹²⁶, banks are required to compute and report NBR solvency level indicators, which is determined as follows:

⁹²⁶ 26/04/1999 NBR Norms No. 8, to limit credit risk of banks published in M.Of.nr.245 of 1.06.1999

-Indicator of solvency 1, calculated as a percentage ratio between the equity level 1 and net exposure (total assets and off- balance sheet items, weighted according to their degree of risk), an indicator whose minimum is 12%.

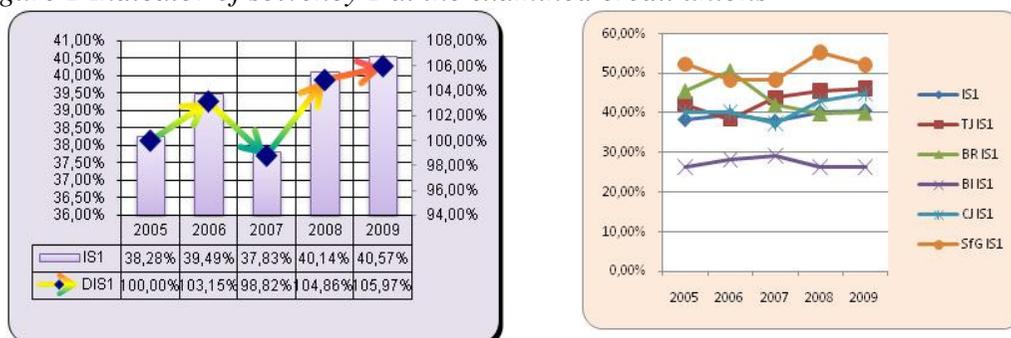
Formula	Own funds/[net assets (after deduction of liabilities AB) + off balance sheet items, converted to equivalent credit depending on their degree of credit risk processing] weighted according to their degree of credit risk		
Periodicity	monthly		
Development limits	>15%	Well capitalized	(rating 1)
	12-14,9%	Adequately capitalized	(rating 2)
	8-11,9%	Undercapitalized	(rating 3)
	5- 7,9%	Significantly undercapitalized	(rating 4)
	< 5%	Major undercapitalized	(rating 5)

Table 1 Evolution of the solvency ratio at the credit unions examined

Indicator of solvency 1 (SI1)=OF*100/NE		2005	2006	2007	2008	2009
Own funds level 1	OF	8.815.052	10.823.266	22.245.640	28.071.974	28.287.224
Net exposure (assets and elements outside balance sheet risk-weighted)	NE	23.027.670	27.409.985	58.809.356	69.932.111	69.732.207
Indicator of solvency 1	IS1	38,28%	39,49%	37,83%	40,14%	40,57%
Dynamic of indicator of solvency 1	DIS1	100,00%	103,15%	98,82%	104,86%	105,97%

Source: Own calculations based on the aggregated financial statements

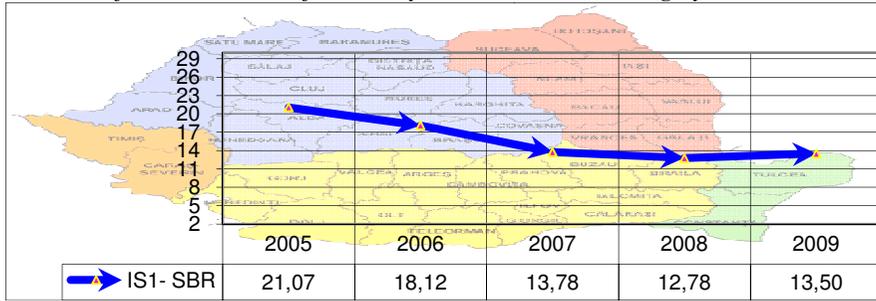
Figure 1 Indicator of solvency 1 at the examined credit unions



Source: own illustration based on the aggregated financial statements

From the graphic above is noted that the indicator of solvency 1 throughout the period under review stood at a level exceeding 37% and 12% upper limit, something which highlights the state of solvency of credit cooperatives analyzed. It is also higher than the average recorded in the banking system in Romania.

Figure 2 Evolution of the indicator of solvency in romanian banking system



Source: NBR Periodical publications

Solvency ratio 2

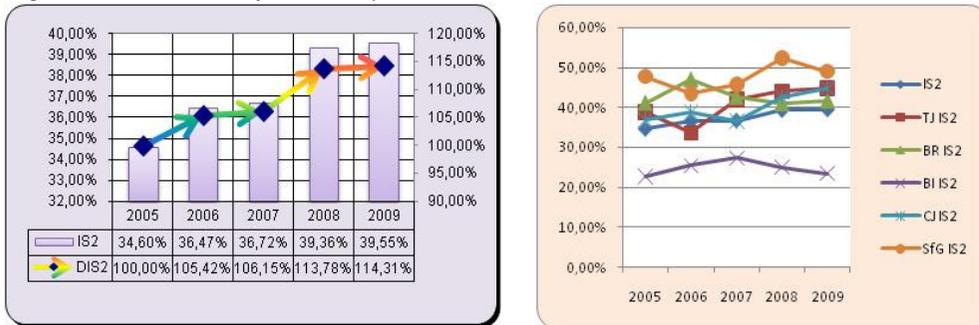
Indicator of solvency 2, calculated as a percentage ratio between equity and net exposure, indicating whose minimum level is 8%.

Table 2 Development of the solvency ratio 2 at the examined credit unions

Indicator of solvency 2 (SI2) = E*100/NE						
		2005	2006	2007	2008	2009
Equity	E	7.966.648	9.996.581	21.597.200	27.528.455	27.577.437
Net exposure (assets and off balance sheet items weighted by risk)	NE	23.027.670	27.409.985	58.809.356	69.932.111	69.732.207
Indicator of solvency 2	SI2	34,60%	36,47%	36,72%	39,36%	39,55%
Dynamic of Indicator of solvency 2	DSI2	100,00%	105,42%	106,15%	113,78%	114,31%

Source: Own calculations based on the aggregated financial statements

Figure 3 Indicator of solvency 2 to examined credit unions



Source: own illustration based on the aggregated financial statements

The indicator of solvency 2 was higher than the threshold of 8% required by Basel II, as follows: 36.60% in 2005, 36.47% in 2006, 36.72% in 2007 39.36% in 2008 and 39.55% in June 2009.

Equity Rates (Leverage effect)

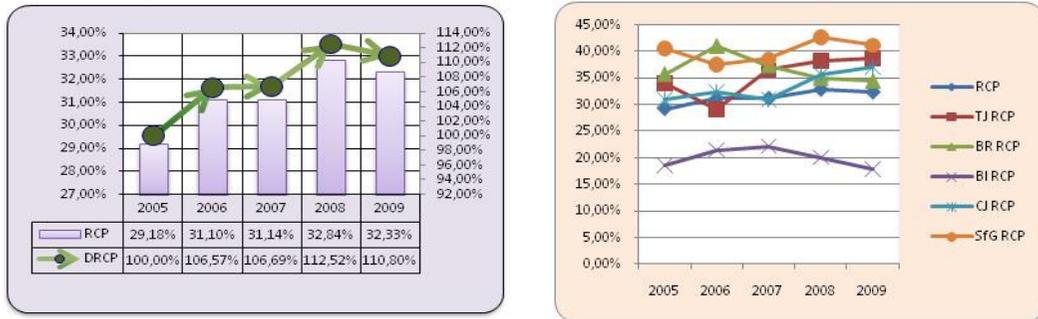
Formula	Equity / Total assets (net)		
Periodicity	monthly		
Development limits	> 6%	well capitalized	(rating 1)
	4 – 5,9%	adequately capitalized	(rating 2)
	3 – 3,9%	undercapitalized	(rating 3)
	2 – 2,9%	significantly undercapitalized	(rating 4)

Table 3 Evolution of the Equity rate

Equity rates (ER)=E*100/TA		2005	2006	2007	2008	2009
Equity	E	7.966.648	9.996.581	21.597.200	27.528.455	27.577.437
Total assets	TA	27.298.882	32.142.935	69.366.139	83.830.681	85.288.738
Equity rates	ER	29,18%	31,10%	31,14%	32,84%	32,33%
Dinamyc of equity rates	DER	100,00%	106,57%	106,69%	112,52%	110,80%

Source: Own calculations based on the aggregated financial statements

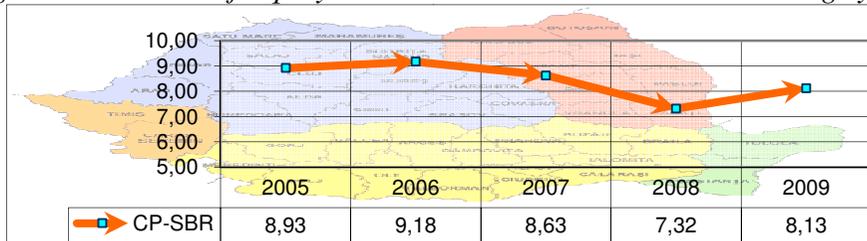
Figure 4 Equity Rates at credit unions examined



Source: own illustration based on the aggregated financial statements

Equity rate evolved increased from 29.18% in 2005 to 32.33% in June 2009 because the assets increased faster than the equity.

Figure 5 Evolution of Equity rate indicator in the romanian banking system



Source: NBR Periodical publications

The indicator in the banking system in Romania reached the 8.13 level in June 2009.

The ratio of equity capital

Formula	Equity/ Capital		
Periodicity	monthly		
Development limits	> 150%	well-capitalized	(rating 1)
	150 - 100,0%	adequately capitalized	(rating 2)
	80 - 99,9%	undercapitalized	(rating 3)
	50 - 79,9%	significantly undercapitalized	(rating 4)
	< 50%	major undercapitalized	(rating 5)

Defining capital ratings: related adequacy

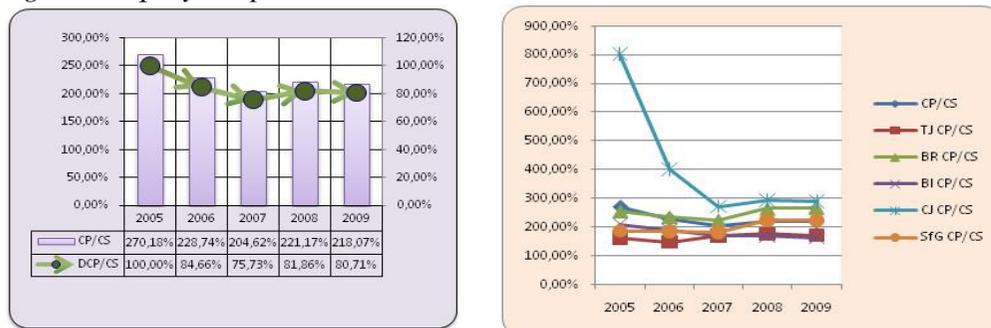
Rating 1: indicates a strong level of capital compared to the bank's risk profile.
 Rating 2: indicates a satisfactory level of capital compared to the bank's risk profile.
 Rating 3: shows a less satisfactory level of capital that can not fully support the bank's risk profile. Rating indicate the need for improvement even if the capital exceeds the minimum required by regulations.
 Rating 4: indicates a deficiency of capital, the bank's viability could be threatened. In this case, shareholders may request the assistance or financial support from external institutions.
 Rating 5: indicates a critical deficiency of capital, threatening the viability of the bank. It requires immediate financial aid of shareholders or an external funding agency.

Table 4 Evolution of the ratio of equity and capital to credit unions examined

Equity / Capital (>100%)		2005	2006	2007	2008	2009
Equity	E	7.966.648	9.996.581	21.597.200	27.528.455	27.577.437
Equity	C	2.948.630	4.370.190	10.555.010	12.447.020	12.646.170
Equity / Capital	E/C	270,18%	228,74%	204,62%	221,17%	218,07%
Dinamyc of Equity / Capital	D E/C	100,00%	84,66%	75,73%	81,86%	80,71%

Source: Own calculations based on the aggregated financial statements

Figure 6 Equity /Capital in credit unions examined



Source: own illustration based on the aggregated financial statements

The indicator fell during 2005-June 2009 from 270.18% to 218.07% because the equity increased faster than the capital.

A bank may be considered:

Well capitalized (rating 1) if it meets the following conditions:

- solvency ratio 1 is 15% or more;
- solvency ratio 2 is 10% or more;
- Equity ratio (leverage effect) is 6% or more;
- It is not in danger of not fitting within the terms of any legislation aimed at maintaining a specific level of capital.

Adequately capitalized (rating 2) if it meets the following conditions:

- solvency ratio 1 is 12% or more,

- solvency ratio² is 8% or greater;
- Equity ratio (leverage effect) is 4% or higher.

Undercapitalized (rating 3) if:

- solvency ratio 1 is below 12% and / or
- solvency ratio 2 is below 8% and / or
- Equity ratio (leverage effect) is less than 4%.

Significantly undercapitalized (rating 4) if:

- solvency ratio 1 is below 8% and / or
- solvency ratio² is below 6% and / or
- Equity ratio (leverage) is less than 3%.

Major undercapitalized (rating 5) if:

- solvency ratio 1 is below 5% and / or
- solvency ratio 2 is below 4% and / or
- Equity ratio (leverage) is less than 2%.

Conclusions

A bank is expected to maintain adequate capital compared with the nature and extent of risk, and management's ability to identify, measure and control these risks.

To determine the adequacy of capital is taken into account the effect of credit risk, market and other risks to the financial condition of the bank. Types and size of risk in bank activity, determine whether the capital should be above the minimum level required by regulations to cope with unintended consequences.

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EQUITY AND INCOME TAX REDISTRIBUTION

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Two issues are covered by this study: 1) critical analysis and systematization of equity controversies and 2) attempts of finding technical solutions for measuring fiscal inequality, closely related to the redistributive role of income tax.

Keywords: tax equity, income inequality, redistribution

JEL Clasification: D31, H22, H23, H24, H5

1. Tax Equity controversies

Construction of a rational tax system has proved to be a step as difficult as it is delicate. The main reason is that its foundation principles and demands are often contradictory and extremely difficult to harmonize: moral and ethical demands of equity and tax justice, tax efficiency and technical principles of social policy and fiscal policy.

Principle that has been given special attention over time is that of fairness, ethical principle par excellence. "Equity should be the rule and taxation objective [...] since we were all created equal. But fairness does not mean that all individuals should be charged as [...] it implies that any tax act to be done correctly, taking into account a particular context or situation." ⁹²⁷(Henry George, 1881)

Achieving ethical goals is very difficult to accomplish. Murray Rothbard pointed out that in this respect "Our conclusions are two:⁹²⁸ economic science can not justify any principle of fair taxation and that nobody has managed to establish such a principle and (2) neutral tax, which seems to many an achievable ideal, logically proved unobtainable. Economists should abandon their quest for fair and neutral tax. "

However the public debate related to finding the optimal tax system both socially and economically, is becoming increasingly heated. The idea of fairness in taxation was perceived differently from author to author and from one era to another. So over the last century have crystallized three major normative theories that have attempted to define an ideal tax system and fairness of each of these three cases is seen differently. The first theory on chronological order of their appearance, Equitable Taxation theory, has its origins in the writings of Henry Simons (1938), a recognized advocate of classical liberalism. The role of the State was to create equity through redistribution. Equity is achieved mainly horizontally, by applying the same rates to the same income. Taxation which is solely aiming the fiscal equity, is disregarding efficiency

⁹²⁷ Henry, George, The Common Sense of Taxation, The North American Review, iulie, 1881, Volumul 130, p.296

⁹²⁸ Marinescu, Cosmin, "[Mitul criteriului eficienței în știința economică](#)", Revista Analiză și Prospectivă Economică, Ed. ASE, nr. 1-2/2005, p. 49-53

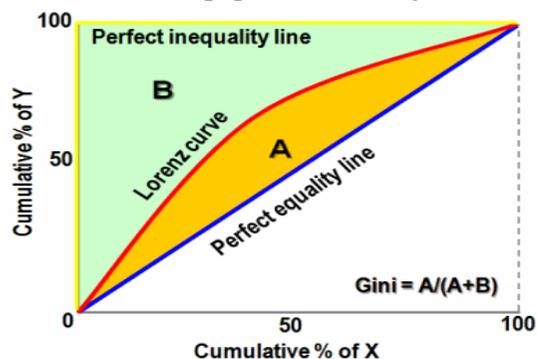
objectives. The second theory was the theory of Optimum Taxation, based on the doctrine of sacrifice and was developed by the classical school. In *The Principles of Political Economy* (1891) John Stuart Mill states that the fairness of taxation is that each taxpayer bears the same burden and the same sacrifice. Modern welfare economics (Pigou), interpreted the sacrifice as a utility loss, claiming that in order to equalize marginal utilities to minimize the sacrifice aggregate caused by taxation. Later, Frank Ramsey (1927), James Mirrless (1971), Peter Diamond (1971) also reiterated the idea that the tax system should involve the smallest sacrifice, but define sacrifice as a reduction in social welfare, and not as simply individual utility loss. Exchange Theory of taxation, the most recent theory, is looking for a tax system as close to perfect. The idea comes from the old tax theory of voluntary exchange Knut Wicksell's (1896) and the works of James Buchanan (1976-1980). This theory involves narrow, multiple elastic tax bases. Regarding tax rates are recommended fair rules to limit taxation by discrimination. From the findings above it appears that the three approaches have very different views on the fiscal construction, how tax is levied and how the idea of fairness can be applied in the system. Regarding their applicability, can be said that all three approaches were used as starting points to build different tax systems. Thus, the theory of fair taxation exercised most pronounced impact on the systems of USA, Sweden and Ireland. Optimal tax theory has exercised a less visible effect in recent years. Theory of tax exchange had a minimal effect at least until now the current tax system; it is visible only as theoretical support for constitutional changes to limit the power of local or state tax in the U.S. So equity in taxation is an easy to pronounce, but difficult to accomplish in practice, and neutralization of taxes is absolutely obvious conflict with their redistributive role and their quality of fiscal levers.

2. Indices of income redistribution through taxes

In developed countries, income tax has long been regarded as the main instrument for redistributing income and wealth. To measure fiscal equity, we use several indices., from wich the most commonly used is the Gini index.

2.1 The Gini Index

The difference between the Gini index for the distribution of income before tax and Gini index after taxation, is an indicator that measures the impact of such taxation. Gini Coefficient is a measure of statistical dispersion, first to be drawn up by the italian statistician Corrado Gini ("*Variability and change*", 1912). It is frequently used as a measure of income or wealth inequality. Gini coefficient is usually defined mathematically based on the Lorenz curve, each portion of the y-axis represents the proportion of total incomes simultaneously obtained by the bottom x% of the population. 45 degree line represents perfect equality of income.



Gini coefficient can be calculated as the ratio between the area that lies between the line of equality and the Lorenz curve (marked "A" in diagram) and total area under the equality line

(marked "A" and "B" in diagram), for example $G = A / (A + B)$. Gini coefficient can vary between 0 and 1, is sometimes multiplied by 100. A low Gini coefficient indicates more equal distribution, corresponding to a 0 is perfect equality, while the Gini coefficient indicates more unequal distribution, the corresponding value of 1 is maximum inequality.

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
BG				26	26	25	26	26	24	26	
FR	29	29	29	28	29	28	27	27	27	28	28
DE	29	27	25	25	25	25					28
HU						23	23	24	27		28
PL					28	30	30				36
RO				28	29		30	30	30	31	31
UK	32	32	30	32	32	32	31	35	34		
EU-25									29	30	31

[Source of this data: [Eurostat](#)]

In the table from above there are presented the values taken by the Gini index in some of the European countries, between 1995 and 2005.

While the developed European countries and Canada tends to have Gini indices between 24 and 36, the Gini index of the United States and Mexico are over 40, indicating that in the USA and Mexico inequality is high. In 2005, the Gini index for EU was estimated at 31, and in Romania grows from 1998 until 2005 at 28, 31, indicating a slight increase of tax inequity. The introduction of 16% tax, have produced, without doubt, an even more increase of the index. (32 in 2008-103 place in the world).

2.2 The Suits Index

The Suits⁹²⁹ index is a measure of the Suits collective progressiveness, bearing the name of the economist Daniel b. Suits. It is often used in the analysis of fiscal policy in order to measure the degree of progressiveness, or changes under the arrangements for alternative tax. Similar to the Gini coefficient, Suits index is calculated by comparing the area below the Lorenz curve to the area under a proportional line. For a progressive tax, the index is positive, a [proportional tax](#) has a Suits index of zero, and a [regressive tax](#) has a negative Suits index.

However, almost all of the income tax systems allow for some amount of income to be earned without tax (an [exemption](#) amount) to avoid collecting tax from very low income units. Also, most of the income tax systems provide for higher marginal tax rates at higher incomes. These effects are combined to make income taxes generally progressive, and therefore have a positive Suits index. A tax that the richest people pay the whole tax has a Suits index of 1, and a tax where the poorest person pays everything, has a Suits index of -1.

⁹²⁹ John E. Anderson, Atrayee Ghosh Roy, Paul A. Shoemaker "Confidence Intervals for the Suits Index" National Tax Journal. 2003-03

The Suits index has the useful property that the total Suits index of a group of taxes or policies is the revenue-weighted sum of the individual indexes. The Suits index is also related closely to the Gini coefficient. While a Gini coefficient of zero means that all persons receive the same income or benefit as a per capita value, a Suits index of zero means that each person pays the same tax as a percentage of income.

2.3 The Hoover Index

Hoover index is the easiest to calculate from all measures of inequality, namely: the proportion of all income which would have to be redistributed to achieve a state of perfect equality (taken from the richer half of the population and offered to the poorest half). Hoover index varies between 0 and 1 (0% and 100%), where 0 (zero) indicates perfect equality and 1 (100%) indicates maximum inequality.

In a world of perfect equality, no part of resources need to be redistributed to achieve equal distribution, to have an Hoover index equal to 0 (zero). In a world in which all income was received only by one family, almost 100% of this revenue should be redistributed to achieve equality.

2.4 The Theil Index

Theil index is a measure of entropy. That for any distribution of resources and with reference to information theory, "maximum entropy" occurs once income earners can not be distinguished by their resources, ie when there is perfect equality. The individuals can be distinguished by their income resources. The more distinguished they are, the lower „actual entropy” of a system consisting of current income and income earners. Also, based on information theory, entropy difference between these two may be called "surplus". It acts as a negative entropy.

A Theil index of 0 indicates perfect equality. A Theil index of 1 indicates that the distributional entropy of the system under investigation is almost similar to a system with an 82:18 distribution. This is slightly more unequal than the inequality in a system to which the "80:20 [Pareto principle](#)" applies.

There are three variants of the Theil index. When applied to distributions of income, Theil index first refers to systems in which revenues are distributed stochastically to income earners, while the second Theil index refers to systems within which the earners are stochastically distributed to incomes. Third Theil index is the arithmetic mean of the two mentioned above. Interestingly, the third formula of the Theil index has some similarities with Hoover index.

Conclusions:

There are two forms of tax equity: vertical and horizontal equity⁹³⁰. Vertical equity – „The degree to which taxpayers with higher ability to pay in fact pay more in taxes”. In this case progressivity is the solution agreed in developed countries. Horizontal equity – „The degree to which taxpayers in identical circumstances pay the same taxes”, the revenue neutrality with respect to the income origin being more appreciated than fiscal discriminations.

Based on the indicators presented were designed several models for calculating the equity income taxation, analysis and measurement horizontal and vertical equity, the degree of progression of income taxation system, which will be topics of future research, with the base given the situation in Romania.

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⁹³⁰ Musgrave and Musgrave, 1989, p.223

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PREMISES FOR A MODEL OF DECISION – MAKING ON THE FINANCING OF A PROJECT

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The classical theory of finance is based on the premises of rationality and maximizing profits that accompany economic decision-making. Complementarily, the modern theory of behavioral finance studies the effect of emotional and psychological factors of decision-maker on the choice of financing sources for economic activities. In opposition with the classical perspective, the contemporary theory of finance brings up to the stage various aspects of decision making, including elements of strategic behavior towards risk. All these contradictory elements are used as premises for modeling the decision making process of financing a project.

Keywords: decision - making, behavioral finance, strategic behavior.

JEL Classification: D8; C 70; D03.

1.Introduction

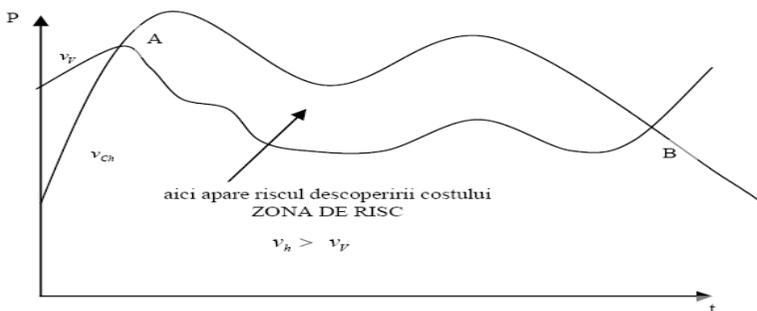
This paper presents a decision analysis model on financing alternatives that may be used to finance a particular project. The concept of project involves a number of defining elements that distinguish it from any other activity. Firstly, a project involves tracking a series of objectives to achieve a specific purpose. It also implies going through several activities ordered in time and space, as a process. The notion of project differs from that of a process in the sense that the objectives pursued by the project involve achieving a result which means the ending of the project, while in a process each output is a new entry for another stage without implying the existence of a certain limit point.

The present research offers a new approach of the financial risk in funding a project. In terms of project management, the required project resources, human, material and money are accounted separately at project level and quantified in monetary project budget. In this context, there will be analyzed the generated cash flows within the project.

The classical methods used to measuring⁹³¹ risk by statistical probabilities of occurrence for a risky event, the economic model described in this paper brings an innovative element. This refers to a systemic vision of risk, studying the cumulative effect of factors that lead to specific risks in the building of the project. The model introduces the time factor in the analysis because of its influence to the financial balance between revenue and expenditure in the budget of the project is due to timing of receipts and payments over time. Time factor entered into the equation leads to indicators such as the velocity of cost and revenue whose temporal evolution can generate the emergence of systemic imbalances in the financial equilibrium of the project leading to risk. The model examines the risk of not being able to cover the project cost from the revenue generated in the project. Starting from the premises that a higher level of velocity of cost and revenue can lead to the occurrence of risk and depending on the duration of exposure to this risk the project can approach financial collapse. The figure below shows how velocity of cost and revenue leads to risk represented by the bounded area between the two velocity curves.

Chart.1.Representation of velocity variation of revenue and cost within the budget of a project.

⁹³¹ Kolmogorov N., Fomin S., (1970), Introductory real analysis, Dover Publications, New York,p.34



Source: Own approach

The model provides decision support needed by any financial manager in selecting the most appropriate financial sources to run a certain investments made through a project. Model analysis implies identifying "risky areas". These are the places where risk can occur due higher levels of revenue velocity greater than those of cost generated by the financing sources used. The model analysis implies studying the behavior of risk into four scenarios. Varying the funding sources and thus the velocity of cost but keeping the revenue levels the same throughout the scenarios implies studying the variation of risk levels due to financing. Alternative funding sources, available⁹³² are described in the table below:

Table 1. Funding sources used in the model.

TYPE OF FINANCING	DEFINITION
Investment funds (equity)	Investors are individuals who have cash they want to invest in companies with a high risk profile through the purchase of stocks or shares in a company with the purpose of exercising control over it.
Bank loan	Bank loans are repayable sources of financing to companies in exchange for the payment of an interest (cost).
Grant	Grants are offered to enterprises by public or private institutions on a project basis or a business plan.
Public-Private Partnership	A form of partnership between public institutions and private companies to financing public utility projects.
Self-financing	Using revenue generated by the project to cover the necessary operating and financial costs.

Source: own approach

Throughout the scenarios used to test the model, the revenue generating capacity of a given project will be considered to be the same along the scenarios. The variable elements of the analysis will be the funding available to finance a project. The role of the model is to provide an informational tool for making decisions regarding the financing sources of an investment project.

2. Model description

The model is defined through several steps. The first step in building the analysis of the model refers to defining the notions of velocity of revenue and cost. The second step in the model refers to building function $\varphi(t)$, as the difference between the velocity of cost of funding accessed and other operating expenses of the project concerned and the velocity of revenue generated from the investment made through the project. The notions of velocity of cost and revenue are defined as

⁹³² Tulai Constantin, (2003), *Finanțele publice și fiscalitatea*, Ed. Casa Cărții de Știință, Cluj Napoca, p.23

follows: $v_v = \frac{\Delta V}{\Delta t}$, $v_{Ch} = \frac{\Delta Ch}{\Delta t}$, where: v_v is the velocity of revenue generated from the investment realized in the project, v_{Ch} is the velocity of cost generating from operating and financing activities. Δt is the period of time between two reimbursing installments, which is considered to be of 1 year.

1. The notions of revenue (V) and cost (Ch) are described in the budget equilibrium equation described below:

$$Cf + Chf = V$$

$$Cf = S_0 + cf$$

deriving the formula we can obtain the dynamic equilibrium equation as follows:

$$\Delta Cf + \Delta Chf = \Delta V,$$

$$\Delta Chf = 0$$

The analysis of the model implies the following premises:

- the revenue generated by the investment made through the project financed stays the same through the scenarios but the v_v is the velocity of revenue generated from the investment isn't the same because of the different periods of time between the instalments in various types of financing.
- the cost of operating investment made is held constant throughout the analysis,
- these elements are possible due to the fact that the analysis purpose refers to comparing the possible financing sources for the project in order to select the financial structure based on the criteria of risk, as tackled by this paper.

2. There is the function $\varphi(t)$ of recovering the cost from the revenue from the projects' budget as the difference between velocity of revenue and project cost, as follows: $\varphi(t) = v_v(t) - v_{Ch}(t)$.

The function can be defined at each point in time t chosen to coincide with the time of each installment repayment of the funding accessed. There are three possible values that the function $\varphi(t)$ is able to take:

- a) $\varphi(t) > 0 \Rightarrow v_v(t) - v_{Ch}(t) > 0$, in this case we have a full "covering" of the costs from the revenues generated by the project, at time t , chosen as a reference.
- b) $\varphi(t) = 0 \Rightarrow v_v(t) - v_{Ch}(t) = 0$, in this case we have a balance between the revenue and cost at the budget of the project, when the project is at the breakeven point.
- c) $\varphi(t) < 0 \Rightarrow v_v(t) - v_{Ch}(t) < 0$, in this case the project revenues are not enough to cover the costs required for the project. This situation should be temporary as the project financial balance depends on the period of time that this situation prevails, in order to prevent a financial collapse of the project.

3. The next step in the model analysis refers to the defining of the function of risk $R(t)$ as the graphical area between the curves generated by velocity of cost and revenue generated by the project. There is a proportionality relation between the area of the function $R(t)$ and the dimension of risk of not being able to cover the projects' cost from the revenues generated. We are able to formulate the risk function $R(t)$ depending on the factor of time:

$$R(t) = \int_0^t [v_v(t) - v_{Ch}(t)] dt = \int_0^t \varphi(t) dt = \sum_0^t \varphi(t) \Delta t \wedge \Delta t^* = t_1 - t_0 = 1$$

$$R(t) = \sum_0^t \varphi(t) = \sum_0^t [v_v(t) - v_{Ch}(t)]. \text{ Where the indicators have been described beforehand.}$$

3.The decision function is defined as follows: $F(x) = \begin{cases} 1 \Leftrightarrow R(t) \geq 0 \\ -1 \Leftrightarrow R(t) < 0 \end{cases}$ where $F(x) = 1$, the

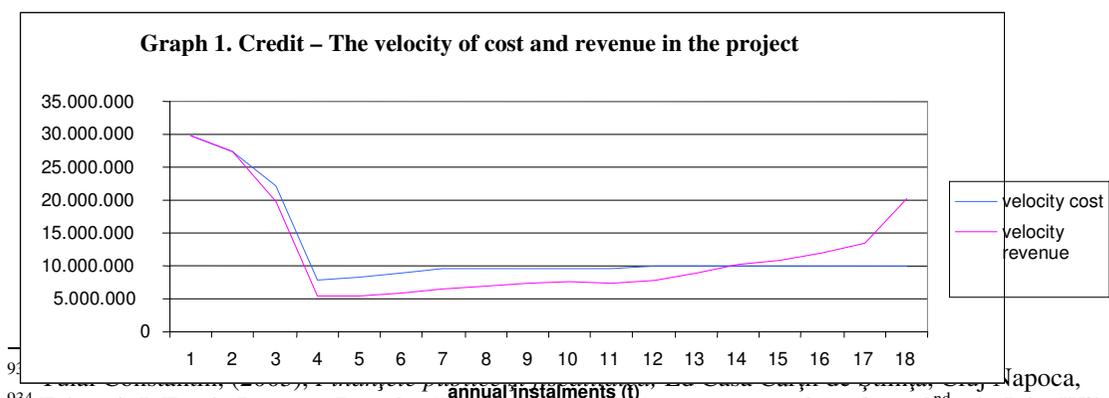
subject will select this type of funding, $F(x) = -1$, the subject will not choose the funding,

3. Scenario analysis

Model testing will be done by simulating four scenarios for scientific validation. The experiment will be done by simulation. The analysis of the model described above will be achieved by using four scenarios related to four combinations of project financing⁹³³:

Table 2. No.1 Scenario assumptions.
Credit financing is used for the investment in the project that runs over 18 periods (years), Cost of financing refers to the annual installments of loan repayment and interest payments since the third year of the operating of investment.
No.2.Scenario assumptions
Credit financing is used in combination with equity, for the project that runs over 18 periods (years). Equity loan will be repaid together with the rate of return required by investors ⁹³⁴ in two different installments, in the 7th and 9th year respectively. Cost of financing refers to repayment in annual installments and interest on loan, from the 7th year after accessing credit to finance repayment of the loan in the form of equity;
No. 3. Scenario assumptions
Public-private partnerships are used for financing the investment projects that are conducted in partnership with the state, over 18 years. To finance the investment through a bank loan to be repaid together with the cost from the 3rd year. Cost of financing refers to the annual installments of loan principal and interest rate repayments and pay a fee ⁹³⁵ for the provision of public service concession, since 3rd year.
No. 4.Scenario assumptions.
Grant funding is used for the investment in the project that runs over 18 periods (years). The investment is financed by bank credit to be repaid together with the cost from the 3rd year. Since the 4th, over 10 years, the annual grant will reimburse the expenditure on investment in 80% of the total value of the investment ⁹³⁶ . Cost of financing refers to paying the annual installments of loan repayment and interest rate, since the 3rd year.

Source: own approach

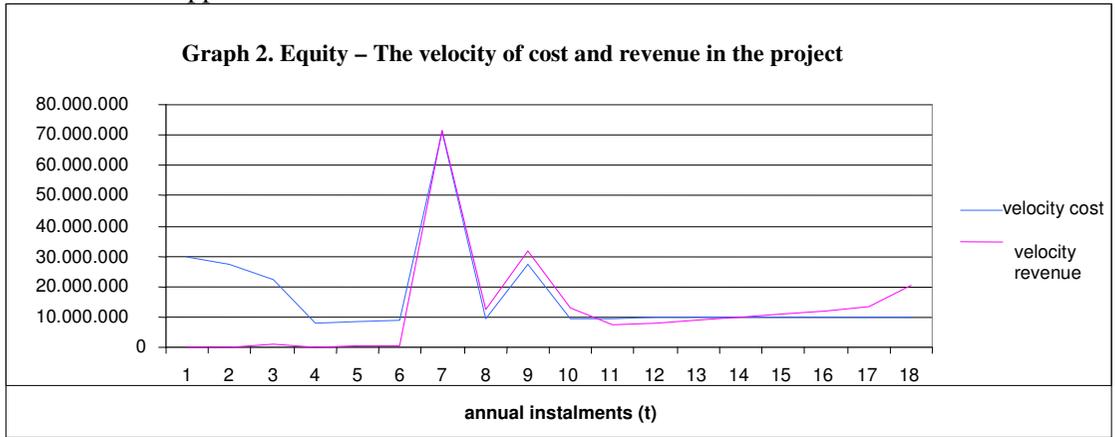


⁹³⁴ Fabozzi J. Frank, Peterson Pamela, (2003), *Financial Management and Analysis*, 2nd ed., John Wiley & Sons, Inc, USA, p.321

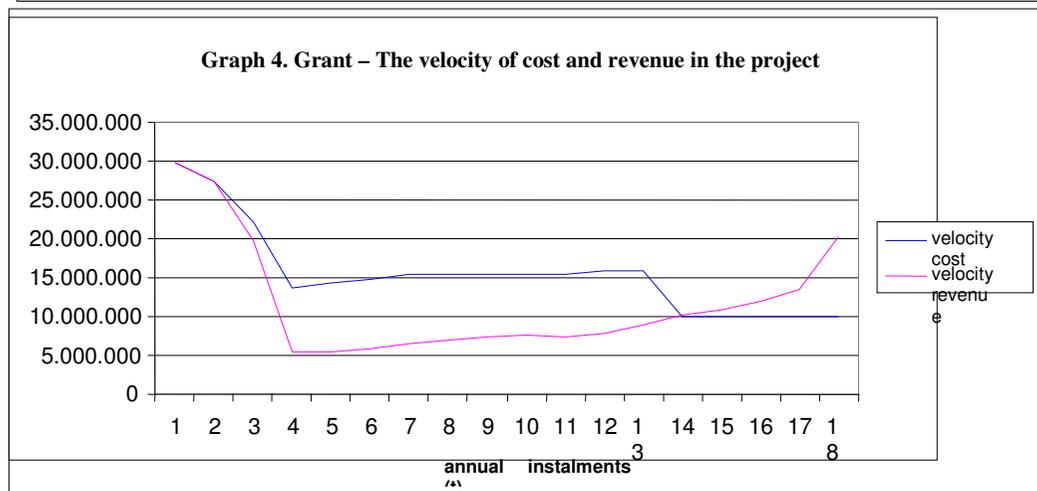
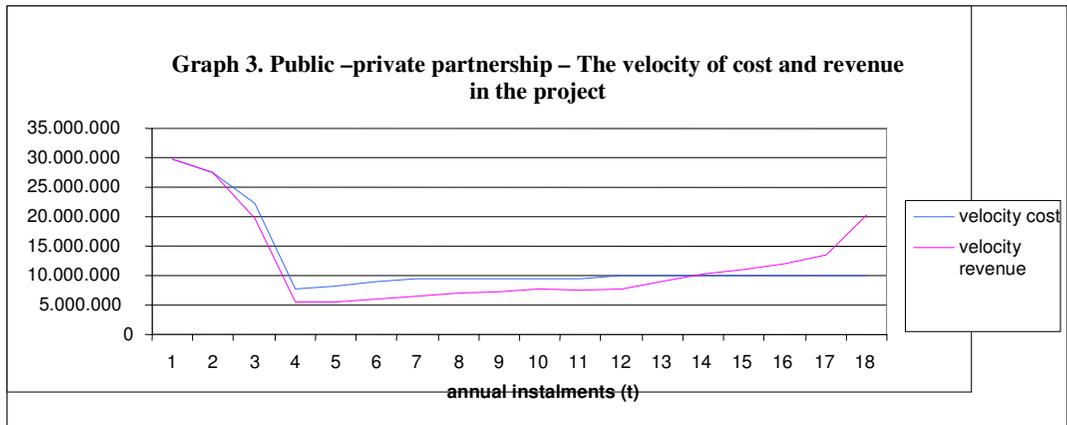
⁹³⁵ Damodaran Aswath, (2008), *Investment Valuation: 2nd ED.*, Mc.Graw Hill, Brealy and Myers – Finance, p.45

⁹³⁶ Gareis Roland, (2006), *Happy projects!*, Ed. aII-a, ed. ASE, București, p.45

Source: Own Approach



Source: own approach



Source: own approach

4. Conclusions

The scenario analysis shows that there are parts of the graph where revenue is above the curve of cost and the type of financing reflects a favorable situation for a minimum risk. There are areas on the graphs of risk where the velocity of cost is higher than the velocity of revenue indicating a higher level of risk. Depending on the length of time that this situation is maintained the risk of not being able to cover the cost in the project by the revenue generated by using such financing and there is the possibility of a financial collapse in the state of financial balance of the project.

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SUBSECTION: BANKING

THE PARTICULARITIES OF THE MONETARY POLICY TRANSMISSION MECHANISM IN ROMANIA

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The process of transmitting monetary policy impulses to the real economy presents a series of particularities from one country to another, mainly because of the diversity of financial systems. Thereby, the functionality of various monetary policy transmission channels is significantly influenced by the specific features of each country's financial system.

The objective of this paper is to highlight some of the key features of the monetary policy transmission mechanism in Romania, taking into consideration the dominant role of the banking sector in the national financial system.

Key words: monetary policy, transmission mechanism, interest rate channel, credit channel

JEL code classification: E51, E52, E58, G21

1. Introduction

Although economists don't agree about how monetary policy conducted by a central bank affects the economy (their views diverge in terms of the specific channels through which monetary policy works) an understanding of the transmission process is essential to the appropriate design and implementation of such a monetary policy.

Monetary policy compresses the rules and various actions adapted by a central bank in order to achieve its objective(s). These actions, when undertaken by the bank, set into motion a series of effects (consequences). It is generally assumed that monetary policy effects start with changes in financial market conditions, work through changes in firms and private household spending, and eventually exert, via demand and supply, effects on the economy's price level. The path of consequences a change in the economy's stock of money triggers in terms of real magnitudes is known as *transmission mechanism*.

The empirical studies of monetary policy transmission mechanisms focus upon two major aspects: 1) identification of the effects of monetary policy shocks and 2) identification of those channels through which changes in monetary policy stances reflect on the economy. The first aspect deals with attempts to identify the exogenous monetary policy shocks and their subsequent effects on macroeconomic variables, whereas the second aims at investigating which channels in particular are at work. Through various channels of the transmission mechanism the central banks affect different variables and different markets, and at various speeds and intensities. Identifying these channels is important and attracts a lot of attention from economists, policy makers and investors alike, because they determine the most effective set of policy instruments, the timing of policy changes, and hence the main restrictions that central banks face in making their decisions.

In Romania, the monetary transmission channels were subjects for some papers. Pelinescu (2001) revealed some circumstances such as weak competition, soft budgetary constraints and lax corporate governance that lead to a short transmission period of the mechanism in the Romanian economy. Popa et al. analysed the impact of inflation targeting regime on the monetary transmission channels and Antohi, Udrea and Braun (2003) established an econometric model of the monetary policy transmission mechanism for the period October 1999 – May 2002.

The paper is organized as follows. The second section of the paper consists in a survey of the literature regarding the monetary policy transmission channels. In the third section we present some key features of the monetary policy transmission mechanism in Romania highlighting the role of the banking sector in transmitting the monetary policy impulses to the real economy. The final section focuses upon some main conclusions and key aspects of the paper.

2. Literature review regarding the monetary policy transmission channels

Monetary policy decisions are transmitted through the economy in a variety of ways and that eventually reflect upon the evolution of prices and output. The monetary transmission mechanism is a combination of all the economic channels through which, over a certain period of time, monetary policy affects the economy.

Mishkin (1995) identifies four channels of monetary policy transmission (in the context of the US experience): interest rate channel, credit channel (balance-sheet channel and bank-lending channel), the exchange rate channel and other asset prices channel.

A transmission channel is the *interest rate channel*, the traditional mechanism and the one often regarded as the “main channel of monetary policy transmission”, a position taken by Taylor (1995), but strongly disputed by Bernanke and Gertler (1995). On the one hand Taylor emphasizes the importance of financial prices (like interest rate) as opposed to financial quantities in the transmission process and argues that there is strong empirical evidence for substantial interest rate effects on consumer and investment spending. On the other hand Bernanke and Gertler emphasize the importance of the financial market quantities: credits.

The *credit channel*, according to the “credit view”, implies that monetary policy affects the real economy by shifting the supply schedule of credit. The credit view is composed of two different views, namely the “lending view” and the “balance-sheet view”. Kashyap and Stein (1994) trace the origins of thought on the bank lending channel back to Roosa (1951) and also highlight Blinder and Stiglitz’s (1983) resurrection of the loanable funds theory and Bernanke and Blinder’s (1988) extension of the IS-LM model as two approaches that account for this additional source of monetary non-neutrality.

According to Kashyap, Stein, and Wilcox (1993) and Kashyap and Stein (1994) the narrow credit channel or the narrow bank lending channel refers to that situation in which small banks are more limited than large banks in their ability to find alternative funding sources when monetary policy is tight and are, therefore, less able to make loans. The second channel formalized by Bernanke and Gertler (1989), referred to as the balance-sheet mechanism or broad credit channel, can exist because tighter monetary policy causes firms’ interest payments to rise at a time when revenues are falling, weakening firms’ balance sheets and limiting their ability to grow and spend. Policymakers at times have also resorted to more direct actions to limit bank credit “availability”, such as credit controls or jawboning (Romer and Romer, 1993). There is abundant evidence on the empirical relationship between monetary policy, bank loans and economic activity but in most of the studies the general conclusion is that tight monetary policy leads to a drop in bank credit, which has large negative impact on economic activity.

After discussing about the interest rate there is no reason to focus on only one it as a channel of monetary transmission, because monetary policy can also have important effects on the prices of bonds, equity, real estate and foreign exchange. Given the fact that there are special features of the transmission of monetary policy through the exchange rate, we will discuss about equity, bonds, and real estate as a single group, asset price channel. The additional *asset price channels* are highlighted by Tobin’s (1969) *q*-theory of investment and Ando and Modigliani’s (1963) life-cycle theory of consumption.

The *exchange rate channel* plays an important role particularly in open economies and also in developing countries with only rudimentary markets for bonds, equities and real estates (Kamin et al., 1998). This channel works through both aggregate demand and aggregate supply effects.

The literature identifies also a fifth channel, separate from the others, based on private sector expectations about the future stance of monetary policy and, more generally, about all future-related variables. This *expectations channel* implies that all variables that have intertemporal implications, and are therefore determined in a forward-looking way, are affected by agents' beliefs about future shocks to the economy and how the central bank will react to them. The specific mechanisms for the expectations channel are intertemporal versions of the static interest rate, asset price, exchange rate, and monetary and credit mechanisms.

3. The role of the banking sector in the monetary policy transmission mechanism in Romania

Not all economies react in the same way to changes in monetary policy. The choice of transmission mechanisms and their effectiveness in the conduct of monetary policy depend on the specific features of the economy in question. For purposes of illustration, Loayza & Schmidt-Hebbel (2002) divided the monetary transmission into two steps.

According to the authors, the first step consists in the fact that policy instrument affects various asset markets and prices, and the second step, when these changes affect spending decisions by firms and households. Each step is affected by the economy's specific features, and in particular its stage of financial development and openness to international trade and capital. The effect that changes in market prices can have on aggregate demand is also determined by the solvency and liquidity of firms and households.

Romania is not an exception. In order to estimate the effectiveness of a certain transmission channel we have to analyse several characteristics of the Romanian financial system: whether it is based primarily on banks or comprises a variety of financial institutions, whether it is run publicly or privately, and whether it offers a large range of financial products. These characteristics in turn affect the effectiveness of NBRs' monetary policy.

According to the specialised literature in the field⁹³⁷, an important role in transmitting the monetary policy impulses to the real economy has the structure of the financial system. In Romania, taking into consideration the particularities of the financial system (bank-based system), the transmission of monetary policy impulses is carried out mainly by the lending channel and the interest rate channel.

Monetary policy measures adopted by the NBR are transmitted to the economy also by the exchange rate channel and the expectation channel. However, in this paper we consider only the bank lending and interest rate channels, which have a considerably greater importance given the prevalence of the banking sector in the national financial system.

In the period until 2000, the credit channel and the interest rate channel were almost inactive, therefore the monetary policy transmission mechanism had a low efficiency. The possibilities of the NBR to influence the real economy have been reduced, due mainly to the banking system that was dominated by a few banks, which did not depend on resources drawn from central bank, the budget deficits that were financed by the banking sector and the volume of bank loans that presented low levels.

After 2000, in the context of the reforms undertaken in the Romanian economy, the restrictive monetary policy pursued by the central bank had positive results. The disinflation process and increasing competition among banks led credit institutions to reduce active and passive interest rates for operations in lei, as well as the margin between them. Also, 2000 marks the beginning of the recovery process of financial intermediation and the connections between financial variables and the real economy⁹³⁸.

The developments in the financial system of the Romanian economy after 2000 contributed to the

⁹³⁷ Cecchetti, Stephan G. (2009), „Legal Structure, Financial Structure, and The Monetary Policy Transmission Mechanism”, *Working Papers*, No. 7151, June, 1999, at www.nber.org/papers/w7151.pdf?new_window=1

⁹³⁸ Antohi, D., Udrea, I. & Braun, H. (2003), “Monetary Policy Transmission in Romania”. *National Bank of Romania, Occasional Papers*, No. 3, p. 9, at <http://www.bnr.ro/PublicationDocuments.aspx?icid=6786>

efficiency in transmitting the monetary policy impulses to the real economy.

The Romanian financial system is dominated by the banking sector (see data in Table 1) so that the transmission of monetary policy impulses is more sensitive to its features and how it functions. Therefore, the changes occurred in the Romanian banking sector in the period after 2000, led to significant changes in the transmission of monetary policy decisions on the real economy.

Table 1. *Romanian' financial system characteristics during the period 2000 – 2009*

Indicators	2000	2002	2005	2006	2007	2008	2009
The share of bank assets per total financial system assets	20,4	86,35	83,7	83,8	82,16	82,76	...
The share of bank assets to GDP	30,6	31,9	44,76	50,6	61,5	62,4	67,30
Market concentration (top five banks in the system / total assets, in percent)	65,5	62,8	58,8	60,3	56,4	54,4	54
Share of assets held by banks with private capital per total assets of the banking system	53,9	59,6	94	94,5	94,5	94,7	92,7
Share of assets held by foreign-owned banks per total banking system assets	50,9	56,4	62,2	88,6	87,8	88,3	85,3
Market capitalization to GDP (%)	3,8	6,05	19,52	21,28	27,3	11,23	18,81

Source: NBR - Annual Reports, 2000-2006, Report on financial stability, 2008, 2009; <http://www.bnr.ro/Indicatori-agregati-privind-institutiile-de-credit-3368.aspx> and data processed.

As we can see in Table 1 there is a predominance of private ownership in the banking sector. This improved the monetary policy transmission mechanism. Also significant is the presence of the foreign private capital in the banking sector, which has positive effects, translated into better corporate governance in the banking sector, increase efficiency and strengthen risk management of banking sector stability. However, the presence of foreign banks may reduce the efficiency of transmission of monetary policy decisions because they have better access to external financing, being less dependent on attracting domestic resources. Also, given the current crises in international financial markets, foreign capital can transmit by contagion, some of the risk to the national financial system. Another feature of the Romanian banking sector with influence on the monetary policy transmission mechanism is the degree of concentration. This feature determines that the impact of monetary policy decisions are perceived and transmitted uneven in the economy. An important aspect that indicates the progress of the Romanian banking sector is the significant increase of non-government credit share in GDP (from 9.3% in 2000 to 39.3% in 2008), showing a positive change in the attitude of the credit institutions to the real economy and the return to the traditional function of financial intermediation. Restoring the financial intermediation process and unlocking of the credit lending channel, after 2000, were caused by changes in the supply and demand offers.

Simultaneously with the reinvigorating of the credit channel, in the context of the recovery process of financial intermediation, a revival of interest rate channel was noticed too, these two components of the monetary transmission mechanism being interconnected. In comparison with the period until 2000, when the elasticity coefficient of the demand for loans and deposits with the interest rate was low, in recent years the interest rate channel proves to be quite efficient, in the context of the relationship central bank – commercial banks but also in the context commercial banks – customers.

The main tool that we can use to highlight the impact of monetary policy decisions on the real economy and thus, on prices, through the banking system is NBRs main instrument of monetary policy, i.e. the monetary policy interest rate. This has a direct impact on the interbank interest

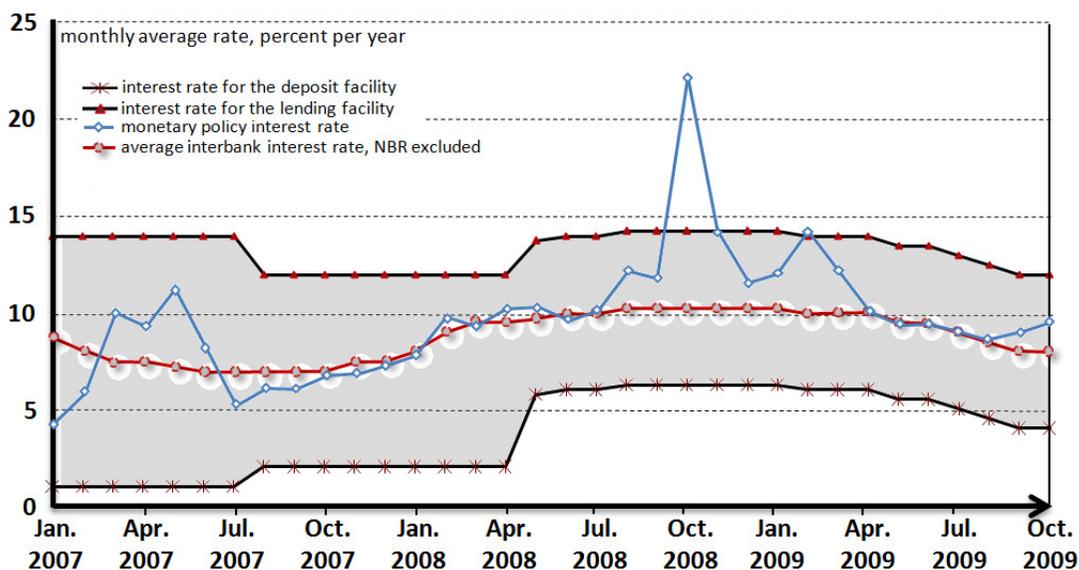
rates because through monetary policy operations, the central bank has the ability to influence the volume of market liquidity. In turn, changes in the interbank interest rate affect the interest rates used by banks on deposits and loans, which have an impact on consumer decisions, investments, savings and therefore ultimately, on the aggregate demand in the economy.

In order to improve the signal role of the monetary policy interest rate and increase the efficiency of the transmission mechanism, in May 2008, the central bank decided to reduce the due date of the key instrument of monetary policy (the standard operations of deposits, whose maturity has been reduced from two weeks to one week) and to narrow the amplitude of the corridor formed by the interest rates on standing facilities to a value of ± 4 percentage points (see Figure 1).

Changes in the monetary policy interest rate are transmitted to the real economy after a certain period of time, as a result of gradual adjustments of bank interest rates.

Furthermore, the transmission of monetary impulses is uncertain and there may be circumstances in which the interbank interest rate does not react to the signal of the monetary policy interest rate. According to Figure 1, one can notice that in certain periods of time there is a significant gap between these two interest rates. For example, in October 2008, in the context of the current international crisis, there were significant malfunctions on the interbank market, reflected by the amplitude of the gap between the interbank interest rate and the monetary policy interest rate. The increased disbelief and the risk aversion of the credit institutions resulted in a significant decrease in the interbank market transactions so that the monthly average interbank rate reached a level of 23%, well above the monetary policy interest rate of 10.25%. In this context, the central bank, considering that it is the case of an unrealistic growth, granted the possibility to temporarily suspend publication of the interbank market indices (ROBID / ROBOR), when the quotations for participants' deposits (ROBOR) to the calculation of the average interest rates interbank exceeds the interest rate on lending facility by more than 25% (BNR, 2008).

Figure 1. *The evolution of the monetary policy interest rate and the interbank interest rate, in the corridor formed by the interest rate for the deposit and credit facilities, in Romania, January 2007 – October 2009*



Source: processed data from the site www.bnr.ro

In February 2009, in the context of a reduction in the economic growth rate and in lending activity, given the current international crisis, NBR started to relax the monetary policy, as shown by the reduction of the monetary policy interest rate and the Reserve Requirements. Nevertheless, the reactions of the bank interest rates to the monetary policy impulses are slow and limited in

size due to the high degree of cautious of the credit institutions, but also to people and traders' reluctance to borrow.

Conclusions

Monetary policy decisions have an impact on the real economy through several channels, whose importance varies from one country to another, mainly depending on the specifics of each economy, on the financial system structure and the existing legal framework.

In Romania, taking into consideration the particularities of the financial system (bank-based system), the transmission of monetary policy impulses to the real economy is carried out mainly by the lending channel and the interest rate channel.

In the period after 2000, the efficiency of the transmission of monetary policy decisions on the real economy via the lending channel and the interest rate channel has increased, due to the positive developments of the national economy in general and of the banking system in particular.

In the context of the current turmoil, the significant contraction of supply and demand for bank loans, due to deteriorating macroeconomic indicators and uncertainty about the prospects of national economies, leads to difficulties in transmitting monetary policy decisions, as shown by the week and small-scale reaction of bank interest rates. Thus, the activity of the National Bank of Romania is not an easy one, if we consider the fact that through the operational framework of the monetary policy, the central bank wishes, on the one hand, to achieve its primary objective (price stability) and, on the other hand, to renew the activity of bank lending, which was significantly influenced by the current crisis.

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THE ROMANIAN BANKING COMPETITION AND THE ACCESSION TO EU

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In this study we try to assess banking competition in the Romania for 2001 – 2008, taking into account the evolution of market share of the top five, Herfindahl-Hirschman Index (HHI), performances indicators like ROA and ROE and evolutions of deposit and loans rates. We observed that the competition in the Romanian banking system increases continuously in the last years. The main factors which have influenced this process were: the privatization of the majority of state capital banks and the perspective of accession of our country in the EU. In the period assessed, there are two approaches: in the first period banks have had very good performances due to their market share in a low competitive banking environment and after the privatization of some state capital banks, the leader of the market lost market share in the favor of other bank with greater performances.

Keywords: bank competition, the Structure-Conduct-Performance Hypothesis, Efficient Structure Hypothesis, banking system, European integration

JEL code: G21; L11

Introduction

The competition in the Romanian banking system has been growing continuously in the last years. Romania has passed a period of transition to the market based economy from the beginning of the '90. Thus, the Romanian banking system had a period of transition, from a “monobank” banking system, with few specialized institutions to a modern one, based on market economy principles.

In this study we try to assess banking competition in the Romania for 2001 – 2008, underling the main factors which has influenced this phenomenon.

Measuring banking competition

In the literature, there are some empirical approaches concerning the evaluation of the competition, the most known being „the Structure-Conduct-Performance Hypothesis” (SCP) and the „Efficient Structure Hypothesis” (ESH). The first approach, SCP, supposes that higher concentration in the banking market causes less competitive bank conduct and leads to higher bank profitability. The SCP model is originally developed by Bain (1956). The second approach, ESH, developed by Demsetz (1973) and Peltzmann (1977) suggests that the superior performance of the market leaders determines the market structure, implying that higher efficiency produces both higher concentration and greater profitability.

The most common measures of concentration are the Herfindahl-Hirschman Index (HHI) and the n-bank concentration ratio (CR_n). The HHI is defined as the sum of squared market share of the banks in the market. The upper bound of the HHI is 10.000, which indicates a monopoly, and the lower bound is 0 in the situation of an infinite number of banks. A market with a result of less than 1.000 is a competitive marketplace, a result of 1.000 – 1.800 indicates a moderately concentrated marketplace and a result of 1.800 or greater indicates a concentrated marketplace. The n-bank concentration ratio (CR_n) is calculated as the percentage of the market controlled by the top n banks in the market, usually the first three or five banks, and the measure takes the share of deposit, loans or assets.

The profit is measured either by ROA or by ROE and the price of bank product is measure by the value of interest rates or commissions.

The evolution of competition in Romanian banking system 2001 - 2008

The accession to the European Union implies the entering in “the single” European market and the existence of the single banking license. In this context, foreign banks can enter more easily the territory of a member country, which can determine the expansion of competition in the local banking activity. The methods to enter the banking market can be diverse: open branches or subsidiaries; equity investment in the local banks; mergers or acquisitions of local banks.

After the accession of our country to the EU and the liberalization of the service market, a number of 190 foreign institutions have expressed their intention to have direct banking activities on the Romanian territory, out of which 174 are banking institutions, 3 are non-banking financial institutions and 13 e-money providers (NBR, 2008).

Millennium Bank, as this is the name of the local branch of the Portuguese Millenium BCP, is the first example of greenfield investment on the banking market after many years of acquisitions. Millennium Bank started its activity on the Romanian market on October 11, 2007, by simultaneously opening 39 branches in Bucharest and in other eight cities of the country.

Before 2007, there was some foreign entrances in the Romanian banking system after the privatizations of certain Romanian state banks, such as: Banca Română pentru Dezvoltare (BRD-GSG) bought by Société Générale and Bancpost in 1999, bought by a consortium formed by General Electric Capital Corporation (35%) and Banco Portugues de Investimento (10%); Banca Agricolă bought in 2001 by Raiffeisen Bank and Banca Comercială Română whose privatization process last between 2003 and 2006, when Erste Bank took the biggest bank of Romania. Also OTP Hungary overtook RoBank in 2004, the first acquisition of a bank with private capital in Romania.

As we can see in the Table 1, the concentration of the Romanian banking system has been decreasing continuously from 2001 to 2008. This means that the competition in the Romanian banking system has increased yearly, especially due to diminishing of the state capital and entering of foreign capital.

Also the performances indicators declined, being closer to the average value of this indicator. At end-2008, the key profitability indicators (ROA – return on assets and ROE – return on equity) showed a significantly higher level (1,56% and 17,04%) compared to that reported at end-2007 (1.01% and 9.43%). This development was due mainly to the sale of participating interests held by four banks in the equity capital of an insurance company, on the one hand, and to the higher net interest income, on the other.

Table 1. Bank concentration and profitability in the Romanian banking system (2005 – 2008)

	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
Number of banks	41	39	39	40	40	39	42	43
Market share of the top five banks in total assets (%)	66,1	62,8	63,9	59,2	58,8	60,3	56,3	54,4
Market share of the top five banks in total loans (%)	59,78	56,2	57,1	55,7	61,1	57,1	63,5	53,5
Market share of the top five banks in total deposits (%)	66,12	63,0	64,9	59,5	57,0	60,0	58,3	54,1
Market share of the top five banks in total equity (%)	n.a.	64,5	61,2	60,5	55,1	52,5	53,3	48,5
Market share of the top five banks in total profits (%)	78,46	68,71	60,94	51,49	83,13	84,1	85,0	n.a.
Herfindahl-Hirschmann index	1.427	1.381	1.264	1.120	1.124	1.171	1.046	926
ROA	3,17	2,64	2,40	2,15	1,65	1,31	1,01	1,56
ROE	21,38	18,27	17,72	16,79	12,64	10,41	9,4	17,04

Source: NBR, banks, Piața financiară

The leader of the market was continuously Banca Comercială Română (BCR), which was the biggest state bank until 2006, when the process of privatization was completed and it was bought by Erste Bank. In 2001 BCR owned about one third of the market in total assets, loans, deposits, equity and profits. Also, the ROA and ROE accounted a value over the average of the market. Even if his market share decreased during the period of 2001 – 2008, the evolution of performances indicators had a sinuous evolution. Between 2001 and 2006 these indicators decreased, but after 2006, the year of privatization, the profitability of the bank started increasing. In 2007 BCR lost his position in the share of market in total of profits in the favor of the next competitor BRD-GSG.

Tabel 2. Bank concentration and profitability of the leader of the Romanian banking system (2005 – 2008)

	2001	2002	2003	2004	2005	2006	2007	2008
Leader of the market	BCR	BCR	BCR	BCR	BCR	BCR	BCR	BCR
Market share in total assets (%)	31,27	31,51	29,42	26,30	25,7	26,2	23,8	20,4
Market share in total loans (%)	28,78	28,65	27,21	25,32	26,4	26,6	23,5	22,7
Market share in total deposits (%)	31,61	32,82	31,99	27,81	26,4	23,9	20,5	20,4
Market share in total profits (%)	42,75	43,02	35,49	34,28	35,15	33,3	18,0*	41,7
ROA	4,28	3,73	n.a.	2,73	2,3	1,6	1,45	2,94
ROE	24,22	20,93	16,6	18,6	16,9	18,8	20,6	38,2

* the leader was BRD with 33,5%

Source: NBR, banks, Piața financiară

The second competitor of the market in this period was BRD – GSG, the rest of the positions in top 5 changing in every year. In the period 2003 - 2007 the third competitor was Raiffeisen Bank, which has lost his position in 2008 in favor of Volksbank. BRD – GSG had a relative constant market share in contrast with the first competitor, which has lost market share continuously. Even if some banks was in the top 5, their deposit market share was very low, because their low interest in attracting deposits from Romanian market, in the context of receiving funds from their parent undertakings (e.g. HVB, Volksbank).

Table 3. Bank concentration and performances of the top five banks in total assets (2005 – 2008)

Year	Banks (first 5)	Market share of the top five banks in total assets (%)	Market share in total loans of the top five banks in total assets (%)	Market share in total deposits of the top five banks in total deposits (%)	ROE
2001	BCR	31,27	28,78	31,61	24,22
	BRD	15,74	18,36	16,71	30,7
	CEC	8,63	5,41	10,62	28,34
	ABN AMRO	5,62	3,87	4,39	111,57
	ING Bank	5,27	3,36	2,79	76,44
2002	BCR	31,51	28,65	32,82	20,93
	BRD	13,66	17,07	14,18	30,3
	CEC	7,71	1,82	9,45	7,77
	ABN AMRO	5,36	n.a.	n.a.	n.a.
	Raiffeisen Bank	5,04	5,23	4,95	n.a.
2003	BCR	29,43	27,21	31,99	16,6
	BRD	13,30	16,34	13,86	24,7
	Raiffeisen Bank	7,23	n.a.	n.a.	8,13
	CEC	6,51	2,34	8,24	12,98
	ABN AMRO	5,15	n.a.	n.a.	n.a.
2004	BCR	26,30	25,32	27,81	18,6

Year	Banks (first 5)	Market share of the top five banks in total assets (%)	Market share in total loans of the top five banks in total assets (%)	Market share in total deposits of the top five banks in total deposits (%)	ROE
	BRD	13,0	15,9	13,7	23
	Raiffeisen Bank	9,27	11,47	9,18	21,29
	CEC	5,71	1,58	7,14	15,02
	ING Bank	5,63	n.a.	n.a.	n.a.
2005	BCR	25,7	26,4	26,4	16,9
	BRD	15,0	17,3	17,7	30
	Raiffeisen Bank	8,7	9,3	9,6	20,83
	ING Bank	5,3	n.a.	n.a.	n.a.
	HVB	4,9	5,7	3,3	42,5*
2006	BCR	26,2	26,6	23,9	18,8
	BRD	16,3	20,2	19,1	34
	Raiffeisen Bank	8,3	7,6	10,2	15,69
	HVB Țiriac	5,1	5,4	4,3	16,9
	Banca Transilvania	4,7	5,3	5,6	17,14
2007	BCR	21,7	23,5	21,7	20,6
	BRD	15,5	16,1	19,5	43
	Raiffeisen Bank	6,0	5,7	9,3	23,79
	Volksbank	5,9	5,3	1,4	8,8**
	Banca Transilvania	5,7	5,7	7,6	28,10
2008	BCR	20,4	22,7	20,4	38,2
	BRD	15,7	16,3	17,6	44
	Volksbank	6,8	6,7	1,4	n.a.
	Raiffeisen Bank	6,0	5,3	9,0	34,31
	Alpha Bank	5,5	8,2	3,6	12,62

* June 2005; ** September 2007

Source: banks, Piața financiară

As we can see, the first competitor BCR had lower performances like the other from top 5. Its performances were improved after the privatization in 2006, being more and more close to BRD, in the first position regarding ROE in the period 2001 - 2008. CEC another state capital bank in the system has lost position continuously and in 2005 it was out of top 5.

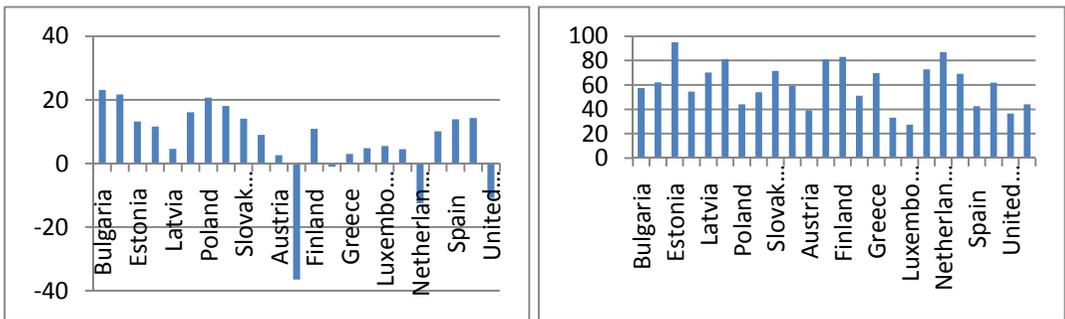
Even though competition in the banking system is continuously increasing the Romanian banking system proves to be concentrated. In 2008, the first 5 banks in Romania according to the value of their assets held 54,4% from the aggregate balance sheet assets, 53,5% from the total of offered loans, 54,1% from the attracted deposits and 51,4% from the equity of Romanian commercial banks, a letdown in comparison with December 2007.

Starting with 2006, the value of Herfindahl-Hirschmann index entered a slightly downward path, still posting a moderate concentration. In 2008 its value came below 1.000, indicating moderate to low concentration and a moderate to high competition.

These indicators demonstrate an improving in bank competition in the Romanian banking system as a consequence of entering in the European single market.

Also we can mention that the value of ROE and market share of the first five banks in total assets is comparable with the European average.

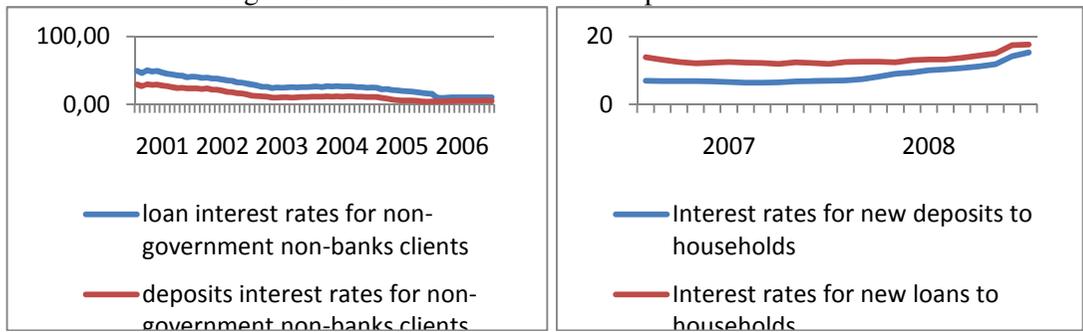
Figure 1. Return on equity (ROE) and concentration ration for the first five banks in total assets in EU, 2008



Source: FMI Global Financial Stability Report, October 2009

As we can see in the next figures, the evolution of deposits and loans interest rates proof a continuously decreases excepting the end of 2008, when the first signs of the financial crises could be found. The spread between deposits and loans rates became more and more tighten. This evolutions proof again the increasing of competition.

Figure 2. Evolutions of loans and deposits interest rates



Source: NBR Monthly Reports 2006-2008

Conclusions

The competition in the Romanian banking system increases continuously in the last years. The main factors which have influenced this process were: the privatization of the majority of state capital banks and the perspective of accession of our country in the EU. In the first period of transition of Romanian economy banks have had very good performances due to their market share in a low competitive banking environment. After the privatization of some state capital banks, the leader of the market lost market share in the favor of other bank with greater performances. Also, the privatization of BCR determined grater performances for it starting with the year 2006. BRD, the second competitor maintained his market share and performances in all this period. As a fact of improving competition we can see a trend of tightening of the spread between deposits and loans rates, and one of loan rates decreasing (excepting the period of the beginning of the actual financial crises in the end of 2008).

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ELECTRONIC BANKING – ADVANTAGES FOR FINANCIAL SERVICES DELIVERY

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E-banking is a fully automatic service for traditionally banking customer’s products based on information technology platforms. E-banking services provide customer access to accounts, the ability to move their money between different accounts or making payments via e-channels.

The advantages generated by this services have determined an accelerate developing of this industry over the entire world. This paper examines some of the advantages of electronic banking products together with the characteristic management issues generated by the implementation of this new channel for financial services delivery.

Keywords: Electronic banking, Internet banking, Home Banking, Mobile Banking.

JELL Clasification: G21

1.Introduction

Many specialized works define e-banking as a modern fully automatic service which delivers traditional banking products to customers with the help of information technology platforms and interactive communication channels.

2. Body of paper

Other works define e-banking as the automatic supply of new and traditional banking products and services directly to customers, using interactive channels of electronic communication. E-banking includes systems which allow customers, whether individuals or corporations, to access accounts, to close deals or obtain information about products and services through a public or private network, including Internet.

E-banking relies heavily on information and communication technology (ICT) to achieve its promise for 24 hours availability, low error rates and quicker delivery of financial services

Initially, e-banking was limited to phone banking operations and remote banking, but the range of services has increased thanks to the technological advances, the spread of online banking has coincided with the spread of high-speed broad and connections and the increasing maturation of the internet user population

One important factor in e-banking growth is that banks have discovered the benefits of e-banking and have become keener to offer it as an option to costumers.

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Today, customers can use Internet Banking or Mobile Banking services. Remote banking consists of electronic transactions between customers and their bank. These transactions are operated through a closed communication network using specific software provided by the bank. By these means, clients establish relations with their bank without being physically present in its premises. E-banking allows customers to access banking services through alternative distribution channels which focus on the customers' operational needs. These non-conventional channels use "electronic currency" and offer advantages which have made customers as well as banks use them increasingly:

- permanent technological innovation;
- fast and cheap communication with the existing clients;
- lower processing cost than conventional channels;
- serving a greater number of customers through the same physical infrastructure of bank branches;
- increased expectations from an ever increasing number of customers who are also better educated with respect to the use of these channels, in most cases;
- possible introduction of new commissionable services;
- identifying profitable clients and categories of clients;
- customized offers for an ever increasing number of clients selected from the data bases.

Technological advances lead to the development and implementation of new services [1] which complete the range of traditional ones. These new services are described below.

TELES Services allow customers to access the bank database and to do various operations through virtual bank branches. These services can be:

- Simple, allowing customers only to get information about their account status, or
- Complex, allowing customers to get information about their account status, to make payments or transfers between accounts, and to ask bank forms.

PHONE BANKING services use a rented telephone line (dedicated line), a connection convention signed by the customer, a password only known by the client and a personal code allowing access to the data.

HOME BANKING services allow access to the bank accounts through a software module which is installed on the customer's PC and accesses the server connected to the bank's database. Access is possible thanks to a customer code, a password only known by the customer and an electronic signature. There are several security levels (customers' access to the application, access to the server and access to payments). Customers can check their accounts, do bank transfers, and obtain financial and banking information (exchange rates, interest rates, etc.). Home banking is powerful software located in one or more computers at the customers' headquarters. As authorized users, customers access a Multicash server connected to the bank's databases. From the customers' point of view, the advantages of home banking are:

- comfort: access to the bank 24 hours a days, 7 days a week, without depending on the bank's schedule;
- flexibility: adaptability to the client's needs;
- accessibility: at present, customers can access bank servers by dial-up connection or through the web; bank statements are easy to access;
- safety: transactions are made in the best safety conditions;
- low costs: in order to reduce the number of clients who go to the bank desks, there are fee reductions (10-50% of the ordinary fees) for the electronic payments;
- time saving and reduced expenses (no more transportation to and from the bank building);
- free installation, training and technical assistance;
- interoperability: it is possible to import and export databases for a more efficient management of the customers' own accounting applications;

The disadvantages are:

- additional costs (subscription and connection to the server);
- dependence on the computer where the client software has been installed;
- offline connection with the bank; data can only be updated upon connection to the bank server; data are only updated once a day or every hour.
- an expert must go install and configure the client module;

INTERNET BANKING services allow customers to access their accounts online. Customers connect to a bank portal and thus can check their accounts and do bank transfers from any computer connected to the Internet. For authentication, a customer code and a password are provided.

Internet technology can make significant contribution to a company's value chain, provides a powerful platform for corporations to market and advertise their products and services.

It is important also to mention some of the problems of internet medium: overload, security & privacy problems, rapid technology change, high initially cost and uncertainly about information reliability.

Internet banking is a service which concerns individual and companies who are customers of a certain bank and have access to the Internet. This service allows them to access their bank accounts through a web browser connected to the site of the bank. As there is no need for special software, the only costs customers pay are the Internet connection and the fees.

In order to insure a high level of security, this service is developed on an infrastructure complying with the international information security standards. From the moment the authorized client is connected, any data exchange takes place under a secured protocol, SSL3, which uses a 128 bytes encryption key (the most powerful available for the time being) and a DES algorithm. Moreover, as this service can be provided and guaranteed by VeriSign, clients can easily recognize and check the authenticity of the site.

Currently, there are many Internet banking solutions on the market. They have been usually developed by specialized software companies or in house, due to the specificity for the data security. This service is provided to individuals, physical persons, and small and medium enterprises.

Internet banking is used for the following operations:

- checking bank statements (remainder, history, transactions for all the accounts);
- issuing payment authorizations in any foreign currency (between banks or within the same bank);
- remainder transfers from the current account to the card accounts of the same individual;
- creating and annulling deposits;
- daily information about currency exchanges and interest rates;
- currency exchange and currency exchange negotiations
- securing transaction by an encryption key;
- modularity: use of various customer profiles and limitation of the operation in compliance with the bank policy;
- possibility to pay local taxes and duties (at banks which have implemented the e-Tax service)

Customers have the following advantages:

- comfort – access to the bank 24 hours a days, 7 days a week, without depending on the bank's schedule;
- low costs – in order to reduce the number of clients who go to the bank desks, there are fee reductions (10-50% of the ordinary fees) for the electronic payments;
- time saving and reduced expenses (no more transportation to and from the bank)

building);

- safety – transactions take place in the best security conditions as customers use a user name, a password, and an encrypted channel;
- accessibility – online connection with the bank from any Internet connected computer; simple and ergonomic menu leading the client directly to the operation he/she wants to perform;

One disadvantage concerns the additional costs of subscription and Internet connection.

MOBILE BANKING services can be described as the newest services in electronic banking. They are performed using mobile phones or other mobile devices. Mobile banking services are provided through a convention of connection to these services. Access to the database is made through a password and a customer code. Customers can check their balance and make adjustments between accounts.

The potential for providing mobile banking services may be far greater than services through typical desktop access, as there are several times more mobile phone users than online PC users.

There are two main types of technology available for use in mobile banking: WAP (Wireless Application Protocol) and WIG (Wireless Internet Gateway).

The first one is an application environment and set of communication protocols for wireless devices built to enable manufacturer, vendor and platform independent access to the internet and advanced telephony services.

The other one (WIG) is a SMS-based service in which a menu of banking services options is downloaded from the bank to the phone. This enables the user to browse to all bank services options and through their accounts and to conduct specific tasks.

The main problems in developing mobile banking are:

- internet connectivity costs;
- difficult user interface;;
- lack of awareness amongst customers;
- limitation in functionality of mobile devices;
- accessibility issues;
- security concerns;
- organizational changes;
- small number of choices;
- technology overload;

Mobile-banking can be defined also as an account management tool which can be accessed through the mobile phone. This modern service appeared on the market as an alternative to electronic banking and internet banking services and it facilitates access to accounts and banking operations through the mobile phone. This service can be easily used whether in the home country or abroad. If a client is abroad and wants to access his/her bank account, that can be done through the mobile phone operator. The bank is accessed by Internet (through the WAP service which allows reading Internet pages directly on the mobile phone display) or by SMS through the local operators.

Mobile banking is a fast, secure and efficient service. It offers up-to-date information on the status of the clients' bank accounts, whatever the location of clients or the schedule of the bank.

From the customers' perspective, mobile banking presents the following advantages and disadvantages:

- access to the bank 24 hours a day, 7 days a week, through the mobile phone;
- smaller fees for electronic payments than for traditional payments;
- reduced transportation costs and time saving;
- offline link to the bank;
- Additional costs for the subscription and the connection to a GSM provider.

CALL CENTER services are provided by a team which performs a homogeneous set of interactions with customers according to procedures under control. Customers can benefit from technical assistance by experts and can check and make transfer between accounts.

A rapid development of e-banking requires the increase of the customers' base by attracting new categories of clients with a new behavior and which are very open to the latest technological advances. At present, there is an increased competition in the banking system because of many banks

with small territorial network entering the market and offering new products competing with traditional ones.

For the future it is expected to have a decrease in the banks' operational costs by reducing the volume of "traditional" operations, customers' transactions costs (in 2003, in the US, a transaction operated at the bank's desk would cost almost 1\$, while the same transaction operated online would cost 0,1 \$), and the number of operations requiring the customers' presence in the bank's buildings.

The Call-Center is an assistance tool for the bank accounts management through the phone. In the broad sense, a call-center is a functional entity that exists within a company and is able to communicate by phone and electronically in real time.

E-banking management problematic issues

The implementation of e-banking services is far from being well known and is encountering a numerous difficulties and barriers

The Internet as the unique channel for services delivery is totally different from the classic branches network or telephone banking. That's way it brings up its own challenges that require unique and innovative solutions.

The most common problematic issues in e-banking implementation and management include:

- Traditional structures that are unable to respond to the agility required for the e-banking;
- Resistance from the employees;
- Legacy systems;
- Security issues;
- Regulatory issues which are more complex than traditional ones;
- Project management problems

Further more it is necessary to identify the technology related problems like:

- IT and Telecommunication issues;
- Capacity (or scalability) problems;
- Availability and System Integration;
- Operational Functionality of Web Site Design;

together with management problems like:

- Regulatory issues;
- Information Management;
- Outsourcing problems ;
- Security;
- Loss of Personal Relationship;
- Organizational structure and resistance;
- Trust issues;
- Acceptance issues;
- Clash with other service delivery channels;
- Change Management issues;
- Ethical issues.

3. Conclusion

Organizations that have successfully adopted e-banking demonstrate that a combination of a strong customer focus, performance measures and strategic planning process can be easily incorporated. All these organizations are able to measure the quality of their services and products and become flexible enough to quickly respond to their customer request and market changes

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MONETARY STABILITY VERSUS FINANCIAL STABILITY IN ADJUSTING THE REAL ECONOMY

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Nowadays, in the economic theory and practice, there's commonly held idea that the primary objective of monetary policy should be price stability. However, the possibility of achieving this goal depends on the development and stability of the financial system. Even though financial stability represents a prerequisite for reaching the objective of price stability, the relationship manifests itself in reverse also.

In the long term, the two objectives support and reinforce each other, but in the short term, there may occur certain incompatibilities, thus resulting in the central bank's dilemma of abandoning one in favor of the other.

This paper aims to investigate precisely the circumstances in which the policies pursued to ensure price stability can cause or worsen financial stability.

Keywords: price stability, financial stability, central bank, monetary policy, National Bank of Romania

JEL Classification: E31, E52, E58, G01

Modern economies must cope with the challenge of achieving financial stability, given that the globalizing financial environment is becoming more complex due to globalization, to the intersection of the monetary and financial market, and to the financial industry innovativeness. Although this evolution of the markets encourages more efficient allocation of global capital resources, allowing the ways of financing to adapt more quickly to the needs of the real economy, “the financial sector is not exempt from tensions and destabilizing movements, which generate risks not only for the players of the financial sector, but also for the economy as a whole”.

Thus, most of contemporary economists have reached consensus on the importance of the central banks (CB) in ensuring financial stability. Missing this goal may cancel the monetary authority performances in achieving its ultimate objective priority – price stability.

Through the years, the CB activity has oriented its monetary policy on various objectives. In the 70s – 80s, the CB were particularly concerned with stimulating the economic growth, their main role being that of providing liquidity and monetary supply expansion through bank refinancing (active monetary policy). Since the early 80s, CB have focused on the objective concerning price stability (the new monetary policy), and currently, financial stability has become again an important objective in the economic decision making process, mainly due to the liberalization of capital flows and to the emergence of economic and financial crises.

Therefore, in our opinion, financial stability is no fresh news to economy, but a retrieval of a traditional issue.

It is required a delimitation of the two concepts – “price stability” and “financial stability” – taking into account the existence of multiple definitions concerning the first concept and the lack of universally accepted definitions for the second one.

After analyzing some definitions from the specialty literature for clarifying the two concepts, we considered the ECB's⁹⁴¹ vision relevant with respect to price stability and the paper "Financial Stability", in what concerns the definition given to financial stability⁹⁴².

The ECB's vision concerning price stability is the following: 'price stability is defined as the state of economy when the general price level is stable in the strict sense or when the inflation rate is sufficiently low and stable, so that considerations related to the nominal dimension of transactions cease to constitute a relevant factor for the economic decisions'.

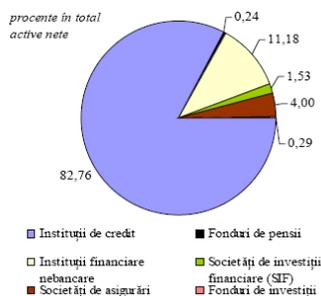
In Romania, price stability represents the objective of the National Bank of Romania's strategy: direct inflation targeting. The aim of this strategy is reaching the optimal level of inflation, which can contribute to sustainable economic growth, macroeconomic stability, and last but not least, to ensuring a high level of social welfare.

Unlike price stability, there is no universally valid definition of financial stability. The following genus-differentia definition of 'financial stability' better satisfies the requirements of formal logics: "financial stability is the feature of the financial system which subsists in its capacity of absorbing the financial imbalances that occur endogenously or due to exogenous, significant and unanticipated event, thus facilitating the achievement of economic performances".

Authors such as J. Chant refer to this concept starting from the opposite term: 'financial instability'. "Financial instability refers to the financial markets, conditions which affect or threaten to affect the economic performances through their impact over the financial system".

In the broad sense, financial stability implies that the financial system must be "able of attracting and placing funds efficiently and of withstanding shocks without hurting the real economy", while in the restricted sense, specific to the banking sector, financial stability relates to the situation characterized by a lack of banking crises and the existence of a certain level of assets price stability, including the interest rates.

Thus, the concept of 'financial stability' appears as a feature of the financial system, which includes the financial market, financial institutions and their related infrastructure. As a consequence of the many links among these components (markets, institutions and infrastructure), any imbalance in either of the elements may affect the others, thus compromising the stability of the whole system. However, if the system works well enough to perform its core functions, even when one of the components faces problems, they do not necessarily constitute a threat to overall stability. This means that it is not mandatory for all the elements to operate at / near maximum at any time.



A stable financial system has the capacity to limit or to solve imbalances, partly through self-control mechanisms, before leading to crises (in which case, financial stability and monetary stability are achieved simultaneously). Therefore, we must speak of both global perspective and a systemic one, in measuring the soundness of the financial system.

⁹⁴¹ European Central Bank.

⁹⁴² In our paper, we will refer to the two concepts considering these definitions, as they are the most adequate, in our opinion.

When it comes to Romania, we must highlight the fact that it still shows the features of an emerging financial market. In 2008, financial and non-bank financial institutions continued to hold the largest share of total financial assets, being in slight increase up to 93,9%, while the insurance and capital markets account for only 6,1% of total net assets.

Consequently, the impact over the stability of the entire financial system, caused by failures in the banking sector, would be much higher than if it were provoked by problems of any of the components of the financial sector (Chart 1 – Structure of the financial system in Romania), so they must be efficiently supervised.

Bank supervision plays a very important part in ensuring both financial and monetary stability because the banking sector is the main transmission channel of monetary policy. Therefore, if it recorded imbalances (liquidity deficit or surplus), it would be very difficult for the CB to fulfill their objectives.

In our view, bank regulation and supervision is vital in maintaining price stability because the micro and macro-prudential information obtained by practicing this function may be successfully used in preventing or managing crises which could negatively affect the main objective of the CB, taken into account the repercussions on the real economy.

Usually, financial stability does not represent an explicit objective for modern central banks, but they begin to show a particular interest in achieving their main objective: to ensure currency stability. Monetary policy can not be fully effective unless it is based on foreseeable transmission mechanisms, which implies a sufficiently stable financial environment. Mutually, price stability is a necessary condition in ensuring financial stability, but not sufficient. In our opinion, there are certain circumstances when some unpredictable transmission mechanisms may also have a high efficiency.

A well-functioning financial system allows an economy to exploit the full potential of growth because it provides the necessary funds for investment opportunities at minimal costs. Also, a stable financial system facilitates the economic performances improvement and contributes in correcting imbalances that affect the economy. However, this concept should be perceived dynamically. This means that resources must be permanently mobilized, and once stability is reached, a more lax policy should not be adopted, instead, it should be operated with different levers to maintain stability, because the financial system is in a permanent qualitative change.

But still, could the policies pursued to achieve monetary stability (restrictive policies), cause or even worsen financial instability, in certain circumstances? The answer to this question, somehow rhetorical, is the objective of this research.

Regarding the relationship between price stability and financial stability, in the literature there were formulated two approaches: *the conventional approach* – according to which, the two types of stability support and reinforce each other, in the long term - and the *"new environment" hypothesis* – which holds the idea that along with controlling inflation at low levels, a new economic environment is developed and financial stability is not guaranteed anymore.

We subscribe to the idea that the two objectives are compatible in the long term, but in what concerns concrete monetary policy, short term outlook is targeted, in detriment of the former. Such conflicts may arise between the two concepts within the meaning of disclaiming one for another.

The interest rate monetary policy is one of the main tools used by CB to ensure financial stability. To illustrate, in an economic scenario with two variables - high inflation and fragile banking system – in order to combat high levels of inflation CB may increase the nominal rate of reference interest rate, thus causing higher instability of the banking system.

Therefore, we can talk about an incompatibility between the policies pursued in the short term to ensure price stability, respectively financial stability. Interest rate variations induced by CB in the monetary market triggers a series of mechanisms, having a strong influence on the population and enterprises decisions of consumption, savings and investment.

In *caeteribus paribus* terms, a higher interest rate will lead to a contraction in the consumer and investment credit in what concerns the population, respectively the businesses, thus affecting the already installed fragility of the banking system. Also, the population will be encouraged to save, in detriment of investing, these chain effects, finally, having an impact on other real economy variables, like production and correlative volume of imports and exports.

On the one hand, from the households' point of view, an increase in real interest rates above the growth of differential inflation rate increases the attractiveness of saving because the efficiency is higher in terms of future consumption, resulting therefore in lower current consumption. Furthermore, regarding an enterprise, a higher rate of interest will have inhibitory effect on investments because there will be fewer investment projects available to provide sufficient performance to cover the increased costs of capital.

The connection between monetary policy and bank stability does not inhere exclusively in the level and volatility of interest rates. A more general tension is that the cyclical effects of monetary policy and bank regulation push in opposite directions. Monetary policy tends to move in countercyclical fashion: in the event of an economic slowdown, the central bank may expand the money supply and provide more funds to speed up the economy's recovery. However, the effects of bank regulation—especially prudential regulation, such as capital adequacy requirements—are procyclical, requiring a contraction of banking activity when the economy slows. For example, during a recession, a bank regulator might require an increase in loan-loss reserves and an improvement in the quality of banks' lending portfolios.

A second argument of the incompatibility between monetary policy and financial stability is reflected in the literature of ideas set out by various authors who disagree with CB involvement in regulatory and supervisory activities. The supported idea is establishing a Single Supervisory Authority (SSA), responsible for the stock exchange, insurance sector and banking supervision, thus absolving CB from regulatory and supervisory function of the banking sector.

The main argument used by the authors in question is the possible conflict that may arise between the objective of financial stability (achieved mainly through this function) and the objective of monetary policy, for instance, in a crisis, when CB should not be concerned only with the inflation targeting, but with ensuring the stability of the financial and banking system by/through injecting cash in order to rescue financial institutions which are in difficulty (it will choose "the least bad").

We consider that a SSA is justified if the stock market would be developed or it would be difficult to define each financial sector's activities, and not based on the incompatibility theory between banking supervision and the objective of monetary policy. In Romania, the supervision unification is not appropriate now, given that the Romanian financial system is characterized by a low degree of intermediation, insurance and financial investment are underdeveloped, the banking sector having a significant weight.

Although, in the short term, a compromise between monetary stability and financial stability can be reached, we consider necessary to keep the banking supervisory function as an attribute of CB, because macroeconomic forecasts can be improved when based on confidential information obtained from prudential controls on credit institutions.

A third argument of the incompatibility between monetary stability and financial stability, identified in the literature, is the very complexity of the two objectives. If price stability is the main goal of many modern CB, it can be well defined, achieved and maintained over time, financial stability is more complex, both by the different opinions on its definition, and by the many ways of achieving it, as by the importance that some authors assign to this concept in light of the economic context. Financial stability depends both on endogenous factors, such as: real economy movement, relations with foreign countries, operational risk, domino effect, etc., and exogenous factors: macroeconomic disturbances, natural disasters, large business failures.

Since August 2005 NBR's attention has focused, in particular, on the objective of price stability, due to increased inflation expectations and national currency appreciation caused by massive capital inflows (direct investments, portfolio investments, return of labor incomes). Between 2005-2007, NBR fulfilled the net debtor position towards the banking system when increases of the interest rate, needed to bring expectations in line with the inflation target, were attracting more foreign capital, and appreciating the national currency unsustainably ("Tosovsky dilemma").

From the onset of the financial crises in July 2007, NBR aims to be a net creditor of the banking system, foreign capital inflows being significantly attenuated. The reduction of external funding led to national currency depreciation, which increases inflation and requires a relatively high nominal interest rate. Due to the exponential growth in consumer credit recorded in the period 2005-2008, the main affected by the depreciation of the national currency are the borrowers in euro and currencies, who do not register a debt service as good as the previous, thereby assist in increasing the vulnerability of the financial system. Although it is necessary increasing the interest rate, this may decelerate economic growth and, moreover, could lead to the augmentation of contracted credit costs and also of the possibility of converting them in nonperforming loans, with the risk of destabilizing the financial sector. Under these conditions, the compromise between the monetary policy objectives (price stability and financial stability) appears.

In modern economies, a low and stable inflation level leads to a new economic environment in which financial stability is not guaranteed and so the reconsideration of the relationship between price stability and financial stability is strictly required. So, there can be identified a fourth argument for the incompatibility of the two objectives, namely: the "new environment" hypothesis.

The cases of Asian countries during 1997-1998 were relevant in this direction. In the period preceding the onset of a financial crisis, these economies had experienced significant imbalances, despite the existence of a relatively high degree of price stability. The same situation/case is observed with current financial and economic crisis in which CB were forced to inject a considerable amount of cash to maintain financial systems in operation. So, CB are no longer able to ensure both price stability and financial stability, in the event that their implementation requires contradictory measures.

Analyzing the case of Romania, we can affirm that maintaining financial stability has a particular importance to price stability, being primary considered regarding an alert process of disinflation. During 2000-2007, financial instability had been avoided through a proper dose of the disinflation rate, thus recording an average rate of disinflation of 5.8% per year, while maintaining financial system stability, which shows that, although both objectives, on short term, can be in contradiction, on the long term, they sustain and highlight each other (conventional approach). Failure in maintaining financial stability can only lead to an inflation growth.

The long term objective of monetary policy should be to achieve a low and stable inflation which helps long-term sustainable growth. Accordingly, low and stable inflation represents a goal in itself and also a way of achieving sustainable economic growth. The effectiveness of monetary policy in achieving this objective is limited by the level of financial stability.

As shown above, we can affirm that if financial stability is a condition for achieving the objective of price stability, the dependency relationship between them manifests also in reverse.

At the end of 2005, NBR adopted a series of "unorthodox" measures in order to limit the magnitude of the inflows impact on price stability and financial stability, such as: "cooling" - government credit growth which mitigates the phenomenon of overheating, that contributes to the reduction of inflationary pressures and limits external imbalances; reducing the growth rate of foreign currency component which prevents the increase of banks vulnerability to currency exchange rate fluctuations, that ensures the avoidance of an augmentation in the nonperforming loans volume.

The “unorthodox” measures which NBR adopted in 2005 and 2006 were primarily effective in the short term, ensuring reconciliation between financial and price stability. Since 2007, with Romania’s accession to EU, NBR has gradually dropped these restrictive measures which aimed especially the credit restriction.

But why were these measures so important? If NBR had not tried to restrict foreign currency loans, based on excessive appreciation of the national currency due to massive inflows of speculative capital, the population would have been tempted to overborrow in foreign currency. Since 2004 until August 2007, NBR has made relatively large purchases of foreign currency, being criticized that it had not left the course to appreciate in line with market requirements.

Often, high volatility of the exchange rate is associated with large current account deficits which are dangerous due to major implications primarily for monetary stability and generally for macroeconomic stability. Therefore, NBR adopts a floating current which allows CB interventions on the foreign exchange market, but without imposing them. It also reduces the possibility of speculative attacks on national currency, which intensified along with the liberalization of capital account.

The fact that CB does not assume a strict commitment rate and allows the market to set the exchange rate, represents both an advantage for financial system stability and a precondition of accession to ERM II.

In conclusion, we sustain the view according to which the policies designed to ensure price stability and financial stability have different intensities effects on the real economy, even if they can be implemented using similar tools by CB. Also, in our opinion, it is necessary to keep the regulatory and prudential supervisory function of the banking sector as an attribute of CB, because in this way micro- and macro-prudential information are obtained, information which contributes to the increase of monetary policy effectiveness.

We consider the arguments presented above as a reflection of the potential conflicts that may arise in the short term and/or very short term, between the two objectives, in the context of abandoning one for the other and not as a total incompatibility between them. Furthermore, we believe that, on the long term, the two objectives are interrelated, mutually sustaining and highlighting.

Analyzing the relationship between monetary stability and financial stability, we can affirm that there is a two-way link between them. Therefore, we believe that even if, in the long term, the primary objective of CB is, in general, price stability, they must pay attention also at financial stability. Otherwise, even if there is a progress regarding disinflation, their sustainability is not ensured in the context of an unstable financial system. Failure in maintaining financial stability can only lead to an inflation growth.

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POSSIBILITIES OF IMPROVING THE METHODS AND TECHNIQUES USED IN THE SURVEILLANCE OF CREDIT RISK MANAGEMENT

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Through their daily activities, credit institutions are subject to various risks which could affect both the bank and the whole banking system, national and transnational. The activity field of the banks, marked by volatility, by the internationalization and liberalization of the financial markets, is in a continuous change. The contagion effect, as it has been proved by the spread of the financial crisis' effects, determines the surveillance authorities to pay increased attention to the financial risks and implicitly to the systemic risk.

In this study, to start with, there shall be presented some aspects regarding the banking rating systems used by the surveillance authorities and then some ways of improving the models of managing credit risk in banks. In the end, there will be demonstrated that the risk profile of the banking institution has a determining role in the management of the credit portfolio.

Key words: banking system, banking risk, surveillance, rating systems, credit portfolio, investment.

Cod JEL: G32

1.Introduction

By promoting the new agreement (Basel II), it is intended to improve the surveillance methods of the credit risk, as well as to develop a methodology for each banking institution for the measurement and management of the banking risk, to increase discipline on the financial markets, but also to offer some stimulents for the banks that implement the best practices in this domain. Thus, it is intended to reach a convergence between the reglemented capital (established by the national banks) and the economic capital [1]. Establishing the reglemented capital on the basis of the assumed risk level by each bank will allow these to manage their resources better (Maniu, 2006).

The integration of the financial markets and infrastructures in the European Union, together with the growing number of big and complex financial groups, which have cross-border operations, contributes to the efficiency and stability of the financial system of the European Union. At the same time, the financial/monetary integration increases the possibility of cross-border and cross-regional contamination and it consequently amplifies the possibility of a systemic crisis which could affect one or several state members. The financial stability is, consequently, a common preoccupation for all “euro states” and it must be protected through an open collaboration.

In order to limit the economic impact of a systemic cross-border financial crisis, there must be allowed a response at the appropriate and efficient moment. In-time preparation for a crisis is necessary, allowing sufficient flexibility in order to solve the specific circumstances of each potential crisis. Consequently, it is important that at the level of the European Union there are common principles, procedures and agreements regarding the cooperation between the authorities responsible for maintaining the financial stability.

2.The banking rating systems used by the surveillance authorities.

The main objective of the surveillance system is represented by the identification in an incipient stage of those banks considered inefficient, according to the evaluation criteria of the financial and operational aspects established by the monetary authority or by the manifestation of adverse trends, requiring special surveillance.

Credit risk is one of the most important risks encountered in the activity of a banking institution and it expresses the possibility that the debtors or the title issuers cannot accomplish obligations in time, as a result of the degradation of their financial situation which can be determined by the lending conditions or by the general economic situation.

In the surveillance activity, surveillance authorities generally use a top-to-bottom approach, starting from the financial reports which give a lead and reaching the particular, stressing the identification quantification, management and control of risks, all these by the help of some instruments called *early warning systems* [2]. The best known bank surveillance system is CAMEL [3], model used in The United States of America. Federal Reserve Bank evaluates credit institutions based on some events, limits etc., included in the CAMEL system. SEER Risk Bank Model (System for Estimating Examination Ratings) utilized by FED established the possibility of banking bankruptcy or severe sub-capitalization by the means of a probit-like regression. Part of the same category of early identification instruments of the credit institutions whose performance degrades is the SCOR model (Statistical Camels Off-site Rating) utilized by FDIC.

The Banking Commission in France utilizes the SAABA system based on historical data in order to evaluate possible losses at the credit portfolio level for the following three years. The diagnostic element and the alert mechanism are based on the indicator's solvability level and on the shareholding's quality.

The Bank of Italy (BdI) estimated a survival function of the credit Italian institutions by using the Cox Proportional Hazards model. This quantifies the probabilities of the appearance of some severe difficulty states at the level of the Italian banks during a period of two years. In this respect, the severe difficulty state is evaluated on the basis of bankruptcy events in the juridical sense, of the overtake of a credit institution by a stronger one from the financial point of view and in which the banking rating system (PATROL) [4] classifies the credit institution into category 4 or 5.

The new concept introduced by The Basel II Agreement is represented by the risk-based analysis [5] of banks, which presupposes a permanent analytical revision of the bank's activity, thus ensuring the maintenance of stability and trust in the financial system. This approach presupposes the extension of instruments used by the traditional banking analysis, these being starting points for anticipating risks and forming simulations, their change offering in time a dynamic image of the bank's performances. On the other hand, the financial indicators (referring to the structure of the balance, profitability, market risk and credit risk, liquidity or exchange rates) are the object of the banking surveillance, each bank having the obligation to calculate these indicators.

Taking into account the requirements of the Basel II Agreement, the elements which can be developed in the rating systems refer, in our opinion, to:

- completing the quality marking modality of the shareholding by individual ratings for each shareholder [6], among which we can mention the shareholders' financial situation, the type of shareholder, the type of reports with the credit institution etc.;

- quantifying the sensibility to the market risk;

 - measuring the credit risk by using the verified databases received from the credit

- institutions regarding credit types, activity domain, data obtained from the Banking Risk Authority (BRA) and from the Payment Incident Authority (PIA) verified by macroeconomic elements regarding the activity sectors where credit institution have investments with a considerable concentration.

3.Possibilities of improving the models of managing credit risk in banks.

For the management of a credit portfolio there are several models [7], each stressing different aspects (entrances). Thus, on the one hand, the stressed items are the historical data of the counterparty (SD, debtor's rating, non-reimbursement incidents, frequency etc.), among which we mention the CreditRisk+ or CreditMetrics models and, on the other hand, models of credit portfolio management which also take into consideration the macroeconomic indicators (CreditPortfolioView or PortofolioManager), thus positioning the counterparties in a more realistic context regarding the non-reimbursement probability.

There certainly is an impressive number of models for the management of a credit portfolio but, in our opinion, the great challenge is represented by the identification of minimal elements that must be included in composing that model by the credit institution.

In elaborating models there are some principles which have to be taken into consideration [8] (according to the recommendations of the Basel Committee):

- credit institutions must not forget that the main responsibility in the formation process is theirs;
- the model must have real predictive abilities for the risk estimations of a bank and the analysis of the way in which these are utilized in the relevant activities of the credit institutions;
- there is no universal elaboration method for these, only minimal elements that have to be introduced;
- they must comprise of both qualitative and quantitative elements;
- the process and the results must undergo independent reviews.

It is recommended for each credit institution that the entire credit risk exposure is monitored by limits and a reporting system.

In the best known scoring methodologies, the credit risk value is calculated by the method of a scoring equation:

$$Y = w_0 + w_1 X_1 + w_2 X_2 + \dots + w_n X_n, \text{ where:}$$

X_1, X_2, \dots, X_n – entrance variables of the model (in case the scoring is meant to measure the credit risk of a company, these variables usually represent indicators calculated based on the data from the financial situations)

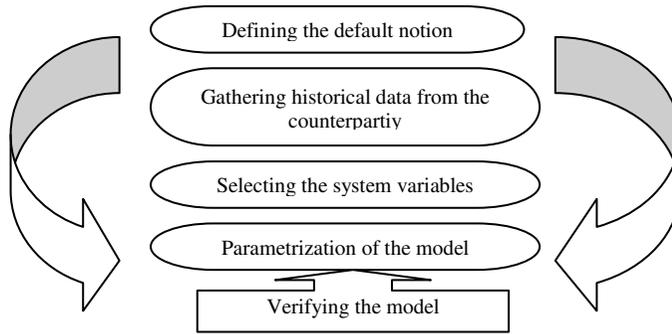
$w_0, w_1, w_2, \dots, w_n$ – interception coefficient and constant which describe the balance of the model's particular variables, the so-called *weights* (balances)

Y – the number that describes the stability/state of the entity's credit under verification and it depends on the determination of the Y bigger model, meaning a weaker evaluation of the credit; nevertheless, the relationship can also be the other way round.

The formation process of a scoring model consists of the following stages:

1. Defining the case of the neglect of duties.
2. Gathering historical data from the counterparties.
3. Selecting the variables X_1, X_2, \dots, X_n .
4. Evaluating, on the basis of historical data of the parameters $w_0, w_1, w_2, \dots, w_n$.
5. Verifying the model taking into account the forecasted accuracy.

The formation process of a scoring model



Source: created by the authors

In case a credit institution selects a *logit model* these explicative independent variables X_1, X_2, \dots, X_n with which the state of the Y entity can be modelled, the so-called dependent variables. In the scoring based on logistic regression, the state of the Y entity has the following interpretation:

$$Y = P(\text{default} \mid X_1, X_2, \dots, X_n),$$

and thus Y reflects the probability of neglect during a prolonged period, starting with the rapport date at which the variables X_1, X_2, \dots, X_n were calculated. Through such an interpretation Y , by X_1, X_2, \dots, X_n , on the basis of the linear regression and consequently the attempt to build the regression of the formula $Y = w_0 + w_1X_1 + w_2X_2 + \dots + w_nX_n$ encounters problems of a fundamental nature: Y probably belongs to the row $[0,1]$, and to the linear combination $Y = w_0 + w_1X_1 + w_2X_2 + \dots + w_nX_n$ and it can take any values $(-\infty, \infty)$.

In the models formed by the logit methodology, the Y result certainly represents a function of the default probability, during a future period, for example an year from the result calculation. Thus, through a good model calibration, the more ample the function of the neglect definition utilized for the calibration of the model, the greater Y exit results.

The evaluation and estimation systems of the credit risk implemented in the financial (banking) institutions attempt to quantify the losses that might appear as a result of the counterparty's default (payment inability). Credit risk factors are generally specific to each company, but they must also include a series of macroeconomic variables which reflect the state of the economy and the specific branches.

4.The risk profile of the banking institution –determining factor in the credit portfolio management.

In the demarches regarding the utilization of a work methodology, in order to elaborate some credit risk management models, there must be taken into consideration two items. Firstly, specialty literature should be consulted, including the requests expressed by laws, regulations, work procedures, and then there must be taken into consideration the peculiarity of each banking institution's activity. Thus, the conceptual models used for the marking system regarding the identification of credit risk to which the counterparty exposes itself before offering the credit, respectively assuming the payment engagement, must take into consideration, on the one hand, the creditor's experience in the process of offering credits and, on the other hand, the automated models of previewing the non-reimbursement possibility of the assumed engagement, this being realized by sophisticated models, estimation statistics of the counterparty's behaviour during the engagement.

The elaborated models should preferably comprise both rating and statistic elements, in the form of mathematical models, well established. The scoring function [9], which is an important step in the formation of the rating system, does not necessarily presuppose determining the non-

reimbursement probability for each counterparty, only the transfer of the risk characteristics considered relevant, in a small amount, represented by a value called score. As a result of the interconnection and classification of the scoring models, the counterparties will be included in the marking classes.

Thus, after the analysis of a hazardous sample of the clients' portfolio of a credit institution for which the balance data were available in December 2008, financial indicator like gross/nett margins, "equity ratio", "debt-equity ratio", the rapport between the operational expenses and incomes, EBIT (EBITDA), ROE, but also date referring to the debtors' behaviour as client of the banking institution (ex. debt service), together with a set of standard financial indicators (solvability, debt degree, current rate, economic profitability) which are compulsorily calculated for each client by the credit institution, there has been noticed different behaviour as regards reimbursement ability, especially if the debtor belongs or not to a different activity sector.

The econometric model of the logit type on the basis of which we estimate the probability of non-reimbursement of companies from the existing sample has the following formula:

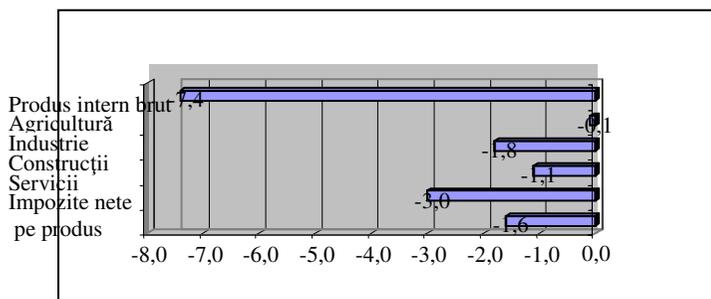
$$\log \frac{p}{1-p} = ct + \sum_i \beta_i \cdot Indicator_{Microfinan} + \sum_j \beta_j \cdot Aspect_{macroeconomic}$$

For each activity domain of the debtors in the sample there has been built a "dummy" variable, thus observing that the most important sector as representation in the sample is the services one and the least represented is the agricultural-fishing one.

In any regression we have estimates during the analyses; we have started from a specification that includes the variables for each client calculated by the credit institution: solvability, debt degree, current rate, economic profitability. In regression there were taken into consideration the linear correlations between certain indicators like the economic profitability and the debt degree, where the correlation of 97% is negative. This implies that from the two variables there must be included only one in the logistic regression and there was an option for the variable debt degree. This variable is also negatively correlated, in a proportion of approximately 98% with the variable „equity ratio”, which determines us to eliminate from the regression specification also this last mentioned variable.

As a result of the analyses there has been noticed that a company from the services sector has a non-reimbursement probability greater with 6,5 percentage points than a company in any other sector, if both companies are characterized by the same solvability and market quality. This result does not seem surprising at all for the analysis of a clients' portfolio at the end of the year 2008, a raised macroeconomic risk of the services sector compared to the other sectors. Practically, the logistic regression catches the beginning of a phenomenon latter confirmed by the macroeconomic evidences, an example being the below graphic.

The contribution of the main activity branches to the decrease of PIB during 1.I.-30.IX.2009 compared to the period 1.I.-30.IX.2008



Source: *Rapports National Statistics and the National Bank, own adaptation.*

5. Conclusions

When defining a neglect of obligations, the banking institution that forms the analysis model of the credit risk, both ex-ante and post-factum, there must exist the possibility of answering to the following question: “Which of these credit institutions wouldn’t have given a credit/wouldn’t have made that investment, had it previously known that this situation might arise?”

Extremely important in the analysis of the credit risk is determining the *default*. This presupposes the extension of the definition, for the purpose of the credit risk management, thus being subordinated to the profile of aversion towards risk of that credit institution. It is wrongly stressed the fact that the way of defining a neglect of an obligation is limited by the quality of historical data utilized in forming the model. The too detailed definition can be useful at a certain stage, as it might similarly be impossible to determine the moment whether the neglect manifested itself in the past for too many counterparties.

An individual element from CPP or BS has little importance taken singularly. A rate, on the contrary, taken as a rapport/combination between two or more elements can bring about important clues, especially if it is compared to the similar one of industry, of competitors. In Romania, such references, databases are almost absent, and the instability registered so far determines many analysts to regard this demarche without much trust. Nevertheless, this way is the only valid reference point, although it has imperfections or its realization brings about inherent implementation difficulties.

Comparisons with the industrial standards (benchmarks) are important so that all societies are influenced, to a greater or smaller degree, by the economic expansion or recession (contraction). It is unlikely that a growth of sales, profits intervenes when the economy (a certain sector) is on a descendent road. Similarly, there can’t appear a growth of activity, business volume, although it might seem attractive if it is under the industry’ average, of the main counter-candidates, this meaning loss of competitiveness and market share.

In order to overcome the eventual “contracted” degradations right from the start and which now are part of the credit portfolio, banks must conceive and implement *alarming policies*, more precisely minimum and maximum limits which offer to the board of the credit institution a continuous feedback upon the efficiency of the control process of the quality of credits, investments, so that those with problems are detected and amended (as much as possible) in time.

Notes

1. The notion of *economic stresses* the fact that measuring risk is done in the conditions of the economic realities and not based on accounting or settlement rules.

2. Moinescu, Bogdan (2007) “Sistem de previziune a evenimentelor de deteriorare a ratingului CAAMPL”, Caiete de studii, Banca Națională a României.

3. Acronym formed out of elements included in the verification process of the security and solidity of credit institutions: solvability, assets' quality, management quality, the quality of incomes and liquidity.
4. Adapting the capital, profitability, credit risk, organization, liquidity.
5. *Organization's pure risk* – utilized for the first time in 1956 by Russel Gallanger *Risk Management: A new Phase of Cost Control*, Harvard Business Review.
6. Banking rating methodologies utilized by the surveillance authorities especially represent expert systems which furnish evaluations only for the period during which the evaluation is being made, without offering signals regarding future evolutions. The ex post results must be completed based on the information furnished by the prediction instruments whose utilization offers more time for the surveillance authority to take the necessary measures.
7. A description of the formation of the scoring models based on the linear regression is presented by R. A. Johnson, D. W. Wichern, *Applied Multivariate Statistical Analysis*, 2002, Prentice-Hall or L. C. Thomas, D. B. Edelman, J. N. Cook, *Credit Scoring and Its Applications*, 2002, SIAM
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9. The scoring function is a statistical or heuristic (subjective) method which offers the possibility to organize counterparties according to the risk level, level established either by the credit analyst (by verifying the counterparty's characteristics considered relevant, based on a manual or evaluation form conceived by the institution) or automatically calculated by the help of a statistical model (created on the basis of an initial data set which comprises interest characteristics and the registered events of non-reimbursement) or as a combination of the two.

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CENTRAL AND EASTERN EUROPEAN COUNTRIES IN EUROPEAN UNION – IMPACT OF FOREIGN DIRECT INVESTMENTS

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Economic integration refers to trade unification between different states , and one of its most important aspects is liberalisation of capital movement. In this paper is presented a brief evolution of economic integration cases focusing on one of the most integrated economies – European Union. We concentrate on the participation of foreign investors in different economies and their impact, taking the example of Central and Eastern European Countries and their markets. Also , the level of influence that direct investments in capital markets entails on the Stock Exchange evolution is presented for the case of Romania .

Keywords: European Union, foreign direct investments, capital markets, CEEC

JEL classification: E20, E22, E44

1. Introduction

Economic integration refers to trade unification between different states by the partial or full abolishing of customs tariffs on trade taking place within the borders of each state. This is meant in turn to lead to lower prices for distributors and consumers (as no customs duties are paid within the integrated area) and the goal is to increase trade. The trade stimulation effects intended by means of economic integration are part of the contemporary economic [Theory of the Second Best](#): where, in theory, the best option is [free trade](#), with [free competition](#) and no [trade barriers](#) whatsoever. Free trade is treated as an idealistic option, and although realized within certain developed states, economic integration has been thought of as the "second b". The framework of the theory of economic integration was laid out by [Jacob Viner](#) (1950) who defined the [trade creation](#) and [trade diversion](#) effects, the terms introduced for the change of interregional flow of goods caused by changes in customs tariffs due to the creation of an economic union. He considered trade flows between two states prior and after their unification, and compared them with the rest of the world. His findings became and still are the foundation of the theory of economic integration.

The basics of the theory were summarized by the [Hungarian economist Béla Balassa](#) in the 1960s. As economic integration increases, the barriers of trade between markets diminish. Balassa believed that supranational common markets, with their free movement of economic factors across national borders, naturally generate demand for further integration, not only economically (via monetary unions) but also politically—and, thus, that economic communities naturally evolve into political unions over time.

The dynamic part of international economic integration theory, such as the dynamics of [trade creation](#) and [trade diversion](#) effects, the [Pareto efficiency](#) of factors (labor, capital) and value added, mathematically was introduced by Ravshanbek Dalimov. This provided an interdisciplinary approach to the previously static theory of international economic integration, showing what effects take place due to economic integration, as well as enabling the results of the non-linear sciences to be applied to the dynamics of international economic integration.

2. Recent examples of economic integration

The experience of economic integration, as currently understood, starts with the creation of the [Union of South Africa](#) (1910), which was further implemented in the Belgium-Luxemburg economic union, [Benelux](#) (1944), and the [European Coal and Steel Community](#) (1951).

Economist [Fritz Machlup](#) traces the origin of the term 'economic integration' to a group of five economists writing in the 1940s, including [Wilhelm Röpke](#), [Ludwig von Mises](#) and [Friedrich von Hayek](#). Economic integration was a foundational plank of US foreign policy after World War II.

The [USA](#) is also economically and politically integrated, as it has unified 50 different states (the US states), but the current political and economic structure was achieved via civil war, and not by steady peaceful development according to the stages of economic integration.

An example of recent unprecedented development of economic integration is the formation of the East Asian Free Trade Area (EAFTA): [ASEAN](#) has proposed that Japan (along with India and China) join EAFTA, and at first Japan declined to do so. China's consent to enter EAFTA has forced Japan to sign on, since otherwise Japanese goods would become cost-inefficient (more expensive) and hence lose competitiveness both regionally and globally.

Probably one of the most integrated economies today, between independent nations, is the [European Union](#) and its [euro zone](#). The **European Union (EU)** is an [economic](#) and political union of 27 [member states](#), located primarily in [Europe](#). Committed to [regional integration](#), the EU was established by the [Treaty of Maastricht](#) on 1 November 1993 upon the foundations of the [European Communities](#).

The EU has developed a [single market](#) through a standardised system of laws which apply in all member states, ensuring the [free movement of people, goods, services, and capital](#). It maintains common policies on trade, [agriculture](#), [fisheries](#) and [regional development](#). Sixteen member states have adopted a common currency, the [euro](#), constituting the [Eurozone](#). The EU has developed a limited role in foreign policy, having representation at the [World Trade Organization](#), [G8](#), [G-20 major economies](#) and at the [United Nations](#). It enacts legislation in justice and [home affairs](#), including the abolition of passport controls by the [Schengen Agreement](#) between [22 EU and 3 non-EU states](#).

The WTO is one of the engines of international economic integration, as it has been pushing the states around the world towards decreasing the tariffs: their average level sharply dropped from 45-50% in 1950s to 4-5% in 2000. Global economic integration de-facto will be in place when the level of tariffs equals 1-2%. Due to rapid development of the worldwide web the global competition pushes traders and the states worldwide to gradually decrease tariffs. The driving forces of trade which seeks maximization of profits and extra-cutting the costs may seem as being independent, but they all simultaneously push towards one same goal - global economic integration.

3. Foreign Investments in Central and Eastern European Countries after joining European Union

After the end of the traditionally not very intensive external relations between CEECs and EU before 1989/90, CEECs started to seek for stronger economic integration into the Western markets, terminating their rather strong orientation towards Russia. In addition to Trade and Cooperation Agreements with the EU, far-reaching Association Agreements, the so-called Europe Agreements (EAs), started to get into force. The first of the so far ten EAs with CEE countries have been signed at the beginning of the 1990s.

The integration of CEE countries into the European Union accelerated the integration of CEE capital markets into the international and European capital markets. The major economic factors behind this integration of capital markets are improved possibilities for risk diversification and for future returns which the CEE capital markets could offer to international investors.

International mobility of capital is extremely important for transition countries. Due to the general lack of domestic savings in these countries, capital inflows are necessary for complementing the finance of domestic investments and thus for growth and employment, influencing the macroeconomic situation. For Estonia 26.4% of gross fixed capital formation has been financed by foreign direct investment in 1994 to 1998; a huge amount of foreign finance of domestic investments can also be found in Hungary (25.2%), Poland (16.6%) as well as in the Czech Republic (11.2%). The extent of capital inflows simultaneously depends on the progress in the process of transition. However, the import of large amounts of foreign capital increases a country's vulnerability to the fluctuation of capital inflows and its dependence on international markets and investors or foreign governments. This vulnerability decreases if short-term capital inflows are not denominated in foreign currency as well as if the majority of capital inflows is not (more) short-term FPI, but FDI -which in the case of transition economies seems to be closely linked to the success in the process of privatisation. Simultaneously, FDI inflows do not substitute but complement for domestic investment. In addition, the diversification of investment-related risks as well as the improvement of international trade conditions can be achieved by sound and prudent capital outflows.

In 2008, inward FDI flows in analyzed countries- Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, reached a new record high, despite the global financial and economic crisis. The growth rate of inflows was high, especially in the first half of 2008. However, with the crisis deeply affecting several countries by late 2008, initial hopes that the region would prove relatively immune to the global turmoil evaporated. Inward FDI flows to the group in 2008 were unevenly distributed, four countries together accounted for the lion's share (77%) of the group's total inflows: Poland (\$16.5 billion), Romania (\$13.3 billion), the Czech Republic (\$10.7 billion) and Bulgaria (\$9.2 billion). As many companies scaled back or suspended their expansion plans due to the global financial crisis, FDI inflows into Poland and Bulgaria declined considerably in the end of 2008, but in the Czech Republic and Hungary they did not change significantly, despite increasing macroeconomic problems in both countries. For many years the automotive industry has been the key driver of strong FDI inflows to the new EU member countries, but the decline in euroarea car sales that began in the last quarter of 2008 has revealed the region's vulnerability on account of its heavy reliance on the industry.

Outward FDI from the region slow down in 2009. However some Russian TNCs with large cash reserves, but which are new to foreign expansion, expanded in early 2009 despite the financial crisis. For example, Surgutneftgaz bought 21.2% shares in the National Hungarian Oil Company, MOL, from the Austrian National Oil Company OMV for \$1.4 billion, marking the first major acquisition abroad by that Russian company.

Table 1 FDI Inflow/Outflow for CEEC 7

YEAR	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
FDI Inward															
Bulgaria	105.40	90.40	109.00	504.80	537.30	818.72	1,001.56	812.94	904.66	2,096.90	3,452.34	3,922.72	7,667.32	11,716.09	9,204.70
Czech Republic	868.31	2,561.83	1,428.44	1,301.37	3,717.90	6,324.00	4,984.40	5,638.90	8,492.80	2,021.60	4,978.80	11,602.80	5,459.40	10,436.50	10,730.60
Hungary	1,143.37	5,103.49	3,299.58	4,167.32	3,334.86	3,311.94	2,763.17	3,935.41	2,992.20	2,136.16	4,508.20	7,705.79	7,531.87	6,088.42	6,514.36
Poland	1,875.00	3,659.00	4,498.00	4,908.00	6,365.00	7,270.00	9,343.00	5,714.00	4,131.00	4,870.00	12,756.00	10,249.00	19,591.00	22,612.00	16,533.00
Romania	341.00	419.00	263.00	1,215.00	2,031.00	1,027.03	1,056.75	1,157.93	1,140.65	2,196.30	6,435.59	6,482.86	11,366.87	9,922.83	13,305.01
Slovakia	255.17	2,587.15	369.74	230.60	724.70	427.90	1,932.28	1,583.81	4,141.86	2,159.96	3,030.45	2,428.59	4,692.65	3,264.96	3,413.93
Slovenia	116.70	150.50	173.50	334.24	215.49	106.56	137.37	369.03	1,620.35	305.29	825.96	587.60	643.93	1,437.51	1,814.77
FDI Outward															
Bulgaria	0.18	-8.00	-28.50	-1.70	0.10	17.10	3.30	9.70	28.30	26.50	-217.00	307.60	174.90	273.60	732.50
Czech Republic	119.62	36.61	152.88	25.24	127.20	89.80	42.90	165.40	206.50	206.00	1,014.30	-18.80	1,467.10	1,619.10	1,899.50
Hungary	49.00	59.09	-3.64	461.49	278.13	249.98	620.28	368.01	277.98	1,643.04	1,119.41	2,177.95	3,873.83	3,737.04	1,660.85
Poland	29.00	42.00	53.00	45.00	316.00	31.00	16.00	-90.00	230.00	300.00	915.00	3,399.00	8,875.00	4,748.00	3,582.00
Romania	0.01	2.00	0.01	-9.00	-9.00	15.98	-12.90	-16.11	16.94	40.63	69.53	-31.09	422.76	277.84	-272.46
Slovakia	17.69	-41.40	56.53	95.22	146.60	-370.83	28.87	64.52	11.03	246.57	-21.14	149.51	511.37	383.97	258.04
Slovenia	-12.70	-10.00	7.00	30.94	-5.49	47.62	66.06	144.25	156.04	475.49	547.58	641.20	861.83	1,805.27	1,439.92

Source: UNCTAD statistics

4. Impact of foreign investments on Romanian Capital Markets

Taking into consideration the evolution of capital markets after integration in European Union, we must emphasize two factors that have influenced the growth of securities markets in the CEECs: the early development of a government debt market, and the method of privatisation chosen. Stock markets are generally more developed in countries where privatisation has been organised through the use of vouchers, such as the Czech and Slovak Republics. In the latter countries market infrastructure and regulation has been put in place after a rudimentary securities market had already developed (ex-post), in response to the needs of market participants. In other countries, such as Poland and Romania, the opposite was the case: privatisation occurred more gradually and through initial public offerings, after the necessary regulation had been put in place. In this ex-ante approach, with an emphasis on high fiduciary and disclosure standards, capital markets developed more gradually

However, not only privatisation played a crucial role. Also, the development of secondary markets in government securities was important, even if the primary purpose for policy makers has been the satisfaction of the government's borrowing needs. Secondary public debt markets provide liquidity to investors, incentives for financial market development and support interest rate liberalisation. In Hungary, for example, the existence of a liquid government securities market has contributed significantly to the growth of a wider securities market, and is considered as an important achievement in Hungarian financial sector reform.

In Romania, privatization of industry was pursued with the 1992 transfer of 30% of the shares of some 6,000 state-owned enterprises to five private ownership funds, in which each adult citizen received certificates of ownership. The remaining 70% ownership of the enterprises was transferred to a state ownership fund, with a mandate to sell off its shares at the rate of at least 10% per year. The privatization law also called for direct sale of some 30 specially selected enterprises and the sale of "assets" (commercially viable component units) of larger enterprises.

Financial and technical assistance continued to flow in from the U.S., European Union, other industrial nations, and international financial institutions facilitating Romania's reintegration into the world economy. The International Monetary Fund (IMF), World Bank (IBRD), the European Bank for Reconstruction and Development (EBRD), and the U.S. Agency for International Development (USAID) all had programs and resident representatives in Romania. Romania also attracted foreign direct investment, which in 2008 rose to \$72 billion.

Romania signed an Association Agreement with the EU in 1992 and a free trade agreement with the European Free Trade Association (EFTA) in 1993, codifying Romania's access to European markets and creating the basic framework for further economic integration. At the Helsinki Summit in December 1999, the European Union invited Romania to formally begin accession negotiations. In 2002, the target date of 2007 was set for Romania, along with Bulgaria, for its accession efforts. This was confirmed in 2003 at the Thessaloniki Summit and then in early 2005 Romania and Bulgaria signed the adherence treaty to EU. They formally joined the EU on January 1, 2007.

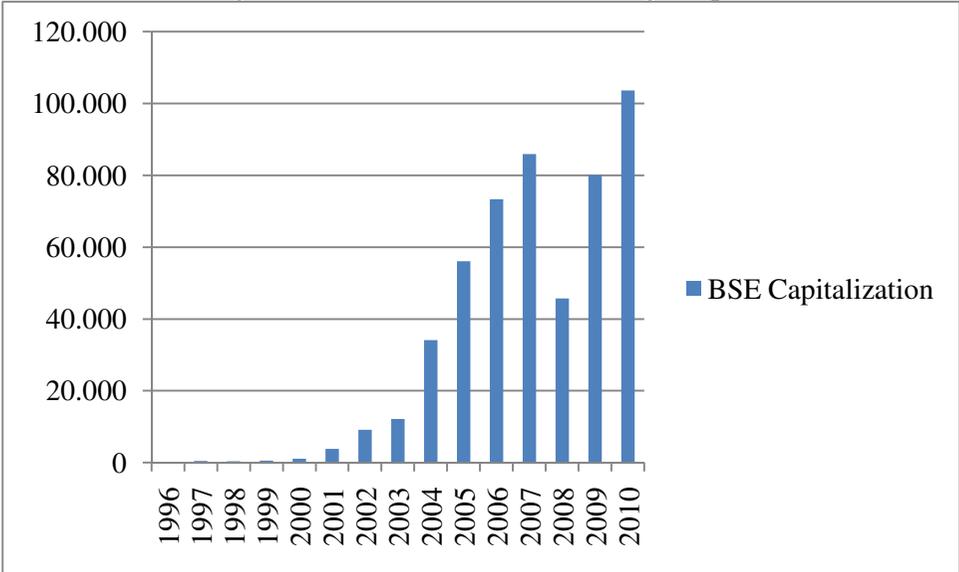
Growth in 2000-07 was supported by exports to the EU, primarily to Italy and Germany, and a strong recovery of foreign and domestic investment. Domestic demand is playing an ever more important role in underpinning growth as interest rates drop and the availability of credit cards and mortgages increases. Current account deficits of around 2% of GDP are beginning to decline as demand for Romanian products in the European Union increases. Recent accession to the EU gives further impetus and direction to structural reform.

In Romania, the main regulated Stock Exchange is the Bucharest Stock Exchange. After a break for 5 decades, the Bucharest Stock Exchange was reestablished in 1995, first trading day is November 20, 1995, days that were traded 905 shares of 6 companies listed. Since reopening, the exchange has seen a continuous development. An important moment in the evolution of this scholarship is the merger with RASDAQ Exchange in 2004. Thus, in 2007 a total capitalization of the Bucharest Stock Exchange approached the threshold of \$ 12 billion and represent over 17% of GDP, thereby decreasing the gap with the stock market the most advanced Central and Eastern Europe.

According to S & P, Romanian Stock Market registered a 69.7% annualized growth in the period before EU integration, 2002-2006. During this period, Romania has the highest return on capital markets, other countries located around the same level of 60% as Bulgaria, Kenya and Ukraine. After Romania's EU integration, Romanian capital market saw an annual increase of 15 to 25% in 2007.

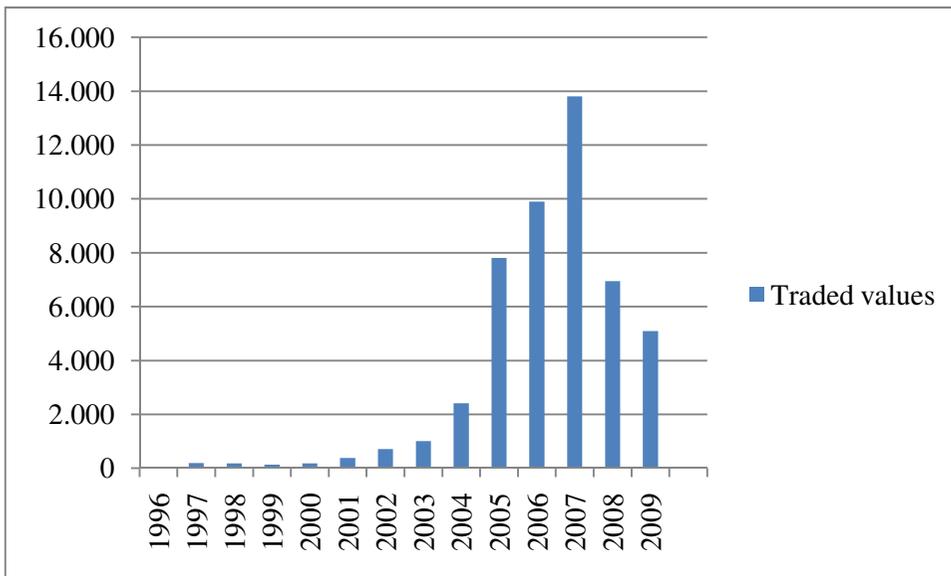
In October 2008 financial crisis caused the stock minimum both in developed markets and emerging ones. In 2008, accounted for BSE and to all participants on the domestic stock market one of the most difficult periods in modern history of capital market in Romania. After nearly a decade in which major indicators and indices of BSE have described an ascending trend, pronounced and sustained in recent years associated effects of accession of Romania to the European Union, 2008 was marked by the abrupt reversal of the upward trend of quotations and sensitive reduction of the overall stock market liquidity.

Figure no. 1 Bucharest Stock Exchange Capitalization



Source: Bucharest Stock Exchange

Figure no. 2 Traded values on Bucharest Stock Exchange

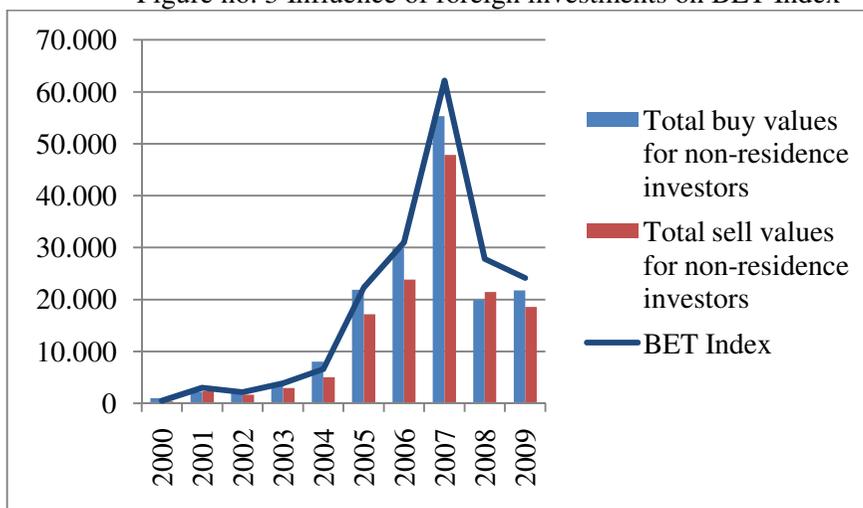


Source: Bucharest Stock Exchange

One of the most important element to influence market evolution is the foreign investors' behaviour. Starting with 2004 foreign investors are more and more attracted by Romanian capital market since it proved to bring great returns and more stability in the perspective of a future integration in EU. Romanian capital market developments have naturally reflected in the investment funds with exposure in this market. For example, East Capital Balkan Fund-fund with the largest exposure on the Romanian market of all funds managed by East Capital (12.1% in Romania) - had a dramatic increase of 239.6% during 2004 to 2007.

Analyzing the correlation between foreign investments and BSE - BET Index evolution, one can easily distinguish a strong bond between the two variables. Year 2008 proved the main vulnerabilities of this market against retiring of foreign institutional investors that caused a drop of 55% of BET Index.

Figure no. 3 Influence of foreign investments on BET Index



Source: Bucharest Stock Exchange

5. Conclusions

Economic integration refers to trade unification between different states by the partial or full abolishing of customs tariffs on trade taking place within the borders of each state. One of the most developed form of integration is European Union, Central and Eastern European countries taking the first steps to integration in 1993. Evidence prove that accession in EU comes with important foreign investments, situation that creates great benefits for an economy. Large amounts of inward FDI constituted the engine for a quick development in CEEC's economies. The recent crisis showed that large exposures that Central and Eastern European Countries have towards foreign investors can cause great turmoil once these funds exit the economy.

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EMPIRICAL EVIDENCE ON THE RELATIONSHIP BETWEEN MERGERS & ACQUISITIONS AND THE ROMANIAN STOCK MARKET

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Based on empirical studies and theoretical evidence, the paper investigates the relationship between mergers and acquisitions in Romania and Romanian stock market, described by the BET and BET-C indexes. By using the Granger causality test for the number of mergers and acquisitions, the research results suggest that, for the market and period considered, one way and both ways relationships are present.

Keywords: Mergers, Acquisitions, Granger Causality, Stock Market Index

JEL code: G34; G30.

Introduction

An important issue which regards mergers and acquisitions activities (M&A) and the stock market is whether M&A can be used as a predictor for the stock market performance or whether the stock market exerts an influence over the M&A market, and which one influences the other in a more significant manner. The practical relevance of the matter is determined by the fact that stock market performance can be used as a determinant factor for mergers and acquisitions and vice-versa. While the issue remains open for discussion, there are many previous studies that use a variety of approaches in order to determine the before mentioned relationships.

In one of the earliest relevant studies on the issue, Nelson (1959) used quarterly data to investigate the relationship between merger activity, stock market prices and industrial production over the period 1895-1956. By using simple regression analysis, he found that there was a positive and significant relationship between merger activity and stock market prices between 1895 and 1920 and 1895 and 1956.

In more recent studies, Clarke and Ioannidis (1996) investigated the relationship between merger activity and the stock market by using two measures of merger activity (number and value) in the UK, with quarterly data from January 1971 to April 1993, on one side, and the London Stock Market Index, on the other side. In their case, the Granger causality test shows that “real” stock market prices “Granger cause” both numbers and real values of mergers.

Another milestone study was developed by Sharma and Mathur (1989), in which the results of the study, based on the Granger test for causality, indicated very strong causality going from stock market prices to merger activities. They also found that increases in stock market prices lead to increases in the number of mergers being completed.

Other studies have produced contrary results to the ones previously mentioned. Geroski (1984) looked at the relationship between mergers and the stock market index and found no link between mergers and stock prices. He also found that correlations between the

variables considered were unstable. Guerard (1989) found no evidence of “Granger causality” running from stock prices or industrial production to mergers in US data during 1895-1964.

A highly relevant study regarding emerging markets made by Harvey (1995) shows that these markets are characterized by high returns and high risks. When he analyzed the predictability of emergent markets, he concluded that they are more likely than developed markets to respond to local information. The results are relevant for this paper due to the fact that the mergers and acquisitions market is a carrier for high volume of information that may be used by investors.

Based on previous empirical studies and theoretical evidence, in this paper we investigate the relationship between **mergers and acquisitions in Romania** and the **Romanian stock market described by the BET and BET-C indexes**.

1. Data

To prove the relationship between mergers and acquisitions and the stock market we used quarterly and semestrial data on the number of mergers and acquisitions in Romania from January 2000 to December 2009. The BET and BET-C indexes were chosen as the measure of stock market performance resulting in the usage of six indicators as follows:

MA_QUART	Quarterly Number of M&As
MA_SEM	Semestrial Number of M&As
BET_QUART	Quarterly BSE index of the most liquid 10companies
BETC_QUART	Quarterly BSE index of all listed companies
BET_SEM	Semestrial BSE index of the most liquid 10companies
BETC_SEM	Semestrial BSE index of all listed companies

Augmented Dickey-Fuller Unit Root Tests were performed for all data series in order to check the stationarity condition and the first difference was used to stationarise the number of mergers and acquisitions series both for quarterly and semestrial data.

2. Methodology and Results

To test whether stock market activity is a useful predictor of mergers or vice-versa, we used the Granger causality approach (Granger, 1969; Sims, 1972). The basic idea behind this is that “cause cannot come after effect” and that “correlation is not the equivalent of causality”. If in a set of two covariance stationary variables, the lagged values of variable “x” affect variable “y”, then “x” can be used to predict “y”, i.e. “x” “Granger causes” “y”. The approach to the question of whether “x” causes “y” is to see how much of the current “y” can be explained by past values of “x” and then to see whether adding lagged values of “x” can improve the explanation of “y”. “Y” is said to be Granger-caused by “x” if “x” helps in the prediction of “y” or, equivalently, if the coefficients on the lagged values of “x” are statistically significant.

For the optimum lag length, being the shortest lag for which no autocorrelation is found in either of the equations entering the VAR, we have tested all instances for which Granger causality tests will be performed using the following lag length criteria: Sequential modified LR statistic test (each test at 5% level), Final prediction error, Akaike information criterion, Schwarz information criterion and Hannah-Quinn information criterion. The following optimum lag lengths have resulted:

Series	Optimum lags
MA_QUART	1
MA_SEM	1
BET_QUART	1
BETC_QUART	1
BET_SEM	1
BETC_SEM	1

We first test for “Granger causality” between the number of mergers and acquisitions on a quarterly basis and the BET stock market index. The first results show that the hypothesis of “non-causality” from quarterly stock market returns to quarterly number of acquisitions was rejected at 5% level of significance. We were not able to reject the complementary hypothesis that acquisitions do not “Granger cause” stock market prices.

Table 1:

Causality between the quarterly number of mergers and acquisitions and BET stock market index from January 2000 until December 2009

Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
MA_QUART_D1 does not Granger Cause BET_QUART	38	0.24538	0.62345
BET_QUART does not Granger Cause MA_QUART_D1		6.16241	0.01799

The same conclusion is drawn when examining the causality relationship between the number of acquisitions and BET-C stock market index. For the considered lags, the hypothesis of “non-causality” from stock market performance to mergers and acquisitions was rejected at 5% level of significance. We were not able to reject the complementary hypothesis that acquisitions do not “Granger cause” stock market prices.

Table 2:

Causality between the quarterly number of mergers and acquisitions and BET-C stock market index from January 2000 until December2009

Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
MA_QUART_D1 does not Granger Cause BETC_QUART	38	0.00048	0.98264
BETC_QUART does not Granger Cause MA_QUART_D1		5.28758	0.02756

As a sum up, we can clearly state that, for the considered time period, market and data frequency evidence of one way causality between the stock market and acquisitions was discovered. This means that a growing market represents a sufficient incentive to attract companies to make acquisitions on the considered market. The same cannot be said vice-versa, meaning that the volume of mergers and acquisitions does not exercise influence on the stock market.

*Table 3:
Causality between the number of mergers and acquisitions and BET stock market index from
January 2000 until December 2009 on a semestrial basis*

Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
MA_SEM_D1 does not Granger Cause BET_SEM	18	8.02696	0.01259
BET_SEM does not Granger Cause MA_SEM_D1		3.45516	0.08279

The findings presented Table 3 show that, for a 10% level of significance, the hypothesis for non causality can be rejected in the case of the stock market index “does not Granger cause” the number of acquisitions. In contradiction with the observed results, in the case of quarterly data, the number of mergers and acquisitions on a semestrial basis “Granger causes” the BET index.

*Table 4:
Causality between the number of acquisitions and BET-C stock market index from January 2000
until December 2009*

Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
MA_SEM_D1 does not Granger Cause BETC_SEM	18	3.72740	0.07265
BETC_SEM does not Granger Cause MA_SEM_D1		3.96562	0.06497

The conclusion resulting when examining the causality relationship between the number of acquisitions and BET-C market index in a semestrial frequency is that, for the considered lags, the hypothesis of “non-causality” from stock market returns to acquisitions was not rejected at 10% level of significance. We were also able to reject the complementary hypothesis that acquisitions do not “Granger cause” the BET-C stock market index.

Bellow we provide a sum up of the results regarding the causality findings between the number of mergers and acquisitions and the Romanian stock market:

*Table 5:
Sum up of the Granger causality tests*

Instance	Significance	Lags
Number of M&As “Granger cause” the:		
Quarterly BET index	Not significant	1
Quarterly BET-C index	Not significant	1
Semestrial BET index	Significant at 5%	1
Semestrial BET-C index	Significant at 10%	1
Number of M&As is “Granger caused” by the:		
Quarterly BET index	Significant at 5%	1
Quarterly BET-C index	Significant at 5%	1
Semestrial BET index	Significant at 10%	1
Semestrial BET-C index	Significant at 10%	1

3. Conclusions

The results found in this paper are consistent with the findings of Clarke and Ioannidis (1996) and Sharma and Mathur (1989), in the way that stock market prices “Granger cause” acquisitions.

The first results show that the number mergers and acquisitions are “Granger caused” by stock market prices represented by the BET and BET-C indexes, adding to the theory that CEOs’ decisions to merge with or acquire companies are strongly influenced by the respective stock market evolution, driven by the perspective of high future market capitalisation.

In the case of semestrial data regarding the causality relation between the number of mergers and acquisitions, two way causality was found for the BET index and BET-C index. Even though the semestrial frequency data results have less statistical significance than in the case of quarterly frequency data results, proof is still found that the stock market “Granger causes” acquisitions and strong proof is found that the volume of mergers and acquisitions “Granger causes” stock market prices.

Overall results indicate that a solid or unstable stock market does indeed encourage or, respectively, discourage CEOs to initiate costly merger and acquisition transactions. Even though the market may act as a safety net in case of failed mergers and acquisitions, the success of such actions cannot be fully ensured by a growing market, thus a high volume of mergers and acquisitions fail even during favourable market periods. The results of this paper also indicate that informational content provided by M&A activity can be used as a predictor for the stock market performance.

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THE PERSPECTIVES OF EURO INTEGRATION IN ROMANIA, IN THE UNCERTAINTY CONTEXT AROUND THE FOREIGN MARKETS

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This paper has the object to analyze to what extent Romania fulfils the Maastricht criteria in comparison to some countries which are candidate members from Central Europe, in the today's unfavorable context which has been achieved under the actual global financial and economic crisis and with an important impact on the disfunctionalities which appeared in the emergent economies and also in those from the Euro Zone. Romania's modernization towards the European Monetary Union is a complex and hard process which contains real and coherent economical policies pointed towards the accelerated diminution of the economic development differences and that is why a quick adoption of Euro, at this moment it is not an alternative.

Keywords: nominal convergence, real convergence, global crisi, exchange rate mechanism II, euro area

JEL classification: F33, F36

Introduction

Since it is known, starting from the 1st of January 2007, Romania is a member state of the European Union, with a status of “state with derogation”, because at the time of joining it did not comply with all the criteria demanded by the European Monetary Union (EMU), stated by the Maastricht Treaty. However, though the new members bind to join the Euro Zone as soon as they fulfill all the nominal convergence criteria, these cannot choose the way out from the euro zone, a possibility which is approved for any of the actual members of the E.U (Denmark and U.K). Sweden also has not achieved permanent derogation, but it postpones the adoption of the euro currency because it does not fulfill all conditions imposed by the treaty.

The joining of the European Union and also the entrance in the euro zone can be seen as stages in the process of acceleration and diminution of the gaps in the economical development. Also, the adoption of an unique euro currency represents the finality of a complex process of convergence, not the beginning of one, in particular, it does not eliminate the necessity of solving the macro economical unbalances which exist between the countries.

The broach of the participation in the ERM II⁹⁴³ represents a very important component for the trajectory of the Romanian economy towards the integration in the EMU. That is why, the moment of integration in the ERM II must be chosen so that a two year term for the participation in this exchange currency mechanism must be sufficient for the satisfaction of all nominal convergence criteria, before the adoption of Euro in Romania.

The fulfillment of all nominal criteria for the entrance in the euro zone must not determine a decrease of the importance granted to the real convergence process. However, without the recording of major progress in the real convergence domain, the sustainability of the nominal convergence is being severely affected. Regarding the existence of some relations between the nominal convergence and the real one, also between the community's institutions and national authorities from the E.U. countries, we could say that there is a consensus, meaning that the two

⁹⁴³ Exchange Rate Mechanism II.

processes must be realized in the same time, as some authors sustain⁹⁴⁴ “the nominal convergence and the real convergence are two sides of the same coin, and must be realized simultaneous” The practice demonstrates that, the national authorities from the E.U member countries have been concerned on the realization of the nominal convergence, for the fulfillment of the conditions imposed for the E.U. joining, being in its essence a practical decision.

The process of nominal convergence

The Maastricht Treaty brings in front of the candidate states a series of criteria, extremely precise and strict economical objectives, whose accomplishment fallows actually the nominal convergence for the introduction of the euro, and these must be totally respected and in a sustainable manner.

The Treaty does not contain a strict calendar for the adoption of the euro currency; this process is left at the latitude of each country in consulting with the European Commission and the Central European Bank.

Table no.1 contains the principal indicators of nominal convergence established by the Treaty and the way in which these criteria will be achieved by Romania in the period before and after the joining of the E.U.

Romania has continued the process of disinflation also after the joining of the E.U., with interruption of this tendency in 2008, where we can see an increase than the year 2007, with 3.01 procentual points, a situation determined at first by the numerous heterogeneous factors and also by those exogenous (the increase of international prices for the manufacture materials and for the fuel).

The dynamic of the inflation rate between 2006-2009, reflects in terms of nominal convergence indicators, a surpass of the nominal criteria with 3.85 procentual points for the year 2009.

Regarding the criteria of interest rates on long term, this was far from the reference criteria in 2008, and also in 2009, on the background of financial turbulences which have marked the increase of aversion towards the risk from the financial investors.

Between 2006-2008, the variation of the exchange rate for the national currency in comparison with the euro has not been excelling the standard band of $\pm 15\%$ from the reference level. But, starting from the 4th trimester of 2008, the crisis global effects have been reflected also on the financial market, and the reevaluation in an ascendant level of the associated risk for Romania has conducted to a depreciation tendency for the RON which has been accentuating during 2009, passing 18% percent.

Regarding the importance of the consolidated budget deficit in GDP, this has been situated between 2006-2007 under the level established through the Maastricht Treaty. The increase of the public costs and the powerful decrease of the GDP's dynamic, starting with the 4th trimester from 2008, have influenced in an unfavorable way the balance between the budget deficit and the GDP, in 2008 and also in 2009, overtaking significantly the value of 3% from the reference criteria. As a consequence of these financial inadequate evolutions, from October 2009, Romania has been put under the procedure of excessive deficit. On all the period being analyzed, the public debt of Romania continued to register net levels inferior than the Treaty's⁹⁴⁵ concerted stipulated limit.

⁹⁴⁴ Bărglăzan Diana, Analiza economiei românești prin prisma criteriilor de aderare la Zona Euro, Colecția “Biblioteca Băncii Naționale” – Convergența reală și convergența nominală în procesul aderării României la Uniunea Europeană, Conferința tinerilor economiști (București – septembrie 2004), Ed. Enciclopedică, București 2005, p.6.

⁹⁴⁵ According to estimates made by the IMF, during the evaluation mission from trim. I. of 2010, Romania, in 2010 can afford a level of public debt exceeding 35% of GDP.

Table no. 1 Nominal convergence indicators for Romania in 2006-2009

Nominal Convergence Indicators	Maastricht Criteria	Romania			
		2006	2007	2008	2009
Inflation rate (HICP) (percent, annual average)	<1.5 pp above the three best performing Member States 4.0 percent for 2008 1.6 percent for 2009	6,56	4,84	7,85	5,6
Long- term interest rates (percent, per annum)	<2pp above the three best performing Member States 6.2 percent for 2008 5.3 percent for 2009	6,51	6,7	7,7	9,7
Exchange rate (vs. euro)	+/- 15 percent	+6,4/ -9,1	+11,0/ -6,4	+9,7/ -14,6	+1,6/ -18,2
General government deficit (percent of GDP)	Below 3 percent	-1,9	-3,2	-5,4	-7,9
Government debt (percent of GDP)	Below 60 percent	12,4	12,6	13,6	21,0

(HICP) – Harmonized index of consumer prices according to Eurostat methodology

Source: revised after ECB, Convergence Report, May 2008, NBR, Monthly bulletin, December 2009 and www.bnr.ro

As well as it have been presented before, neither the inflation rate, nor the level of interest, the exchange rate or the budget's deficit are not at the moment at an European level, only one criteria from all of these five is under the reference level of values, but bringing them in tolerable limits is quite hard.

In comparison with the other Central-European countries, which are candidates for the EMU, Romania's performances registered in the convergence process are weaker than those of the others, as well as it can be observed in the table no.2.

On March 24, 2010, the European Commission assessed the convergence programs for the period 2009 -2012 in the Czech Republic, Poland, Romania and Hungary. Evaluated programs showed a debt to GDP below 60% over the period 2009 -2012, concerning the Czech Republic, Poland and Romania.

Regarding Romania, according to the recommendations of the E.U. Council, it aims at reducing the public deficit from 7.9% of GDP to 3% of GDP in 2012. Planned fiscal adjustment is concentrated in the early period (2010 to 2011).

European Commission underlines that Romania's convergence program details not sufficient consolidation measures to be taken in 2011 and 2012, however, it is expected in the medium term the budgetary framework from 2011 to 2013 to include more information.

Following the fiscal developments in the period 2008 - 2009, in the above table, we see that in most euro area countries, fiscal positions have seen a marked deterioration. Thus, the end of 2009 was the highest since the establishment of EMU budgetary deterioration, when 14 of the 16 Euro Zone countries have seen share of GDP public deficit higher than the 3% level. Finland and Luxembourg were the only countries where the government deficit has remained within the limits set by the Stability and Growth Pact. Most inappropriate developments have been recorded on three countries: Greece (-12.7% of GDP), Ireland (-11.7% of GDP) and Spain (11.4% of GDP).

Table no.2 The way of fulfilling the Maastricht Treaty Criteria, 2008

	HICP	Long-term	Exchange	General	General	Nr.
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	(percent annual average)	interest rate (percent per annum)	rate vis-à-vis euro	government surplus (+) or deficit (percent of GDP)	government debt (percent per annum)	Fulfilled criteria
<i>Criterion</i>	4,1	<6,24	+/-15	-3	<60	5
<i>Czech Republic</i>	6,3	4,6	+20,9/ -3,5	2,1	30,0	3
<i>Hungary</i>	6,1	8,2	+11,3/ -10,6	3,8	72,9	1
<i>Poland</i>	4,2	6,1	+18,9/ -8,5	3,6	47,2	2
<i>Romania</i>	7,85	7,7	+9,7/ -14,6	5,4	13,6	2

Source: revised after ECB, Monthly Bulletin, March 2010, NBR, Annual Report, 2008, p. 129, and www.bnr.ro

Table no.3 Financial Evolution in EURO area for 2008-2009

	General government deficit (percent of GDP)					Government debt (percent of GDP)				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Belgium	-1,2	-5,9	-4,8	-4,1	-3,0	89,8	97,9	100,6	101,4	100,6
Germany	0,0	-3,2	-5,5	-4,5	-3,5	65,9	72,5	76,5	79,5	81,0
Ireland	-7,2	-11,7	-11,6	-10,0	-7,2	44,1	64,5	77,9	82,9	83,9
Greece	-7,7	-12,7	-8,7	-5,6	-2,8	99,2	113,4	120,4	120,6	117,7
Spain	-4,1	-11,4	-9,8	-7,5	-5,3	39,7	55,2	65,9	71,9	74,3
France	-3,4	-7,9	-8,2	-6,0	-4,6	67,4	77,4	83,2	86,1	87,1
Italy	-2,7	-5,3	-5,0	-3,9	-2,7	105,8	115,1	116,9	116,5	114,6
Cyprus*	1,0	-0,8	-1,4	-1,9	-2,2	49,3	46,8	45,4	44,2	44,2
Luxembourg	2,5	-1,1	-3,9	-5,0	-4,6	13,5	14,9	18,3	23,9	29,3
Malta	-4,7	-3,8	-3,9	-2,9	-2,8	63,6	66,8	68,6	68,0	67,3
Netherlands	0,7	-4,9	-6,1	-5,0	-4,5	58,2	62,3	67,2	69,6	72,5
Austria	-0,4	-3,5	-4,7	-4,0	-3,3	62,6	66,5	70,2	72,6	73,8
Portugal*	-2,2	-3,9	-2,9	-2,3		65,9	69,7	70,5	70,0	
Slovenia	-1,8	-5,7	-5,7	-4,2	-3,1	22,5	34,4	39,6	42,0	42,7
Slovakia	-2,3	-6,3	-5,5	-4,2	-3,0	27,7	37,1	40,8	42,5	42,2
Finland	4,4	-2,2	-3,6	-3,0	-2,3	34,2	41,8	48,3	52,2	54,4
Euro Area	-2,0	-6,2	-6,6	-5,2	-3,9	69,4	78,7	83,9	86,5	87,3

*for Cyprus and Portugal the dates have been collected in January 2009

Source: ECB, Monthly Bulletin, March 2010, p. 84

Most Euro Area countries are subject to excessive deficit procedures (13 Countries), except Cyprus, Finland and Luxembourg and which will initiate the process of fiscal consolidation starting from 2010 / 2011, according to the recommendations of the excessive deficit procedures. A similar situation is found in the case of the indicator which reflects the share of public debt to GDP, across the Euro Zone, which increased from 69.4% in 2008 to 78.7% in 2009. Looking at the individual level, we find that in 2009, only six Euro Zone countries - Cyprus, Luxembourg, Spain, Slovenia, Slovakia and Finland - have recorded levels of public debt below 60% of GDP.

With a debt of 113.4% of GDP and a budget deficit of 12.7% of GDP, Greece is in the worst situation, with great difficulty to meet deadlines. It is not the only country causing concern in the Euro Zone, there are also some others (Ireland, Spain, Italy).

Adverse fiscal developments were caused, in general by many factors: (i) the financial crisis and economic downturn have led both to decreased tax revenues and increased social spending and structural costs, (ii) the adoption by the central government from Euro Zone of consistent packages of tax incentives, (iii) many countries have adopted comprehensive measures to stabilize the financial sectors, which influenced the public debt ratio in 2009. According to the stability programs 2010-2012 submitted by Euro Zone countries, the European Commission shows that most countries are now subject to excessive deficit procedures which were designed to reduce the public deficit ratio to GDP below 3%, by 2012, while the share of public debt to GDP euro area is projected to rise further to 87.3% in 2012.

Those described above, show that public budgets of big countries in Europe have deteriorated and remain without prospects for the next period, and funding imbalances in the future Member States would be very difficult.

Real convergence process

The Maastricht Treaty does not explicitly mention the real convergence criteria, but are equally important for the euro currency.

The assessment of the opportunities into the Euro Zone is considering and analyzing indicators such as: GDP per inhabitant, the structure of the national economy branches (% of GDP), the openness of the economy, foreign trade and its degree of integration into EU and the costs of labor.

GDP per inhabitant expressed in purchasing power standard, rose in a sustained process of catching up to the euro area externally, reaching in 2008 to a level about 40 % of GDP per person for the Euro Zone. All these developments occurred as a result of sectorial structure of economic convergence. The openness of the Romanian economy has continued during 2002 - 2008 around 75%, while the EU is the main trading partner, but in the year 2009, the indicator fell to 68% mitigation fund export controls. Also, in terms of Romanian financial system development, it is highly integrated into the European Union, however, there are indirect financial intermediations to levels lower than the Euro Zone.

Projections for euro adoption

The euro currency adoption requires participation for at least 2 years in ERM II mechanism (Exchange Rate Mechanism II).

This mechanism performs a dual role, representing the same exchange rate arrangement for the currency of the candidate countries integration into the EMU and a nominal criterion for accepting the Euro Zone. The first situation involves keeping an ERM II standard fluctuation band against the euro of $\pm 15\%$. Nominal convergence criteria for euro area entry were presented in Table 1. To establish a coherent timetable for adopting the single currency, there have been made two fundamental decisions related to the entry into the ERM II mechanism and duration of participation in this mechanism.

The European Central Bank recommended that the entry into the ERM II mechanism should be made after that country's EU accession and participation in ERM II period would not be exceeding the mandatory period of 2 years. This implies that the countries have enhanced macroeconomic stability at the time of entry into the mechanism. It is also an important achievement of a sustainable manner of nominal convergence criteria.

For Romania, the euro involves three steps:

- the period before entry into the Exchange Rate Mechanism II, which requires consolidation of disinflation, financial market development and convergence of long-term domestic interest

rates, the relative stability of the RON exchange rate around the long-term equilibrium level and deepening structural reforms;

- the second step towards the entry into ERM II is planned for 2012. Time was chosen taking into account the need for meeting the nominal convergence criteria while achieving significant progress in the process of real convergence;
- entry into the Euro Zone was expected by the year 2015.

Since that time, Romania will participate in the mechanisms of coordination of economic policies of the euro area, and should comply with the Stability and Growth Pact, which is related mainly to finance public health. Also, Romania will adopt the common monetary policy of the European Central Bank and will need to have mechanisms for automatically balancing the economy and increase the speed of reaction of fiscal policy to symmetric/asymmetric shocks which will be confronted with the domestic economy.

Conclusions

The euro in 2015 should be one of strategic targets for Romania. In these circumstances the provisions Convergence Programme for Romania's accession to the Euro Zone would be a possible correlation between the achievement of nominal convergence and real convergence. But without consolidating disinflation, increasing the competitiveness of Romanian exports, and increase predictability and performance of medium-term fiscal policy, also increased absorption of EU funds and strengthen structural reforms, the euro will become a target of increasingly distance.

In this context, National Bank of Romania (NBR) also insists for the 2014-2015 calendar, when Romania should be very well prepared for the adoption of Euro, otherwise we are assuming major risks.

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CAUSES AND CONSEQUENCES OF MASSIVE CAPITAL FLOWS

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At this stage of global economic crisis that traverse, it was observed that massive capital flows have major impacts on economies. Therefore, it is important to analyze the factors behind the attraction of these massive capital flows, and the main consequences that followed.

Keywords: Massive capital flows, crises, causes, consequences.

JELL Classification: F21, F34, E52, E58.

In the current economic crisis, massive capital flows' analysis is very important because some authors in the literature, Reinhart and Reinhart (2008) - believe that there may be links between capital inflows and sovereign debt crises, exchange rates, inflation and the banking system. Between 1975-1982, there were concomitant capital inflows, followed by the debt crisis. Capital inflows reappeared during 1990-1993, followed by an emerging markets debt restructuring. Since 2002, many countries faced with capital inflows. End this cycle coincided with the financial crisis started in the second part of the year 2007. Massive capital inflows recorded by the current global crisis occurrence, were due to several factors, including: financial globalization, the existence of an abundant liquidity in developed economies, economic development perspective of that country, following the accession to an economic union.

Globalization phenomenon is one of the main reason that caused financial globalization and capital movement. Falling communication costs, strong competition, and rising costs in domestic markets, led firms in industrial countries to produce abroad to increase their efficiency and profits. This not only triggered FDI, but also changed its nature in comparison to the 1970s and early 1980s. In those years, FDI was mainly driven by resource extraction and import substitution, whereas the progressive globalization of production has led to a high proportion of current FDI being characterized as efficiency-seeking investments.

The second development in the financial structure of industrial countries that increased capital flows to emerging markets was the growing importance of institutional investors. These investors found themselves more willing and able to invest abroad because of higher long-term expected rates of return in developing countries and to wider opportunities of risk diversification.

Until the first signs of the current crisis, there was abundant liquidity in developed economies. The liquidity has to keep interest rates at low levels and volatility in financial markets lower. However, economic growth in developed countries has slowed in recent year, investors in these markets have seen lower profits, so they began to seek new opportunities for profits. Increasingly, investors began to look favorably emerging economies and capital inflows continued. Reinhart and Reinhart (2008) analyzed 181 countries, from 1980 to 2008, and noted that the maximum duration of the cycle of capital inflows was 3 years for more than 50 countries, for 4 years for more than 30 countries and almost 5 years to 20 countries.

Capital inflows have occurred both in low-income countries and middle-income or large income countries, members of the OECD. For example, capital inflows have been relatively high in the U.S. in the period 2002-2007, the United Kingdom and France between 2005 and 2007, in Spain between 2004 and 2007.

In Romania, these inflows were higher in the period 2004-2008. Romania was an attractive location for foreign investors due to cheap labor, facilities given by authorities, and so on. Another factor behind the increase in capital inflows in a given country was that country's

economic development perspective, the accession to an economic union: the European Union, NAFTA. The premise was that an economic union membership has more security, limited exchange rate fluctuations, reduce capital costs by reducing risk spreads, stock prices are maintained at satisfactory levels.

The World Bank (1997) noticed that Capital Flows suggesting Several trends have been driven by more than external factors. Fundamentals Affect the Long-term rates of return to investors. Fundamentals countries with the strongest (high investment-to-GDP ratio, low inflation, real exchange rates and low variability) have received the largest flows as percentage of GDP. Whereas countries with very poor fundamentals have attracted private flows. FDI is one of the largest component of private flows, but, although sensitive to macroeconomic fundamentals, it is note explained by global interest rates. Portfolio flows is more sensitive to interest rates. Still, they have shown year upward trend since 1992-93 despite the increase in global interest rates. Nevertheless, the role of foreign factors cannot be ignored.

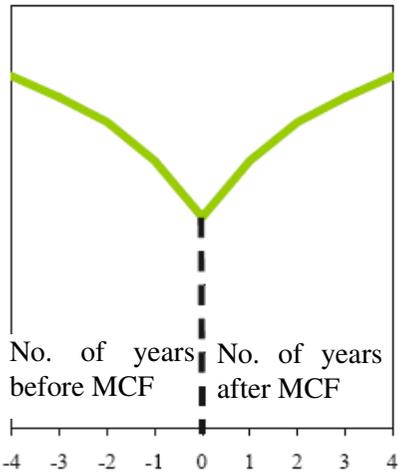
A breakdown of sources of capital inflows in the countries of Central and Eastern Europe (CEE) is provided by Lane and Milesi-Ferretti (Isarescu, 2009). In total foreign direct investment in Central and Eastern Europe, the euro zone countries had a share of 73% -95%. In 2004, in most CEE countries, over 50% of total portfolio investment in the stock market came from the euro area, which was the main source for foreign assets of the banking systems of CEE and long-term investments that create debt.

In general, relatively high capital markets became relatively small and shallow. The discrepancy between financial depth and volume of emerging economies in capital inflows led to appreciation of currencies. To prevent the excessive appreciation of currencies, the reserves have strengthened. This was more intense in countries that export energy resources. Also, to prevent massive capital inflows, the authorities raised the reserve requirement, imposition of taxes on financial transactions and other administrative restrictions. However, positive developments have dimmed prices real need for structural adjustment, which were postponed. This was probably the most important implication for these economies since the long term, structural adjustment delay adversely affects external competitiveness.

All episodes of inflows or sudden stop of capital have common characteristics, even though they showed different features depending on the country or time period analyzed. These characteristics refer to the dynamic indicators such as GDP, real exchange rate, inflation and current account, both before and after an episode of capital inflows. Using the results presented in literature - Reinhart and Reinhart (2008), Isarescu (2009), one can identify certain patterns of dynamic indicators mentioned, 4 years before concluding episode of capital inflows and 4 years after this time.

The graph in Figure 1 presents the evolution of current account deficit before and after the episode of large capital inputs (denoted by zero on the horizontal axis). Note that during the episode of capital inflows, it has been a deterioration in current account adjustment, beginning to previous levels. V-shape of the current account evolution is sharper for small and medium-income countries.

Fig. 1. The evolution of current account deficit (% in GDP)

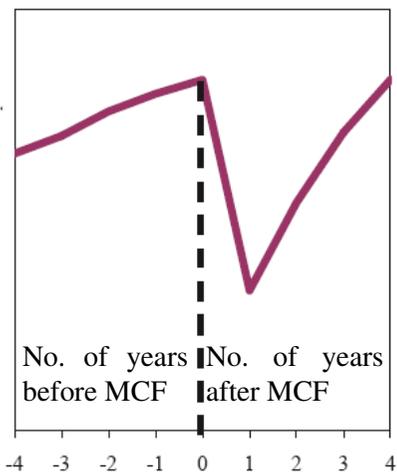


0 = Moment of massive capital flows (MCF)

Source: Isarescu, 2009

Generally, there is a directly proportional relationship between inflows and GDP. During the period of capital inflows, GDP recorded a relatively high growth, and decreases sharply in concluding episode, then again there is a noticeable trend. In other words, after completion of large capital inflows, GDP has a V-shaped trajectory (Fig. 2).

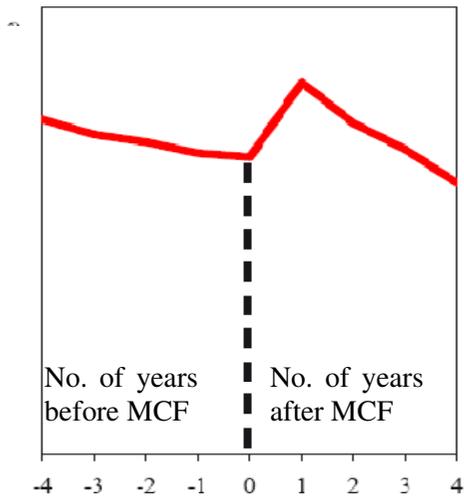
Fig.2. The evolution of GDP (%)



Source: Isarescu, 2009

It has been difficult to identify a trend of inflation, because the data presented in literature are varied, because monetary policy plays an important role. Isarescu (2009) believes that the end of the cycle of capital inflows followed by a short-term inflationary spurt, mainly due to exchange rate channel. In subsequent years, however, inflation is at levels more or less similar to those before the end of episode than capital inputs.

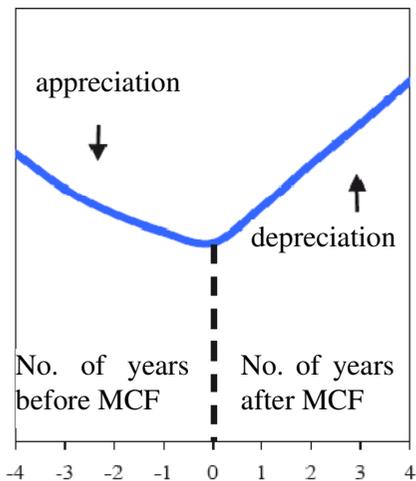
Fig. 3. Inflation rate evolution (%)



Source: Isarescu, 2009

Figure 4 presents the evolution of the exchange rate. If capital inflows last few years, real appreciation of each year tends to be significant, so the cumulative assessment is also significant, leading to downward slope of this graph. Literature shows that in most cases, real depreciation occurs through nominal depreciation of the currency. In the graphic we see that real depreciation is driven by falling prices only after the first year of the end episode.

Fig. 4. Exchange rate evolution (%)



Source: Isarescu, 2009

We have seen that massive capital flows have significant consequences, therefore, the control of the volume is necessary. The biggest challenge after the financial crisis, is to direct capital flows and avoid recurrence of imbalances, that have accelerated the decline in savings.

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HAVE THE RECENT CRISIS AFFECTED FOREIGN BANKS' POSITIONS IN CENTRAL AND EASTERN EUROPE? (I – GENERAL OVERVIEW)

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The aim of this paper is to investigate the extension to what foreign banks reacted during recent crisis in supporting their subsidiaries and thus the host economies. The analysis focuses on a brief theoretical overview and an analysis in terms of foreign claims regarding selected Central and Eastern European countries. We are also interested in finding if the entry mode (acquisition of a existing local bank, greenfield investment, non-resident office) did matter in this issue.

Key words: foreign banks, Central and Eastern Europe, economic crisis

JEL Classification: E5, G21

1. Introduction

Foreign direct investments in Central and Eastern European banks have increased considerable in constant high ratio, being considered, by many deciders, as a solution or a panacea for current and structural problems of host countries. Only in a decade, the structure of banking systems of each country of Central and Eastern Europe has dramatically changed, the ratio of foreign capital reached unusual levels, even for west European countries, where the foreign banks came from⁹⁴⁶. For example, at the end of 2008, excepting Slovenia, these figures were between 50-70 % for Poland and Hungary, between 75-90 % for Bulgaria and Romania or even over 90% in Czech Republic, Slovakia, Estonia⁹⁴⁷ etc. (see Table 1).

Table 1. Foreign capital in banking sector of CEE countries (share in total assets, %)

Country	2003	2004	2005	2006	2007	2008
Bulgaria	81	80	80	80	75	84
Czech Republic	95	89	94	97	97	97
Poland	72	60	70	68	67	68
Romania	59	63	68	66	89	89
Slovakia	96	96	98	99	96	96
Slovenia	38	38	39	41	29	30

⁹⁴⁶ For example, the share of state owned banks in many western European countries was at a high level until the middle of '90, and the foreign capital in banking system of several countries, as Germany, France, Sweden was under 15%. More of that, during of privatisation process, many significant voices asked a privatisation in favor of a national entity, see Gardner, Ed. și Molyneux, P., *Changes in Western European Banking*, London, Unwin Hyman, 1990, *Consolidation and diversification in the euro area banking sector*, ECB's Monthly Bulletin, May 2005; Daniel Bădulescu, *Globalizarea și bancile. Cu o privire specială asupra Europei Centrale și de Est și asupra României*, Editura Economica, București, 2007 and Annual reports of European central banks (2004-2009): Sophie Claeys, Christa Hainz (2006). *Foreign Banks in Eastern Europe: Mode of Entry and Effects on Bank Interest Rates*

⁹⁴⁷ Raiffeisen Zentralbank Österreich AG CEE Banking Sector Report June 2009, UniCredit Research, CEE Quarterly, January 2010

Hungary	81	59	84	81	68	68
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Source: Raiffeisen Zentralbank Österreich AG CEE *Banking Sector Report* June 2009, UniCredit Research, *CEE Quarterly*, January 2010

This implication was unanimously seen to have a great achievement, mostly because it introduced stability, new management, financial and human capital, improved risk assessments etc. The foreign banks were capable to give considerable advantages in term of resources and costs: facing slim margins in their home markets, they could borrow consistent loans in host countries with significant margins but advantageous for local clients comparing with the cost of the same loan in national currency. But this trend has turned, the great liquidity flows that have financed the emerging economies and consistent growth rates are a thing of past; the Institute of International Finance, an international standard setting body formed by 375 global banks, estimates that, contrary to previous years, outflows from the region to banks will actually exceed inflows by EUR 27.2 billion. Only two years ago, at the height of western capital inflows, western banks poured EUR 217 billion more in the region than they withdrew from there⁹⁴⁸. The reality of past years is unfortunately dominated by global economic and financial crisis, which strongly affected the economy of this area and consequently, the banks. The purpose of this paper is to see if, in these conditions, the behaviour of foreign bank subsidiaries is to leave, to abandon the existing position in host countries, or to continuing the financial intermediation, in the emerging economies.

2. Have parent banks sustained their subsidiaries during crisis time?

The subject of foreign bank subsidiaries behaviour on host markets and the analysis of their actions under crisis impact is not new and not direct related to these recent developments in Central and Eastern European countries. In the 70s, the issue was studied by several scholars, first on Latin America markets, then on Central Europe or Asia⁹⁴⁹. Taking into consideration that

⁹⁴⁸ Arons, Steven (2009). *Weathering the Storm*, in “Finance. Corporate Finance in Emerging Europe”, March 2009, www.finance-ee.com

⁹⁴⁹ Peek, J. and Rosengren, E., *Implications of the Globalization on the banking sector: The Latin American Experience*, in “New England Economic Review”, sept.-oct. 2000, pp. 45-63; Alessi Gracio C de, Hoggarth G, Yang J (2005): *Capital flows to emerging markets: recent trends and potential financial stability implications*. Bank of England, Financial Stability Review, December 2005:94–102.; Backe P, Egert B, Zumer T (2006): *Credit Growth in Central and Eastern Europe: New (Over)ShootingStars?* Oesterreichische Nationalbank, Focus on European Economic Integration, (1):112–139.; BIS (2003): *Guide to the international banking statistics*. Bank for International Settlements, BIS Paper, (16)-April.; Breyer P (2004): *Central and Eastern Europe – The Growth Market for Austrian Banks*. Oesterreichische Nationalbank, Monetary Policy & The Economy, (3):63–88. Calvo S, Reinhart CM (1996): *Capital Flows to Latin America: Is There Evidence of Contagion Effects?* ; Claessens S, Forbes KJ (eds) (2001): *International Financial Contagion*. Kluwer Academic Publishers, Massachusetts. Clarke G, Cull R, Peria MSM (2001b): *Does foreign bank penetration reduce access to credit in developing countries?* WB Policy Research Working Paper, no. 2716.; Clarke G, Cull R, Peria MSM, Sanchez SM (2001a): *Foreign bank entry*. WB Policy Research Working Paper, no. 2698. Clarke G, Cull R, Peria MSM, Sanchez SM (2002): *Bank Lending to Small Businesses in Latin America*. WB Policy Research Working Paper, no. 2760. CNB (2006): *Financial Stability Report 2005*. Czech National Bank, Prague. Darvas Z, Szapary G (1999): *Financial Contagion Under Different Exchange Rate Regimes*. NBH Working Paper, no. 10; Dornbusch R, Park YC, Claessens S (2000): *Contagion: Understanding How It Spreads*. The World Bank Research Observer, 15(2):177–197; EBRD (2006): *Transition Report 2006*. European Bank for Reconstruction and Development. ECB (2006): *Macroeconomic and financial stability challenges for acceding and candidate countries (by Task Force on Enlargement of the International Relations Committee)*. European Central Bank, Occasional Paper, (48)(July). 40 De Haas, R., *Multinational Banks and Credit growth in Transition Economies*, Universiteit Utrecht, 2006

economic activity, including banking, tends to be pro cyclic, especially in crisis periods⁹⁵⁰, it is important to notice if this cyclical evolution is more obvious in banks subsidiary activities comparing with local banks, and if, overlapped on the general contraction due to crisis effects, their behaviour is more stable or not for the host countries.

On the other hand, we have to understand that the implication degree of banks subsidiaries and branches on host markets isn't a local decision, but of the parents banks'. In the case that a parent bank decides to reallocate the capital between branches on different markets and countries - on expected opportunity investment basis - , this will lead to instability on subsidiaries position. It was noticed⁹⁵¹ that parent banks preferred to support the subsidiaries evolution, to accept a longest period for consolidation on emergent markets and, in this way, the appeal on parent bank resources to overpass the temporary difficulties means a contribution to the stability of the system in the host country or a region.

According to Morgan's et. al. models or Holstrom and Tirole⁹⁵², the multinational banks are capital constraint institutions and risk neutral, the decision in reallocating the capital being taken on the basis of two determinants – internal financial constraint (or internal market) and shocks in real economy, specific for the country where they are implanted. In the first case the things are more clear, this reallocation is made due to an analysis of internal process (different performances between markets, products, units etc., perceived opportunities, even internal fraud or financial losses in subsidiaries or head office), the shocks on real economy are more complex. That means, from parent bank point of view, changes in opportunities generated by economic and political transformation, crisis occurred in host countries, but not directly related with the subsidiaries activity.

The parent bank's possibility to reallocate the resources in internal network is interpreted by De Hass and Lelyveld⁹⁵³ as a capacity to ensure an effective support to the subsidiaries and this will lead to two effects: *the support effect* – the support of the own units even in less expected performance and, *the substitution effect* – the reallocation of the capital between own units as a reaction on the real economy shocks which modifying the profitability in the host countries.

Analysing a variate and complex database – which comprises 45 multinational banks from 18 home countries with 194 subsidiaries across 46 countries, with most parent banks (83 %) and subsidiaries (73 %) are based in Europe, 14 % of all parent banks and subsidiaries are based in North America, 5% from Latin America, the rest from Africa and Asia (this regions still have limitations on majority foreign bank ownership) – the authors argue that the support effect is very strong, the parent banks are interested to reallocate the capital in favour of those subsidiaries faster growing and generating more return to the group, facts verified for all Central and Eastern European countries, including Romania, in pre-crisis period. Regarding the substitution effect, they appreciate it as quite weak, because the subsidiary has the alternative to seek resources for lending activity in local currency and can relative compensate the scarcity of resources supplied by parent bank. But this policy can expose the subsidiaries at various risks and generate a pro-cyclic effect like local home based banks. The support of parent bank is more necessary as this parent bank is a strong bank, able to obtain enough resources, stable and at low costs. The authors show that the substitution effect is more powerful in the case of non-resident offices acting on host countries market, and for green-field subsidiaries.

Likewise the way used to analyse and measure the modalities and forms of penetration of foreign banks on emerging markets, in our approach we shall pursue two aspects: first, the cross border

⁹⁵⁰ De Hass, Ralph (2009). *In defend of foreign banks*, <http://voxeu.org/index.php?q=node/3609>

⁹⁵¹ idem

⁹⁵² Morgan D., Rime, B, Strahan, P.E. (2004). "Bank integration and state business volatility", *Quarterly Journal of Economics* 119; Holstrom, B., Tirole, J. (1997), "Financial intermediation, loanable funds and the real sector", *Quarterly Journal of Economics* CXII

⁹⁵³ de Haas, R., van Lelyveld, I., *Internal Capital Markets and Lending by Multinational Bank Subsidiaries*, MPRA Paper no. 16164, february 2009, <http://mpra.ub.uni-muenchen.de/13164/>

activities of the banks, and second, the non-resident branches locally implanted in host countries, i.e. the distinction between cross border claims granted by foreign banks and local lending activities, by the subsidiaries of foreign banks.

Conceptually, we understand a foreign financial institution as a legally incorporated organisation in a foreign institution in which a significant part of the owner has a foreign origin. Consequently, the foreign banks in Central and Eastern Europe can be defined as banking organisations legally incorporated in a foreign institution or in a organization with a significant foreign part of the ownership. First part of the definition is referring to various organisation forms, from representative offices to branches (foreign entities, directly dependant from parent bank). The second part of the definitions is referring at banking institutions with foreign ownership (individual or legal persons) but, legally registered as internal (domestic) entities. The only difference between this institution and others is that an important part or all owners are from outside the host country. Most often, the foreign representative, office, branch etc. is focused on corporate lending, international trade financing or private banking-wealth management, and less on retail activities, being used by parent banks in order to support the home client's activities from original countries in host countries⁹⁵⁴.

The presence of the foreign banks in a country can be evaluated through several indicators: some of low complexity- as the number of foreign banks (both subsidiaries and representative offices) comparing with local banks, and the share of the foreign banks assets in total banking system assets, but other indicators, more complex, based on Bank of International Settlements (BIS)⁹⁵⁵ regarding consolidated claims of international banks, and BankScope database⁹⁵⁶, regarding credits granted both by foreign banks subsidiaries and by local banks in host countries in Central and East Europe. In this last situation, we consider the total amount of the credit granted by banks with head office based on a reporting BIS country- cross border claims and credit granted by implanted subsidiaries, and sectoral distribution of the claims from reporting BIS countries. We can add in our analysis the evolution of the real cross border credit from subsidiaries of foreign banks (BIS reporting or non reporting banks) and the internal credit (granted by home based local banks)⁹⁵⁷.

These measures will allow us to analyse if the loans and deposits made by the subsidiaries implanted in the host country, and both the cross-border credit, suffered or not considerable changes in this period and if they reveal the stability and support of the host economies or these banks abandon these countries, confirming the fears related to the opportunism of this kind of investments and their instability in difficult times.

In Table 2 we present data regarding two different moments: September 30, 2007 – before the crisis starts in Central and Eastern Europe, and two years later, September 30, 2009, the most recent period with available information in BIS statistics. We took into analysis several selected Central and Eastern European countries, covering a large variety of situations, experiences and development levels.

⁹⁵⁴ see Daniel Bădulescu, op. cit. and Konopielko, L., “Foreign Banks Entry into Central and Eastern European Markets: Motives and Activities”, in *Post-Communist Economies*, vol. 11, no. 4/1999, pp. 463-485

⁹⁵⁵ www.bis.org

⁹⁵⁶ Database covering 24000 commercial banks (consolidated and non-consolidated balance sheets, financial situations etc.), i.e. more than 80% of the international banking activity in the world:

<http://www.bvdep.com/BANKSCOPE.html>

⁹⁵⁷ The appeal to these studies for the case of Romania or other Central and Eastern European countries is motivated by the fact that BIS reporting banks cover 95% of the total bank assets and the number and importance of non-BIS reporting foreign banks is insignificant, not influencing the accuracy of reports and analysis

Table 2. Claims of BIS reporting banks on CEE countries at September 30, 2007 versus September 30, 2009 (millions USD)

Country	Total foreign claims A+ E	Total international claims A	Consolidated cross-border claims in all currencies and local claims in non local currencies, on sectors:			Claims in local currency of reporting banks' foreign offices with local residents E	Reporting period
			Banks B	Public sector C	Non-bank private sector D		
Romania	114637	81238	14578	8340	57395	33399	30.09.2007
	117835	79924	9126	13048	56996	37911	30.09.2009
Bulgaria	27309	19373	2901	2446	13632	7936	30.09.2007
	44291	32489	2300	2916	26332	11802	30.09.2009
Czech Republic	157882	40756	8808	8231	22723	117126	30.09.2007
	191384	47868	4794	11486	30741	143516	30.09.2009
Hungary	127597	87032	19234	21903	44497	40565	30.09.2007
	158096	108344	16488	23681	66806	49752	30.09.2009
Poland	218584	98849	13586	30377	53727	119735	30.09.2007
	288805	133242	12213	37227	83075	155563	30.09.2009
Slovakia	64425	22340	4623	5065	7034	8070	30.09.2007
	75827	18164	2589	5246	9921	57663	30.09.2009
Slovenia	34179	22044	10382	2237	9079	12135	30.09.2007
	41882	25487	7561	3063	13910	16395	30.09.2009

Source: own calculation based on BIS data, different years

The analysis of the data allows us to draw the following conclusions:

- All countries experience increase in total foreign claims, in different proportions, from 3% in the case of Romania to 32% in the case of Poland and even 62% for Bulgaria;
- Cross-border claims have different developments, while the flows are still high for Bulgaria (+65%) and Poland (+34%), they are much lower in the case of Czech Republic, Slovenia (+15%, respectively +16%) and even decreases for Romania and Slovakia (-2%, respectively -16%);
- On sectoral basis, there are reported similar developments, regarding both the graduate withdrawal of cross-border flows dedicated to bank units from the analysed countries (varying from - 46% in the case of Czech Republic, -44% in the case of Slovakia and -34% in the case of Romania, but only -10% in the case of Poland) but even growth of the flows designated for the public sector and respectively for the private non-bank sector in most of the analysed countries. We notice significant differences from sector to sector and from country to country. An exception is Romania, which experiences a stagnation regarding the consolidated cross-border claims in all currencies and local claims in non local currencies dedicated to the non-bank private sector.

3. Preliminary conclusions

The evidence presented above suggests different level of involvement of foreign banks in emergent economy, they attempted to maintain previous position, even affected by crisis. In the second part of the paper we will focused on some developments in the Romanian case.

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HAVE THE RECENT CRISIS AFFECTED FOREIGN BANKS' POSITIONS IN CENTRAL AND EASTERN EUROPE? (II – FOCUS ON ROMANIA)

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The aim of this paper is to investigate the extension to what foreign banks reacted during recent crisis in supporting their Romanian subsidiaries and thus the local economy. The analysis focuses on the interpretation of foreign claims broken by maturity, sector, local versus foreign denomination currency, and liabilities. The data were completed with a brief analysis of internal credit (governmental and non-governmental) and finally with an analysis of the behavior of foreign banks located in Romania on the basis of the parent bank's country of origin.

Key words: foreign banks, economic crisis, Romania

JEL Classification: E5, G21

1. Introduction

Following the methodology and approach developed in the first part of the paper, we will try to extend the research on foreign banks' behaviour regarding the support they provided to their subsidiaries their during crisis time, in the case of Romania. We are interested an evolutive, sectoral perspective, combining data regarding the evolutions of total foreign claims, internal credit (governmental and non-governmental) and liabilities. Finally, we are interested to find out if the banks originated in certain countries had a more unstable action comparing with others.

2. The analysis of foreign claims

Starting with the general findings about the evolution of foreign claims in several selected Central and Eastern European countries, we have to further develop the analysis by taking into consideration the developments of foreign claims, on a quarter basis, since Q4 2005 to the most recent available data. Table 1 summarises the data by maturities, sectors and claim type.

This information related to Romanian banking system shows that the indicators on foreign banks – both on cross border credit and on local credit grant by implanted banks – show a significant increase in the third quarter of 2009 comparing with December 2005, but considerably inferior to the amount registered in the maximum periods (end of 2007 until September 2008). Decreases go from 9-10% for total external credit to 39% for cross border credit.

Table 1. Claims of BIS reporting banks on Romania (2005-2009)

Period	Total foreign claims	Total international claims	Consolidated cross- border claims in all currencies and local claims in non local currencies, on maturities and sectors:						Claims in local currency of reporting banks' foreign offices with local residents	Total foreign claims
			<1 year	1-2 years	>2 years	Banks	Public sector	Non-bank private sector		
	A + L	A	B	C	D	F	G	H	L	R = A+L+Q
Q.4 2005	31984	22240	10599	1145	9050	5851	4358	11749	9744	30272
Q.4	92956	66898	40395	2560	18165	17272	6254	42249	25698	75313

2006										
Q.2 2007	102990	70711	41447	3738	22954	13028	7330	49248	32279	83543
Q.4 2007	129381	90799	49785	4984	33392	16777	8955	64292	38582	109108
Q.2 2008	129810	85401	38132	8775	35003	15082	11451	58007	44409	128034
Q.3 2008	123930	82948	38327	8071	33247	14659	10623	56945	40982	122432
Q.4 2008	121089	83463	37934	7660	34718	14039	11593	57049	37626	120249
Q.1 2009	114759	78334	34885	7817	32837	12140	11901	53613	36425	114080
Q.2 2009	118999	79169	38389	7909	31860	11290	12246	54964	39830	117863
Q.3 2009	117835	79924	30768	8700	37136	9126	13048	56996	37911	116073

Source: own calculation based on BIS data, different years

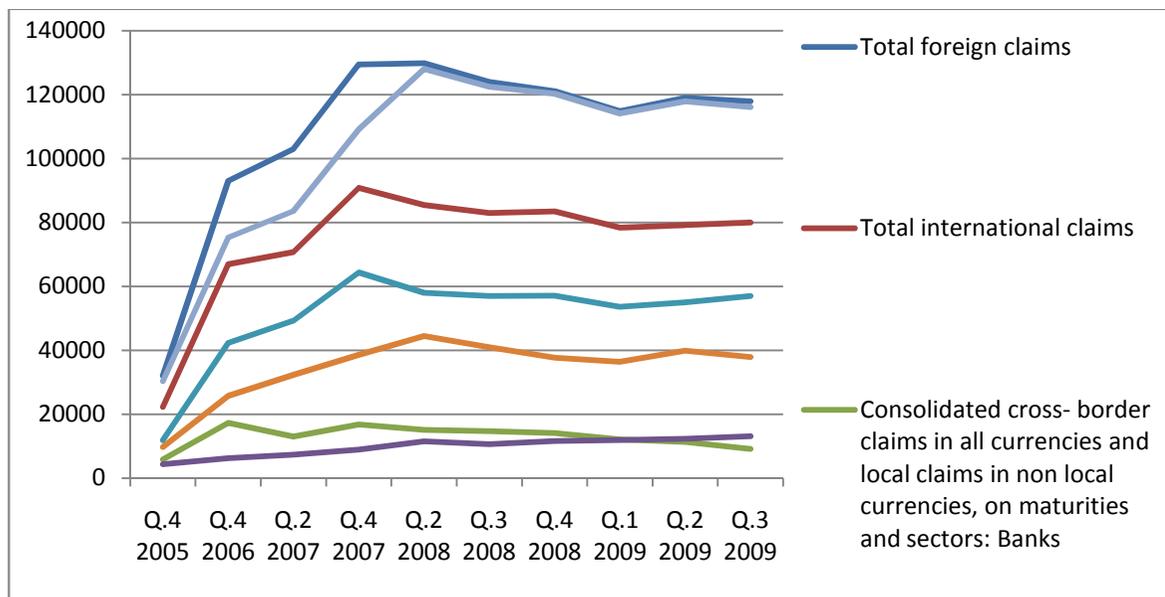


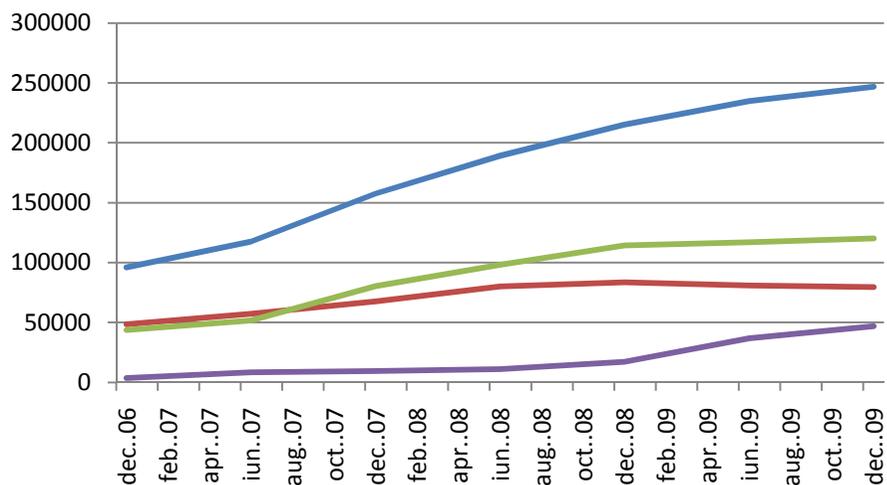
Chart 1. Claims of BIS reporting banks on Romania (2005-2009)

Source: own calculation based on BIS data, different years

3. Internal credit developments

Based on the National Bank of Romania data for 2009⁹⁵⁸, we can notice that in 2009 the increase of total credit was mainly represented by the government credit (increasing with more than 1,7 times in 2009 versus 2008 and 3,9 ori comparing with 2007), and less on non-government credit (only 1% in 2009 comparing with 2008) – see Chart 2.

⁹⁵⁸ National Bank of Romania, *Monthly bulletin*, January 2010, www.bnr.ro



	dec..06	iun..07	dec..07	iun..08	dec..08	iun..09	dec..09
Internal credit total	95924	117425	157751	189246	215261	234797	246698
Non gov. credit- RON	48637	57190	67713	80044	83643	80929	79711
Non gov. credit- currency	43741	51842	80467	98136	114413	117127	120171
Governmental credit	3546	8393	9571	11066	17205	36741	46816

Chart 2. Evolution of internal credit, government and non-government between December 2006 and December 2009

Source: NBR, Monthly bulletin January 2010

Analysing this data together with the data regarding foreign banks' involvement, we can draw the following conclusions:

- Both foreign and domestic banks demonstrated a much reduced interest – comparing with the pre-crisis period – in financing the real economy; they all reported a greater preference in government financing;
- The foreign claims – either referring to cross-border credit or to locally granted credit supplied by the Romanian located subsidiaries of the foreign banks, followed the same pattern; the interest and involvement in the Romanian economy were achieved especially by the financing supplied for the government (in local currency or foreign currency) in the same time with an effective withdrawal from the real economy or population financing;
- The withdrawal of Romanian located foreign banks is confirmed also by the consistent decrease of cross-border credit granted to the Romanian bank sector (decreasing by more than 34%), comprising here the greatest part of the credit supply by parent banks to their own subsidiaries locally implanted in Romania;
- Within the total claims of foreign banks on Romania, the most significant decrease is registered in the case of lending provided in local currency by the subsidiaries of the foreign banks located in Romania, fact indicating a reducing involvement in the Romanian economy and a pro-cyclical action.

In the better possible case, accepting with honest-mindedness the foreign banks' representants statements about their maintained interes regarding the Romanian economy⁹⁵⁹, this fact can be seen as a consequence of the capital re-allocation decisions according to the market oppotunities in risk-aversion conditions.

It worths mentioning that the developments could be much more dramatic then the effective ones, in the absence of international support provided by the EU and the IMF. As Mugur Isarescu, the NBR Governor stated, "the import of credibility from the EU and the IMF determined some private financing not to reduce themselves or to reduce less; this financing positively reflected itself in several directions: relatively larger investment comparing with the situation ob absence of these agreements (with EU and IMF – n.n.); diminishing the depreciation and temperating the foreign exchange rate volatility of the romanian leu relative to euro and other currencies; the Wien agreement on the banks engagement to renew the existing finance lines and to maintain capital adecquation ratios to secure levels"⁹⁶⁰.

4. The liabilities' perspective

Foreign banks' involvement in the economy of developping countries has to be completed with the analysis of local liabilities denominated in local currency. Even the relevance of this indicator seams reduced compared with the measure of credit granted (to bank sector, non-bank private sector, public sector in the host country), it reveals it's importance through several issues.

On one hand, an important issue is the way in which the capital entried the host country⁹⁶¹. Where the entrance was achieved by cross-border granted international claims – the involvement in deposit collection is very low and insignificant. In the case of greenfield involvement, the resources' collection from that country's residents – especially in local currency – is limited especially by the network size, type of clients etc. Finally, if the foreign capital entry is achieved by the acquisition of a existing local bank, often with an important market share in the host economy, it is highly possible that the dimensions, size and expertise of the network, and the contact with the local clients rise the availability and willingness of the new entities to continue their involvement also in resource and deposits collection, in local or foreign currency, at the same time with the appeal to the cheaper, foreign currency resources supplied by their parent bank.

On the other hand, the relevance of this measure is shown by the different way in which the foreign banks' subsidiaries approach the effects of the crisis. Starting from de Hass and Lelyveld findings, we can state that the extension and measure in wich a foreign bank involves in resource collection and lending in local currency can generate two possible developments:

- Increasing it's relative independance toward their parent bank regarding the resource supply and thus valorising more rapidly and more effective the growing opportunities in the local market, exceeding the estimations at the time of implantation;
- On other hand, in crisis times, and in the case when parent bank has not a high financial power and/or experiences difficulties on their home market, the parent bank's support to

⁹⁵⁹ Parent groups of the main 9 banks with foreign capital signed in August 2009, bilateral letters of engagement to maintain the exposure level on Romanian market and the solvency ratio to over 10%. The banks signing the agreement – Erste Bank, Raiffeisen International, Eurobank EFG, National Bank of Greece, Societe Generale, Alpha Bank, Volksbank, Piraeus Bank and UniCredit – counted for about 70% of the Romanian banking market

⁹⁶⁰ Isarescu Mugur (2009), *Finantarea dezechilibrului extern si ajustarea macroeconomica in conditiile crizei financiare. Cazul Romaniei*, NBR

⁹⁶¹ see Grubel, H., *A Theory of Multinational Banking*, Banca Nazionale del Lavoro Quarterly Review, nr. 123/1977 Konopielko, L., *Foreign Banks Entry into Central and East European Markets: Motives and Activities*, în "Post-Communist Economies", vol. 11, nr. 4/1999, apud: Badulescu, D. (2007), *Globalizarea si bancile. Cu o privire specială asupra Europei Centrale și de Est și asupra României*, Editura Economica, Bucuresti

its subsidiaries reduces. As a consequence, these subsidiaries masivly involved on the local market through lending and deposits will behave more as a domestic bank, acting pro-cyclicly and suffering the majority of the crisis' effects on the host market. In other words, the consistent support of the parent bank – possible if this parent banks is a powerful multinational bank – is decisive in maintaining the subsidiary as a bank less affected but the crisis in the host country; in a more general approach, this fact justifies the statements regarding the positive effects of foreign banks involvement on the developing countries in the case of entry of powerful banks, originated from developed economies.

Different from the evolution of the indicators analysed in table 2 and 3, the information in Chart 3 shows a similar evolution of local liabilities for all analysed countries; the difference only comes from the lag of starting the crisis or the amplitude of decrease for each country:

- All countries experienced considerable decreases of these liabilities, from -49% in the case of Poland and -42% in Hungary (Q1 2009 versus Q2 2008), -25% – -30 % in the case of Czech Republic, Romania, Bulgaria, or considerably lower in the case of Slovenia (where the foreign capital presence is much less than in other countries cases).
- Even the moment of the decreasing is de-phased in time, it occurs abruptly, and the recover is usually slow; at the moment September 2009, the indicator haven't reach the pre-crisis levels in no country.
- Finally, as a general explanation, confirming the pro-cyclical affection of foreign banks' subsidiaries, is the fact that reducing the amounts of these attracted funds is due to the effects of the profound crisis which affected the real economy, population and firms, government institutions refering to a more extent to the existing liabilities as the access to finance is more and more restrictive and the associated risks higher.

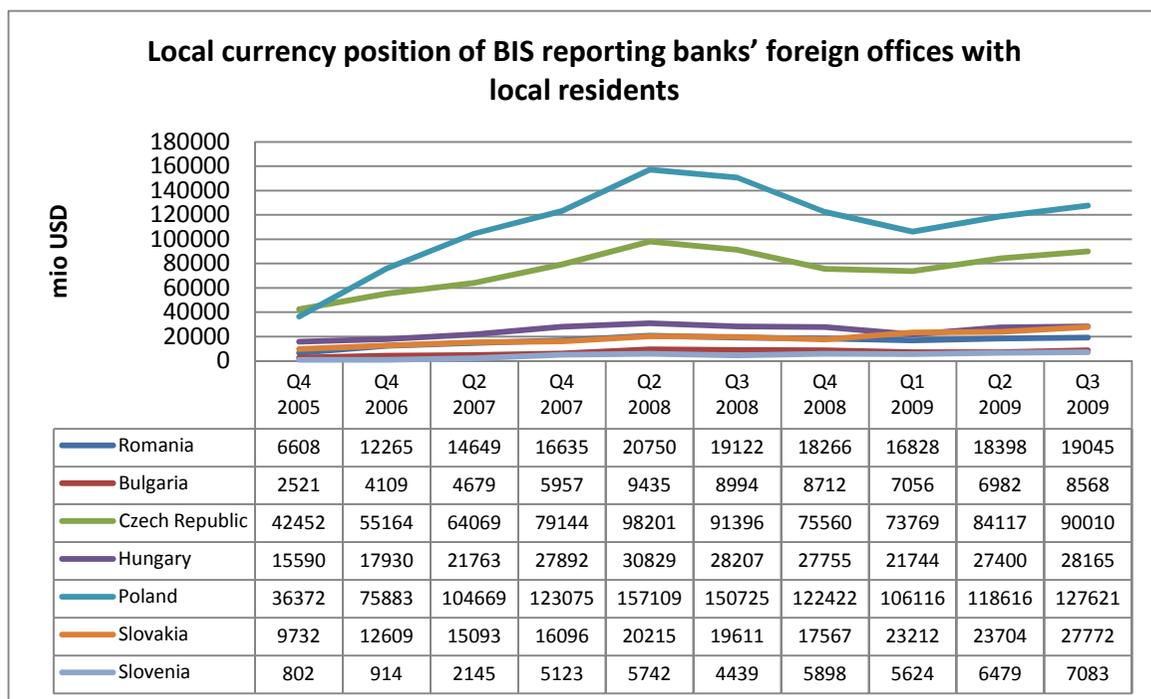


Chart 3. Local currency position of BIS reporting banks' foreign offices with local residents

Source: own calculation based on BIS data, different years

5. Final Conclusions

We can state that the support and involvement of the foreign banks in Romanian economy is moderate, under certain conditions and selective, explained by:

- a. Over 55% of the foreign capital in Romanian banking system comes from countries very affected by the global financial crisis, as Greece, or from relative consolidated banks but very exposed on Central and Eastern European market (Austria).
- b. Decreasing in total claims on Romania was more pronounced from the country consistently involved in Romanian banking system (Austria -11%, France -11.4%, Netherlands -9.7%, comparing with an average at 9.23%)
- c. The scale of crisis shock on Romanian economy

Table 2. Foreign claims, total and main reporting BIS countries on Romania

Period	Total foreign claims	Austria	France	Italy	Netherlands
Dec-06	92596	35467	10135	3282	5186
Sep-07	114637		16128	9989	6483
Jun-08	129810	46457	17640	12948	10999
Sep-09	117835	41460	15629	13149	9932
sep-2009 vs june-2008	-9.23%	-10.76%	-11.40%	1.55%	-9.70%

Source: own calculation based on BIS data, different years

For all Central and Eastern European countries, the global financial crisis is a real, effective test proving the support form multinational banks for their subsidiaries. We can noticed that this involvement has different degrees and extension, explained both by internal particularities of the banks (financial power, complexity and dimension of the abroad networks) and by the particularities of host country economy (crisis effects, economic policy and performance, support from international organizations as IMF, EU etc.).

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BEHAVIORAL BIASES IN TRADING SECURITIES

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The main thesis of this paper represents the importance and the effects that human behavior has over capital markets. It is important to see the link between the asset valuation and investor sentiment that motivate to pay for an asset a certain prices over/below the intrinsic value. The main behavioral aspects discussed are emotional factors such as: fear of regret, overconfidence, perseverance, loss aversion, heuristic biases, misinformation and thinking errors, herding and their consequences.

Keywords: Behavioral finance, Investor psychology, Irrationality, market efficiency, Behavioral biases, limits to arbitrage.

JEL Classification: G11, G12, G14, D81

“Wall Street never changes, the pockets change, the suckers change, the stocks change, but Wall Street never changes, because the human nature never changes”.

- Jesse Livermore.

Much of the academic finance theory is based on the assumption that individuals act rationally and consider all available information in the decision-making process. But, the researchers have discovered in the markets, many irrational behavior and errors in judgment. Individuals consider the stock market as a person: with its own moods, sometimes it can be ornery or exuberant, may overreact and make amends next day, and so on.

Academic finance, the conventional part of the finance literature, is built on the arbitrage principles of Miller & Modigliani, the portfolio construction of Harry Markowitz, CAPM theory of Lintner and Sharpe, Black-Scholes, and Merton theories. The hypothesis that actual prices reflect fundamental values is the Efficient Markets Hypothesis (EMH). EMH was made famous by Eugene Fama (1970) and affirmed that no trader could “beat the market”, because under this hypothesis, “prices are right”, set by agents that understands Bayes’ Law and no investment strategy can earn better average returns than are warranted for its risk – there is “no free lunch”. The theory of “random walk” in asset prices that knowledge of the series of the past stock prices cannot be used to obtain higher return than a buy and hold strategy.

Behavioral finance that is, finance from a broader science perspective including sociology and psychology, is a new approach to financial markets, in response to the difficulties faced by the academic finance, until a few decades considered to be proved beyond doubt. Behavioral finance deals with understanding and explaining how rational and irrational traders interact, how may affect irrationality the assets prices. “Limits to arbitrage”⁹⁶², form one of the two buildings blocks of behavioral finance. Psychology is the second building block of behavioral finance (people’s beliefs and people’s preferences). From the end of the 70s many studies revealed theoretical and empirical challenges to the efficient market hypothesis, (**limits of arbitrage**), studies that

⁹⁶² Barberis, Nicholas & Thaler, Richard, 2003. "A survey of behavioral finance," Handbook of the Economics of Finance, in: G.M. Constantinides & M. Harris & R. M. Stulz (ed.), Handbook of the Economics of Finance, edition 1, volume 1, chapter 18, pages 1053-1128 Elsevier.

evidence inefficiency consistent with the strong and semi-strong form of the efficient market hypothesis: excess volatility, fundamental risk, noise trader risk, implementation costs, index inclusions, Price Earnings Ratio effects, Book to Value Ratio effects, liquidity effect, stock repurchases, mergers, momentum. The presence of occurring anomalies in academic finance, was a sound contributor in developing of behavioral finance.

Practically, behavioral finance studies mainly two aspects: *cognitive psychology* and *the limits of arbitrage*. Psychologists discovered many patterns, *cognitive biases* regarding people behave:

Overconfidence and wishful thinking

Overconfidence in decision-making process manifests in a number of ways. One of them might be the too little diversification, because of a tendency to invest too much in something what one is familiar with (a chemist or a doctor may invest rather in pharmaceuticals industry, a banker may invest particularly in financial companies, a real estate agent the real estate companies or some of the investors may invest very much in the company they work for - Enron. One study, by Olson and Cox (2001), has shown that individuals with similar training, professional experience and information, formulate distinctive judgments regarding their risk perception and their reaction to risk. On average, the study has shown that men have lower returns than women, because they trade more actively. Woman professional investors, have a tendency to focus on risk reduction more than male investors in portfolio management.

Prospect Theory and Loss aversion

Prospect theory⁹⁶³ was developed by Daniel Kahneman, professor at Princeton University's Department of Psychology, and Amos Tversky in 1979 as a psychologically realistic alternative to expected utility theory. The theory describes how people make choices in situations where they have to decide between alternatives that involve risk, decision processes consisting of two stages, editing and evaluation. Prospect theory may also explain some illogical financial behaviors, such as the disposition effect, with refers to the tendency of people to save money in bank to earn interest, who refuse to work extra-time because they don't want to pay extra taxes. Many academic experiments demonstrated that a loss bothers investors twice as much in absolute term than a pleasure from an equal profit. Because of the **loss aversion**, investors refuse to sell at a loss. There is an ego in each of us. No one likes to admit that he is wrong so, instead of taking a small loss, investors tend to wait too much for the reversal of the stock and the loss may rise even more. Often could be more profitable taking the small loss (right after the mistake was first realized), and reinvest properly the money than hoping too much to get to breakeven with a losing position. "They say you never grow poor taking profits. No, you don't. But neither do you grow rich taking a four-point profit in a bull market"⁹⁶⁴.

Anchoring

The concept of anchoring refers to the tendency to attach or "anchor" the thoughts to a reference point. The most frequent anchor is a past event or trend. For instance, some investors could tend to invest heavily in the stocks of companies that have fallen "too much" in a "two short" period of time, regardless of the fundamental matters. Investors anchor on the recent "high" and consider that the price drop provides an opportunity to buy the stock at a discount. "This semi sucker is the type that thinks he has cut his wisdom teeth because he loves to buy on declines. He waits for them. He measures his bargains by the number of points it has sold off from the top."⁹⁶⁵ Anchoring on historical price could harm much the investor's portfolios.

Belief perseverance

⁹⁶³ http://en.wikipedia.org/wiki/Prospect_theory

⁹⁶⁴ Jesse Livermore, Ch 4, Reminiscence of a Stock Operator

⁹⁶⁵ Jesse Livermore, Ch 5, Reminiscence of a Stock Operator

Once people have formed an opinion, they cling to it too tightly and for too long. They rather search for the news and analysis that confirm their beliefs than for the ones that may contradict their beliefs. People tend to misinterpret evidence that goes against their hypothesis as actually being in their favor. “One of the most helpful things that anybody can learn is to give up, trying to catch the last eighth or the first. These two are the most expensive eights in the world. They have cost stock traders, in the aggregate, enough millions of dollars to build a concrete highway across the continent”. “A speculator must concern himself with making money out of the market and not insisting that the tape must agree with him. Never argue with it or ask it for reasons or explanations” – Jesse Livermore. “When you begin to believe that a stock can only go in one direction, that is when you will have your head handed to you” – Dan Zanger

Framing

Framing refers to the format in which a situation or choice is presented (for instance, the same question, presented in two distinct but equal means, could extract identical or different response). An example of frame could be saying “there is 50% chance of success” instead of “50% chance to fail” – the famous half-full or half-empty glass. Mental frames are often linked to the language used, to stress the positive or negative aspects with adequate words and the consequences could be deciding with blinders. Framing can have different origins: personal cognitive bias – occasional or a habit (internal framing), or outside misinformation (external framing) done involuntarily (because of the incompetence of the author), or voluntarily by the “informer”: in order to manipulate the auditor.

Representativeness

Investors can make judgments based on stereotypes. They make assumptions based on information that has no bearing on reality. For instance, if a company with a history of releasing poor results will be perceived as a lousy company, and will get poor results in the future, even if lately the improvements are visible. Representativeness leads to the “sample size neglect” bias: a small sample can be just as representative as a large one. Investors tend to believe that a money manager with outstanding record for a few years will have outstanding results in the future – so called “hot hand” phenomenon. Rabin (2002)⁹⁶⁶ calls this the “law of small numbers”, the belief that even small samples will reflect the properties of the parent population, and could lead to a “gambler’s fallacy” effect when investors do not know the data-generating process (odds) in advance.

Gambler’s fallacy effect

In the gambler’s fallacy, a person erroneously believes that the onset of a certain random event is less likely to happen following an event or a series of events. This judgment is incorrect. A very common example can be found with people’s relationship with slot machines⁹⁶⁷. Most of these people believe that every losing pull will bring them that much closer to the jackpot. Related to investing decision-process, investors tend to liquidate a position after it has gone up in a series of subsequent trading sessions, because they don’t believe that is likely to continue going up and vice versa (maintaining a stock that “has fallen too much” and further declines are “improbable”). Jesse Livermore said something very important about gambling in the stock market: “Don’t trade when the market isn’t acting right! ...When prices drift up and down without trend, like a ship without a rudder, and few positive indications develop, the percentage of losing trades is apt to be high. When this condition continues it is well to hold off until the character of the market changes”...“When I couldn’t play according to my system, which was based on study and experience, I went in and gambled. I hoped to win, instead of knowing that I ought to win on

⁹⁶⁶ Rabin, M (2002), “Inference by believers in the law of small numbers”, Quarterly Journal of Economics 117:775-816

⁹⁶⁷ Phung, A., Behavioral Finance : http://www.investopedia.com/university/behavioral_finance/default.com

form”. ... “There is the plain fool, who does the wrong thing at all times everywhere, but there is the Wall Street fool who thinks he must trade all the time. No man can always have adequate reasons for buying or selling stocks daily – or sufficient knowledge to make his play an intelligent play”.⁹⁶⁸.

Forecasting errors:

It is quite usual that on tops many people to see that stocks prices may never fall and on the bottoms that the stock market may never recorded. The same thing could be seen with the oil prices: when oil was near 150\$ / Barrel many researchers and analysts predicted that there will be shortages of oil and the price will rise even more than 250\$/ Barrel in the near future term. But it went less than 50\$ in less than 12 months after those

”predictions”. When was reaching less than 40\$, many analysts forecasted that it could go even lower the price because of the world recession and the dumping global demand for oil – they were targeting the oil barrel price somewhere less than 25\$/barrel. Of course, that it did not happen that and the reversal to 80\$/ Barrel has begun. An interesting sample of excessive pessimism during the reversals, could be the following: *“But in November of 1974, I was newly married, and my husband and I decided that we should start saving. So we went to a broker and told him we wanted to buy some new shares. I still remember what he said: <<I really don’t think this is a good idea, a nice young couple like you – you really shouldn’t be putting your money into something as risky as stocks”. “That’s how you can tell it’s a bottom”, added Allyn. “They don’t even want to sell you the stuff”.*

Conservatism

“A conservatism bias means that investors are too slow (too conservative) in updating their beliefs in response to recent evidence. Such a bias would give rise to momentum in stock market returns”- Bodie, Kane and Marcurs (2005). Investors tend to under react and delay the needed changes in their portfolio composition when the markets situation imposes, and financial analysts often adjust too slowly their previous estimates when new information should make them reanalyze the situation and prospects. The main causes could be: the inertia a quasi physical bias (neglecting, laziness, indifference, comfort found in keeping habits), emotional biases (self doubt, instinctive fear and mind paralysis, loss aversion, commitment, nostalgia, overconfidence, pride, ego), or cognitive biases (mental anchoring on an old reference or cognitive dissonance, like denial of reality).

The influence of worry

Worrying is a lasting concern with a past or an upcoming event. Investors feel fear (worry about uncertainties) and anxiety (the gut level feeling that accompanies uncertainty). In The Journal’s Intelligent Investor column of September 30, 2008⁹⁶⁹, Jason Zweig, considered some of the arguments referring that investors hate uncertainty: <<“Investors hate uncertainty.” Well, that’s just tough. Uncertainty is all investors ever have gotten, or ever will get, from the moment barley and sesame first began trading in ancient Mesopotamia to the last trade that will ever take place on Planet Earth. *If tomorrow were ever knowable with absolute certainty, who would take the other side of a trade today?* The financial future is no more uncertain now than it used to be; in fact, it’s far less uncertain than it was in the summer of 2007, when the Dow shot above 14000, the future seemed bright, and utterly no one foresaw the disaster that would befall the financial system. The absolute certainty of blue skies ahead was an illusion then, and the notion that we all know that worse misery lies in store is an illusion now. The only true certainty is surprise.>> . “People tend to underestimate low probability events when they haven’t happened recently, and

⁹⁶⁸ ⁹⁶⁸ Jesse Livermore, Reminiscence of a Stock Operator

⁹⁶⁹ Zweig, Jason – “The Depression of 2008? Don’t Count on it”, The Intelligent Investor Column, Wall Street Journal, 30. Sep. 2008 – <http://online.wsj.com/article/SB122272238714287459.html>

overestimate them when they have” – W. Buffett. “I don’t know whether I make myself plain, but I never lose my temper over the stock market. I never argue with the tape. Getting sore at the market doesn’t get you anywhere”. – Jesse Livermore

Mental accounting

Mental accounting refers to the tendency for people to separate their money into separate accounts based on a variety of subjective criteria, like the source of money and intent for each account. Investors divide their investments between a safe investment portfolio and a speculative portfolio in order to prevent the negative returns that speculative investments may have from affecting the entire portfolio. The problem is that the investor’s net wealth will be no different that if he had held one larger portfolio, because the money is fungible, regardless of its origins or intended use. It is just like having savings for a car, for a holiday while not paying the debts for the credit card, sometimes it makes more sense to liquidate the savings in order to pay off debt. Investors who tend to write – keep a journal of every transaction for a period of time, with individual profit or loss, tend to be more attentive with risks. Avoids gambling.

Confirmation and Hindsight Bias

In investing, confirmation bias suggests that an investor would rather look for the information that confirms his beliefs and ideas, rather for the one that contradicts it, even if all the information is against his beliefs, leaving investors with a false picture of the situation. Hindsight bias refers to situation where an investor believes (after the fact), that a past event was predictable and completely obvious, whereas in fact, the event could not have been reasonably predicted. The bias is very common after the bubbles burst. (Dot.com bubbles, South Sea bubble of 1711, Tulip bubble, the recent financial and economic crisis (2007), Crude oil price bubble (2008-2009). If the formation of an asset bubble had been obvious, it probably wouldn’t have escalated and burst like that. One of the old Wall-Street sayings is: “A bullish market is born amid pessimism, grows up under skepticism, matures with optimism and dies with euphoria”.

The role of affects – feelings

One of the major mistakes in investing, is falling in love with a stock. Investors are human, and humans don’t like to admit that are wrong. It happens to everyone. Never fall in love with a losing position and use a stop-loss order to protect against excessive losses. Some of the Wall-Street sayings are: “The market doesn’t know whether you’re long or short and it couldn’t care less”; “The more you lose in a trade, the less objective you become. EXITING A LOSING TRADE, clears your head and restores your objectivity”. One day, Marty Schwartz was asked: “Why do most traders lose money? Because they would rather lose money than admit they’re wrong. What is the ultimate rationalization of a trader in a losing position? “I’ll get out when I’m even”. Why is getting out even so important? Because it protects the ego. I became a winning trader when I was able to say, “*The hell with my ego, making money is more important*”. “I made a big mistake in not selling several of our larger holdings during The Great Bubble. If these stocks are fully priced now, you may wonder what I was thinking four years ago, when their intrinsic value was lower and their prices far higher. So do I” – Warren Buffett, 2003, Berkshire Hathaway annual report.

Herd Behavior

Herd behavior, refers to the tendency of people to mimic actions (rational or irrational), of a larger group. Some of the reasons for creating the herd effect could be: the social pressure of conformity (Dot.com bubble, maybe the most infamous financial event – bursting the internet bubble) – people are very sociable and have a natural instinct to be accepted by the group, rather than named to be as an outcast (following a group is an ideal way of becoming one of them). The second reason could be the common sense that “such a large group cannot be wrong”, “they must

know something that you don't". It happens to novices very often to follow the herd. Even professionals tend to follow the crowds, because if the strategy works, their clients will be happy, if not, he could justify his bad investment decision by pointing out just how many other investors were led astray. It is a good strategy to follow the herd, if you enter in the positions right at the beginning of trend. "When the market gets greedy, I get nervous; when the market gets nervous, I get greedy" – Warren Buffett. "By 1929, it seemed as though everyone, in all walks of life, and not just businessmen, was interested in the stock market. People took out second mortgages on their home and housewives sneaked money from household expenses to play the market. Some people invested everything they had in the market in the belief that there was no way they could NOT become rich"⁹⁷⁰.

Conclusions

The greatest critique of behavioral finance is that it is not considered an actual science, like the quantitative finance. It is too general. It is not possible to calculate and quantify exactly behavioral factors neither for one person nor for a crowd. Behavioral finance should be regarded as a useful toolkit when trading because it could give a competitive advantage in trading and a better knowledge of it. As Jesse Livermore said, it is very important to learn from our mistakes and understand the market in a better way: "*It wasn't anything to be proud of, when you think I had been broke three times in less than two years. And as I told you, being broke is a very efficient educational agency. It is literally true, that millions come easier to a trader after he know how to trade, than hundred did in the days of his ignorance*" – Jesse Livermore.⁹⁷¹

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⁹⁷⁰ Lange, Brenda, "Milestones American History – The Stock Market Crash of 1929, The End of Prosperity" Chelsea House Publishers, Infobase Publishing, New York, 2007.

⁹⁷¹ **Jesse Livermore** (1877 - 1940), also known as the **Boy Plunger**, was an early 20th century stock trader. During his lifetime, Livermore gained and lost several multi-million dollar fortunes. Most notably, he was worth \$3 million and \$100 million after the 1907 and 1929 market crashes, respectively. He subsequently lost both fortunes. Apart from his success as a securities speculator, Livermore left traders an outstanding working philosophy for trading. – Source: http://en.wikipedia.org/wiki/Jesse_Lauriston_Livermore

NEUROFINANCE – GETTING AN INSIGHT INTO THE TRADER’S MIND

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Much of the academic finance theory is based on the assumption that individuals act rationally and behavioral finance treats investors’ choice based by behavioral biases. In contrast, neurofinance (as a blending of psychology, neurology and finance) attempts to understand behavior by examining the physiological processes in the human brain when exposed to financial risk. Scientists map the mind to learn how fear and greed drive the financial markets. The paper, will briefly present why neurofinance is important and how will be able to provide in the near future a number of effective tools for improved financial decision making.

Keywords: Emotions, Behavioral finance, Neurofinance, Brain, Risk taking, Affect, Beliefs, Dopamine, fMRI

Jel Classification: D03, D81, D83,D84, D87, G11

Much of the *academic finance* is based on the assumption that individuals act rationally, consider all available information in the decision-making process and the expected utility theory represents the model for choice under certainty. In fact, when it comes to financial decisions, investors may not always be as rational as we think.

A new field of finance, called *behavioral finance* examines why some traders achieve phenomenal success while others gamble away fortunes. Behavioral finance that is, finance from a broader science perspective including sociology and psychology, represents a new approach to financial markets, in response to the difficulties faced by the academic finance. Behavioral finance attempts to understand and explain how emotions influence investing decisions. Humans differ very much with respect to concepts such as risk aversion, time preference and tastes. “Limits to arbitrage”, form one of the two building blocks of behavioral finance. Psychology (behavioral biases) is the second building block of behavioral finance (people’s beliefs and people’s preferences). "Extraordinary Popular Delusions and the Madness of Crowds," written by **Charles Mackay** in **1841**, remains a Wall Street classic to this day. He shows how otherwise intelligent people sometimes succumb to mass idiocy. Mackay examined the history of alchemy, witch hunts, fortunetelling and speculative frenzies such as the *mania over tulips* that gripped Holland in the early 17th century, when the flower bulbs *traded at a higher price than gold*. Keynes coined a colorful term for one of the vital ingredients of economic prosperity, the naive optimism that prompts people to cast aside their fears despite all experience: "animal spirits."⁹⁷² The explanation that human beings are irrational about money lies in the human brain and its multi-billion neuronal connections. Recently, behavioral economists have leveraged the findings from psychology and neurology developing new fields like *neuroeconomics*⁹⁷³ and *neurofinance*, in order to understand how people make economic decisions. By looking inside the brain, we may have a more realistic model of decision-making, and we’ll be able to explain in a better way (compared to the standard model) a wide range of individual economic behaviors and their effects translated into aggregate market phenomena. Neurofinance is a new science that

⁹⁷² **Levy, Adam**, “*Mapping the trader’s brain*” – Bloomberg Markets, Feb. 01. 2006 – source: <http://www-psych.stanford.edu/~span/Press/bk0206press.html>

⁹⁷³ Neuroeconomics is an emerging transdisciplinary field that uses neuroscientific measurement techniques to identify the neural substrates associated with economic decisions” – **Zak, J. Paul** “*Philosophical Transactions: Biological Sciences*, Vol. 359, No. 1451, Law and the Brain (Nov. 29, 2004), pp. 1737-1748

analyzes financial markets by applying neurotechnology to trading behaviors⁹⁷⁴. The main objectives are: improving trading results and a better understanding of financial markets, by identifying which physiological traits affect trading behavior, correlating these traits (that occur in our brain and hormonal activity) with trading success or failure and developing tools, technology and training methods to improve trading performance. The main difference between neurofinance and neuroeconomics, though they use many similar techniques, is that neurofinance focuses more narrowly on trading and financial markets.

Decision-making process is fundamentally integrative, melding the complex cognitive processes through which causal relations between actions and consequences are encoded, retrieved and maintained in working memory, with the motivational processes that determine the value, or utility, of actions or sequences of actions. It is important to recognize the interaction of the cognitive, motivational and behavioral processes engaged during the course of specific decisions that cannot be reified to a single specialized circuit, cell type or intracellular process⁹⁷⁵. They are better understood at a systemic level. Brian Knutson was wondering *why some of the traders get rich while others walk away losers*. The answer may lie somewhere in the approximately 60000 miles of neural wiring inside our brains. What lies behind a successful trader? There has to be something more than simply guts, self confidence to take a loss and move on, or understanding risk and reward at a simply and intuitive level. May neurofinance be able to understand the brain's electrochemistry of a successful trader? Why some of them gamble away fortunes on losing investments, averaging down or doubling when logic tells them to stay out, or letting winning positions ride when rational persons would cash out? Why smart guys like Paul Tudor Jones, Richard Dennis, Victor Sperandeo, Stanley Druckenmiller, Ed Seykota, Jesse Livermore, Bernard Baruch, Warren Buffett and so many others made multimillion and even billion-fortunes in trading securities? How come George Soros became known as "the Man Who Broke the Bank of England" after he made \$US 1 billion profit during the 1992 Black Wednesday UK currency crisis? What is that makes them so special?

It's not enough to be smart or highly educated. There are a lot of outstanding people, some of them geniuses, scientists who were honored with Nobel Prize in Economics, but nobody knows that some of them might have become rich (some of them never made a dime on the market) exclusively because of their discovered financial models or theories, except for conferences and interviews fees, selling books and teaching other people how to make money. It might be frustrating to see that others who dropped college have made multi-million fortunes on the market, and very well known scholars in the finance field, NOT. "*If all it took to beat the markets was a Ph.D. in mathematics, there'd be a hell of a lot of rich mathematicians out there*" - Bill Dries. "*No matter what kind of math you use, you wind up measuring volatility with your gut.*" Ed Seykota. Probably, the preeminent example that fundamentals are not everything is the collapse of the famous hedge fund founded by John Meriwether in 1994 – **Long Term Capital Management (LTCM)**. John Meriwether was one of the first traders to bring quantitative finance to Wall-Street and gained a measure of fame in Michael Lewis' book *Liar's Poker*, where he is described by Lewis as a Salomon Brothers Uber-trader and master of Liar's Poker⁹⁷⁶. The failure of LTCM is a cautionary tale about hubris, arrogance, overconfidence and the limits of modern financial theory. With an outstanding team of quant finance traders and scientists, including two Nobel Prize winners: Robert C. Merton and Myron Scholes, LTCM used complex mathematical models to take advantage of fixed income arbitrage deals (termed convergence trades) usually with U.S., Japanese, and European government bonds. Although from 1994-1996 LTCM returned more than

⁹⁷⁴ **Edwards, David** – "*What is Neurofinance*" – Brainwaves, Corante Weblog Columns, August 9, 2004 – source: - http://brainwaves.corante.com/archives/2004/08/09/what_is_neurofinance.php

⁹⁷⁵ **Balleine W. Bernard** – "*The Neural Basis of Choice and Decision Making*", The Journal of Neuroscience, August, 1. 2007, 27(31):8159-8160

⁹⁷⁶ Book Review of "*When Genius Failed: The Rise and Fall of Long-Term Capital Management* by **Roger Lowenstein**", Random House, September 2000 - http://www.bearcave.com/bookrev/genius_fails.html

30% a year, and their funds swelled to more than US\$ 7 billion, in 1998, they crashed and burned, endangering the US financial system (Federal Reserve Bank of New York organized a bailout of \$3.625 billion by the major creditors to avoid a wider collapse in the financial markets⁹⁷⁷). Because of the small differences in value of the assets arbitrage, LTCM had to take highly leveraged positions to make a significant profit. *“But the system wasn’t designed so that most people could beat it”*. They ignored two underlying assumptions behind the market models they used: markets are always liquid and markets tend toward equilibrium where “mispricing” are corrected. True, but the assumptions failed to be true during a market panic. The panic caused by the Asian and Russian Financial Crisis (1997 and 1998), made LTCM to liquidate many positions causing large losses, including the arbitrage positions between Royal Dutch and Shell shares. Because of the liquidity dry-up of the panic and high-leveraged positions, LTCM had nothing else to do but crash and burn. They didn’t expect panic to happen. According to Nassim Taleb: *“Rare events are always unexpected, otherwise they would not occur”*.

Meriwether was so confident about his market opinions and his quantitative financial analysis, that even if the market would go against him, he would not change his opinion. Often he would increase the size of his position, despite of the market opinions. If his mathematical models showed a mispricing, he remained confident that fair value would return, over time, so he kept his positions and even added to it. He believed in nothing but fundamentals. Meriwether ignored completely an old trading adage: *“Ninety percent of what we do is based on perception. It doesn’t matter if that perception is right or wrong or real. It only matters that other people in the market believe it. I may know it’s crazy, I may think it’s wrong. But I lose my shirt by ignoring it”*⁹⁷⁸. As Keynes used to say: *“Markets can remain irrational longer than you can remain solvent”*

The collapse of LTCM gave markets a tuff lesson about pride, arrogance, defiance, greed and hubris, making some market players say memorable words, like the one of Kaufman and Lenzner: *“Meriwether and his sidekicks had a bad case of hubris. As Kaufman puts it: „There are two kinds of people who lose money: those who know nothing and those who know everything.” With two Nobel prize winners in the house, Long-Term Capital clearly fits the second case”*⁹⁷⁹. *„It seems LTCM could have survived one Nobel prize – winner, but with two, they were doomed”* – Frederic Townsend. As a conclusion, we might consider the Ed Seykota’s joke: *“Some people seem to like to lose, so the win by losing money”*.

Some recent examples of other astonishing loses are⁹⁸⁰: Societe Generale (2008 – USD 7.2 bn – European Index Futures – Jerome Kerviel), Aracruz Celulose Brazil (2008 – USD 2.5 bn – FX Options), Sadia Brazil (2008 – USD 1.09 bn - FX and Credit Options), CITIC Pacific China (2008 – USD 1.89 bn – FX Trading), Amaranth Advisers (2006 – USD 4.6 Bn – Nat Gas Futures – Brian Hunter) and the list may go on. The collapse of Britain’s Barings Bank in Feb. 1995, is perhaps the most popularized financial collapse. Barings Bank was sold for 1 sterling pound to ING, because of the rogue trader, called Nick Leeson – a derivative trader on SIMEX.

Now, it is easily understandable why mapping a trader’s mind, why neurofinance is very important. Because of one single person, thousands of employees, several hundred thousands of customers and other collateral parties may go broke if the trader in charge does not perform well. And in most cases, the problem was not “outside” but “inside”. If Leeson lost, someone else won. Definitely won. Trading derivatives it’s a zero sum game. Will neurofinance be able to help us understand what was in Leeson’s mind? And in his counterpart’s mind? What made Leeson lose and what made the other one win? And how can we replicate the winner’s succes?

Jack Schwager, wrote in one of his books: *„Time and Time again, those whom I interviewed for this book and its predecessor stressed the absolutely critical role of psychological elements in trading succes!”* When asked to explained what was important to success, Jack says: *„The*

⁹⁷⁷ http://en.wikipedia.org/wiki/Long-Term_Capital_Management

⁹⁷⁸ *“Making Book on the Buck”* – Wall Street Journal, Sept 23, 1988, pg 17.

⁹⁷⁹ **Lenzner, Robert**, Forbes Magazine, Oct. 19, 1998 – source: www.streetstories.com/jm_forbes98.html

⁹⁸⁰ http://en.wikipedia.org/wiki/List_of_trading_losses

Market Wizards NEVER talked about indicators or techniques, but rather about such things as discipline, emotional control, patience and mental attitude toward losing". The message is **CLEAR: The key to winning in the market is internal, NOT external**"⁹⁸¹.

Neuroscience and neurofinance help us understand whether there is a mismatch between brain and financial markets, when trading. Although, in the decision theory and equilibrium theory, all risks are the same, the brain distinguishes at least two kinds of risk: risk generated by an unintentional source (a random generator, "nature", a financial market without insiders) and the risk generated by an intentional source (a strategic opponent, a financial market with insiders). The difference between them, manifests in the engagement of different functional regions of the brain and attitudes toward the source.

Decision neuroscience has made important progress over the past ten years, following the discovery of the role of dopamine neurons in prediction under uncertainty. Some treat with skepticism this subfield of finance, because it cannot be considered science. Neurofinance is based mainly in laboratory experiments. Lack of external validity is perhaps the most important reservation that people can have about laboratory experimentation.

Tools available to neurofinance, allow for understanding how people make financial and economic decisions, by analyzing how the brain works when these choices are made. By looking inside the brain, we may create a more realistic model of decision making and able to explain a much wide range of individual economic behaviors compared to the standard finance models. Some of **the neurofinance tools** are: ERP that record electrical activity of the scalp („event-related potentials" that measure brain response that is directly the result of a thought or perception – measured with EEG - electroencephalographic), ERF („event-related field" – that measure brain response that is directly the result of an event – measured with MEG - magnetoencephalographic), TMS - Transcranial Magnetic Stimulation, PET scans - Positron Emission Tomography, MRI – Magnetic Resonance Imaging, *fMRI*⁹⁸² - Functional Magnetic Resonance Imaging and other lesion brain studies. Neurofinance has progressed dramatically over the past years, following the discovery of the role of *dopamine*⁹⁸³ neurons in prediction choice under uncertainty.

Decision making by traders is highly emotional (Lo & Repin 2002), and it activates hormones such as testosterone and cortisol that have a direct influence on the very brain regions. Hsu et al⁹⁸⁴ (2005) has shown that dopamine projection in the ventral striatum is less activated under ambiguity than when probabilities of risk are known. Behavioral finance also confirms that humans treat pure risk and ambiguity differently. According to him, another activation emerges, namely, in the amygdala, that forms part of a circuit that has been associated with goal directed learning, a signal of a need to start learning. Amygdala has been for long time, viewed as the

⁹⁸¹ Schwager, D. Jack, "*The new market wizards: conversations with America's top traders*". John Wiley & Sons, 1992 books.google.ro/books?id=LjivAz8xd3UC&printsec=frontcover#v=onepage&q&f=false

⁹⁸² **Functional MRI or functional Magnetic Resonance Imaging (fMRI)** is a type of specialized MRI scan. It measures the hemodynamic response (change in blood flow) related to neural activity in the brain or spinal cord of humans or other animals. It is one of the most recently developed forms of neuroimaging. Since the early 1990s, fMRI has come to dominate the brain mapping field due to its relatively low invasiveness, absence of radiation exposure, and relatively wide availability. Source: <http://wikipedia.org>

⁹⁸³ *Dopamine* represents one type of neurotransmitter formed in the brain by the decarboxylation of dopa and essential to the normal functioning of the central nervous system. A reduction in its concentration within the brain is associated with Parkinson's disease. Dopamine is the primary neurotransmitter involved in the reward pathways in the brain. Dopamine is released by naturally rewarding experiences such as food, sex, use of certain drugs and neutral stimuli that become associated with them. Thus, drugs that increase dopamine signaling may produce euphoric effects. Many recreational drugs, such as cocaine and amphetamines, alter the functionality of the dopamine transporter (DAT), the protein responsible for removing dopamine from the neural synapse. Source: www.wikipedia.org

⁹⁸⁴ Hsu M, Bhatt M, Adolphs R, Tranel D, Camerer CF. 2005. Neural systems responding to degrees of uncertainty in human decision making. *Science* 310:1680–83

„fear center” of the brain. Fear may be the emotional expression of estimation uncertainty, just like arousal accompanies positive reward prediction errors (and relates to activation of the dopamine system). That is, fear may act as a dual signal, relaying both a caution not to bet on things unknown and a directive to find out more (Hsu et al. 2005)⁹⁸⁵. All these regions (amygdala, insula and the dopamine system) have in common perhaps the most important feature of the human condition: emotions. Studies have showed that subjects who fail to express emotional anticipation when making risky decisions (because of specific brain lesions) consistently opt for inferior financial choices.

Neurofinance literature analyses the role of affect in financial decisions. Lo & Repin⁹⁸⁶ (2002) found that professional securities traders experience emotional states characterized by high arousal market events such as high price volatility, using peripheral measures of arousal, like skin conductance and blood volume pulse. Lo, Repin and Steenbarger (2005) found that subjects whose emotional reaction to monetary gains and losses was more intense on both the positive and negative side, exhibited significantly worse trading performance⁹⁸⁷. **Kuhnen and Knutson**⁹⁸⁸ (2005) found that Nucleus accumbens activation preceded risky choices as well as risk-seeking mistakes, while anterior insula activation preceded riskless choices as well as risk-aversion mistakes. These findings suggest that distinct neural circuits linked to anticipatory affect promote different types of financial choices, and indicate that excessive activation of these circuits may lead to investing mistakes. So in another study of them in 2007⁹⁸⁹ they can predict what goods people purchase by measuring activation in the same areas of the limbic or emotional system. The manner a person likes a product, is correlated with activation in the nucleus accumbens, while charging excessive prices for the product, activated the insula. This is the main reason why companies have started to conduct **neuromarketing** and measure brain activation in order to see whether their products will be a success. In 2008⁹⁹⁰ another study of them, affirmed that nucleus accumbens (NAcc) activation spontaneously increases prior to financial risk taking. Using event-related fMRI, they predicted and found that anticipation of viewing rewarding stimuli, cues influence financial risk taking by altering anticipatory affect, and so identify a neuropsychological mechanism that may underlie effective emotional appeals in financial, marketing, and political domains.

Behavioral and neural studies of **temporal discounting**, (Zak, 2004), states that one of the major behavioral differences that exists between human and other animals is the ability to postpone immediate gratification for a future (possibly larger) reward. It is interesting to see the main types of discounting: exponential discounting that implies a constant preference between rewards should exist over time, and the hyperbolic discounting, that show a clear tendency to discount expected outcomes proportionate to their delays exists and often there is a preference reversal between the immediate and the delayed reward in the period of time just before the reward is due. Knutson et al (2009) tested a „future self-continuity” hypothesis that individual differences in the perception of one’s present self as continuous with a future self would be associated with

⁹⁸⁵ Bossaerts, P. “What Decision Neuroscience Teaches Us About Financial Decision Making”, The Annual Review of Financial Economics, Pg 391, 2009

⁹⁸⁶ **Lo, Andrew W. and Repin, Dmitry V.**, *The Psychophysiology of Real-Time Financial Risk Processing*” (October 2001). MIT Sloan School of Management Working Paper No. 4223-01; MIT Laboratory for Financial Engineering Working Paper No. LFE-1039-01.

⁹⁸⁷ **Lo, Andrew W., Dimitry V. Repin and Brett N. Steenbarger.** “Fear And Greed In Financial Markets: A Clinical Study Of Day-Traders,” American Economic Review, v95(2,May), 352-359, 2005

⁹⁸⁸ **Kuhnen, Camelia M. and Knutson, Brian,** „The Neural Basis of Financial Risk Taking”. Neuron, Vol. 47, pp. 763-770, September 1, 2005

⁹⁸⁹ **Knutson, B., Rick, S., Wimmer, G.E., Prelec, D. and Loewenstein, G.** “Neural predictors of purchases”, Neuron, 53, 147-156, 2007

⁹⁹⁰ **Kuhnen, Camelia M. and Knutson, Brian,** „The Influence of Affect on Beliefs, Preferences and Financial Decisions” Journal of Financial and Quantitative Analysis, (Sep. 30, 2009).

measures of saving in the laboratory and everyday life. Higher *future self continuity* predicted reduced discounting of future rewards and greater lifetime of accumulation of financial assets, promoting saving for the future⁹⁹¹. Shiv⁹⁹² et. al. (2005) tested the “*Myopic loss aversion*” hypothesis and showed that the lesion patients would be less risk averse and would be more profitable, since their brain lesions mitigated the affect associated with fear of money loss. McClure⁹⁹³ et al (2004), used fMRI to show that decisions based on instant reward activated parts of the limbic system associated with the dopamine pathways. They found that tradeoffs involving delayed monetary rewards largely activated regions of the lateral prefrontal cortex, the brain region associated with cognitive introspection, illustrating the important of the limbic system in the human decision making. Bossaerts (2009) suggests that emotions play a crucial supporting role in the mathematical computations needed for reasoned choice, rather than interfering with it, even if emotions may not always be balanced appropriately. Tom et al (2007) analyzed whether loss aversion were predicted by a measure of neural loss aversion in several regions, including the ventral striatum and prefrontal cortex⁹⁹⁴.

Should computers replace humans in financial markets? Bossaerts (2009) says no, because humans with all the limitations and maladapted brains to certain situations, they are better at certain tasks. Neurofinance should identify these limitations and help people replicate success. Computers should overcome only when humans cannot adapt. (It is very well known that most of the banks that play their money on FX have impressive robots that trade under certain algorithms). Neurofinance is bound to impact all of finance, with impact on household, consumer finance, college and retirement plans, corporate finance, microfinance, most of the market professionals and many other subfields of finance. As Kuhnen (2007) concludes, findings from neuroeconomics and neurofinance may also be used by policy makers, in order to increase social welfare. If government wants to encourage workers to save more for retirement, it may design financial policies that trigger the right part of the limbic system to induce the desired behavior. Or if they want to discourage some activities, they should institute incentives that trigger people risk-averse part of the brain, knowing how brain works when faced with uncertainty.

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⁹⁹² **Shiv, B. Loewenstein, G. Bechara, A. Damasio, H. and Damasio A. R.**, „*Investment Behavior and the Negative Side of Emotion*” Psychological Science **16**, 435-439, 2005

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⁹⁹⁴ **Tom, S.M., Fox, C.R. Trepel, C. Poldrack, R.A.**, “*The neural basis of loss aversion in decision making under risk*”, Science, Vol. 315 pp.515 – 518, 2007

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THE IMPACT OF EUROPEAN INTEGRATION ON THE ROMANIAN BANKING SYSTEM

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This paper describes the evolution registered by the Romanian banking system over the last years in the context of accession to the European Union. The analysis presents the progress registered by our banking system, the main characteristics of Romanian banking activity after 2007 as well as a brief analysis of profitability indicators.

Keywords: European accession, banking system, profitability indicators

JEL Classification: G21

Introduction

The banking reform in Romania began in December of 1990 when the authorities have proposed the development of new banking legislation designed to obtain a modern banking system. In this way the old system was replaced with a system organized on two levels: the Romanian National Bank and commercial banks. Over the past years Romania's banking system experienced a dynamic economic development and economic growth.

One of the key elements in the process of nominal and real convergence imposed by the new economic environment was the National Bank of Romania. The accession to the European Union strengthened the performance of the reform, and NBR's activity became more and more efficient. Romania's adhesion to the European Union in January 2007 was a long awaited and prepared moment. It was neither the start nor the end of the long journey of European integration that the country had taken. Once Romania became a member of the European Union the National Bank of Romania became a member of The European System of Central Banks (ESCB).

Since 2007 the main preoccupations of NRB were: participation of our central bank in the ECB Euro system, improving banking supervision, implementation of Basel II principles, development and application of the convergence program, a monetary policy which aims at price stability.

National Bank of Romania, as a supervisor, acted in response to new threats caused by the financial crisis in the following way: by providing liquidity, by close monitoring of banks, implementing new measures to improve prudential regulatory framework and in collaboration with the Government signed some funding agreements with the International Monetary Fund and the European Union.

Consequences upon the banking segment due to the European accession.

Studies of the banking system performed within the field disclose positive results due to the accession. The financial and banking integration results are estimated from the following aspects: The union with a distinctive market of financial services and banking products, which offers business potential under the most encouraging terms, putting forward optimizing promises of the economic performances from the macro stabilization standpoint, of the higher efficiency levels and increasing people's wellbeing.

Macro economic stabilization under the circumstances in which banks operating in two countries may import assets in countries where there are financing opportunities, thus protecting thus national economy against possible bank distress.

Banking consolidation reflects structural modifications which might produce additional competitiveness within the monetary setting, increasing client's wellbeing, operational

effectiveness and profit in terms of reducing the expenses per product unit or bank service. Bank unions may improve the effectiveness of the entire activity of the banking segment.

The main characteristics of Romanian banking activity after 2007

The first year after the accession to the European Union was an excellent year for the banking market. The main result of the European accession was the increasing competition in the domestic market. Other favorable outcomes were the dynamic banking activity and the increasing attractiveness and diversification of banking products. There could be easily observed a competition between different banks in offering more sophisticated and complex services. There is a constant effort directed towards customer attraction and portfolio enlargement. Following this path banks began to offer “express” credits, by trying to tell in less than half an hour if the client is eligible for a credit.

There was an unmatched expansion of the banking network and specialized units dedicated to corporate and retail were opened. New agencies became operational for being nearer to the potential clients. The revitalization of banking products was successful due to the bank’s capability to offer promotional products which were easily accessible, and rapidly available. These are just a few signs that banks increase the market consistence.

The entry of the foreign banks on the Romanian national banking market improved the competition between banks, leading to high quality of services offered to clients by reducing costs, as well as requiring domestic banks to compete in their products range by creating new products and services. Levine Ross believes that foreign banks may improve the quality and availability of financial services in the domestic financial banking competition and may encourage the implementation of modern technologies. Foreign banks can serve to stimulate the development of the underlying banking supervisory and legal framework. They also can enhance a country's access to foreign capital.

In 2007 the Romanian market became a target for the European credit institutions. Romania’s addition to an integrative group as EU had a favorable impact on the banking system. Many foreign financial groups consider that the national market is favorable for the opening of new units. Several foreign banks opened bank branches in Romania. This operation was encouraged by restrictive monetary policy imposed by NBR. As the foreign banks must comply with the requirements of the country of origin they have significant cost advantages.

The presence of foreign banks raised the competition level and offered many new banking products and direct provision of services in Romania leading to changes in the structure of domestic banking system. The most spectacular market entry belonged to Millennium Bank, member of the Portuguese Millennium group. Also 2007 brought major changes for banks in the first echelon, at the middle of the year the largest merger on local banking market was completed. HVB Țiriac Commercial Bank merged with Unicredit Romania, whose newly established entity presently operates under the name of Unicredit Țiriac Bank S.A. It should be noted that in the same year BCR came under the control of Erste Bank. In the same period Belgium's Fortis received the operating authorization from NBR, The Iberian group La Caixa has opened a unit in the Romanian Capital. In addition, Finicredito Branch of the Portuguese group appears on the list of new branches. Beginning March 2008 the Romanian Branch of Blom Bank Egypt transferred its operations to the Romanian Branch of Blom Bank France S.A Paris.

In year 2008 has triggered the greatest financial crisis of the past 80 years. Originally called "credit crisis" by the specialists, this financial crisis is almost unprecedented. Although initially it was said that the Romanian banking system and economy will not be affected by this crisis, the negative impact has been felt since fall of 2008. Now, most opinions are leaning towards the conclusion that Romania is affected, but not directly and not as much as other countries that have a higher exposure to sub prime mortgage loans. At the start of the crisis, the Romanian economy had been driven through a period of several years of growth in high rates. The banking sector which has a dominant position in ours financial system had a good resistance to pressure manifested by the financial crisis. However, the global economic crisis had many negative effects

like: negative consequences on quality credit portfolio, worsening perceptions of risk, changes of interest rate of monetary policy, and interest rates charged on loans and deposits. Also a sharp contraction of non-government credit took place. Interest rates were changed and non performing loans increased. Tendency to extend the activity in new territory became lower and the number of employees became smaller.

In terms of banking structure the Romanian banking sector hasn't recorded significant changes in 2008 and the first quarter of 2009 (Table 1). DEPFA Bank Plc. Dublin opened a new branch in Bucharest and there were changes in the shareholding structure of ABN AMRO Bank, now called RBS Bank Romania S.A., after its takeover by the Royal Bank of Scotland. CitiBank România S.A. has changed its status becoming a branch of CitiBank Europe in Romania.

In 2009 in Romania there were 43 credit institutions, 32 Romanian legal entities and 11 branches of EU banking groups. In the context of the service market relaxation generated by Romania's accession to EU, BNR received notifications from 174 institutions from abroad willing to provide financial services directly in Romania.

Table 1: Romanian banking sector structure

	2005	2006	2007	2008	T12009
No. Credit institutions	40	39	42	43	43
No. banks with majority foreign capital	30	33	36	37	37
Branches of foreign banks	6	7	10	10	11
No. banks with majority private capital	38	37	40	41	41
Market share of top five banks	58,8	60,3	56,3	54,4	54,3
Herfindahl-Hirschmann index	1124	1171	1046	926	906

Source: Source: BNR-RSF 2008

The efficiency of the banking system is reflected in the degree of system's concentration. The degree of concentration is measured using the Herfindahl-Hirschmann index or market shares in terms of assets held for the five largest banks in the system. The banking systems with a higher degree of concentration are usually less exposed to a banking crisis. The Romanian banking sector was characterized by a high concentration degree even from the first years of the banking reform. Since 2006, the Herfindahl-Hirschmann entered on a slightly downward curve, giving the image of a moderate degree of concentration. In 2008 and first quarter of 2009 the concentration degree in Romania continued its decreasing trend and in March 2009 market share of top five banks in total assets recorded a decrease to 54.3 %. Market share of loans fell to 53.7 %. On the liability side, the degree of concentration for the top five banks in the system held a total of 53.91 % in deposits. In terms of share held by the five largest banks in aggregate assets Romania is close to the average of other EU Member States.

Impact of EU accession on bank intermediation in Romania

Banks are designed to mediate the relationship between those who registered a surplus and those who recorded a shortage of resources, transforming economies and monitoring credit lending processes. Along with Romania's EU entry an increase of financial intermediation was recorded, although growth of financial intermediation accelerated in 2007 it is still one of the smallest in the European Union. Financial intermediation quantified using credit indicator Non-government credit / GDP in 2008 reached a value of almost 40% of GDP. Romania recorded the lowest level

of financial intermediation among the new EU state members states at greater distance from the EU-15 (123,1%) or UE-25(118,9%). Financial intermediation quantified using the bank assets/GDP reached a value of 62% in 2008. Romania still exhibits a lower degree of financial intermediation compared to other countries in EU, indicating significant potential for future growth.

In terms of lending activity of the Romanian banking system over the past several years we can see some features. Even if in 2007 loan products abounded on Romanian banking market, the end of 2008 was marked by relative suppression of activity of private sector lending, retail and corporate alike. Retail credit has been affected by restrictive conditions imposed by the central bank new lending rules and by the economic-financial international context. Restricting lending to businesses was due primarily to the increase of difficulty to access bank funding. End of 2008 banking market had stiff competition in attracting deposits. Reached very high interest rates and led to increased credit costs. The first half of 2009 brought low-performing banking loans along with high financing costs, which generated economic pressure that recorded a sharp decline in the lending appetite.

The loans granted to the population registered a fast decrease in 2008 (only 30.5%, compared with 71 % in the previous year) and in the first quarter of 2009 (19% compared to end-March 2008). The same trend was noted in the case of credit non-financial corporations.

The non-governmental credit's structure registered after Romania accession to the European Union created some changes in terms of the currency in which the credit was granted. Analysis of credits given to population depending on the currency by 2006 showed a predominance of loans in lei. Since 2007 foreign currency loans dominated in a total of 53.05% share of total lending to the population. This tendency of loan currency is also seen in 2008. Foreign currency loans had a faster evolution than in local currency in most countries of Central and Eastern Europe. More attractive terms of financing and currency appreciation which tend to feature in transition countries may be possible explanations of growth in the foreign exchange component of non-governmental credit. Therefore, the predominant inclination in the structure of credits granted to population was the ones in foreign currency. In the area of the retail segment, the consumption credits represented 77, 1%, while the credits for dwellings held an inferior percentage of 19, 9% at the level of 2007, the last ones being mainly contracted in foreign currencies.

Within the retail component in 2008, the credit's structure according to their destination underwent major changes against the year of 2007. The consumption credits remained dominant, holding 74,3% from the total, with a slight preference for the national currency superior to the foreign currency one, while this component is much more represented in the dwelling credits holding up to the end of 2008 a percentage of 92,1% from the total of dwelling credits.

Specialists pay attention to analysis of bank performance, especially to concentration and profitability, because banking performance is best represented by profitability indicators.

Table 2: Evolution of indicators of profitability in the Romanian banking system in 2004 - 2009

Indicators	2004	2005	2006	2007	2008	2009
Solvency Ratio	20,6	21,6	18,1	13,78	12,34	14
ROA	2,4	1,9	1,5	1,3	1,4	0.2
ROE	18,5	15,2	11,7	11,4	15,9	2.7

Source: BNR-RSF 2008 and FMI, Global Financial Stability Report

A healthy bank system is built on profitable banks, this is the reason why understanding the profit sources and analysis of profitability indicators is really important. Since 2004 profitability indicators of our banking system had a descending trend. In 2007, the profitability of Romanian

banks followed the downward trend due to: the increase in the cost of investments and due to the narrowing of interest margins.

Solvency Ratio in the banking system in Romania registered a decrease in recent years. Solvency ratio or capital adequacy has been a constant preoccupation of bank management and prudential regulations because of its significance on the soundness and security of bank deposits. Solvency ratio remains at a higher level than the minimum threshold required by the prudential regulations applicable in Romania since 2007 and also on European and international level.

Return on assets – ROA is an indicator that best reflects the bank's management capability to use resources available in order to optimize bank's profit. This indicator finds a downward trend during the analyzed period for the Romanian banking system. In 2009 the ratio between net profit and total assets on annualized average dropped to 0.2% from 1.4% in December 2008.

Similarly, *Return on equity ROE* the indicator which constitutes the most significant expression of profit and highlights the results of bank management in its entirety, reached 2.7% at the end of December 2009 from 15.9% in December 2008.

Despite the decline recorded in the recent years for both indicators of profitability return rate on assets (ROA) and return rate on equity (ROE) evolution does not indicate deterioration of the banking sector profitability. The result of intensifying competition and the decrease of inflation lead to the decrease of the interest rates and implicitly of the income of the banks. In recent years banks accepted lower profit margins to consolidate market position.

Compared with EU countries Romanian banking system has a lower financial return than the European average, situation resulting from the reduction in recent years of spread between the assets and liabilities.

Conclusions

European Union can be seen as a well developed and solid economic structure. Romania's accession to the UE had a positive effect on the banking climate and also put pressure to achieve compatibility. The Romanian banking system suffered a major move on with the integration into EU, in terms of structure. The new banking entities appeared due to purchases and mergers, share of foreign capital participation has increased substantially and the presence of foreign banks raised the competition level. Despite this the international crisis had negative effects on the Romanian banking system and Romania's desire to adopt the euro revealed weaknesses in the system. To exit the crisis and to recreate a competitive, robust and efficient system a few changes must be made where weaknesses should be removed. Banks must prove that they are a trusted brand, their product portfolio must be constantly renewed and operate effectively in terms of costs. These are some requirements that banks must meet in order to remain competitive in the EU market. Due to the lack of external financing strongly felt because of the financial crisis, the banks should pay more attention to the selling activity.

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CENTRAL BANK INDEPENDENCE AND INFLATION TARGETING – THE BRITISH EXPERIENCE

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Known as the 'Old Lady' of Threadneedle Street, the Bank of England is the central bank of the United Kingdom. Founded in 1694, the Bank of England is standing at the centre of the United Kingdom's financial system, and is committed to promoting and maintaining monetary and financial stability as its contribution to a healthy economy. In our opinion, it is very important to analyze the Bank of England's monetary policy strategy, starting from 1992 – adoption of the inflation target and the evolution of its monetary policy strategy, through an important feature – delegating operational accountability regarding the monetary policy in 1997 as well as the appropriate institutional framework. More over, it is important to analyze the Bank of England's performances before and after granting central bank independence.

Keywords: Monetary policy strategy, central bank transparency, central bank accountability, inflation reports, index of central bank independence and inflation targeting

JEL Classification: E50, E52, E58.

1. Introduction

The Bank of England's history is naturally one of interest, but also of continuing relevance to the Bank today. Events and circumstances over the past three hundred years have shaped and influenced the role and responsibilities of the Bank. They have moulded the culture and traditions, as well as the expertise, of the Bank which are relevant to its reputation and effectiveness as a central bank in the early years of the 21st century. At the same time, much of the history of the Bank runs parallel to the economic and financial history, and often to the political history, of the United Kingdom more generally.

In pursuing its goal of maintaining a stable and efficient monetary and financial framework as its contribution to a healthy economy, the Bank has two core purposes: achieving them depends on the work of the Bank as a whole. The Bank of England exists to ensure monetary stability and to contribute to financial stability:

- *monetary stability* – means stable prices and confidence in the currency; stable prices are defined by the Government's inflation target, which the Bank seeks to meet through the decisions delegated to the Monetary Policy Committee, explaining those decisions transparently and implementing them effectively in the money markets;

- *financial stability* – entails detecting and reducing threats to the financial system as a whole; such threats are detected through the Bank's surveillance and market intelligence functions; they are reduced by strengthening infrastructure, and by financial and other operations, at home and abroad, including, in exceptional circumstances, by acting as *the lender of last resort*.

In pursuing of both purposes the Bank is open in communicating its views and analysis and works close with others, including:

- other central banks and international organizations to improve the international monetary and financial system;

- the Treasury and Financial Services Authority, under the terms of memorandum of understanding, to pursue financial stability.

The Bank of England will also play its part in promoting an open and internationally competitive financial centre in the United Kingdom using its expertise to help make the United Kingdom financial system more efficient, where such efforts would be in the public interest and provided that they do not conflict with its primary responsibilities of those of other agencies.

The current governance and accountability is set by the 1998 Bank of England Act, which provides for a Court of Directors, a Committee of Non-executive Directors within the Court and a Monetary Policy Committee.

The Court of Directors is responsible for managing the affairs of the Bank, other than the formulation of monetary policy. The Bank of England has a statutory objective *to contribute to protecting and enhancing the stability of the financial system of the United Kingdom* and the Court, consulting the HM Treasury, will determine the Bank's strategy in relation to that objective. The Court's responsibilities under the 1998 Act include determining the Bank's objectives and strategy, and ensuring the effective discharge of the Bank's functions and the most efficient use of its resources.

The Monetary Policy Committee (MPC) – the Bank of England establishes the MPC as a Committee of the Bank, subject to the oversight of NedCo (Committee of Court consisting of all the Non-executive Directors, with a Chairman appointed by the Chancellor), and sets a framework for its operations. According to the Act, the Bank's objectives in relation to the monetary policy are to maintain price stability and, subject to that, to support the Government's economic policies, including its objectives regarding growth and employment. At least once a year, the Government specifies the price stability target and its growth and employment objectives. The MPC must meet at least monthly; its members include the Governor and Deputy Governors, two of the Bank's Executive Directors and four members appointed by the Chancellor.

2. Central Bank Independence

Over the last few years many central banks have made significant strides towards greater accountability and transparency. There has been a dilution of what Karl Brunner (1981, p.81) once called 'peculiar and protective political mystique' that has traditionally surrounded central banking. Central banks in countries which have recently adopted inflation targets have all become more open about the formulation and presentation of their monetary policies (Haldane, 1995). Similar movements have been evident among central banks recently granted greater independence through legislative changes; and in the United States the debate regarding replacement of the Humphrey-Hawkins Act – and its multiple objectives – with a single objective of price stability, and on the publication of the full transcripts of Federal Open Market Committee (FOMC) meetings. *How might we best explain this shift towards greater accountability and transparency? One answer is that greater accountability has run hand – in – hand with moves towards greater central bank independence: greater accountability is the government's quid pro quo for granting greater central bank autonomy. This is because independence delegates responsibility for monetary policy to an ultimately unelected authority – the central bank. So making this authority accountable for its actions insures against a democratic deficit.*

The logic of central bank independence can be noticed by looking at the different views of elected politicians and of central bank decision makers. Democratic leaders run for office promising change and improvement rather than continuity and stability, whereas an incoming head of a central bank will almost certainly want to continue the policies of a successful predecessor and will enhance his or her commitment to do so. Political independence and non-partisan monetary policy provide the promise of monetary policy stability over time, which in

turn stabilizes expectations on the asset market. Such stability and continuity are essential for a successful monetary policy (Dumiter, 2009 p. 26).

Central bank independence requires that the head of the bank has a term of office long enough to prevent government revision of the monetary policy decisions. However, such structural features of central bank's institutional design are only the starting point for central bank independence. If the government publicly attacks the central bank's policy, then the independence will certainly be incomplete (Dumiter, 2009 p. 26-27). The tenures of the British Governors starting with 1901 are presented in table 1.

Table 1 Former Governors of the Bank of England (1901 - Present)

Chairmen	Date of term
Sir Augustus Prevest	1901 – 1903
Samuel Hope Morley	1903 – 1905
Alexander Falconer Wallace	1905 – 1907
William Middleton Campbell	1907 – 1909
Reginald Eden Johnston	1909 – 1911
Alfred Clayton Cole	1911 – 1913
Walter Cunliffe	1913 – 1918
Sir Brien Ibrican Cokayne	1918 – 1920
Montagu Collet Norman	1920 – 1944
Lord Catto of Cairncatto	1944 – 1949
Cameron Fromanteel Cobbold	1949 – 1961
The Earl of Cromer	1961 – 1966
Leslie Kenneth O'Brien	1966 – 1973
Gordon William Humphreys Richardson	1973 – 1983
Robert (Robin) Leigh – Pemberton	1983 – 1993
Edward Allan John George	1993 – June 2003
Mervyn Alister King	2003 - Present

Source: By Author's.

In our opinion it is very important to measure central bank independence and inflation targeting with the *Index of central bank independence and inflation targeting* (Dumiter, 2009). The index has three main pillars: Political and legal central bank independence (PLCBI), Central bank governance and conduct of monetary policy (CBGCMP) and Central bank transparency and accountability (CBTA). Measuring central bank independence and inflation targeting in the United Kingdom was made by analyzing the central bank website, the central bank laws and statute, different norms and regulations and other publications and studies available on the central bank website and on the real practices of the development central bank in the period 1980 – 2009.

Regarding the first pillar PLCBI, the Bank of England has a high score (8.33 points out of 10 points), which means that the central bank has a high degree of political and legal independence due to the five years term of the central bank Governor, a lower level of the turnover rate of the central bank Governor (0.10) and a non - political vulnerability. However, we can identify some weaknesses regarding this pillar: the three years tenure of the MPC members and the authority of the Queen in the appointment procedures of the central bank.

With a total score of 7.13 points out of 10 maximum possible of the second pillar, Central bank governance and conduct of monetary policy of the Index of central bank independence and inflation targeting, the Bank of England has no authority in establishing the annual inflation target, we can observe the government prevalence over the monetary authority regarding a policy conflict. However, the most important features regarding this criterion are: price stability – the major objective of monetary policy, inflation targeting as monetary policy strategy, a high degree of instrument independence established by the 1998 charter, the central bank authority in establishing and managing the interest rate, the central bank autonomy in establishing, deciding and regulating foreign exchange operations and the explicit interdiction of government lending.

Central bank transparency and accountability has a total score of 8.37 points out of 10 maximum score, which means that the Bank of England has a high degree of transparency and accountability due to the explicit prioritization of the price stability objective, explicit institutional arrangements between government and central bank, the public availability of the time series for the main macroeconomic indicators and the model of the economy, publishing the Inflation Report, an important document designed and established by the Bank of England, which contains information about future projections of inflation and output, public explaining and justifying to the society the monetary policy decision and actions as well as the auditing of the central bank financial situations by external auditors.

3. Inflation targeting

The United Kingdom followed Canada in adopting inflation targeting, but under quite different circumstances. Canada came to inflation targeting gradually, through a process of experimentation and discussion. In contrast, British adoption of the inflation targeting approach was provoked by a crisis, namely the foreign-exchange crisis of September 1992, which resulted in the floating depreciation of the pound. Inflation targeting was adopted in Britain largely as a means of restoring the credibility of monetary policy lost in the speculative crisis and to provide an alternative nominal anchor.

The key features of inflation targeting in the United Kingdom are:

- The United Kingdom adopted inflation targets in the aftermath of a foreign exchange crisis, in order to strengthen the credibility of monetary policy and restore a nominal anchor. Like other countries, the United Kingdom's adoption of targets also followed a period of successful disinflation, which made hitting the initial targets relatively easy.
- Monetary policy in the United Kingdom under inflation targeting remains relatively flexible, an approach more akin to that of Canada than to that of New Zealand, where the central bank has somewhat less discretion in the short run. In particular, the monetary policy in the United Kingdom has responded to fluctuations in output and employment.
- The inflation target in the United Kingdom is defined in terms of the annual change in retail prices excluding mortgage interest payments, or RPIX. Attention is also paid to the price index RPIY, which is RPIX less the first-round effects of indirect taxes. Both RPIX and RPIY include food and energy prices, so that the target index has in practice been a compromise between headline inflation and a measure of `core` or `underlying` inflation. The agency responsible for constructing these two indexes (Office for National Statistics) differs from the agency that assesses whether the target has been met (Bank of England).

- Initially, the United Kingdom set a target range for inflation. Since May 1997 the target has been expressed as a point, but with `thresholds` on either side. If inflation breaches a target threshold, the Bank of England is required to provide a formal explanation to the government.
- Before the Bank of England achieved independence following the May 1997 election, it had little independent control over the instruments of the monetary policy; control was exercised instead by the Chancellor of the Exchequer. Under the pre-1997 targeting regime, the activities of the Bank were substantially limited to forecasting inflation and assessing past inflation performance. Rather than being a fully active policymaker, to a considerable degree the Bank functioned as the Chancellor's `counter-inflationary conscience`.
- In part because of its weak position before May 1997, the Bank focused its inflation-targeting efforts on communicating to the public its monetary-policy strategy and its commitment to price stability. In doing so, it relied heavily on publications such as the *Inflation Report*, an innovation that has been emulated by other inflation-targeting countries.

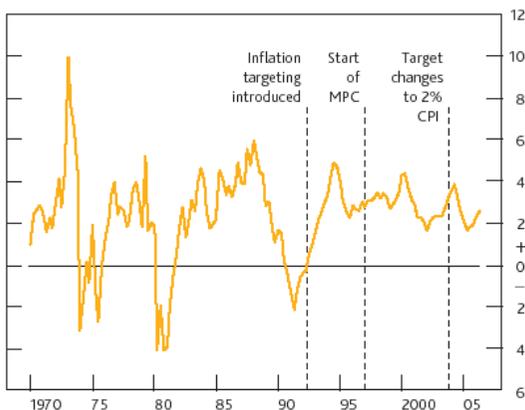


Figure 1 GDP evolution in the United Kingdom (standard deviation from previous year)
Source: Bank of England (2008).

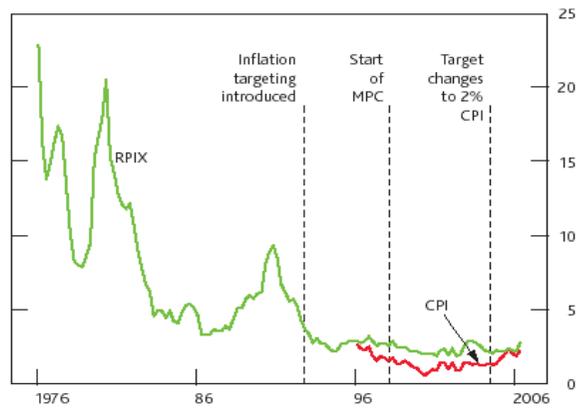


Figure 2 Inflation in United Kingdom (standard deviation from previous year)

The Bank of England's policy objective is to deliver price stability – low inflation – and, subject to that, to support the Government's economic objectives including those for growth and employment. Price stability is defined by the Government's inflation target of 2%. The remit recognises the role of price stability in achieving economic stability more generally, and in providing the right conditions for sustainable growth in output and employment. The Government's inflation target is announced each year by the Chancellor of the Exchequer in the annual Budget statement. The 1998 Bank of England Act made the Bank independent to set interest rates. The Bank is accountable to parliament and wider public. The legislation provides that if, in extreme circumstances, the national interest demands it, the Government has the power to give instruction to the Bank on interest rates for limited period.

The inflation target of 2% expressed in terms of an annual inflation based on the Consumer Prices (CPI). The remit is not to achieve the lowest possible inflation rate. Inflation below the target of 2% is judged to be as bad as above the target. The inflation target is therefore symmetrical. If the target is missed by more than 1 percentage point on either side – i.e. the annual inflation rate of CPI inflation is more than 3% or less than 1% - the Governor of the Bank must write an open letter to the Chancellor explaining the reasons why inflation has increased or fallen to such an extent and what the Bank proposes to do to ensure inflation comes back to the target. A target of 2% does not mean that inflation will be held at this rate constantly. That would be neither possible nor desirable. Interest rates would be changing all the time, and by large

amounts, causing unnecessary uncertainty and volatility in the economy. Even then it would not be possible to keep inflation at 2% in each and every month. Instead, the Monetary Policy Committee's aim is to set interest rates so that inflation can be brought back to target within a reasonable time period without creating undue instability in the economy.

Since 1992, the economic performances of the British economy have been improved (Figures 1 and 2), inflation recorded stable and lower level around the target. By adopting the inflation targeting regime, the RPIX inflation has been in average 2.6 % and the RPI inflation and average of 1.8 %. The Monetary Policy Committee (MPC) was created in June 1997, where the RPIX inflation was 2.4% and the PRI inflation was 1.4%, with a deviation of maximum one percentage point from the target. This fact represents a high performance of the British economy, and expected to happen once the institutional arrangements will be applied: the economic data from that period suggested that inflation will be 40% of the time with more than one percentage point above the target. More over, the inflation projection figures show a higher risk for inflation deviation from the target, more than one percentage point.

4. Conclusions

Improving the institutional arrangements (central bank independence) for the economic policy will be given a high priority by the British Government in order to deliver long term economic stability and rising prosperity. The Bank of England Manifesto commitment is to *ensure that decision – making on monetary policy is more effective, open, accountable and free from short - term political manipulation*. Within the overall responsibility for economy policy, including stability, growth and employment, and for setting the inflation target, The Government has been delegated the Bank of England operational responsibility in setting interest rates. Price stability is a precondition for high and stable levels of growth and employment, which in turn will help to create the conditions for price stability on a sustainable basis. To that end, the monetary policy objective of the Bank of England will be to deliver price stability (as defined by the Government's inflation target) and without prejudicing this objective, supporting the Government's economic policy, including its objectives for employment and growth.

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INTELLECTUAL CAPITAL VALUATION USING MONTE CARLO SIMULATION

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We present a simulation model in this paper to determine the value of intellectual capital. In frame of the simulation model we have used the Baruch Lev's intellectual capital valuation modell. We have built in the Baruch Lev model in a two-dimensional Monte Carlo simulation modell. We have determined the intellectual capital in case of some stock exchange company. The calculation are presented in case of a selected company.

Key words intellectual capital valuation, Baruch Lev, Monte Carlo simulation, two dimensional simulation

JEL code G12, G31, C15

1. The importance of intellectual capital

Nowadays an increasingly important factors of the value creation in developed economies are mostly invisible. These assets – staff expertises, process quality, computer programs, patents, brands etc. – are delivering a fast-growing contribution to corporate competitiveness. These invisible assets play a particularly important role in case of research- and knowledge intensive companies.

Thomas A. Stewart in his book "Intellectual Capital" (1997) redefined the priorities of businesses, demonstrating that the most important assets owned by the today companies are most often not the tangible goods, equipment, financial capital, or market share, but much rather the intangibles: patents, the knowledge of workers, and the information about customers and channels as well as the past experience that a company has in its institutional memory.

Some authors are referred these assets as intangible assets, others as intangible capital, and others as intellectual capital, however, they all think of the same category of assets. The terms “are widely used – *intangibles* in the accounting literature, *knowledge assets* by economists, and *intellectual capital* in the management and legal literature – but they refer essentially to the same thing: a nonphysical claim to future benefits. (*Lev, 2001*)

In the article „New Math for New Economy” (*Webber, 2007*) we can read: In case of the S&P500 index the market-to-book ratio of the companies constituent the index -- that is, the ratio between the market value and the net-asset value of these companies -- is now greater than 6. This means that the financial report number represents only 15 % to 16 % of the value of these companies. Even if the stock market is inflated, even if you chop 50 % off the market capitalization, you're still talking about a huge difference between value as perceived by those who pay for it day-to-day and value as the company accounts for it.

The beginning of the last century the ratio of intangible business capital to tangible business capital was 30% to 70% which has been changed into its opposite nowadays. In the past several years, there has been a dramatic shift, a transformation, in what the intangibles have become the

major assets of the value creation and growth. Nowadays, the intangibles are fast becoming substitutes for physical assets.

Today, many executives recognize the importance of intellectual capital as a principal driver of firm performance and a core differentiator. But not only enterprises are seeing the value in intellectual capital; governments are also recognizing the importance of it. The European Union, for example, aims for their membership countries to invest a minimum of three percent of their GDP into research and development initiatives in order to grow their intellectual capital and become more competitive in the knowledge economy. (*Joia, 2007*)

2. The intellectual capital statement

An increasing number of firms start to report their corporate intangible aspects even without the force of regulations. This trend is especially observable in Europe with various initiatives by the European Commission (in frame of projects such as METITUM, E*KNOW NET, PRISM). Another example is presented by the Danish Department of Trade and Industry, which produced guidelines of how companies can produce intellectual capital reports. In Austria the government has passed a law that all universities have to report on their intellectual capital, in the UK companies will be forced to produce an Operating and Financial Review outlining many intangible elements of their business, and countries as diverse as Iceland, Germany, and Spain have started their own initiatives. (Mouritsen et al., 2003; Bratianu, 2009)

Intellectual capital statements can serve to structure and assign priorities to knowledge management efforts within the organisation.

- The statement helps the organisation to focus on what it actually does to to develop its knowledge resources and what the effects are of such activities.
- The process of preparing an intellectual capital statement can help to create a culture of knowledge sharing.
- The statement tells the organisation what it must know and what it must excel at, what can be relevant for organisational development.
- The publication of intellectual capital statements can lead to better communication. It can signal the principles of knowledge management practised by a company, to both internal and external stakeholders.
- The intellectual capital statement can also help to attract new employees.
- The intellectual capital statement can also improve the communication between the company and its customers.

3. Methods for evaluation of intellectual capital

An enormous number of the theories, models and methods helping on understanding and measuring of the companies' intellectual capital refer to that there is no generally accepted theoretical model for understanding and measuring of the intellectual capital. (*Petty-Guthrie, 2000*)

There are several methods that can be used to determine the corporate value of the intellectual capital, such as

- Economic Value Added (EVA),
- Market Value Added (MVA),
- Tobin's Q Ratio,
- Balanced Score Card,
- Skandia's IC Navigator,
- Intellectual Capital Services' IC-Index,
- Technology Broker's IC Audit,
- Sveiby's Intangible Asset Monitor (IAM),

- Real Option Theory.

Baruch Lev said in an interview about the model, which was used to determine the value of company's intellectual capital, the followings: "I've developed a way to measure knowledge assets, intellectual earnings, and knowledge earnings. It's a computation that starts with what I call "normalized earnings" -- a measure that's based on past and future earnings. ... My approach looks at the past. Based on those forecasts, I create an average, and I call that average normalized earnings. From those normalized earnings, I then subtract an average return on physical and financial assets, based on the theory that these are substitutable assets. ... So when I subtract from the total normalized earnings a reasonable return on the physical and financial assets, I define what remains as the knowledge earnings. Those are the earnings that are created by the knowledge assets." (Webber, 2007)

To construct the simulation model we used the Baruch Lev's model. To determine the normalized earnings we used five-year historical data and five-year forecast data. (Table 1)

Table 1: The historical and forecast data to determine the normalized earnings

Title of data	2004	2005	2006	2007	2008
Intangibles	269008	369 644	293 582	296 790	265 753
Fixed assets	1276713	1 179 555	1 066 681	987 611	1 024 243
Long term financial assets	1813964	2 055 525	1 206 779	1 543 117	1 498 149
Equity	6681536	7 252 647	6 987 583	7 351 433	5 590 996
Accounts payable	2600242	2 825 543	2 820 751	2 800 383	4 312 621
Net income	286 438	404 116	173 316	363 850	-1 760 436
Retained earnings	286 438	404 116	173 316	363 850	-1 760 436
Sales	12 508 716	11 801 157	14 013 320	12 194 963	13 893 871
Operating profit	5 352	258 924	-158 480	356 051	11 006
Inflation rate	6,80%	3,60%	3,90%	8,00%	6,10%
ROE	4,29%	5,57%	2,48%	4,95%	-31,49%
Visszaforgatási ráta	100,00%	100,00%	100,00%	100,00%	100,00%
Growth rate	4,29%	5,57%	2,48%	4,95%	-31,49%
Fixed assets/Sales	0,1021	0,1000	0,0761	0,0810	0,0737
Long term financial assets/Sale	0,1450	0,1742	0,0861	0,1265	0,1078
Normalized earnings	286438	336 158	281 695	265 330	-711 769
Forecast					
	1	2	3	4	5
Inflation rate	7%	6%	5%	4%	4%
Growth rate	4,29%	5,57%	2,48%	4,95%	-31,49%
Sales	13 434 675	14 183 253	14 535 046	15 254 440	10 451 277
Earnings after tax	379448,28	400591,0597	410527,0905	430845,6164	295185,3273
Fixed assets	1 371 222	1 417 651	1 106 394	1 235 383	770 458
Long term financial assets	1 948 243	2 470 438	1 251 708	1 930 255	1 126 941
Normalized earnings	378 682	395 785	412 401	357 339	
EAT/Total assets	8,53%	11,21%	6,75%	12,87%	-63,14%
EAT/Sales	2,29%	3,42%	1,24%	2,98%	-12,67%
EAT/Equity	4,29%	5,57%	2,48%	4,95%	-31,49%
Sales changing		-5,66%	18,75%	-12,98%	13,93%

4. The results of the simulation

A two-dimensional (or second-order) Monte Carlo simulation is useful to estimate the “uncertainty” in the risk estimates stemming from parameter uncertainty. A two-dimensional Monte-Carlo simulation is a Monte-Carlo simulation where the distributions reflecting “variability” and the distributions representing “uncertainty” are sampled separately in the simulation, so that “variability” and “uncertainty” in the output may be estimated separately.

To execute the simulation model we have used the 'mc2d'⁹⁹⁵ package of R statistical system. The statistical results of the simulation are presented in Table 2. The histograms and boxplot diagrams of the net income on the physical, financial and intangible assets are presented in Figures 1-3. The result of the intangible assets' estimation are presented in Figure 4.

Table 2: The results of the simulation

Statistical indicators	Required rate of physical assets	Net income on physical assets (million HUF)	Required rate of financial assets	Net income on financial assets (million HUF)	Net income on intangibles (million HUF)	Intangibles (million HUF)
Minimum	5,54%	61 999	4,35%	72 228	-6 682	-49 783
1st quartile	7,67%	85 893	6,18%	102 492	76 084	750 561
Median	8,92%	99 837	7,11%	117 896	99 723	1 106 770
Mean	9,15%	102 465	7,32%	121 479	98 062	1 165 025
3rd quartile	10,50%	117 513	8,38%	139 039	122 148	1 523 678
Interquartile range	2,83%	31 620	2,20%	36 547	46 064	773 117
Maximum	14,19%	158 908	11,35%	188 374	176 442	2 993 786
Standard deviation	1,88%	21 002	1,48%	24 579	32 244	548 243
Coeff. of variation	20,55%	20,50%	20,22%	20,23%	32,88%	47,06%

Figure 1. Net income on physical assets

⁹⁹⁵ Monte-Carlo à Deux Dimensions

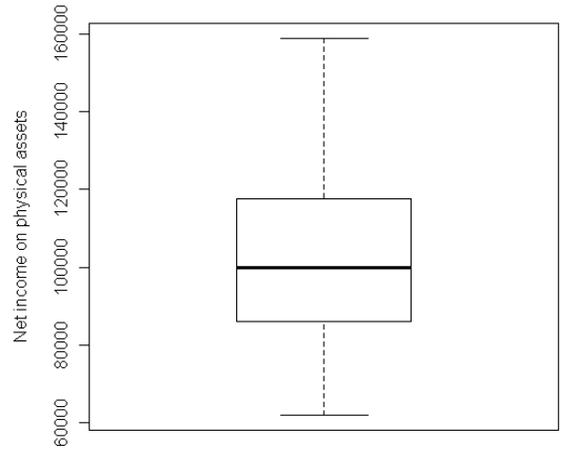
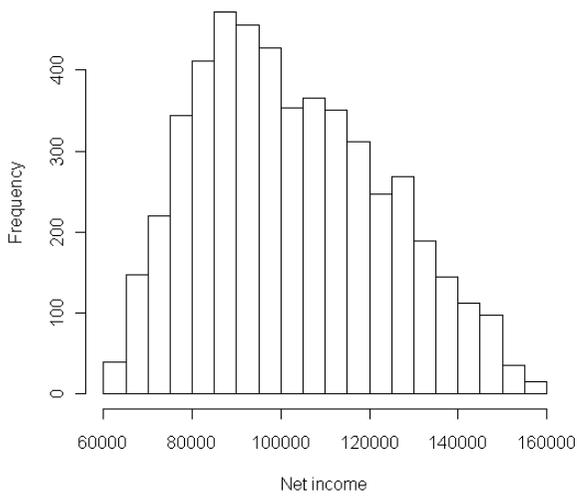


Figure 2. Net income on financial assets

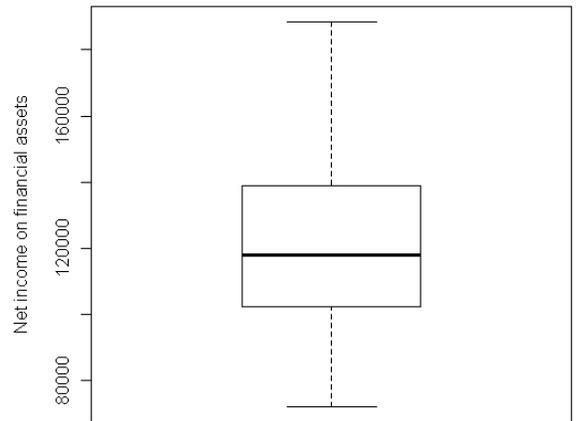
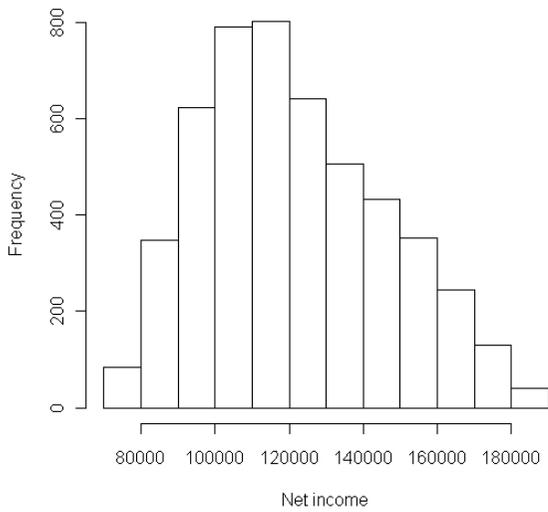


Figure 3. Net income on intangibles

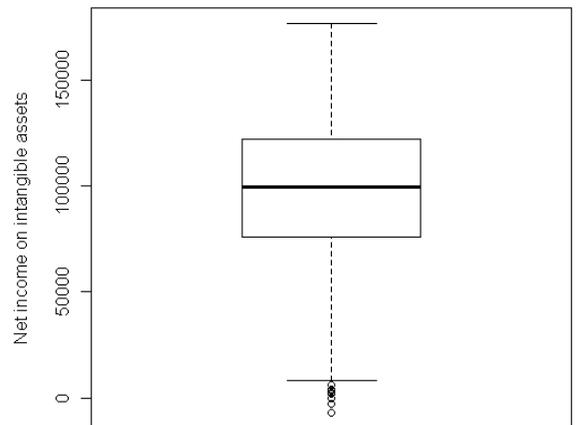
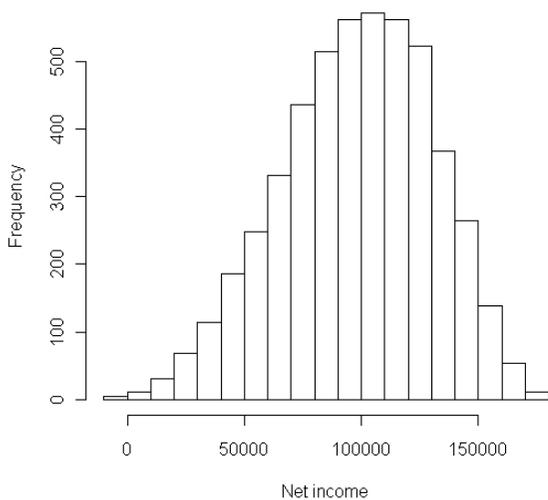
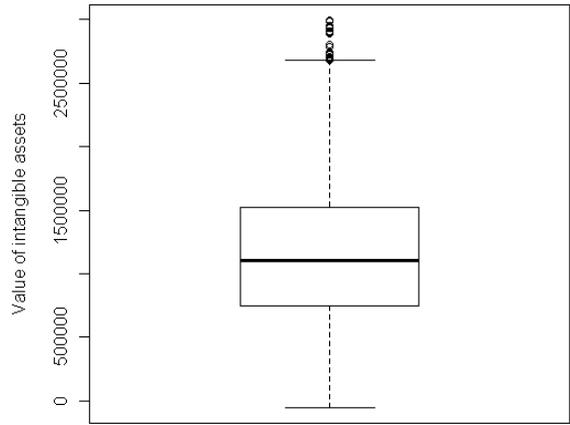
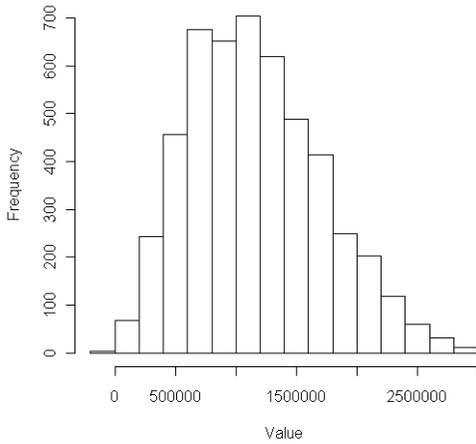


Figure 4. The value of intangibles



The calculation of modell:

$$\text{net income on intangible assets} = \text{Normalized earnings} -$$

$$(\text{require return on physical assets} * \text{value of physical assets}) -$$

$$(\text{require return on financial assets} * \text{value of financial assets})$$

$$\text{value of intangible assets} = \text{net income on intangible assets} / \text{require rate on intangible assets}$$

5 Conclusion

We present a simulation model in this paper to determine the value of intellectual capital. In frame of the simulation model we have used the Baruch Lev's intellectual capital valuation modell. We have built in the Baruch Lev model in a two-dimensional Monte Carlo simulation modell. We have determined the intellectual capital in case of a stock exchange company (Synergon).

To determine a 95% confidence interval for the mean was used the one sample t-test. The result of t-test in case of intangibles' value:

$$1\ 149\ 825 - 1\ 180\ 225 \text{ million HUF}$$

We can see that the interval has a very small scale. The sample estimate, namely the mean of intangible asset's value is 1 165 025 millioh HUF.

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⁹⁹⁶ An interview with Baruch Lev, the Philip Bardes Professor of Accounting and Finance at New York University's Leonard N. Stern School of Business

EUROPEAN MONETARY FUND - BETWEEN ILLUSION AND FUTURE INSTRUMENT FOR EUROPEAN FINANCIAL STABILITY

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The finance crises that culminate with the Greece situation shows that majority of European countries are facing balance-of-payments difficulties and it is clear that actual mechanism couldn't face the situation. This paper wants to highlight some of the proposals related to the development mechanisms, such the creation of the European Monetary Fund or the design of the "European Mechanism for Financial Stability" (EMFS), which could include the EMF, showing also the actual mechanism of financing through International Monetary Fund (IMF). Some pro and counter arguments are furthermore taken into discussion.

Keywords: European Monetary Fund - EMF, International Monetary Fund – IMF, European Union – EU, sovereign defaults, financing mechanism, financial system.

Cod JEL: F36.

Actual stage of financial crises – foundation and argument for construction of the European Monetary Fund (EMF)

It is considered that actual financial crises have entered in a second phase, regarding the public debt crises, facing the threat of sovereign default. The case of Greece is frequently taken into discussion, but other countries are also confronting with large public debts. As Eurostat shows in its latest statistics⁹⁹⁷, in 2009, the government deficit and government debt of both the euro area (EA16) and the EU27 increased compared with 2008, while GDP fell. In the euro area the government deficit to GDP ratio increased from 2.0% in 2008 to 6.3% in 2009, and in the EU27 from 2.3% to 6.8%. In the euro area the government debt to GDP ratio increased from 69.4% at the end of 2008 to 78.7% at the end of 2009, and in the EU27 from 61.6% to 73.6%.

In 2009 the largest government deficits in percentage of GDP were recorded as follows: Ireland (-14.3%), Greece (-13.6%) the United Kingdom (-11.5%), Spain (-11.2%), Portugal (-9.4%), Latvia (-9.0%), Lithuania (-8.9%), Romania (-8.3%), France (-7.5%) and Poland (-7.1%). No Member State registered a government surplus in 2009. The lowest deficits were recorded in Sweden (-0.5%), Luxembourg (-0.7%) and Estonia (-1.7%). The data suggests a worsening in government balance relative to GDP in 2009 compared with 2008 in twenty-five states, and only in two (Estonia and Malta) an improvement.

At the end of 2009, the lowest ratios of government debt to GDP were recorded in Estonia (7.2%), Luxembourg (14.5%), Bulgaria (14.8%), Romania (23.7%), Lithuania (29.3%) and the Czech Republic (35.4%). Twelve Member States had government debt ratios higher than 60% of GDP in 2009: Italy (115.8%), Greece (115.1%), Belgium (96.7%), Hungary (78.3%), France (77.6%), Portugal (76.8%), Germany (73.2%), Malta (69.1%), the United Kingdom (68.1%), Austria (66.5%), Ireland (64.0%) and the Netherlands (60.9%).

The economic and financial evolution in EU16 and EU27 related to government activity evaluated in percentage of GDP for the last 4 years can be summarized in the table below (see Table 1):

⁹⁹⁷ http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22042010-BP/EN/2-22042010-BP-EN.PDF, p.1-2, accessed on 23rd of April, 2010.

Table 1 – Government deficits (percentage of GDP) in 2006-2009

	2006	2007	2008	2009
Euro area (EA16)				
Government expenditure	46.7	46.0	46.8	50.7
Government revenue	45.3	45.4	44.9	44.4
Government debt	68.3	66.0	69.4	78.7
EU27				
Government expenditure	46.3	45.7	46.9	50.7
Government revenue	44.9	44.9	44.6	44.0
Government debt	61.4	58.8	61.6	73.6

Source: Eurostat, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22042010-BP/EN/2-22042010-BP-EN.PDF

Euro area annual inflation was 1.4% in March 2010, up from 0.9% in February, compared with the value recorded a year earlier the rate - 0.6%. The lowest 12-month averages up to March 2010 were registered in Ireland (-2.3%), Portugal (-0.8%) and Estonia (-0.7%), and the highest in Romania (5.0%), Hungary (4.8%) and Poland (3.9%)⁹⁹⁸. As shown above, macroeconomic indicators worsened in the last 2 years, suggesting the profound implication of financial crises in majority of the European States. These data indicates that actual European Union economic and financial mechanisms are still inadequate to face financial crises. As some authors suggested⁹⁹⁹, related to monetary policy of European Central Bank, an imperfect functioning may cause disproportionate inflation, while wrong fiscal policy decisions, such the excessive deficit procedure may induce a threat of sovereign default. It appears that Greece is the weakest, given its high public debt (about 120% of GDP) compounded by a government budget deficit of almost 13% of GDP, a massive external deficit of 11% of GDP, and the loss of credibility from its repeated cheating on budget reports.

Solutions for debt crisis and strengthening economic policy coordination in the Euro-zone

In actual case, it is suggested that given the intense pressure from financial markets, is likely that a tough fiscal adjustment agenda (or rather the promise that one will be forthcoming) might not be enough to avoid a ‘sudden stop’ of necessary external funding of the public sector. When this happens the EU will no longer be able to fudge the question of whether (and in what form) it can provide public financial support to one of its members¹⁰⁰⁰.

Some opinions propose that the crisis in Greece calls for standard remedies and the solution would be to bring in the IMF. A stand-by agreement involving conditional lending would provide financial assistance and fiscal adjustment measures which should restore confidence. However, Euro-zone and EU authorities appear to be against this¹⁰⁰¹.

Another proposal came from The European Commission that appear to support the creating a European Monetary Fund (EMF) to help Euro-zone countries facing balance-of-payments

⁹⁹⁸ http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-16042010-BP/EN/2-16042010-BP-EN.PDF. p. 1, accessed on 23rd of April, 2010.

⁹⁹⁹ see Varela D. – *Guvernarea Uniunii Europene*, Institutul European, Iași, 2008, p. 128.

¹⁰⁰⁰ Gros D., Mayer T. - *Towards a Euro(pan) Monetary Fund*, [http://www.dbresearch.com/ PROD /DBR_INTERNET_EN-PROD/PROD000000000253712.pdf](http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000253712.pdf), p. 1.

¹⁰⁰¹ see Pisani-Ferry J., Sapir - *The best course for Greece is to call in the Fund*, 2010, <http://www.ft.com/cms/s/0/01554c86-0f69-11df-a450-00144feabdc0.html>

difficulties. Officials of the EU agreed that “The Commission is ready to propose such a European instrument for assistance, which would require the support of all euro area member states”¹⁰⁰². Germany's finance minister, said in an interview that he would present proposals for a European monetary fund soon. He said that the Euro-zone needed an institution “for its internal stability”. This new body would not compete with the International Monetary Fund, he said, but would benefit from the IMF's experience and have comparable powers to the fund, he said. He said that accepting financial assistance from the IMF would be an admission that the Euro-zone countries were unable to solve their problems by themselves¹⁰⁰³.

An additional proposal came from the PES, together with the S&D Group at the European Parliament (on 2nd of March, 2010), suggesting a plan that implies a three step strategy to address the sovereign debt crisis and to strengthen economic policy coordination in the Euro-zone:

1. the Greek sovereign debt crisis must be solved without delay – it is necessary to establish an emergency credit facility mechanism at the European level, allowing Greece to re-finance its economy at a fair price;
2. the emergency mechanism must be converted, over the medium-term, into a permanent feature of the Euro-zone – creation of a crisis-management mechanism, the “European Mechanism for Financial Stability” (EMFS);
3. the development of further EMFS into a long-term framework for strengthened economic governance in the Euro-zone¹⁰⁰⁴.

As seen before, there are three possible mechanism:

- *International Monetary Fund (IMF) assistance*
- *creation of the “European Monetary Fund” (EMF)*
- *design of the “European Mechanism for Financial Stability”, that could include the EMF (not discussed in this paper below).*

The financing through IMF and characteristics of the “European Monetary Fund” (EMF) are discussed below.

Financing Mechanism through IMF lending

Upon request by a member country, an IMF loan is usually provided under an "arrangement," which may, when appropriate, stipulate specific policies and measures a country has agreed to implement to resolve its balance of payments problem. The economic program underlying an arrangement is formulated by the country in consultation with the IMF and is presented to the Fund's Executive Board in a "Letter of Intent." Once an arrangement is approved by the Board, the loan is usually released in phased installments as the program is implemented¹⁰⁰⁵.

IMF Facilities

Over the years, the IMF has developed various loan instruments, or "facilities," that are tailored to address the specific circumstances of its diverse membership¹⁰⁰⁶. Low-income countries may borrow on concessional terms through the Extended Credit Facility (ECF), the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF). Non-concessional loans are provided mainly through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), and the Extended Fund Facility (which is useful primarily for longer-term needs). The IMF also provides emergency

¹⁰⁰² Brunsdon, J., Taylor, S. - *Commission backs European Monetary Fund, 2010*

<http://www.europeanvoice.com/article/2010/03/commission-backs-european-monetary-fund-/67349.aspx>

¹⁰⁰³ *ibid.*

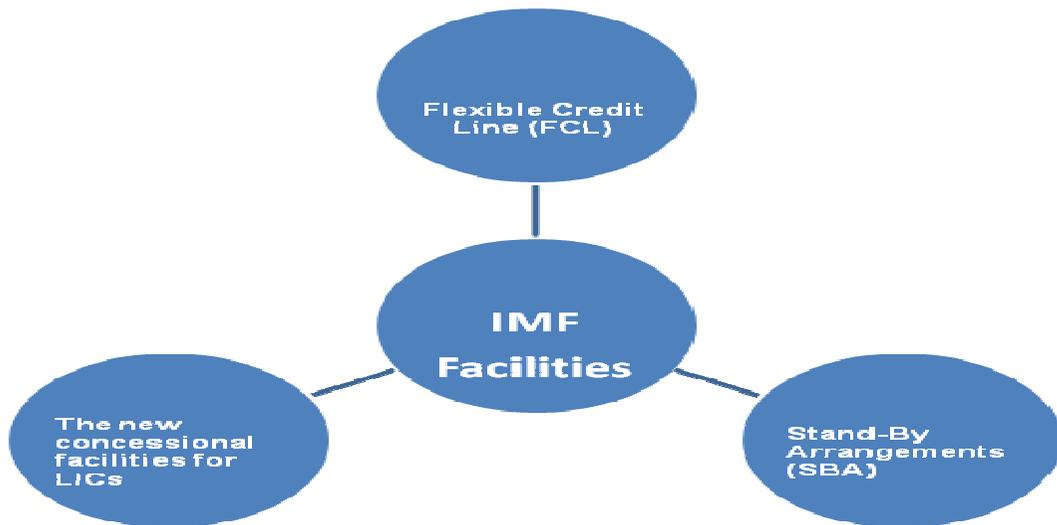
¹⁰⁰⁴ see http://www.pes.org/en/system/files/Adopted_PES_European_Mechanism_for_Financial_Stability_250310_EN.pdf

¹⁰⁰⁵ see*** - IMF Lending, IMF Factsheet, p.1- 4, <http://www.imf.org/external/np/exr/facts/howlend.htm>.

¹⁰⁰⁶ for information related to IMF financing see Voinea, Gh. – *Mecanisme și tehnici valutare internaționale*, Editura Sedcom Libris, Iași, 2004, p. 239-250

assistance to support recovery from natural disasters and conflicts. All non-concessional facilities are subject to the IMF's market-related interest rate, known as the "rate of charge," and large loans (above certain limits) carry a surcharge. The IMF facilities can be grouped as shown in Figure 1.

Figure 1 – IMF Facilities



The new concessional facilities for LICs were established in January 2010 under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs of LICs. Access limits and norms have been approximately doubled compared to pre-crisis levels. Financing terms have been made more concessional, and the interest rate is reviewed every two years. All facilities support country-owned programs aimed at achieving a sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Most important instruments are presented below.

The Extended Credit Facility (ECF) succeeds the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for providing medium-term support to LICs with protracted balance of payments problems. Financing under the ECF currently carries a zero interest rate, with a grace period of 5 ½ years, and a final maturity of 10 years.

The Standby Credit Facility (SCF) provides financial assistance to LICs with short-term balance of payments needs. The SCF replaces the High-Access Component of the Exogenous Shocks Facility (ESF), and can be used in a wide range of circumstances, including on a precautionary basis. Financing under the SCF currently carries a zero interest rate, with a grace period of 4 years, and a final maturity of 8 years.

The Rapid Credit Facility (RCF) provides rapid financial assistance with limited conditionality to LICs facing an urgent balance of payments need. The RCF streamlines the Fund's emergency assistance for LICs, and can be used flexibly in a wide range of circumstances. Financing under the RCF currently carries a zero interest rate, has a grace period of 5% years, and a final maturity of 10 years.

Stand-By Arrangements (SBA). The bulk of Fund assistance to middle-income countries is provided through SBAs. The SBA is designed to help countries address short-term balance of payments problems. Program targets are designed to address these problems and Fund disbursements are made conditional on achieving these targets ('conditionality'). The length of a SBA is typically 12-24 months, and repayment is due within 3%-5 years of disbursement. SBAs may be provided on a precautionary basis—where countries choose not to draw upon approved amounts but retain the option to do so if conditions deteriorate— both within the normal access

limits and in cases of exceptional access. The SBA provides for flexibility with respect to phasing, with front-loaded access where appropriate.

Flexible Credit Line (FCL). The FCL is for countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved for countries meeting pre-set qualification criteria. The length of the FCL is 6 months or 1 year (with a mid-term review) and the repayment period the same as for the SBA.

Financing Mechanism through EMF

The mechanism should refer to an implementation in 2 stages. During Stage I: any member country could call on the funds of the EMF up to the amount it has deposited in the past (including interest). The government of the country in question could thus issue public debt with a guarantee of the EMF up to this amount.

In Stage II any drawing on the guarantee of the EMF above this amount would be possible only if the country agrees to a tailor-made adjustment plan supervised jointly by the Commission and the Eurogroup.

This proposed mechanism¹⁰⁰⁷ intends to limit the moral hazard¹⁰⁰⁸ problem, because only countries that breach the Maastricht criteria have to contribute. The authors propose that contribution rates would be calculated on the following bases:

- 1% annually of the stock of 'excess debt', which is defined as the difference between the actual level of public debt (at the end of the previous year) and the Maastricht limit of 60% of GDP. For Greece with a debt-to-GDP ratio of 115%, this would imply a contribution to the EMF equal to 0.55%.

- 1% of the excessive deficit, i.e. the amount of the deficit for a given year that exceeds the Maastricht limit of 3% of GDP.

Countries with exceptionally strong public finances would not need to contribute because they would carry the burden. Their backing of the EMF (and the high rating of their bonds in the portfolio of the EMF) would be crucial if the EMF were called into action.

Authors argued that taxing countries under fiscal stress to fund the EMF would only aggravate their problems and most of the contributions would materialize a long time before solvency problems become acute.

An illustrative calculation estimates that the suggested funding mechanism, the EMF would have been able to accumulate 120 billion euro in reserves since the start of EMU – enough probably to finance the rescue of any of the small-to-medium-sized euro area member states¹⁰⁰⁹.

There are some issues to be discussed related to this proposal. A pro argument for the EMF is one suggested by the authors themselves - the EMF could provide for an orderly sovereign bankruptcy procedure that minimizes the disruption resulting from a default. Some specialists suggested that such mechanism is only a redistribution of funds from a group of prudential country to non-prudential one. There is also a technical issue – the Treaties do not agree such an institution. Such mechanism has also to have consistency and interdependency with other related elements, as being part of financial system¹⁰¹⁰. Finally, "EMF per se is not a solution for another crisis but could be part of a prevention mechanism, if it implements adequate support for

¹⁰⁰⁷ according to Gros D., Mayer T. – *op.cit.*, p.5

¹⁰⁰⁸ see also Gros D., Mayer T. – *How to Deal with the Threat of Sovereign Default in Europe: Towards a Euro(pean) Monetary Fund*, 2010, <http://www.ceps.eu/system/files/article/2010/04/064-095-Forum.pdf>

¹⁰⁰⁹ according to Gros D., Mayer T. – *op.cit.*, p. 6

¹⁰¹⁰ see Fîrtescu, B. – *Sistemul financiar al României*, Editura Universităţii "Al. I. Cuza", Iaşi, 2010

reformed policies by Member States intending to tackle the structural root of the crisis"¹⁰¹¹. It is hard to pronounce that the EMF would be implemented in reality, because despite pro and cons, the creation of the EMF remain, in final, a political decision.

¹⁰¹¹ Canfin P., cited from article *A European Fund to bail out countries?*, 23^r of March 2010, http://www.europarl.europa.eu/news/public/story_page/042-71017-081-03-13-907-20100319STO70945-2010-22-03-2010/default_en.htm

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THE DEVELOPMENT AND IMPLICATIONS OF THE U.S. SUBPRIME CRISIS

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The changing characteristics of the international financial systems starting from the second half of 2007 came as no surprise. Looking at the events in a synthetic manner, the main factors that led to the triggering and amplification of the crisis can be identified in the dramatic increase of new and more complex financial instruments, with increasing lack of transparency, in the conflicts of interest between market participants, in the imprudent lending practices in the financial services industry, in the deficiencies of rating agencies, together with the excessive confidence in the market's self regulation, the unrealistically low risk attributable to certain investments and, the inability to respond to early warning signals or to learn from the lessons of the previous crises.

Keywords: crisis, subprime loans, securitization, rating agencies

JEL codes: G01, G10, G15, G21

Subprime loans, as a triggering factor of the crisis

While not all mortgage loans may be automatically placed in the category of subprime mortgages, one can observe the proliferation of this kind of loans in the 21st century. Approximately 21% of the total mortgage loans, between 2004 and 2006, fell into the subprime category, as compared to the 9% level in 1996 (Golsbee, 2007). In the third quarter of 2007, subprime mortgage loans with variable interest rate, represented only 6.8% of the mortgage loans, but accounted for 43% of the loans for which the right for mortgage repurchase because of unpaid obligations had stopped. The subprime mortgages with fixed interest rate accounted for 6.3% of the total mortgages and only for 12% of those with cancelled right of mortgage repurchasing.

Objectively speaking, as long as the risks involved with such loans is closely monitored by creditors, imposing higher interest rates and guarantees, one can say that there was no imminent danger related to such loans. But, as in many previous crises, the relaxation of lending standards was one of triggers of the initial losses. Often, it was allowed for borrowers to enter into the possession of large sums of money that would later increase the borrowers' expenses, once the period of low interest rates expired and once the repaying of rates of capital had started (Dodd & Mills, 2008).

The reasoning that lied at the basis of such loans was found in the *increasing prices of real estate*. Thus it is considered that potential repayment problems could be reduced and even eliminated by the market value of the presented guarantees. If borrowers failed to repay maturing rates on time, the high value housing could facilitate refinancing the loan.

Specific developments due to the process of financial innovation

Concretely, the disruptions relate to the developments in the U.S. mortgage market and, for a better understanding of the transformations suffered, one should make a brief foray into history.

Thus, after the 30's crisis, based on the "New Deal" program of the Roosevelt administration, a public body-the Federal National Mortgage Association was created, whose objective was to increase the volume of loans and mortgages, thus stimulating the economy by all the positive effects that the development of the construction sector may have on it. Fannie Mae took over from the initial lenders the default and liquidity risk, which it could manage much better than the first line distributors credits, as it had a portfolio of mortgages much more diverse and more widespread at the national level than the usual banking institutions. This body could borrow funds itself on longer term than banks, which was likely to reduce the liquidity risk. In 1970, the Government National Mortgage Association another governmental institution, began issuing bonds collateralized by mortgage debt, which enabled the transfer of risk of default to the subscribers of such titles and relieve the federal budget of a substantial part of the debt incurred for financing of public programs for the construction of housing. These titles are placed on the capital markets, and their redemption at maturity is done directly from the owners. Also, in 1970, a new body was established, the Federal National Mortgage Corporation (Freddie Mac), to issue securities based on classical mortgage loans, but also to create a competitor to Fannie Mae, which was to be privatized.

In time, these institutions were able to mobilize significant capital for mortgage refinancing, their main operations aiming at acquiring and holding assets in prime mortgages, as well as the transformation of mortgage loans in a variety of debt securities collateralized by mortgages. This operation is called *securitization*, generally, a *technique that transforms less liquid financial assets into negotiable securities such as bonds*.

Mortgage securities that are based on mortgage loans from one lender, are usually issued through swap transactions in which the lender changes the package of mortgages for MBS. Mortgage securities backed by multiple creditors allow some creditors to pack mortgages in exchange for the receipt of mortgage securities representing a proportionate part of a larger package (Cerna, 2008). Generally, mortgage securities tend to provide coupon rates higher than the treasury securities issued by the U.S. Government. In part, this is because the interest rates charged for mortgages are higher than the interest rates offered by the U.S. government. At the same time, however, the higher interest rates of the mortgage securities also reflect the level of investment risk raised by the uncertainty due to the advance repayments. In the U.S., these mortgage securities are guaranteed by the GNMA, FNMC and FNMA. The mortgage pass-through securities issued and/or guaranteed by the organizations listed above are the most numerous and, are characterized by an AAA credit rating.

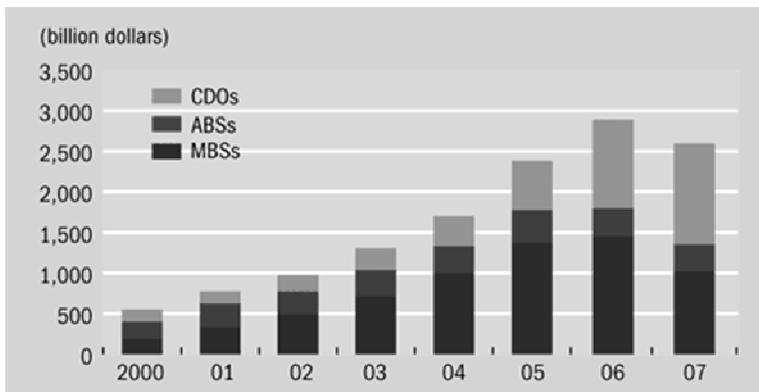
This structure of the market, based on organizations supported by the state, proved to be very profitable, and therefore attracted other financial institutions as well. Thus, if in 2003 the semi-completed 76% of the total issuance of debt securities backed by mortgages and other assets of the issuer, the remaining 24% representing the large financial corporations on Wall Street, in mid-2006, the share of the semi-public bodies decreased to 43%, while the share of private securities increased to 57% of the total. The major private issuers of this type of securities were the well known U.S. investment banks (Wells Fargo, Lehman Brothers, Bear Stearns, JP Morgan, Goldman Sachs, and Bank of America).

Parallel with this rapid and radical transformation of the market, there was a change in lending standards in the U.S. following the deregulation process. In this liberal framework, while Fannie Mae and Freddie Mac have continued to provide almost exclusively prime loans, the private corporations have increased their market share, mainly through the securitization of mortgages with high risk and of the so called "Alt-A loans" granted to solvent, but less reliable debtors than the first class customers. However, this increase in the quantity of securities backed by doubtful mortgages created a problem, because the main purchasers of such securities were institutional investors with a limited exposure to the holding of such securities. Consequently, only a small

proportion of claims with high risk could be sold to institutional investors in search of higher yields.

To address this issue there was adopted a strategy of dividing risks in more categories or "tranches" with separate administration, thus determining a widening of the market for mortgage debts with high risk. From a technical point of view, this operation consists in dividing the portfolio of claims into two parts: one characterized by a low risk level and, one with high risk level. To this end, firms on Wall Street have opted for a new financial instrument, created in 1987 by the financial investment firm, Drexel Burnham Lambert, called *collateralized debt obligations* (Bordo, 2007).

An essential difference between CDOs and other mortgage derivatives on one hand, and securities listed at stock exchanges and futures contracts on the other hand, is that the former are not traded on stock exchanges, but on over-the – counter markets (OTC). On these markets transactions are carried out directly between customers and dealers, unlike the stock market where sale or purchase orders are intermediated, as for the data about the volume of transactions and prices, these are not published officially. The price formation method has no transparency. It should also be noted that there does not exist a supervisory authority for OTC markets, that allows the identification of large or vulnerable exposures, nor do lenders of last resort exist, in order to provide the liquidity needed in special situations.



Issuance of structured credit instruments in the U.S.A and Europe

Figure no. 1

Therefore, the degree of risk involved by such securities has been ignored by investors who sought to obtain high profits. Until the spring of 2007, some top managers of financial companies have begun to concern about debt securities secured by subprime mortgages. But, given the still low interest rates and the high liquidity, the demand for structured credit products with AAA ratings and higher than normal yields, has continued to increase until mid-2007, as it results from Figure 1.

The development and generalized impact of the subprime mortgage crisis

The demand for real estate in the U.S. has increased considerably in the recent years, which led to a considerable increase in prices, which could be said that have almost doubled and even more from 1997 to 2006-2007. From 2003 to 2006 the property prices rose by no less than 30%, (Kodres, 2008).

Price evolution together with the exponential growth of prices after 2000 put the U.S. housing prices in a speculative bubble, the increase being determined by expectations regarding future price increases, rather than by economic foundations. The explanation lies in the fact that the homes were purchased for their future anticipated price level, price that could offset the initial yield offered. On the other hand, this increase was driven by the increased volume of mortgages granted, by the eased access to these credits and also by the development of the construction sector in the period of economic prosperity.

In 2005-2006 interest rates began to rise and housing prices to decline moderately in many U.S. regions. As a result, outstanding loans rose as the initial terms have expired and variable interest rates rose. The inability of borrowers to honor the installments of maturing mortgages resulted in the mass start of the sale of properties by property holders and credit institutions. The market was flooded of houses from liquidation of mortgages, while new houses were not sold so well either, which led to a further decrease in the value of homes. Selling these houses below their market value (and obviously the price of acquisition or accepted value of collateral) has increased the default rate of loans and the incapacity to recover the total claims by credit institutions (Bordo, 2007).

The mortgage market crisis actually began when investors with very large debts, such as hedge funds have tried to adjust their exposure or, to exit the losing positions, which made the high risk mortgage backed securities' market to become illiquid. In this way, in August 2007, hedge funds were seen stuck on unfavorable positions, and this just when they had to pay the premiums required by their brokers. The situation has worsened even further, because with the termination of transactions, there were no market prices any more, to serve as benchmarks, or other means to determine the value of the securities contained in various tranches of risk (Corbu, 2008). The consequence of the shown disruptions was that hedge funds stopped their transactions, while the CDO market and the credit related derivatives have virtually ceased to exist.

Regarding the banks financing the initial lenders, they have ceased their support, which made the latter unable to meet payment obligations related to the stock of mortgage loans granted. Finally, potential buyers and home owners could not get mortgages any more, which has put them in the situation of not being able to pay for construction work performed. In turn, constructors, which have previously got loans to build homes for sale, could not sell their homes and therefore could not repay loans, etc.

All these phenomena have resulted in a strong contraction of demand in the construction of housing, with all the series of negative implications for the economic growth. The fact that hedge funds and other investors did not buy high risk mortgage debt any more has shown that all these claims were no longer considered secure forms of investment. Accordingly, securities prices have dropped and their issuers have not been able to procure the necessary funds for the repayment of mortgages and other types of loans they have contracted from big banks and financial corporations. In this way, when the credit resources were exhausted, in the financial system appeared a new request for additional loans.

Taking into account the consequences of these developments, beyond the losses of the U.S. economy, spectacular bankruptcies, causing millions of unemployed and affecting all sectors, another more serious problem appears, namely the repercussions of the U.S. crisis on international financial markets and world economies. The propagation of the crisis effects appears as an unquestioned reality, through a simple fact that, currently, we can no longer speak of an isolated financial crisis in the U.S., but rather of a global financial crisis, which through the implications on the real economy, has become a generalized economic crisis.

The role of Rating Agencies in crisis triggering

The rating agencies have played an important role in the triggering of the crisis. A feature of this sector is the lack of a consistent standard for assessing the ratings for structured securities. Lack of such a standard of evaluation may lead to arbitrary decisions. The lack of single standards of evaluation, the lack of legislation to penalize the assessment practices that allow changing the rating from one day to another, the lack of competition, the conflict of interest that appears at the financing of a ratings evaluation project, are sufficient grounds to trigger a crisis of loan markets.

Rating agencies were in no position to rate securitized transactions (CDO and MBS), backed by subprime mortgages. The high ratings given to these securities were justified by various improvements in the lending sector, by the greater value of the collateral than of the loan itself, as well as by the existence of the investors in securities willing to take over the risk of losses. On the other hand, rating agencies have asserted that they only took into account the risk of default, and not liquidity risk or market risk, which investors often tend to neglect. Some critics of these agencies say that conflicts of interest also appeared in this process, because rating agencies are paid by companies that organizes and place such instruments to investors, companies like investment banks (Crainic, 2007).

Another criticism brought to rating agencies, is that these agencies have always been late in discovering the signals of a crisis. The situation is similar to that of Enron, when rating agencies have been unable to notify the company's tremendous exposure. Agencies' inability to distinguish signals of the subprime crisis has determined both the U.S. and the EU authorities to improve the regulatory and monitoring framework of their activities and, not least to make them legally responsible for their actions.

Conclusions

The financial crisis can be viewed, in a very broad way, as a state of imbalance, over certain limits, among different parts of the market. Some financial crisis may be predictable, while others are difficult to predict. The ongoing financial crisis, which has developed since the summer of 2007, according to many experts, was expected. The problem that developed was not whether it will actually happen, but when it would begin. The factor that triggered this crisis is represented by the U.S. subprime market.

During the pre-crisis period, low interest rates, high liquidity, low volatility of financial markets and a general feeling of satisfaction, have encouraged many categories of investors to assume much higher risks. The changing characteristics of the international financial systems starting from the second half of 2007 came as no surprise. Many supranational institutions (The International Monetary Fund, The Bank for International Settlements, The European Central Bank) have pointed out that risk is undervalued and that a reverse evolution is progressively more possible.

Looking at the events in a synthetic manner, the main factors that led to the triggering and amplification of crisis can be identified in the dramatic increase of new and more complex financial instruments, with increasing lack of transparency, in the conflicts of interest between market participants, in the imprudent lending practices in the financial services industry, in the deficiencies of rating agencies, together with the excessive confidence in the market's self regulation, the unrealistically low risk attributable to certain investments and, the inability to respond to early warning signals or to learn from the lessons of the previous crises.

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THE EVOLUTION OF THE ROMANIAN ECONOMY IN THE CONTEXT OF THE INTERNATIONAL CRISIS

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The financial crises that have emerged and developed in the recent decades have been characterized, mostly of an international dimension, with shocks quickly propagating through capital markets, through the international banking activities and, through the money markets. Regarding the impact of the current crisis on the economy of Romania, the contagion effect was transmitted through several channels, but a proper framework in this respect was created by the internal context, mainly the excessive debt. To counteract the increasingly visible effects at the level of macroeconomic indicators, the measures taken by authorities have aimed primarily at the IMF support, being essential, in the following period, to register an improvement of the current situation because, otherwise, this could constitute a real threat towards adopting the euro, putting into question even the quality of Romania's EU membership.

Key words: crisis, recession, causes, policies, remedial measures

JEL codes: G01, G15, G18, G21, G28, E58

The international crisis context

The initial outbreak of the crisis on the U.S. market has highlighted a number of vulnerabilities of the mortgage market, which's overlap made the modest initial increase in the volume of loans outstanding to shake the entire U.S. financial sector - the largest in the world - and also to affect the whole world. In a synthetic manner, there can be identified as elements of vulnerability the following:

- the failure caused by placing the titles from tranches with high risk to investors who already had large debts themselves;
- the initiators of mortgages are poorly capitalized financial institutions and are not subject to prudential regulations;
- the lack of transparency of the OTC market, which resulted in the inability of market participants to identify the risk category which the various mortgages carried and the impossibility of quantification of respective risks according to their specifics;
- the OTC markets have also suffered an acute lack of liquidity. As a result, instead of being flexible to price volatility, as it is implied by the concept of "perfect market", these were closed just when the object of the transactions lost its attractiveness, and buyers began to withdraw.

The crisis has not stopped to the U.S. economy, but also propagated to Europe as well, the first country affected by events in the U.S. being the UK, with problems of Northern Rock, which caused a panic among bank depositors. In an overview, we can say that the current crisis has initially propagated only to developed countries, particularly through the acquisition by European banks of derivative products backed by subprime mortgages, as well as through the increasing market for securities backed by assets. Initially emerging countries have avoided a crisis, maybe due precautions taken following the Asian crisis. But, when the crisis began to affect the real sector, emerging countries have also started to be affected through the trade links with developed economies. Also, through the presence of international financial institutions in these countries, the problems suffered by it in the parent country have passed on to the activities in emerging countries. The same has happened to the nonfinancial multinational companies (Dodd & Mills, 2008).

When the inevitable happened, all those exposed were caught, apparently unprepared. Both in the U.S. and in other countries affected by crisis, central banks have sought various ways to limit the effects of financial crisis and prevent its propagation in the real sector thus causing economic recession. However, not all measures have been successful. Starting with the U.S., central banks have used enormous sums of money to save banks from bankruptcy. In addition to the efforts of each individual central bank, given the systemic nature of the crisis, there can be identified several common lines of action of central banks in the U.S. and EU, respectively: banks' recapitalization, deposit assurance and interbank credit guarantee, takeover by the state from banks of toxic asset, the nationalization of banks and introduction of new regulations.

The EU wants the establishment of a centralized financial supervision; while officials from several countries require the application of more effective and accurate risk management practices. Implementing a more robust set of regulations regarding capital adequacy, strengthening liquidity management practices, improving the standards of risk classification and

protection against them and, last but not least, creating a new global financial system, now represent, beyond any doubt, unquestioned needs.

Analyzing the causes, implications and generalized remedial measures promoted by the authorities, the following conclusions could be outlined regarding the current crisis:

- In the attempt of defining it as a real financial crisis or as a pseudo crisis, we may take into account the fact that the recent losses suffered by hedge funds and other players represent pseudo crises. However, the propagation of the crisis on the interbank market and the lack of liquidity for the banking system brought the threat of a real crisis, justifying the FED and ECB interventions. Unlike these, the Bank of England followed a strict Bagehot policy, maintaining its discount operations, but with a penalty rate. Massive withdrawal of funds from Northern Rock on September 14th, 2007 have not reflected the inability of the central bank to act as a lender of last resort, but the perceived problems of public deposit guarantee schemes and the uncoordinated actions from the Financial Stability Authority and the Bank of England.
- By reducing the interest rate between September and December 2007, the FED has acted properly by temporary moving from inflationary problems to recession problems. The relaxation of interest rates is not dangerous as long as the monetary policy is credible. However, once the danger of a recession disappears, the monetary authority should revert to anti inflationary policies and increase interest rates, in order to maintain credibility. The ECB and the Bank of England, although were facing a generalized lack of liquidity in the financial system did not initially reduce interest rates, but injected liquidity into the system through the money market.
- The FED reacted to the boom in asset prices in their bust period. It could have preventively acted to reduce the likelihood of sudden price fall, with adverse consequences on the economy.
- The financial crisis on the U.S. market could have been avoided if the FED would not have provided such high volume of cash in the 2001-2004 periods. It began injecting liquidity into the economy in response to shocks (dot.com crisis, terrorist attacks on 9/11) that could have lead to financial crisis, but when they found that no such crises occurred, the additional funds remained on the money market.

The impact on the Romanian economy

The economic crisis which affects Romania today is mainly an internal crisis, with a main excessive debt as a main cause. The international financial crisis represents only the trigger for the Romanian crisis because it has affected the funding sources.

To understand why Romania faces an overconsumption crisis, a presentation of its premises is necessary. Thus, in the past nine years, Romania has shown economic growth and, in seven of them with annual rates that have exceeded 5%. Even if investments have risen in the recent years, the public and private sectors grew at a higher rate, therefore becoming the main driver for domestic demand. This alert evolution rapidly attracted significant changes mainly in the consumption standards of the population which aimed to be consistent with the evolution of the Romanian society. All these influences have led to a strong emphasis of external deficits.

If, however, we also consider the context in which the Romanian economy has helped consumption increase, it can be observed that the massive capital inputs have led to strong appreciation of the Romanian leu and supported favorable granting conditions for consumer loans for both population and companies. This has not been a concern because the expansion of small and medium sized companies is actually the engine of development of an economy. If you also add to it the bulk of foreign capital entry in the Romanian banking system (and financial system, as a whole) it becomes very clear that the rapid expansion of credit to non-government sector (households and businesses) was inevitable (Tătaru, 2008).

This phenomenon has occurred in the same manner as in all emerging economies in Central and Eastern Europe, as Romania had a real annual non-government credit growth (in lei and foreign currency denominated) of over 30-40%. It can also be observed that it is not the public budget that is liable for, first, the size of the external deficits, as the share of the budget deficit compared to the current account deficit is significantly reduced. The size of the current account deficit is the reason why the rating agencies have put Romania in the group of countries in which investments are very risky.

The current financial crisis has propagated to the Romanian economy through the following channels: trade, financial, trust, exchange rate and through the wealth and balance sheet effects. Through *the trade channel*, export growth slowed down, and even reduced. *The financial channel* has limited the access to external financing and, thus restricted the volume of credit generated, and created difficulties in the private external debt service. In terms of the exchange rate channel, the reduction in external financing was reflected in the national currency depreciation. Because of the *confidence channel*, investors exited from Eastern Europe. Therefore the monetary and exchange markets there were moments of panic and speculative attacks, such as in October 2008, which made necessary the intervention of the NBR. Finally, through the wealth and balance sheet channel the net assets of population and companies have deteriorated, as a result of higher share of credits in foreign currency (related with the depreciation rate) and reduced prices of titles and real estate from speculative, unsustainable values (NBR, 2009).

The analysis of macroeconomic developments in the Romanian economy indicates that the global crisis began to manifest in Romania in the fourth quarter of 2008, but will enlarge this year. Thus, the GDP fell in the first quarter of this year by 6.2% over the same period in 2008. Detailed statistics on the GDP in the first quarter of this year show a contraction of activity in all sectors of the Romanian economy, except the construction sector. Agriculture, forestry and fishery declined in the first quarter with 10.9% compared to the same period last year, industry with 11.1%, the activity of trade, hotels and restaurants, transport and telecommunications have compressed by 7, 6% and financial activities, real estate, renting and business services fell by 3.8%. Constructions and have increased their volume of activity by 4.7%, but face a strong loss of speed (INSSE, 2009). It is expected that the slowdown will worsen in following quarters, so the constructions will see losses (Figure 1).

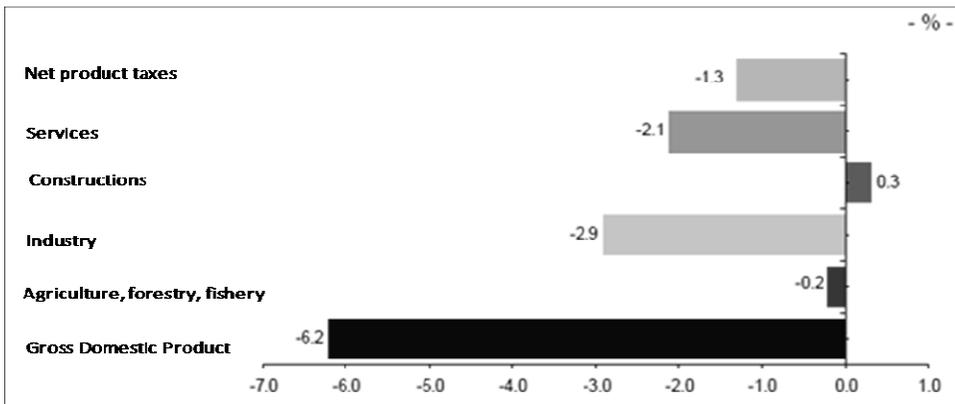


Figure 1 - Contribution of the main branches of activity to GDP (2009)¹⁰¹²

Regarding *the labor market*, it faces difficulties following the reduction of activity in the last quarter of 2008, especially at the level of registered unemployment. As a result, registered unemployment rate rose to 4.4% in December 2008, compared to 3.9% in September 2008. In the first quarter of 2009, the number of employees has continued to reduce. In April, however, the number of registered unemployed persons rose by just 1%, reaching 517.7 thousand persons (Figure 2).

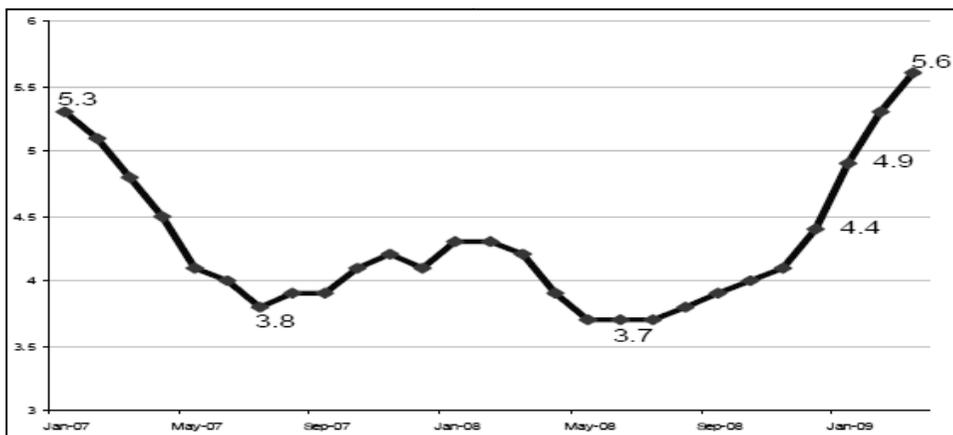


Figure 2 - Evolution of the unemployment rate (2007-2009)¹⁰¹³

The current account deficit increased by 1.3% in 2008, reaching a level of 16.9 billion e (12.3% of GDP) being financed in a proportion of 58.4% by direct foreign investment, which have totaled a 9.8 billion Euros, compared with 7.3 billion Euros recorded in 2007. In the first quarter of 2009, the current account situation has improved, with its decreasing deficit by 82.1% to the value of 709 million Euros. The current account deficit was fully financed from foreign direct investment, which totaled 1.456 billion Euros compared with 1.691 billion in first quarter of 2008 (INSSE, 2009). According to the forecasts of analysts at Bank of America Securities and Merrill Lynch, the current account deficit of Romania will reach a level of 5% of GDP in 2009, and not at 8%, as it had been previously estimated. For 2010, analysts

¹⁰¹² INSSE, Buletin statistic lunar no.5, 2009

¹⁰¹³ National Bank of Romania, Financial Stability Report 2008

forecast a current account deficit of 4.1% of GDP, as compared with 6.5%, as had been previously announced.

The *annual inflation rate* reached 6.3% in 2008, exceeding the target of 3.8% plus / minus one percentage point. In the first 3 months of the year 2009, the annual inflation rate reached a level of 6.71%. In the first four months compared with the similar period of previous year, the national currency registered a depreciation of 13.4% in nominal terms against the euro. Analysts Bank of America Securities and Merrill Lynch believe that this year, inflation will also exceed the target set by the NBR, of 3.5% plus / minus 1 percentage point, as they anticipate that inflation could reach 5.2% in 2009, and 4% in 2010 (Figure 3).

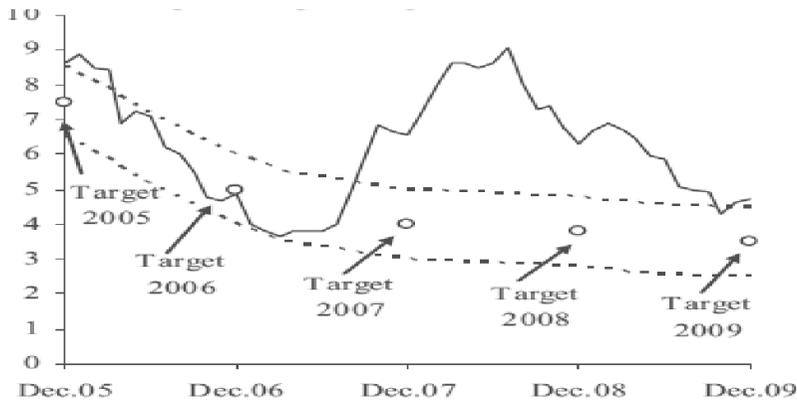


Figure 3- Inflation Developments, annual percentage change¹⁰¹⁴

To face the crisis, Romania has completed an agreement with the International Monetary Fund for a loan worth 20 billion Euros. The expected benefits to be derived from this loan are currency appreciation, regaining investors' confidence in the local economy and improving the country rating.

The risks associated with the IMF loan are immense for both those who granted the loan, and for those who receive it. The IMF and the EU should look more determined than ever to force the Romanian authorities to respect the rules, otherwise risking to see Romania turning into a financial black hole. The game is more than the failure to maintain standards of life and help the country return to a favorable rating for investments. The failure to implement a healthy economic plan, associated with a two years loan, could plunge Romania into economic recession, mass unemployment and rising inflation.

Conclusions

Generally, the financial crises that have emerged and developed in the recent decades have been characterized, mostly of an international dimension, with shocks quickly propagating through capital markets, through the international banking activities and, through the money markets. Falling on the same trajectory, the subprime mortgage crisis has not affected only the U.S. economy, but has crossed the ocean, affecting a large part of European countries, showing large contagion effects.

Regarding the impact of the current crisis on the economy of Romania, the contagion effect was transmitted through several channels (commercial, financial, confidence, exchange rate, the

¹⁰¹⁴ National Bank of Romania, Inflation Report, february, 2010

wealth and balance sheet effects), but a proper framework in this respect was created by the internal context, mainly the excessive debt. In other words, the economic crisis that Romania is crossing today can be considered mainly a domestic crisis, with the international financial crisis representing only an accelerating momentum in a direction which, however, would have proven inevitable. To counteract the increasingly visible effects at the level of macroeconomic indicators, the measures taken by authorities have aimed primarily the IMF support, being essential, in the following period, to register an improvement of the current situation because, otherwise, it could constitute a real threat towards adopting the euro, putting into question even the quality of Romania's EU membership.

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MEASURING MODEL FOR BAD LOANS IN BANKS. THE DEFAULT PROBABILITY MODEL

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The banking sectors of the transition countries have progressed remarkably in the last 20 years. In fact, banking in most transition countries has largely shaken off the traumas of the transition era. At the start of the 21st century banks in these countries look very much like banks elsewhere. That is, they are by no means problem free but they are struggling with the same issues as banks in other emerging market countries during the financial crises conditions. The institutional environment differs considerably among the countries. The goal we set with this article is to examine in terms of methodology the most important assessment criteria of a measuring model for bad loans.

Keywords: assessment criteria, „Default” model, collateral, Basel II Accord

JEL code: G21

1. Introduction

The role of financial intermediaries such as banks is to channel savings to investors. In a modern economy, banks do this by maintaining a delicate balance between risk taking and managing risk. Bankers face information asymmetries when they engage in lending since only the borrowers know about the 'true' risk of their investment projects. However, there are several covenants that bankers can include in their credit contracts to overcome information asymmetries. [Bester \(1985\)](#) showed that collateral can serve as a signalling device, so that borrowers reveal their true riskiness by the amount of collateral they are willing to offer. To ensure that devices like collateral can be effective, laws that define collateral relationships and adequate institutions for enforcement are essential. More reliable collateral laws and arrangements could result in greater use of collateral to overcome asymmetric information and an overall reduction of risk. In a poor legal environment, a borrower might use the same asset as collateral in several lending agreements or might refuse to surrender the collateral in case of default. In this view, a better institutional environment will be associated with a greater willingness to use collateralised loans and more lending. This is consistent with results in the law and finance literature that show a positive relationship between good creditor rights and credit market development ([La Porta, et al., 1997, 1998](#)).

Focusing more on individual banks, [Kager \(2002\)](#) shows that the problem of bad loans persisted in many banks in transition economies.

EU banks have smaller solvency ratios and loan loss reserves but they maintain more liquid assets. The use of contingent liabilities is rare except for EU region banks. Finally, there are some differences by bank size or share. There is clearly an inverse relationship between the solvency ratio and bank size or market share. Also, the very large banks and those with shares over 10% make fewer short-term loans than others.

Banks with greater confidence in the banking environment or in countries with an objectively better legal environment for banking might be willing to take on more risk.

Interestingly, there is no clear pattern between estimated default probability and the institutional environment (Rainer Haselmann and Paul Wachtel, 2007). When bankers have better perceptions

of the quality of law and when the laws are objectively better, their default probability is higher. This suggests that bankers are willing to take on risky lending when the legal environment for dealing with bad loans is better. However, better perceptions of the courts and better law enforcement are associated with lower default probabilities. Also no clear pattern could be detected for the relationship between bank risk and credit risk.

2. Measuring model for bad loans

Regarding the design decision and the economic efficiency of implementing a measuring model, the general framework for its assessment must be taken into account. The most important assessment criteria are:

- a) the expected value of the model shows how valuable the model is expected to be in certain situations, having as sub-criteria the instructive value of the model, as well as the economies resulting from decisions that are made faster and better on the basis of the model;
- b) the initial costs show how expensive is the implementation of the model in a given situation considering the cost of adaptation and the costs for collecting the initial data;
- c) the structure of the model has as sub-criteria: adaptability, completeness, ease of testing, ease of understanding and the model robustness. *The completeness of the model* shows the extent to which the representative users of the model consider that the model explicitly or implicitly allows the treatment of all phenomena important and relevant for the investigated problem.

The understanding ease of the model shows how well and fast the user can understand the general logic of the model.

The adaptability of the model shows the ease with which you can change the value of the patterns and the structure of the model as response to the new conditions in which the model is used.

The ease of testing refers to the existent opportunities for validating the model for current applications.

The robustness of the model shows the extent to which it is possible to obtain correct results when the input data of the model exceed a certain order.

- d) *the use features show how easy it is to use the model and has as sub-criteria the following: the ease of communication and control, the volume of the data input and the time of response;*
- e) the context of use shows the extension to which the specific conditions where the models is used favour its acceptance by the managers and takes into account: the field of the analyzed problem, the considered decision type and the use frequency;
- f) the validity of the model represents the major assessment criteria for the model. An invalid model is not consistent with reality and leads to erroneous conclusions regarding the performance of the system.
- g) the consistency of the model reflects the extent to which the component elements of the process modelled by the relations between them were presented;
- h) the quality of the model is given by following the next main criteria: coherence, precision, efficiency, completeness and the efficient use of the model.

The banking activity balances risk taking and risk management. In general, the loss owed to the credit risk of a portfolio is defined as being the difference between the current value of the portfolio and its future value at the end of a given time horizon. Therefore, estimating the probability density function of the current portfolio losses implies the current value of the portfolio and the probability distribution of future values at the end of the planned time horizon. However, there is no single ideal method to measure the losses owed to credit risk. Two models for the loss owed to credit risk are used in practice:

1. default model (DM)

2. mark-to-market model (MTM).

„Default” model

To prevent the occurrence of bad loans, the Basel Committee on Banking Supervision elaborated an assessment model of credit risk (default model), which is recommended for all banks.

In general, the bad loans portfolio is defined as being the difference between: the current value of the portfolio and its future value at maturity.

In the case of this model, a credit loss occurs only when the borrower doesn't keep the day of maturity, meaning that he didn't reimburse the loan until maturity. In case the business fails, the loss of the credit would reflect the difference between the exposure of the loan and the present value of the future net recoveries. For this model, a bank must impose or estimate the possibility of risk distribution for each granted loan by taking into account three variables:

1. the associated exposure of the credit bank;
2. an indicator that shows the “default” possibility during the unfolding of the credit;
3. in the event of failure, the loss rate will be calculated. The lower the rate, the bigger the recovering rate of the credit.

The current and future value of credit instruments are defined for two states: *default* versus *non-default*. For a term loan, the current value is measured as bank exposure (accounting value). The future (uncertain) credit value depends on the whether the borrower will become unable to pay within the planned time horizon. If the borrower isn't insolvent, the future value of the credit will be measured as bank exposure at the end of the planned time horizon, adjusted so that it includes any payment of principal made during the planned time. Instead, if the debtor becomes insolvent, the future value of the credit (calculated as percentage of the credit value at the beginning of the time horizon) as will measured as:

$$1 - LGD,$$

where *LGD* presents the loss if the debtor becomes insolvent (*loss given default*). The lower *LGD* is, the bigger the retrieval rate of the credit will be.

There are expected losses of the credit portfolio and unexpected losses. An expected loss of the credit portfolio (μ) in the temporary assumed horizon is equal to the sum of expected losses for each type of credit (considered in its individuality) that forms the portfolio.

$$\mu = \sum P_i \times LEQ_i \times LGD_i$$

where, for the type of credit *i*:

LGD_i = loss in case of default; the expected loss rate in case of failure;

P_i = probability of default; unperformance probability (the expected “default” frequency);

LEQ_i = exposure to default risk; expected exposure of the loan.

The lower *LGD* is, the bigger the retrieval rate of the credit will be.

The standard deviation of the credit portfolio loss (σ) can be decomposed through the contribution brought by each type of individual credit:

$$\sigma = \sum \sigma_i \times P_i$$

where:

σ_i = the standard deviation of the losses of the type of credit *i*;

P_i = the correlation between losses of the type of credit *i* and the ones of the total portfolio.

The Π_i parameter holds the effects of the correlation of the type of credit i with the other types included in the credit portfolio of a bank. The higher Π_i is, the bigger is the standard deviation of the credit losses in the portfolio.

After the assumptions that:

1. exposure of a certain type of credit is known with certainty;
2. the failures of the client and the expected loss rates in case of failure are independent of each other;
3. the expected loss rates in case of failure are independent of the borrowers, the standard deviation of the credit losses for a certain type of credit i can be expressed as:

$$\sigma_i = LEQ_i \times \sqrt{\Pi_i (1 - \Pi_i) \times LGD_i^2 + \Pi_i \times VOL_i^2}$$

where VOL_i is the standard deviation of the expected loss rate in case of failure for the type of credit i .

These equations provide a conventional method to sum the risk of the total credit portfolio (within “default” mode) regarding the correlation between the losses of the i credit and the ones of the total portfolio, the expected loss rate in case of failure, the standard deviation of the expected rate in case of failure for the i type of credit and the expected exposure of the loan. They are also used to highlight those aspects of the credit risk estimation process that establish total trust in a credit risk model, namely:

- a) the accuracy of the parameter estimations as representations of the future;
- b) the validity of the presumptions of independence between variables (the presumption that certain variables are known without certainty) and the distributional presumption that introduces unexpected losses.

Regarding the aspect of the design decision and the economic efficiency, we found the “default” model elaborated by Basel Committee on Banking Supervision as being efficient.

In this model, for each granted credit, a bank must impose or estimate the possibility of risk distribution by taking into account three variables: the associated exposure of the bank credit; an indicator that will show the “default” possibility during the unfolding of the credit; the loss rate will be calculated in case of failure. The lower this rate is, the bigger is the retrieval rate of the credit.

The Basel II Accord acknowledges the techniques to reduce credit risk through collateral, securities and contracts derived on credit risk.

Regarding collateral, two methods to treat it are allowed:

The simplest approach is similar to the one given by Basel I, according to which the risk weighting of the credit is replaced by the risk weighting of the collateral, which can be lower than 20%.

The other approach to protect the bank against volatility of the collateral price is more advanced and relies on the adjusting of the collateral’s market price by introducing *haircuts*, which are either supplied by the supervisor (based on quantitative and/or qualitative criteria), or are calculated internally. Then, the value of the collateral adjusted by the market is deducted from the gross value of the given loan, thereby obtaining the adjusted exposure, which is afterwards multiplied with the associated risk weighting.

Thus, for a collateral transaction, the exposure after the *risk mitigation* procedure is calculated as follows:

$$E_{\square} = \max \left\{ 0, \left[E_{\square} \square 1 + H_e \right) \square C \square \left(1 \square H_c \square H_{fx} \right) \right] \right\},$$

where:

E^* represents the exposure value after the risk mitigation procedure;

E – the current value of exposure;

H_e – the *haircut* weighting applied to that exposure;

C – the current value of the received collateral;

H_c – the weighting applied to that collateral;

H_{fx} – the weighting applied to reduce *currency mismatch* owed to expressing exposure and the collateral in different currencies.

When the collateral consists of an assets cart, the weighting applied to the assets cart is:

$$H = \sum_i a_i H_i$$

where:

a_i represents the assets cart weighting (measures in monetary units)

H_i – the weighting applied to those assets.

According to both approaches, acceptable collateral represents:

- money or deposits;
- debt securities with at least a BB- rating, issues by governments or public entities;
- debt securities issues by corporations, with a rating of at least BBB-;
- equities or convertible bonds included on a main index;
- gold.

In addition, the advanced approach accepts convertible bonds that are not on the main index, but are transacted on a recognised stock exchange market, bonds without rating issued by banking institutions, collective investment schemes and mutual funds.

To accept these types of collateral, a bank must met standards regarding:

- the legal certitude of the used documents;
- the requirement that the assets used for risk mitigation will have a reduced correlation with the credits whose risk they reduce;
- the robustness of the management policies for collateral.

3. Conclusion

Certain groups of banks differ in their riskiness; for example, foreign, EU and large banks show a lower probability of default compared to their competitors. Nevertheless, these differences are not large and generally not statistically significant. This suggests that banking markets are relatively homogenous and no clear groups of banks with excessive risk taking can be identified.

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THE ACTIVITY OF COMODITIES AND STOCK EXCHANGES: TRENDS, CHALLANGES, LIMITS

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The international capital market is in a continuous change. The demutualization of commodities and stock exchanges has determined waves of mergers and acquisition between exchanges from different countries and different continents. The result is the establishment of strong exchanges` groups that have an important innovation power.

The international financial crisis generated devastating critique from the part of the policymakers, the media, the public and some top economists. So, in the future, the supervision authorities should control and regulate better the phenomenon of financial innovation.

Keywords: exchanges, demutualization, innovation, financial crisis

JEL Classification: G 24

1. Trends in the evolution of capital market

The commodities and securities exchanges are important actors at national and international level. The financial sector and the exchanges were brought in the attention of the world by the actual international financial crises. In fact, the international crises was determined by the financial innovation and the lack of supervision.

The last two decades have been brought new trends in the activity of commodities and stock exchanges:

- the increasing deregulation of trading activity (for example Big Band in London and the elimination of fixed commission in USA) that conducts to the intensification of competitiveness;
- the development of information technology and the main result consists in the replacement of traditional floor based trading with electronic trading; in addition, alternative trading systems and electronic communication network have been set up;
- the establishment of new commodities and stock exchanges in developed and developing countries; for example, there are successful exchanges in countries like India, China, Malaysia, South Africa but many new exchanges have rapidly disappeared or have not achieve their initial goals;
- the explosion of exchange traded derivatives markets; the derivatives contracts are no longer viewed as speculative instruments but they are used intensively for hedging strategies;
- the rise of alternative trading systems (ATS), first in the USA and recently in Europe;
- the growing presence of financial investors on commodities futures exchanges (“financialization” of commodities markets) generates the increase of the internationally traded commodities;
- *the strong competition between exchanges, banks and insurance companies that try to launch innovative products for speculative and hedging purposes;*
- the transformation of exchanges from non-profit institutions to joint stock companies and the listing of their shares;
- the explosion of mergers and acquisitions between exchanges from the same country or different countries, from the same continent or from different continents (the eloquent example is the merger between New York Stock Exchange and Euronext and the set up of the most important exchange group – NYSE Euronext Group); the results are the restructuring and the consolidation of this industry;

- the climbing of institutional investors that are important promoters of new financial products used to hedge the risks or to gain the proper results (Stoica, 2005, p. 81);
- globalization of exchanges` clients; these global clients ask for more standardization of fees, products and technology and this goal can be achieved through consolidation (WFE Report 2008, p. 63) and demutualization that permit a more customer-focus manner of exchanges (Akhtar, p. 36);
- the implication of exchanges in the regulation of public listed companies and the promotion of corporate governance principles among them, because they impose listing and disclosure standards, elaborate corporate governance recommendations or codes according with OECD Principles of Corporate Governance.
- the sustainable investment is a topic for many actors who play a role in shaping climate investment: policy makers, international organizations, professional bodies; the companies must have a social responsibility and in some extent, the exchanges promote specific environmental and social standards;

Taking in account the activity of exchanges, we observed the increased cooperation among exchanges through the sign of memoranda of understanding (MOUs); the main objectives of these MOUs consist in the information sharing in order to adopt the “best practices” in area like the clearing and settlement procedures, the development of contract specifications; self-regulation or joint listing of products (UNCTAD 2006, p. 9).

Another form of cooperation is the sign of commercial partnership contracts. For example, on December 2009, two important American exchanges - the NASDAQ OMX Group and BM&FBOVESPA from Brazil concluded a contract for the distribution of market data and the provisioning of NASDAQ OMX products and corporate services to public companies in Brazil. Based on this contract, these exchanges intend to develop a communications system through Brazilian and North American brokers will have access to cash equities traded to partner’s market.

Some of these trends are contradictory. For example, the regulatory role of exchanges is a major subject for discussions because of the demutualization of exchanges. Some specialists consider that there could be a conflict of interests between the major aim of exchanges - the profit and the regulatory responsibilities of exchanges, and the additional problem rise from the self-listing of exchanges.

The competition between exchanges is intense and after the conversion of exchanges to companies, their regulatory regimes could be a competitive parameter. Until now, there is no systematic evidence of this case, according with OECD.

The financial innovation is very intense on commodities and securities exchange. The result is the creation of many derivatives or structured products that are gambling instruments that increase risk without providing any real benefits to society. (UNCTAD 2009, p. 12). For these reason, many financial markets from developed countries are viewed as giant casinos.

The high complexity of the derivatives products determines difficulties in the evaluation of these instruments. The underestimation of the risk, the optimistic attitude of investors, the technological and financial innovation, the lack of proper regulation and supervision generate the actual financial crisis.

2. Demutualization of commodities and stock exchanges

Traditionally, many exchanges had been non-profit organizations owned by its members who had the privileges to trade specific assets in specific locations. In fact, the exchanges operated as a “club of brokers” and the members had the monopoly over the intermediation of securities` trade. Nowadays, the exchanges are implicated in a dramatic change of the organizational structure from mutualization institutions or members` associations to “for profit” entities.

Usually, this demutualization process implicates a public offering and public listing of shares of exchanges. By this way, the exchanges are own by investors rather than members. The main commodities and stock exchanges have as shareholders important institutional investors.

The first movement in this field was done by the Stockholm Stock Exchange in 1993 and since than, many commodities and stock exchanges (like the Australian Stock Exchange - ASX, Toronto Stock Exchange - TSE, Singapore Stock Exchange and Hong Kong Stock and Futures Exchanges, the Pacific Exchange, Chicago Mercantile Exchange) have track the same trend: the change or organizational form from mutual ownership structure to a share ownership structure (Akhtar, p. 35).

This phenomenon can be observed on all continents, on developing and developed countries, and on various exchanges where different types of securities are traded. The specialists (Aggarwal, p. 3) consider that this process is due to innovations and deregulatory events that characterize the last decade.

After the demutualization, the exchanges have made an additional step: they do a public offering and become listed companies. The Australian Stock Exchanges was a pioneer in this field and was one of the first securities exchanges that become a listed company.

The change of the business model of exchanges and the existence of ATS have bring new challenge for their managers. In order to improve their efficiency, new solutions are found: the consolidation through mergers and acquisitions; the cut down of the fees; the establishment of global trade facilities for the set up of 24 hours trading markets.

The World Federation of Exchanges has over 50 members (exchanges): 76% of members are for-profit, and 41% are publicly listed. The exchanges organized on profit basis are acting like a factory, with huge revenues, costs and employees.

In addition, being organized as a company, the demutualized exchanges can raise capital from different sources. In this way, the exchanges have the possibility to invest in technology. The movement from floor trading to screen (electronic) trading has implicated huge investment in information systems. Through demutualization, the separation of ownership and trading privileges guarantee a greater independence of exchange from its members

The negative effects of the international financial crisis balanced the efforts made by the management of for profit exchanges. For this reason, many exchanges have obtained profit in 2009, but we remark a relative decrease compared with the previous year (2008).

Table no 1 The net profit of some exchanges in 2009

	Net profit (in local currency)	Annual relative change
BME Spanish Exchanges	EURO 150 m	-21.3%
BM&FBOVESPA	BRL 881 m	-3.1%
Deutsche Borse	EUR 496 m	-52%
Hong Kong Exchanges	HKD 4,704 m	-8.3%
Johanesburg Stock Exchange	ZAR 366 m	-2.1%
New Zealand Exchange	NZD 38.71 m	+280%

Source: Focus 2/2010, Focus 3/2010, <http://www.world-exchanges.org>

After the demutualization, many exchanges have revised their commercial strategy and adopt different methods in order to cope with local and international competition and to gain profit. The methods consist in:

- the merger of two or more local exchanges that produces synergy effects but reduce the possible competition on the national capital market; this merger could determine a monopolistic behavior of the consolidate exchange, but the liberalization of capital movements permits the trade and the listing of securities abroad;

- the merger of different types of markets: cash and derivatives markets, securities and commodities markets; this trend is sustained by the necessity of development and of set up of a “one stop shop” for investors and brokers;
- the vertical integration of exchanges, clearing, depository institutions in order to reduce the costs for brokers and investors;
- international alliances with other exchanges in order to use same products or electronic platform.

Even the exchanges do not merge, they often the same electronic trading platform. For example, Euronext’s derivatives trading system: LIFFE CONNECT is used by Euronext and The Tokyo Financial Exchange (TFX) since 2004

3. The financial and innovation force of the exchanges` groups

The wave of mergers and acquisitions is a reality of our times. This trend is very intense in financial services and in the last twenty years, the commodities and stock exchanges are implicated in the establishment of groups that have broad business portfolios.

The integration in this field consists in the merger of exchanges from the same country or different countries or the merger of exchanges with settlement, depository and clearing institutions.

For example, NYSE Euronext that is the world's leading and most liquid equities exchange group, was set up in 2007 by NYSE Group and Euronext after many local mergers and acquisitions between exchanges like Archipelago Exchange, New York Stock Exchange, Lisbon Stock Exchange, London International Financial Futures and Options Exchange, Paris Bourse, Brussels Exchange or Amsterdam Exchange.

These financial groups dominate the international capital market taking in account indicators like equity market capitalization, value of share or bond trading, and the number of derivatives contracts concluded. Taking in account the figures from table no 1, we remark the force of Asian exchanges like Shanghai Stock Exchange, Shenzhen Stock Exchange or Hong Kong Exchanges.

Table no 2 Largest exchanges by value of share trading in the electronic order book

Exchange	USD bn	USD bn	% change
	2009	2008	In USD
1 NYSE Euronext US	17,521	27,651	-36.6%
2 NASDAQ OMX US	13,608	23,845	-42.9%
3 Shanghai Stock Exchange	5,056	2,584	95.7%
4 Tokyo Stock Exchange Group	3,704	5,243	-29.4%
5 Shenzhen Stock Exchange	2,772	1,242	123.2%
6 NYSE Euronext Europe	1,935	3,837	-49.6%
7 London Stock Exchange	1,772	3,844	-53.9%
8 Korea Exchange	1,570	1,435	9.4%
9 Deutsche Börse	1,516	3,148	-51.8%
10 Hong Kong Exchanges	1,416	1,562	-9.3%

<http://www.world-exchanges.org>

The international financial crises have affected the volume and the value of share trading at the most important exchanges from the developed countries. The interest of individual and institutional investors for shares has been decrease and the exchanges` groups coped in 2009 with dramatic cut down of share trading.

The investors have been focused to bonds that are less risky securities. Taking in account the consolidated data presented by World Federation of Exchanges for ten largest exchanges, only three exchanges (NASDAQ OMX Nordic Exchange, Istanbul Stock Exchange, Tel Aviv Stock Exchange) registered modest decrease of the value of bonds traded.

Table no 2 Largest exchanges by total value of bonds traded

Exchange	USD bn	USD bn	% change in
	2009	2008	USD
1. BME Spanish Exchanges	8,138	6,823	19.3%
2. London Stock Exchange	6,896	6,118	12.7%
3. NASDAQ OMX Nordic Exchange	2,419	2,942	-17.8%

4.	Colombia Stock Exchange	960	468	105.0%
5.	Korea Exchange	403	348	15.9%
6.	Istanbul Stock Exchange	402	406	-1.2%
7.	Borsa Italiana	313	256	22.1%
8.	Tel Aviv Stock Exchange	246	262	-6.4%
9.	Oslo Bors	227	124	82.8%
10.	Santiago Stock Exchange	188	167	12.6%

<http://www.world-exchanges.org>

In this period of crisis, we remark the return of investors to classic financial products, especially bonds, with low risk and complexity.

The intense financial innovation that is a reality of our times and the new financial products have developed quickly: the results was the transformation of international financial systems, the appearance of new opportunities for investors and intermediaries, new challenge for financial supervisory authorities, the upgrade of national financial laws and the improvement of international cooperation in the field of regulation.

The innovative products have been created as a reaction to risk, but the use of these products could generate risk and losses. Paradoxical, the „uncontrolled” use of derivatives had determined huge losses for banks like Barings Bank, Sumitomo Bank and Allied Irish Bank after the brokers had initiated excessive positions on derivatives markets.

Despite these financial scandals, the financial innovation has continues. For example, for the beginning of this year, the main exchanges groups announces the launch/list of new products:

-the BME Spanish Exchanges listed Turbo Pro warrants issued by BNP Paribas and linked to the IBEX 35 index;

-The Chicago Board Options Exchange list S&P 500 dividend index options;

- Eurex launched dividend futures on single stocks (on the constituents of the Dow Jones EURO STOXX 50)

- NASDAQ OMX launched new ETF based on NASDAQ-100Index;

- Deutsche Börse launched trading on Exchange Traded Notes;

- BM&FBOVESPA launched foreign exchange non-deliverable forward contract on its OTC market.

The results of the intense financial innovation on exchanges is the creation of product like exchange traded funds (ETFs), exchange traded commodities (ETCs), derivatives contracts on weather. Through these products, the companies and the public institutions have multiple choices to speculate or to hedge the financial risks.

After the start of financial crisis, many specialists have blamed the financial innovation, especially the OTC derivatives like the collateralized debt obligation (CDO) and the credit default swap (CDS). For example, Princeton professor Paul Krugman said, „hard to think of any major recent financial innovations that actually aided society, as opposed to being new, improved ways to blow bubbles, evade regulations and implement de facto Ponzi schemes.”¹⁰¹⁵ Paul Volcker, the Chairman of President Obama’s Economic Recovery Board, has asked: “How many other innovations can you tell me that have been as important to the individual as the automatic teller machine, which in fact is more of a mechanical than a financial one?”¹⁰¹⁶

All these reactions have affected the image of exchanges as generators of innovative financial products and have determined the decrease of investors` interest for OTC derivatives and exchange-traded derivatives.

¹⁰¹⁵ www.nytimes.com/2009/04/27/opinion/27krugman.html

¹⁰¹⁶ Paul Volcker: *Think More Broadly*, The Wall Street Journal, December 14, 2009

Conclusions

The financial sector is the central nervous system of modern market economies (UNCTAD 2009, p. 11). Taking in account the importance of financial sector for economy and the effects on international financial crisis, the financial innovation must be more controlled by the supervision authorities because some financial instruments are created with the goal to elude the regulation and to maximize the profits of investors and bankers.

In addition, some specialists like Stiglitz proposed the creation of a Financial Products Safety Commission in order to limit the proliferation of “dubious” or “opaque” financial products (that mask the risk to investors than to minimize it) and to stimulate the creation of standardized financial instruments that are more transparent and easy understood by investors. The financial products must have real positive effects on economy. So, the financial regulation reform must focus on the social efficiency of financial products and for this purpose, the international coordination is needed.

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LIQUIDITY RISK MANAGEMENT IN CRISIS CONDITIONS

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In order to measure the liquidity risk we have developed an analysis model, based on stress-testing scenarios, that shows the ability of the bank to face different types of liquidity crisis. The scenarios were designed for each balance sheet position for assets and liabilities: Ordinary Course of Business, Name Crisis (Mild Name Crisis and Severe Name Crisis), Market Crisis (Mild Market Crisis and Severe Market Crisis) that reflects banking sector crisis and persistent recession. This offers a dynamic image about the bank's liquidity in report with different types of liquidity scenarios, but also about the time horizon of analyze. The research also wants to highlight the most significant features to consider in order to implement an effective liquidity risk management and to achieve a more integrated supervisory framework.

Key words: liquidity risk, name crisis, market crisis, liquidity limits, gap analysis

The article's JEL code: G01, G21, G32, C63

1. Introduction

A series of studies on liquidity management have appeared during the financial crisis, many of them comparing the funding liquidity with the market liquidity. Drehmann and Nikolaou (ECB, 2009) found that the funding liquidity risk has similar properties as the market liquidity risk, both showing persistence at low levels with occasional spikes, the evidence being more stronger after the beginning of the turmoil in August 2007. They have analyzed 135 main refinancing operation auctions conducted between June 2005 and October 2008 in the euro area from 877 participating banks in the relevant auctions. Brunnermeier and Pedersen (2007) discovered that higher funding liquidity risk implies lower market liquidity during the turmoil. Also, the bank which has to raise liquidity in the interbank market has to pay a higher price in order to obtain it. In the extreme, prices may even be infinite if a bank is credit rationed (Stiglitz and Weiss, 1981).

The credit institutions have elaborated their own models for following and limiting the liquidity risk. Their procedure regards the following elements: more restrictive internal limits for the liquidity indicator, limits for establishing and monitoring the liquidity risk in report to a single person or group of persons, the bank's own indicators for liquidity risk, an information system that monitors the liquidity that is used by the top management. In order to measure the liquidity risk there have been developed a series of models, based on these scenarios, that shows the ability of the bank to face different types of liquidity crisis. This offers a dynamic image about the bank liquidity in report with different types of liquidity scenarios, but also about the time horizon of the analysis.

The banks from the Romanian banking sector have aligned to the central bank's requirements and each of them has elaborated its own plan for forecasting and limiting the liquidity risk. The alternative financing plan represents an important part of the risk administration process, taking into account the scenarios applicable after the turmoil.

2. Methodological approach

In order to measure the liquidity risk we have developed an analysis model, based on stress-testing scenarios, that shows the ability of the bank to face different types of liquidity crisis. Taking into account that the duration of a crisis has an important impact on the level of liquidity, we have analyzed separately a short period (1 month) and a longer period (1 year). Also, for

each scenario we have taken into account the next perceptions:

- the internal perception, which is applied especially to the name crisis, when only the bank knows about the existence of liquidity problems, from the internal indicators and the information. At this level it is more easier for the bank to attract supplementary resource at a reasonable cost;

- the external perception, when the whole market know about the problems regarding the liquidity situation in crisis period. At this level, it is difficult to attract supplementary resources at a reasonable cost, independently on the type of crisis, name crisis or market crisis.

The internal and external factors that release crisis in the Romanian banking system, show evolutions, which indicated that there is a potential liquidity problem for the banks. Because of this, the analyze result of their level and evolution can motivate the activation of the financing alternative plan. Due to the *internal perception*, the future estimations regard the following: the estimated cash-flow for RON and foreign exchanges, the net cash-flow result for the next five days at for the whole bank. Due to the *external perception*, are taken into consideration the following: macroeconomic indices; qualifying ratings for Romania and for the bank; indices showing unfavorable evolutions for the bank, worsen profit and losses reports; indices showing unusual evolutions on the monetary market like the instantaneously increase of the interest rate level and of the spreads (the difference between the monetary policy rate of BNR and ROVID overnight); indices regarding the functionality of the monetary markets and capital markets.

The daily cash flow report is based on the estimation of the banks' current account balance opened at the National Bank of Romania. It includes the following: inflows and outflows resulting from the transactions on the monetary market, interbank transactions on the foreign exchange market, readily marketable assets, volatile liabilities, demand deposits, maturing assets, interest receivable, asset sales, drawdowns, maturing liabilities, interest payable, disbursements on lending commitments, early deposit withdrawals. During liquidity crisis the cash flow would be adjusted with the new conditions regarding the pessimistic estimation of the early deposit withdrawals, the delay of the interbank settlements and also with the negative effects that occurs from the foreign exchange operations. When large volumes of deposits are at stake, outflows of funds should be assessed on the basis of probability, with past experience serving as a guide.

The existence of multiple currencies increases the complexity of liquidity management. A bank may face difficulty in raising funds or in selling assets in foreign currencies in the event of market disturbances or changes in domestic monetary or foreign exchange policies. In order to meet these requirements, the Risk Controlling Division of a bank may calculate and monitor the next liquidity indicators, for EUR, USD and RON and also at cumulative level in equivalent RON:

a) The liquidity indicator calculated as a report between the liquid assets for the next 7 days and the sight deposits of the individuals;

b) The liquidity indicator calculated as a report between the liquid assets for the next 7 days and the sight deposits of the individuals and companies, including the correspondent accounts of other banks (LORO);

c) The liquidity indicator calculated as a report between the liquid assets for the next 7 days and the total current accounts and the term deposits of the clients;

d) The liquidity indicator calculated as a report between the liquid assets for the next 7 days and the total current accounts, the term deposits of the clients, individuals and companies, including the correspondent accounts of other banks (LORO).

In the Romanian banking system most banks implement the following analysis and liquidity limits, adapted to the market conditions: short term liquidity limit based on the net cash flow for the next five days, liquidity limits based on stress tests scenarios, long term intergroup funding limits and the GAP analyze.

This liquidity analysis on crisis scenarios is the practical part of the research done, by presenting the liquidity limits, the immediate effects after the crisis starts and the measures taken for

improving the situation, but also for analyzing the efficiency of the results obtained after the application of stress-testing scenarios.

3. Case study of the liquidity limit based on stress testing

There are five liquidity scenarios, for each balance sheet position for assets and liabilities:

- Ordinary Course of Business (OCB): there aren't any internal or external problems;
- Name Crisis (NC): which could take the form of a Mild Name Crisis (MNC) characterized by the decrease of the profit and/or a negative perspective or of a Severe Name Crisis (SNC) characterized by the deterioration of the rating score with more than two units;
- Market Crisis (MC): which could take the form of a Mild Market Crisis (MMC) with mild recession and mild political crises or of a Severe Market Crisis (SMC) characterized by the banking sector crisis, severely and persistent recession.

For each scenario were established three sets of hypothesis:

- hypothesis regarding the primary and the secondary activity: what percent represents these activities in a class of products;
- hypothesis regarding the renewal of the positions: what percent from a class of products would be renewed with the given scenarios;
- hypothesis regarding selling or quick transformation in collateral and unanticipated withdrawals: what percent from a class of products could be sold or used as collateral (from assets) or early withdrawn (from liabilities) before its contractual maturity.

In the next tables are presented the percents for the hypothesis defined above, for one month period and for all of the liquidity scenarios.

Table 1: Scenarios regarding the base activity and the secondary activity

	OCB	MNC	SNC	MMC	SMC
ACTIVE					
Nonbank clients with contractual maturity - primary	90%	90%	90%	90%	90%
Nonbank clients with contractual maturity - secondary	10%	10%	10%	10%	10%
Nonbank clients without contractual maturity - primary	100%	100%	100%	100%	100%
Nonbank clients without contractual maturity - secondary	0%	0%	0%	0%	0%
Cash and balances with the central bank – primary	0%	0%	0%	0%	0%
Cash and balances with the central bank – secondary	100%	100%	100%	100%	100%
Interbank assets – primary	10%	10%	10%	10%	10%
Interbank assets – secondary	90%	90%	90%	90%	90%
PASIVE					
Nonbank clients with contractual maturity - primary	15%	15%	15%	15%	15%
Nonbank clients with contractual maturity - secondary	15%	15%	15%	15%	15%
Nonbank clients without contractual maturity - primary	85%	85%	85%	85%	85%
Nonbank clients without contractual maturity - secondary	15%	15%	15%	15%	15%
Interbank liabilities – primary	100%	100%	100%	100%	100%
Interbank liabilities – secondary	0%	0%	0%	0%	0%

Table 2: Renewal hypothesis at 1 month

	OCB	MNC	SNC	MMC	SMC
ACTIVE					
Nonbank clients with contractual maturity - primary	100%	100%	80%	100%	100%
Nonbank clients with contractual maturity - secondary	100%	70%	50%	75%	55%
Nonbank clients without contractual maturity - primary	100%	100%	80%	100%	100%
Nonbank clients without contractual maturity - secondary	0%	0%	0%	0%	0%
Cash and balances with the central bank – primary	0%	0%	0%	0%	0%
Cash and balances with the central bank – secondary	100%	70%	50%	70%	50%
Bonds	100%	70%	50%	70%	50%
Interbank assets – primary	100%	100%	100%	100%	100%
Interbank assets – secondary	100%	15%	5%	15%	15%
Loro/Nostro accounts	100%	100%	80%	100%	100%
Minimum reserve requirements	100%	100%	100%	100%	100%
Transition assets	100%	45%	0%	60%	25%
Less of interest assets	100%	100%	100%	100%	100%
PASIVE					
Nonbank clients with contractual maturity - primary	100%	80%	25%	100%	95%
Nonbank clients with contractual maturity - secondary	100%	90%	60%	100%	95%
Nonbank clients without contractual maturity - primary	100%	80%	50%	100%	90%
Nonbank clients without contractual maturity - secondary	100%	75%	20%	100%	95%
Interbank liabilities – primary	100%	100%	100%	100%	100%
Interbank liabilities – secondary	0%	0%	0%	0%	0%
Loro/Nostro accounts	100%	80%	70%	100%	90%
Subordinated debts	100%	60%	0%	75%	40%
Supplementary capital	100%	100%	100%	100%	100%
Less of interest liabilities	100%	100%	100%	100%	100%
Swaps	100%	100%	100%	100%	100%

Table 3: Selling/transforming hypothesis at 1 month

	OCB	MNC	SNC	MMC	SMC
ACTIVE					
Nonbank clients with contractual maturity - primary	0%	0%	0%	0%	0%
Nonbank clients with contractual maturity - secondary	0%	0%	0%	0%	0%
Nonbank clients without contractual maturity - primary	0%	0%	0%	0%	0%
Nonbank clients without contractual maturity - secondary	0%	0%	0%	0%	0%
Cash and balances with the central bank – primary					
Cash and balances with the central bank – secondary	100%	97%	97%	95%	85%
Bonds	100%	97%	97%	95%	85%
Interbank assets – primary	0%	0%	0%	0%	0%
Interbank assets – secondary	0%	0%	0%	0%	0%
Loro/Nostro accounts	0%	0%	0%	0%	0%
Minimum reserve requirement	0%	0%	0%	0%	0%
Transition assets	100%	97%	97%	95%	85%
Less of interest assets	0%	0%	0%	0%	0%
PASIVE					
Nonbank clients with contractual maturity - primary	0%	10%	60%	0%	3%

Nonbank clients with contractual maturity - secondary	0%	7%	50%	0%	3%
Nonbank clients without contractual maturity - primary	0%	10%	40%	0%	5%
Nonbank clients without contractual maturity - secondary	0%	12%	65%	0%	5%
Interbank liabilities – primary	0%	0%	0%	0%	0%
Interbank liabilities – secondary	0%	0%	0%	0%	0%
Loro/Nostro accounts	0%	10%	80%	0%	5%
Subordinated debts	0%	0%	0%	0%	0%
Supplementary capital	0%	0%	0%	0%	0%
Less of interest liabilities	0%	0%	0%	0%	0%
Swaps	0%	0%	0%	0%	0%

The results of the liquidity limit, for a Romanian commercial bank, are presented for each combination between crisis scenarios, time horizons and currency (the final results include the 1 year scenarios):

- the volume of the outflows could be covered by the inflows generated by secondary liquid assets (A);
- the volume of the outflows could be covered by the inflows generated by the total liquid assets , primary and secondary (B);
- the volume of the outflows is higher that the inflows generated by the total liquid assets , primary and secondary (C)

Table 4: Liquidity limits

1 month	OCB	MNC	SNC	MMC	SMC
All currencies	A	A	B	A	B
RON	A	A	B	A	B
EUR	A	A	B	A	B
1 year	OCB	MNC	SNC	MMC	SMC
All currencies	A	B	C	A	B
RON	A	B	C	A	B
EUR	A	B	C	A	B

4. Conclusions

Preoccupation with obtaining funds at the lowest possible cost and with insufficient regard to maturity distribution can greatly intensify a bank's exposure to the liquidity risk. Moreover, in practice, it is difficult to obtain funding when a dire need for it exists, especially that some unexpected situations also may have impact on liquidity risk, including internal or external upheavals, increased market activity, sectarian problems and economic cycles. All banks are influenced by economic changes, but sound financial management can buffer the negative changes. Management must also have contingency plans in the case that its expectations tend to be wrong, which identify the minimum liquidity needs and the alternative courses of action under different scenarios on short term liquidity limit based on the net cash flow, liquidity limits based on stress tests scenarios, long term intergroup funding limits and the GAP analyze. These scenarios may take into consideration, for each balance sheet position for assets and liabilities the ordinary course of business, but also the name crisis and the market crisis, from the mild ones to the severe ones.

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THE BUCHAREST STOC EXCHANGE IN THE CONTEXT OF ECONOMIC CRISYS

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The economy is a complex, which acts on many external factors, but internal and complex factors, depending on who can create economic balances or imbalances. An important element is capital to be managed carefully and seriously because it caused imbalances are among the worst in the economy and may even lead to economic collapse in one country. The existence of capital market is driven by demand for capital for current cash needs and investment and also be subject to a real process of saving as the foundation of capital supply. Fundamental institution of secondary capital market is the stock of securities.

Keywords: Stoc Exchange, shares, crisis, market economy, capital, capital market, futures, options, investments, investment funds;

Cod JEL lucrare: G14

The economic crisis that has shaken up the world currently has the focus or epicenter of the United States and then crossed the U.S. border is being felt around the world from Europe to Asia. Causes the onset of the crisis originated in the U.S. and experts know how the crisis began. It's actually part of the fall of the American financial system, could continue to affect the entire financial system in the world. It took the four oldest investment banks to be bought ridiculous amounts or declaring bankruptcy, as a giant insurance industry to be taken by the State, as two old mortgage credit institutions to enter bankrupt and the federal government to announce a rescue plan '700 billion dollars', to understand the mechanisms of the crisis.

There are specialists in the Romanian press, forming an analogy between the economic downturn we are going through and what happened in 1929 - 1930, both in terms of causes and its possible effects. From regulatory perspective, the current economic downturn has occurred and is evolving quite differently from the crisis that occurred 79 years ago. Causes of the 2008-2009 recessions are not the same as those from 1929 to 1930. Institutional mechanisms for intervention have evolved in recent decades, the global economic structure has changed profoundly, and the states cooperate with each other, which in 1929-1930 has not happened. However, the crisis appears to be controlled, but with a fairly high cost. In 1929 nobody has questioned an internationally coordination or market interventions, because dominant economic culture was different.

Global economic crisis is amplified each day and Romania felt that economic recession, which economists from major global and fail to find an antidote. And the man will feel the crisis in the companies in Romania. On the one hand those who have loans for development work or cover other needs, will awaken to the inability to repay these loans, while the possibility of undue payment of suppliers, especially for those who have made payments currency. Moreover, as global stock markets collapse and the Bucharest Stock Exchange lost a few days over two billion, the companies can not count on them as sources of funding, another option to cover financial needs is totally blocked. The first signal was registered by the capital market, which has experienced since the middle of last year, with the withdrawal of major foreign investors from all emerging markets.

The existence of capital market is driven by demand for capital for current cash needs and investment and also be subject to a real process of saving as the foundation of capital supply. Link capital market issuers of securities and other financial instruments for individual and institutional investors through financial investment companies. Capital market thus operates as a liaison mechanism between those who manifest the extra capital (investors) and those who need capital (broadcasters).

Capital markets are all mechanisms through which relationships and capital available and dispersed in the economy are managed by public and private entities The applicant any funds. In terms of its scope of coverage in the literature two approaches have been structured on the capital market: design of Anglo-Saxon and Continental European conception (of French origin). In Anglo-Saxon conception of capital market issue with money market and insurance market is known as a comprehensive term, financial market. The design classic continental European capital market has a complex structure, which includes money market, mortgage and financial markets. In this view represents the money market and short-term capital market environment, as represented by the interbank market and negotiable securities market and financial market is long-term capital market, which are issued and traded securities that serve as the underlying exchange capital. Mortgage market is a specific market financing of housing. Practice in Romania highlights option for Anglo-Saxon conception, that the capital market is part of the financial market.

Capital market is presented as a liaison mechanism between investors and issuers, whose decision to invest are given by two complementary objectives, namely: profitability, namely high fructification of capital and liquidity, ie recovery of capital stock as invested. Seen in the light production and marketing of equity securities market comprises two segments namely: the primary market, the market where newly issued financial instruments are traded for the first time, and the secondary market, the market traded financial instruments which are already in circulation.

Premises occurrence capital market in Romania have been created along with the promulgation of Law no. 31/1990 on trading companies, which provided the necessary legal birth and development of joint stock companies and also established a clear framework for the main products used on the capital market: shares and bonds. Under that law firms could share the savings calls for public funding or to increase capital. Thus we can define 1990 as the time of the primary capital market.

Then an important milestone was the adoption of Law no. 58/1991 on the privatization of companies, which need further revealed the existence of a secondary market, because financial markets brought a massive amount, bearer securities, which securities were not considered although they acted as to familiarize the public with securities. Fundamental institution of secondary market capital stock of securities. Against the backdrop of a tradition for over 70 years of commodity exchanges, which worked on the model of Western scholarship, the history of Romania recorded in 1881, the emergence of the first stock exchange.

This was due to the adoption of Law on scholarships, exchange mediator and mediator of goods. Made after the French model, the law governing the creation, by royal decree, the stock exchanges and commodities. Opening the Bucharest Stock Exchange, following the adoption of this law was held on 1 December 1882, the Chamber of Commerce building. Evolution of regulatory framework on capital markets was marked by the following steps: year 1904 - a new law that stock exchange operations are clearly defined and, as an immediate consequence, the public is increasingly convinced of the efficiency of investments in securities value; 1929 brings the law on stock, known as "Law Madgearu, who represented the unification of legislative grants regime in Romania and also a modern approach to the instrument.

After the conclusion of the economic crisis 1929 - 1933, with economic recovery, "Exchange effects, stock and exchange in Bucharest," and she knows an upward trend, representing the 1939 peak in the interwar period. Mentioned that at the time of 1939, traded, only 56 titles in banking

and transport insurance. End of the World War II, to turn around policy for Romania, meant the end of the capital market and stock market. Coup de grace for this highly dynamic sector of the economy was the economy of the nationalization process in 1948, which meant that by establishing state ownership disappears specific products: stocks, corporate bonds, domestic and foreign government securities (the equivalent in Lei - Gold). Revolution of 1989, which meant an important event in the history of Romania, stressed the reform program that followed it and needed to rebuild capital market and its institutions, including the Bucharest Stock Exchange. In Romania, the stock market was the reason why the emergence of creation to a market that match the needs of Romanian and foreign investors regarding investments and the role they played in the restructuring and privatization.

The fact that Romania has benefited from a stock market for half a century has made the development process to start from scratch without the benefit of their experience in the field. To create the stock market started to experience Romania and practice in developed countries, but also benefited from the help of international organizations in the U.S., Canada, UK, EU. Stock Exchange, as a basic component of the capital market in Romania, was reconstituted in 1995 and was financed at first by the state budget, provided that within three years of the establishment of fees applied to reimburse the transaction, the amount required to set up. B.V.B. is organized and operates in accordance with Ordinance 28/2002 and issued under its provisions.

Thus B.V.B. performs the following functions: The regulated market, providing investors systems, mechanisms and procedures for transactions in securities and other financial instruments as provided by law, performs and related trading activities, such as compensation, settlement, registration of rights and constitution transfer rights to the securities and financial instruments and all their related operations, conducts, and markets systems administrates specific stock exchange, is the training body for the purposes of the CNVM Regulation no. 1 / 2003, the professional certification of operators and specialists for regulated markets, organizing training courses for participants in the regulated market.

Bucharest Stock Exchange has become the top sectors affected by the crisis. From the beginning, the main market capitalization lost over ten billion, approximately 42% of the total. Limit exposure to the foreign investment funds collapsed, practically the most liquid stock quotes. Prices of securities issuers that make up the basket BET lost, on average, over 70%. But the most volatile segment during this period was the financial investment companies (SIF). Once, in 2006 and 2007 BET-FI mark assessments and 32.4% respectively 24.8% from the same stock early reports indicate a decline of over 85%. The global capital market history, links with the Bucharest Stock Exchange (BSE). He was born in 1881, following the adoption of the Law on scholarships, exchange mediator and mediator of goods, which provides for the establishment, by royal decree, the stock exchanges and commodities.

BSE crossed, in turn, the history of tough financial times. In 1929, Law Madgearu was adopted legislative regime governing the unification of Romania scholarships. After the crisis of the '30s, stock exchange effects and action in Bucharest, as was known, the highest increase in the history of wars. In 1939, 56 securities traded in banking, transport and insurance. With the establishment of the communist regime, specific securities transactions ceased capitalism. Nationalization of the Romanian stock exchange stopped work. Revolution of 1989 led to rebuilding and restoration of capitalism in Bucharest Stock Exchange by a group of specialists. BSE was re-established in 1995, the first trading day is November 20, 1995. Since reopening, has seen a continuous development. Currently, the BSE listed about 60 companies, including SNP Petrom, the Romanian Bank for Development, the 5 financial companies, BT, BRD, etc. October 8, 2008, "Black Wednesday". Loss of 2.5 billion dollars per minute. The financial crisis has affected U.S. and Romanian capital market. On October 8, for the first time in history, trading session on the Bucharest Stock Exchange was closed. Transactions were suspended due to a fall over the critical threshold of 15%. Since its opening meeting, the BET index lost more than 14.43 percent. Transactions at the Sibiu Commodities Exchange were also suspended. Two days later, the BSE

announced that it has extended status. Transactions were postponed until the end of the day. Closely linked to developments in the stock market, stock funds have fallen fast. Under these conditions, the net assets managed at end-September of the 17 equity funds was only 183.18 million lei, decreasing by about 54% to nearly 400 million lei as operated 14 funds in late 2007 . Further pension fund returns, but the insurance with investment component declined as a result of stock market exposure.

Bucharest Stock Exchange is also vulnerable as external financial disaster. Share value fell more than 7% and the stock market recorded the biggest loss in the last 3 years. BRD titles have seen the greatest decline - 14%, close to the minimum allowed by the Bucharest Stock Exchange. Value of firms listed on the Bucharest Stock Exchange increased by 10.15 billion lei in April, the second month in a row of solid growth but the market expects first-quarter financial results to assess the soundness of firms and their future developments. In late April, the regulated market capitalization stood at 48.6 billion lei (11.2 billion euro's), up 26% compared with the end of March, from 38.45 million lei. In the last week of April, the BSE listed shares jumped 3.7%.

The increase in April comes after that - even spectacular - in March, when the BSE's capitalization had risen to 39.5% (10.9 billion). "In April was the second month of explosive growth on the BSE, following which the market prices recovered earlier this year, and segment SIF (Financial Investment Companies) whether prices reached in mid-October 2008 Following a strong upward path, "said the weekly report of House of Prime Brokerage Transaction. Liquidity of the Stock Exchange regulated market has soared in April, up from 534.4 million lei, exceeding 13% turnovers made in February and March combined. In February, the stock exchanges amounted to 164.27 million lei, in March, they totaled 306.7 million lei. But after two months of strong growth, which followed the trend of foreign markets, the Romanian market of shares is made before the test in the first quarter financial results, which indicate the extent to which Romanian companies face a difficult economic period.

If's(Investment funds) increased by 71.8%, BET, which shows the evolution of the most liquid ten titles (blue chips) listed on the BSE, rose by 28.78% in April, up 3048.92 points, while market composite index, BET-C, reflecting the evolution of shares listed on the first two sections of the Exchange except If's, won 25.7%, to 1949.17 points. In April, SIF increased much more than the rest of the market sector reflects the BET-FI index, which reached 18,524.97 points at the end, marking an advance of 71.78% - 7740 points . At the end of March, investors could buy shares of SIF Banat-Cri (SIF1) the quotation of 0.481 lei, which would have brought a return of 112.06%, if they would be closed the last trading session April, when the price of securities reached 1.02 Euro / unit.

Turnover achieved in April with IF Banat-Cri actions amounted to 32.2 million lei. Although in April, SIF 1 titles have made the greatest efficiency of the market, most wanted their sector were SIF Oltenia (SIF5), which resulted in a liquidity of RON 97.18 million and it rose by 86 48% after their price jumped to 0.91 lei at the end of April, from 0.488 lei in March 31. Also, SIF Moldova (IF2) have leapt 79.81% in the last month and reached 0.775 RON quote, background of the third market liquidity, by 60.67 million lei. IF Transylvania (IF3) rose by 57.44% to 0.455 lei, while the value of these securities transactions was 32 million. SIF Muntenia (SIF4) recorded moderate growth of the SIF titles last month by 40.63% after their quotation rose to 0.6750 lei following exchanges of 26.15 million lei. In total, the actions of the five financial investment companies (SIF) in April drew total 248.3 million lei exchange, representing half the total market liquidity in this period.

BRD titles in the banking sector were the most stable. The banking sector has attracted between April 1 to 30 exchanges of 167.07 million RON, representing one third of stock market turnover. BRD - GSG (BRD) generated last month of stock market liquidity first, almost 100 million lei, and their quotation grew 16.8% to 7.30 lei. Instead, actions Of Transylvania Bank (TLV) have leapt 39.24% to the price of 1.10 lei onto a turnover of 51.4 million. Titles Erste Bank (EBS) rose

by 27.12% in April, to quote from 66.10 euro / unit and value traded amounted to 14.1 million. Bank shares trade Carpatina (BCC) totaled only 1.57 million lei, but their price rose the most in the banking sector, with 50.5%, to 0.124 lei. Observing changes in the last week of the year, BRD shares were noted, with an appreciation of 6.57%, while Erste Bank titles won only 0.30%. Instead BT and Bank Carpathian titles registered decreases of 5.98% and 8.15%. In April, were also noted several actions which, although not among the most liquid, could bring substantial gains to investors. Actions Altur Slatina (ALT) had one of the best developments in the market last month, with an appreciation of 110.94% to RON 0.0405, after exchanging only 809,370 lei.

Also, titles Biofarm Bucharest (BIO) have leapt 98.5% to 0.159 lei, support for 11.02 million lei transactions and actions Impact Bucharest (IMP) 2.4 drew liquidity million, and their price has climbed 84.5% to 0.369 lei. However, titles Oltchim (OLT) gained 81.18% to RON 0.308, after 663,700 lei exchange, while securities Broker (BRK) reached quotation of 0.196 lei, increasing by 67.5% the price set in late March 2009.

In conclusion the general trend of the Bucharest Stock Exchange in 2009 was a bad transaction to produce significant gains and spectacular stock with a downward trend. However in March April and May of 2009, financial investments companies (SIF), and showed positive developments, and shares of banking companies that have stable trends as investors who invested in these segments could earnings that may be considered important in terms of a global economic crisis. In early 2010, the major stock exchanges across Europe and the U.S. show signs of recovery, the New York Stock Exchange in early April 2010 showed even an increase that brought significant gains on certain segments of this market.

With all these signs Bucharest Stock Exchange has oscillating trend on average maintain neither increase nor decrease, for e.g. a week of indices increases, the decrease corresponds to a week or increases are quite small. However BSE can be seen as positive developments and investment in IF, the actions of the banks or in shares of pharmaceutical companies can bring in the first two quarters of significant gains in 2010.

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EURO – CHALLENGES AND PERSPECTIVES FOR ROMANIA

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The process of preparation and adoption of the European single currency is one of the most important challenges that Romania has to face in the first decade as a full time member of the European Union. This process will test both the political and the administrative capacity, requiring very clear programs for the adaptation of European regulations and directives that will ensure real and nominal convergence. This process will surely prove to be a difficult one and it will bring a high degree of pressure upon the economic system in general. The worldwide financial crisis is making the process of single European currency adoption even more difficult for Romania. Although its effects are not directly felt in Romania, the disorder created within international markets can easily transform the management of economic and currency politics into an insecure and extremely difficult task.

Keywords: exchange rate, euro, Economic and Monetary Union, Euro Zone, convergence criteria, ERM II, NBR, ECB, financial crisis

Cod JEL: F15, F36

1. Introduction

More than 10 years ago, in May 1998, EU leaders took a historic decision, to secure an irrevocable economic integration in the Community: introduction, starting with the 1st of January, 1999, of the European single currency - euro. Today, the euro is the currency used daily by over 300 million citizens in 15 countries constituting the euro area (Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Spain) and enrolled in a fierce competition with the U.S. dollar to gain supremacy in international financial markets.

The accession to the euro area will represent a second step of great importance for Romania, after the accession in the EU at January 1st 2007. The period 2007-2014 (2015) of preparation for the euro adoption represents a great opportunity to continue the reforms and reduce economic disparities, maintaining in the same time the macroeconomic equilibrium.

If the accession to the euro area is itself a strategic objective of great importance, the schedule for euro adoption represents a timing optimization problem in which the speed should be dictated by a costs-benefits analysis with the following restrictions: the fulfillment on sustainable bases of the Maastricht criteria, the accomplishment of a satisfactory level of real convergence and reducing the participation in ERM II at the compulsory period of two years.

The benefit of a country's accession to a monetary union is the enhancement of foreign trade, which then leads to a faster economic growth. Equally noteworthy are the positive effects resulting from an increased financial discipline, the significantly improved access to the capital and the stability offered by the capital market forming at a union level.

The crisis affecting at this moment the international financial system introduces an additional factor of uncertainty and if prolonged, it may complicate the process of adopting the euro in Romania. On one hand, the management of the real and nominal convergence process becomes more difficult; on the other hand, the current crisis may prove to be the most serious test for the European financial system and its currency, the euro.

In the following I intend to summarize and make some comments on the issues major process-related training to adopt the euro, on the timing of implementation and impact of the euro on the Romanian economy.

2. The strategy of transition to the single European currency

It is my opinion that before engaging in any discussion on the future adoption euro by our country, a strategy should be elaborated in order to identify the requirements for the Romanian economy to fully benefit from the adoption euro, the succession of measures to be taken in ensuring the fulfilment of these requirements and their implementation calendar.

The measures ensuring the fulfilment of nominal convergence criteria (Maastricht criteria) will be thoroughly examined and the adequate economic policies for the transition period through ERM2 will be established. The analysis of other countries' experience in passing through the process of adopting the euro currency or which are about to do so would be particularly useful to us, keeping however in mind the unique situation of each country.

After the adhesion to the European Union, the next strategic target for the Romanian authorities concerning the macroeconomic domain is related to the adoption of the euro currency. Estimated for the 1st of January 2015, the Euro Zone entry implies meeting some performance requirements concerning the macroeconomic indicators (nominal convergence stipulated in the Treaty of Maastricht). Although in order to fulfil nominal convergence it is necessary to observe 5 criteria, the macroeconomic theory shows that a consolidation of the disinflationary process would result in a high sustainability of the macroeconomic equilibrium, especially in Romania's case, where observing the convergence criteria concerning inflation rate and budget deficit remains one of the delicate problems at the economic level.

Table no.1: The Maastricht criteria at the level of Romania

(Nominal convergence indicators)

<i>Nominal convergence indicators</i>	<i>Maastricht criteria</i>	<i>Romania 2009</i>
Inflation rate (percent, annual average)	<1.5 pp above the average of the most performant 3 EU members	5,6
Consolidated budget deficit (percent of GDP)	below 3%	7,9
Debt (percent of GDP)	below 60%	21,0
Exchange rate (RON/EUR) (maximum procentual appreciation/depreciation compared to the average over 2 years)	+/- 15%	+1,6/-18,2
Long-term interest rates (percent per year)	<2 pp above the average of the most performant 3 EU members	9,7

Source: Eurostat, BNR (National Bank of Romania)

One of the superior forms of European integration and at the same time the most ambitious and risky project of European construction is the Economic and Monetary Union. Accordingly, any state adhering to the European Union intends to take part in this project sooner or later. On January 1st 2007, Romania and Bulgaria, the last two members adhering to the European Union, set themselves the same objective. When becoming an EMU member, Romania will replace the national currency – leu with the european single currency; but until reaching this advanced stage, it will have to meet all the criteria required by the adhesion to the Eurozone.

Adopting the euro implies participating to the Exchange Rate Mechanism II for at least two years, during which the national currency would have to show a high degree of stability as opposed to the euro. In establishing a coherent calendar for the adoption of the single currency, two fundamental decisions must be taken concerning the entry moment to ERM II and the duration of participation to this mechanism.

The European Central Bank recommends that acceding to ERM II mechanism should take place after the adhesion of the concerned countries to the European Union and that the duration of participation should not exceed the compulsory period of 2 years, which means that the country is to have a consolidated macroeconomic stability at the moment of accession. Furthermore, it is essential to sustainably fulfil the nominal convergence criteria.

As far as Romania is concerned, adopting the euro currency implies three stages. During the first stage – which precedes the entry to ERM II mechanism – it is necessary to consolidate disinflation, develop domestic financial market on a long term and achieve convergence of interest rates, to relatively stabilize leu exchange rate close to the long term equilibrium level and especially to deepen structural reforms.

The second stage – entering the ERM II mechanism – is estimated by BNR to take place in 2013. The moment has been chosen considering the need of fulfilling the nominal convergence criteria simultaneously with achieving significant progress in the real convergence process (convergence of GDP /inhabitant to purchasing power parity, convergence of income, productivity and socio-educational standards etc).

The last stage – Euro Zone entry – will take place around 2015. From that moment, Romania will take part in the coordination mechanisms of Euro Zone economic policies, having to observe the stipulations in the Stability and Growth Pact (mainly concerning public finance). Then, Romania will also adopt the common monetary policy of the European Central Bank, it will have to possess mechanisms of automatic economic balance (the flexibility of prices and salaries, a high degree of financial intermediation, business cycle synchronisation, labour market flexibility, perfect capital mobilization etc) and to increase the speed of fiscal policy reaction in order to absorb the symmetrical/asymmetrical shocks that domestic economy will have to face.

Adopting the euro currency in 2015 should represent one of the strategic objectives for Romania. Observing the stipulations in the Convergence Programme concerning the Euro Zone entry would represent a possible “reconciliation” between achieving nominal and real convergence¹⁰¹⁷. However, adopting the euro would become a more and more unlikely objective, unless Romania proceeds to a consolidation of the disinflationary process, an increase in Romanian export competitiveness, predictability and performance of fiscal policy on a medium term, a higher absorption of European funding and a consolidation of structural reforms.

There are certain factors that could optimize the Euro Zone entry. Meeting nominal convergence criteria plays an important part, but those factors which facilitate a solid performance in the Monetary Union are even more important. They include flexibility in product/service markets and markets of factors of production, consolidation of pension system and social security reforms and a fiscal policy focused on the mobility of factors of production under unique market conditions, including labour force migration.

In order to fulfil the criteria of real and nominal convergence it is necessary to continue making efforts in:

- consolidating a decreased inflation;
- forming long term domestic capital markets and achieving convergence of interest rates with those stipulated by the Treaty. On the grounds of capital account

¹⁰¹⁷ The Maastricht Treaty does not mention explicit criteria for real convergence, which involves reducing disparities between the countries on the price level and productivity, involving increase revenue in developing countries rising to the existing level in developed countries.

liberalization and of emergence of private pension funds, it is necessary to develop government bond market;

- achieving a relative stability of the leu exchange rate on the market. A higher degree of exchange rate stability can be reached by increasing credibility of the convergence process and by stabilizing prognosis regarding long term exchange rate.

In 2008, worldwide economy entered the most severe crisis since the Great Depression of the 1930's. The high degree of synchronization of the crisis affecting both developed and emergent countries proved the extent of interdependency between world economies. Beginning with the last trimester of 2008, the financial crisis spread quickly in Romania as well, in the context of a world economy evermore globalized and more precisely, in the context of a Romanian economy strongly related to the European one, making any negative external shock spread rapidly at an internal level.

During the first nine months of 2009, the evolution of the real economy was severely damaged by the economic and financial crisis, given the fact that we are a relatively small economy with a high degree of openness. Consequently, while in the IVth trimester of 2008, GDP increased by only 2,9% since the same period in 2007, during the Ist trimester of 2009, gross domestic product – in real terms, gross series – decreased by 6,2% from the Ist trimester of 2008, and this tendency continued to increase in trimesters II and III when the economy contracted 8,7% and 7,1% respectively.

Comparing with other EU member countries, analysts estimate Euro Zone entry date to 2015 for Romania and Bulgaria, 2013 for Lithuania and Poland and 2014 for the Czech Republic and Hungary. However, the estimates for these countries are not definite, since the adoption of euro could be either advanced or delayed. Euro Zone countries would want to be certain that they will not let “another Greece” join the club. According to analysts, only Estonia is likely to adhere to the Euro Zone in 2011. All the possible delays for the countries aspiring to the Euro area entry are caused by the financial turbulence in Greece.

With the opportunity of entering the Euro zone after over a decade of getting used to the single currency, ten European Union member states, including Romania, will have much to learn from the experience up to this point. But for this, economic reform measures will have to be taken early in order to ensure the achievement of a long term level of sustainable real convergence without which the path towards the euro could turn into a relatively bumpy road.

While some neighboring countries wish to rapidly benefit from the euro, National Bank of Romania representatives state that we would be unable to precipitate the adoption of the single currency. Some banking specialists claim that the transition to the euro would bring us more benefits than losses. For example, we would pay much smaller interests for loans and significantly smaller commissions on money transfers operated through banks. Many analysts think that the adhesion to the Eurozone should be accelerated. The real economy has “de facto” adopted the single currency up to 80%, given the fact that prices for many products and services are listed in euro and over half of the bank loans are in foreign currency and the corresponding interests are up to three times smaller than those in leu. A Deutsche Bank report also indicates that for some Eastern Europe countries, a more rapid euro adoption would mean certain advantages, given the actual problems of financial stability, thus eliminating the exchange rate risk. At the same time, both the government and the population would gain access to cheaper loans from a more liquid market.

3. Effects of euro adoption

In the first decade following the introduction of the single currency, the Eurozone enjoyed a significant decrease in inflation and long term interest rates but also an increase in employment and consequently a substantial correction of budgetary imbalances. At the same time, however, economy registered growth levels comparable to the decade preceding euro adoption, gross

domestic product per capita in the Eurozone still reaching only 70% of the one registered in the United States. The introduction of the single currency is obviously not the only one accountable for these facts which are also the consequence of a wide range of internal factors (community policies, including those introduced by the Economic Stability and Growth Pact, Lisbon Strategy but also individual policies and developments of member state economies) and external factors (deepened economic globalization, accentuated financial market integration).

Some positive effects of the introduction of the single currency which are undoubtedly found at several levels are particularly noteworthy and worth analyzing.

Firstly, the introduction of euro played a particularly important part in insuring macroeconomic stability. Founded with the primary objective of maintaining price stability in the Euro zone (defined through maintaining inflation rate under but close 2% on a medium term), the European Central Bank firmly implemented the single monetary policy leading to a consolidation of euro's credibility, to a long term price anchoring and to creating premises for sustainable economic growth.

Concurrently, introducing the single currency encouraged a decrease in financing costs both for private and governmental economic actors in the states that adopted it. Last but not least, euro improved Eurozone endurance to international financial turbulence, such as, for example, the "dot-com" crisis, the problems following 9/11 terrorist attacks and, more recently, in the context of the actual international financial crisis.

Secondly, euro contributed to intensifying economic and financial integration in the Euro zone. Commercial trade between Eurozone states now forms a third of the GDP corresponding to the Euro zone, against a quarter ten years ago, mostly due to the elimination of exchange rate volatility.

Moreover, foreign direct investment between participating states now reach a third of the Euro zone GDP, against approximately 20% ten years ago, up to two thirds of this increase being directly put on the account of the introduction of the single currency. These developments have, in turn, attracted many positive effects such as intensified competition and efficiency. As far as financial markets are concerned, the adoption of euro lead to a full integration of interbank money markets, as well as a deeper integration in securities market (mainly stocks and bonds). However, retail financial markets still remain fragmented mainly because of legislative and linguistic barriers.

Thirdly, the single European currency strengthened European identity worldwide. The euro became the second international currency and is used in 37% of the international currency exchange, constituting approximately one quarter of the international reserves, according to available statistics (many Asian countries do not publish their data on currency reserves). Keeping in mind the prospective broadening of the Eurozone through the adoption of the single currency by other ten states in the European Union, in the following years, euro will become the currency of the widest economic space in the world. But beyond its tangible effects, euro has become a symbol of united Europe with more than half of Eurozone citizens associating the European Union to the euro.

The risks generated by the introduction of the single currency in Romania are relatively few but they have a direct impact on everyday life and on the financial system. The most popular risk is related to the generalized price increase which would be due to the population's lack of familiarity with the new prices shown in the single currency and to the speculations regarding approximation errors.

Another risk related to the transition of the Romanian economy to the euro, as it is for all countries which make this step towards integration in the Eurozone, is establishing the proper quantities of short term liquidities in euro at the banking system level, considering a demand in cash of the single currency.

Another disadvantage deriving from the participation to the Monetary Union is losing the possibility to choose inflation rate and losing exchange rate as an instrument in eliminating macroeconomic imbalances.

At the same time, it should be mentioned that changing the national currency in favor of the single currency would mean losing control and power of decision concerning monetary problems and flexibility in taking decisions which would protect Romanian economy from external shocks. Finally, considering both the benefits and the risks regarding the transition of the Romanian economy to the single European currency, we can undoubtedly assert that the direction towards integrating the European Economic and Monetary Union, chosen by the Romanian political class is the right one and that on a medium and long term, this will contribute to obtaining certain advantages for the entire Romanian society.

4. Conclusions

Maintaining the credibility of the single European currency is a particularly complex process with a continuous development, which needs much more than a good functioning of monetary mechanisms inside the Eurozone.

It is not accidentally that the three phase integration process aims at constituting the “Economic and Monetary Union”. The two components are mutually conditioned: the effective implementation of economic policies and obtaining sustainable economic growth essentially depend on euro stability and credibility; to the same extent, maintaining inflation in the Euro area at a minimum level is conditioned by the existence of a coherent mix of economic policies which would facilitate reaching ECB primary objective. This last correlation is all the more difficult to optimize in practice as ECB single monetary policy coexists with fiscal, income and decentralized structural policies of the member states.

The current international financial crisis could also have negative effects upon the exchange rate, which is significant in terms of the convergence criteria, to have access to the Euro area. And from this perspective, the Romanian authorities consider the exchange rate to be essential in adopting the single currency. However, some analysts on financial markets have calculated that the rate could record huge fluctuations that might come into conflict with applications for convergence to the Euro area.

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STUDY OF CORRELATION BETWEEN AVERAGE INTEREST RATE AND NON-PERFORMING LOANS IN THE ROMANIAN BANKING SYSTEM DURING 2006- FEBRUARY 2010

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This paper aims to examine the correlation between average interest rate and non-performing loans in the Romanian banking system during 2006-February 2010. We based our approach on the Pearson correlation coefficient and we realized an empirical study, which demonstrates how these relevant banking elements are connected. Also, the result of this research suggests that there are other indirect channels which affect the non-performing loans.

Key Words: Pearson correlation coefficient, Non-performing loans, Average interest rate, Credit-risk provisions.

JEL Codes: G21, E22, D63.

1. Introduction

Romania was affected by the deteriorating of the external economic environment, associated with the international financial crisis. Unfortunately, since 2007, we frequently use and hear the notion of financial crisis and the various causal factors at the heart of the crisis. There are in the specialized literature multiple trials to explain the elements contributing to the deterioration of the economic conditions, in their acceptance of the premises of the crisis.

We remark the major vulnerability of the banking domain, derived from its key position in the financial system. The loan portfolio quality deteriorated during the past periods and the bank reported higher levels of overdue and doubtful loans. We attend to a worsening of the payment behaviour of the banking borrowers. Romania is in a particular situation regarding the banking loans reporting. The national reporting standards impose higher coverage by provisions of bad loans in the annual financial reporting statement of the credit institutions from Romania than European requirements.

Based on these clues, the paper identifies the worsening of the banking loan portfolio and presents this deterioration like a matter of concern. An empirical study is included to demonstrate how the average interest rate and non-performing rate are connected. We develop a research hypothesis Pearson's correlation coefficient and we study the situation of the Romanian banking system during 2006-February 2010.

2. Theoretical background

In Romania, the non-performing loans¹⁰¹⁸ reveal past due amounted to 49.101,60 Bn lei in February 2010, and were up from 4.879,70 Bn lei in January 2006. The first variable of our study is the average interest rate. According to the National Bank of Romania's publications¹⁰¹⁹, starting with January 2007, average interest rates on deposits and loans and average interest rates on new business are calculated based on the provisions of National Bank of Romania Norms No.

¹⁰¹⁸ National Bank of Romania, *Monthly Bulletins*, February 2010.

¹⁰¹⁹ National Bank of Romania, *Monthly Bulletins*, 2006-February 2010.

14/2006¹⁰²⁰ concerning the statistics of interest rates applied by credit institutions, transposing the provisions of Regulation ECB/2001/18 concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations. Average interest rates are calculated as an arithmetic mean of annualized agreed rates weighted by the outstanding amounts of loans/deposits at the end of the reported month or by the extended/taken amounts during the reported month in relation to new business. The annualized agreed rate is the interest rate agreed between the credit institution and the customer for a deposit or loan, converted to an annual basis and quoted in percentages per annum. According to the provisions of the above-mentioned Norms, average interest rates are determined for the institutional sectors “Non-financial Corporations” and “Households” as well as for the following balance sheet items: loans (total), bank overdrafts, loans for house purchases, consumer loans, loans for other purposes (including loans for business consolidation extended to freelancers and household associations), overnight deposits, deposits redeemable at notice, deposits with agreed maturity and repos.

Regarding to the second variable of our research, we underline that Romania has a primary regulatory framework governing loan classification and provisioning since 2002¹⁰²¹ and multiple amendments. Any credit institutions have to classify their loans in one of the following categories: Standard, Watch, Substandard, Doubtful, Loss. In 2009 National Bank of Romania issued a new regulation¹⁰²², which established the more flexible criteria for loan classification and provisioning. According to this settlement, the collateral relating to exposures representing the principal of loans/investments classified under “loss”, where the debt service outstanding exceeds 90 days and/or where legal proceedings were taken against the operation or the debtor, shall be adjusted by applying the coefficients set by the lender for each type/case. The level of coefficients may not be higher than 0.25. The lender must have the laying-out documents for setting the level of coefficients laid down in the regulation. In accordance with the new regulation, the collateral relating to exposures representing the current/outstanding interest on the above-mentioned loans/investments shall not be taken into consideration, and the coefficient applied to the collateral amount shall be equal to zero. The amendment will translate into lower provisions for such assets, as the surplus is to be recorded under income, thus benefiting the health of financial and prudential indicators¹⁰²³.

The role of the interest rate in the banks is recognized by many authors. The values of assets and liabilities of financial institutions are considered subject to fluctuations in interest rate by Cox and Prasad¹⁰²⁴. They studied the differential impact in interest rate changes between assets and liabilities which is referred to, in banking, as interest rate risk. Of all threats to bank competitiveness this risk dwarfs all others. Banks traditionally have dealt with interest rate risk by restructuring their loan portfolios. The authors developed a model to measure interest rate risk, called the Degree of Interest Rate Sensitivity (DIRS), and demonstrated its effectiveness for banks to compete. The others authors¹⁰²⁵ examine the interest rate risk management (IRRM) practices of UK-listed companies. In particular, they examined the significance of interest rate

¹⁰²⁰ Published in Official Gazette of Romania no. 679/2006.

¹⁰²¹ Regulation no. 5/2002 issued by the National Bank of Romania, regarding the classification of loans and investments, as well as establishment, adjustment and use of credit-risk provisions, published in Official Gazette of Romania no. 626/2002

¹⁰²² Regulation no. 3/2009 issued by the National Bank of Romania, published in Official Gazette of Romania no. 626/2009

¹⁰²³ National Bank of Romania, *Financial Stability Report*, 2009, p. 33

¹⁰²⁴ Cox, R.A.K., Prasad, R.M. (1995). Bank competitiveness in the face of interest rate risk, *Competitiveness Review: An International Business Journal incorporating Journal of Global Competitiveness*, Vol. 5, Issue 2, pp. 84-89

¹⁰²⁵ Dhanani, A., Fifield, S, Helliard, C. and Stevenson, L. (2008). The management of interest rate risk: evidence from UK companies, *Journal of Applied Accounting Research*, Vol. 9, Issue 1, pp. 52-70.

risk (IRR) to these companies as well as the risk management practices adopted, including: the methods used to assess the level of IRR and the types of interest rate forecasts used in the process; derivatives activity; and corporate governance, reporting and control. The results of this research suggest that IRR is important to UK companies and that their IRR hedging strategies are geared towards managing shareholder considerations and protecting banking covenants and corporate credit ratings.

We identify the studies that seek to explain the evolution of the non-performing loans in the banking industries. For example, Hall¹⁰²⁶ presented his opinion about the truth in the scale of the Japanese bank's bad debt and tried to answer to the question: if the situation manageable? The author explained a concept of "accounting forbearance", which is used to mask the true level of the banks' bad debts. The banking industry's ability to handle the continuing bad debt problem, in the face of a significant impairment of economic capital and the market's relentless drive for full disclosure and transparency, also is assessed.

The others authors¹⁰²⁷ examined the factors which affect loss provision for loans and investment in Murabaha, Musharka, and Mudarabah for banks in the Gulf Cooperation Council (GCC) region. The effect of prior period earnings, legal and statutory reserves, size of the bank, level of debt, and loan and investment to deposit ratio on the loss provisions of banks are examined for the period 2000-2003.

In 2007, Bandyopadhyay, Chherawala and Saha¹⁰²⁸ empirically calibrated the default and asset correlation for large companies in India and elaborate its implications for credit risk capital estimation for a bank.

3. Empirical findings and interpretations

We studied the correlation between average interest rate and non-performing rate, based on the Pearson correlation coefficient.

$$p = \frac{n(\sum XY) - (\sum X)(\sum Y)}{\sqrt{[n\sum X^2 - (\sum X)^2][n\sum Y^2 - (\sum Y)^2]}} \quad (1)$$

It indicates the extent of relationship by a number between 1.00 and -1.00. The correlation is computed from pairs of scores for each individual in the sample; each individual has a pair of scores, one on each of the two variables on which the correlation is being computed. A correlation of one indicates a perfect relationship such that if we know that the individual has the highest score on one variable, we also know she has the highest score on the other. With a negative correlation, they track one another inversely. A correlation of less than one, either positive or negative, indicates that each member of a pair of scores attracts the other less than perfectly so that the highest score on one variable in a positive correlation might be accompanied by a medium high score on the other variable. The fact that the relationship exists as shown by a correlation does not allow us to infer that the relationship is causal. Often the relationship is the result of a third variable or a combination of other variables. Regardless of whether a relationship is causal, a correlation allows prediction; thus such relationships are extremely useful. An extensive body of literature describes predictors of various kinds: to enhance learning conditions,

¹⁰²⁶ Hall, M.J.B. (2000). What is the truth in the scale of the Japanese bank's bad debt? Is the situation manageable?, *Journal of Financial Services Research*, 17:1, pp. 69-91

¹⁰²⁷ Zoubi, T.A., Al-Khazali, O. (2007). Empirical testing of the loss provisions of banks in the GCC region, *Managerial Finance*, Vol. 33, No 7, pp. 500-511

¹⁰²⁸ Bandyopadhyay, A., Chherawala, T., Saha, A. (2007). Calibrating asset correlation for Indian corporate exposures: Implications for regulatory capital, *Journal of Risk Finance*, vol. 8, issue 4, pp. 330-348

to increase the effectiveness of teaching, to predict the stock market, to forecast college success. Unless the correlation is perfect, however, the predicted value is always less extreme - that is, closer to its mean - than the value from which it was predicted (Kratwohl, 1998). Our study is based on the real data, extracted from the annual reports published by the National Bank of Romania and the Monthly Bulletins from the mentioned period. We obtain in the case of the active banks from Romania, the following results for the Pearson correlation coefficient between average interest rate and non-performing rate.

Table no. 1 – The Pearson correlation coefficient between average interest rate and non-performing rate from Romania

<i>Year</i>	<i>The Pearson correlation coefficient</i>
2006	-0.76
2007	-0.71
2008	0.97
2009	-0.95
2010	-1

Figure no. 1 - Correlation coefficient between average interest rate and non-performing loans at the level of Romanian banking system during 2006-January 2010

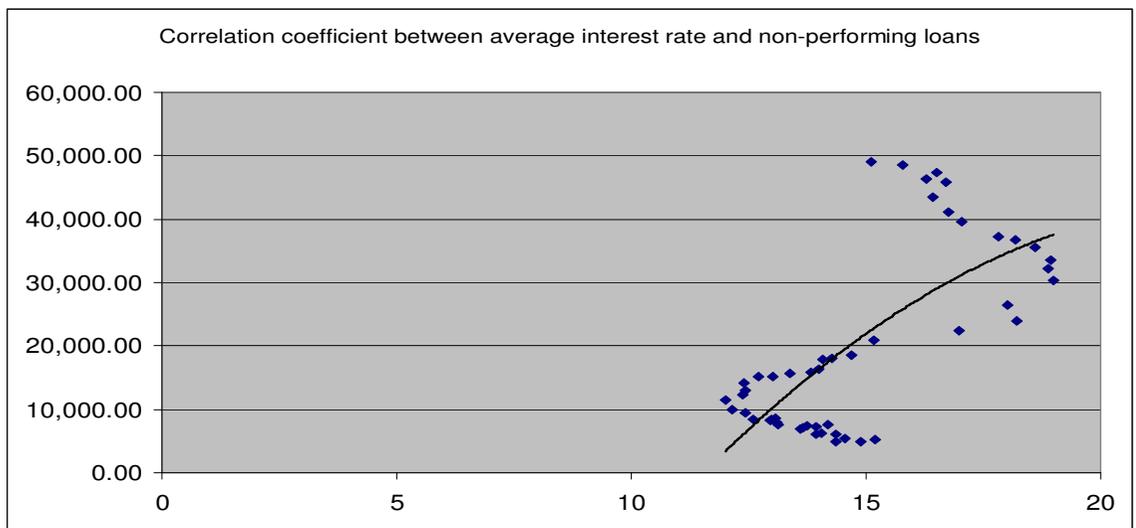
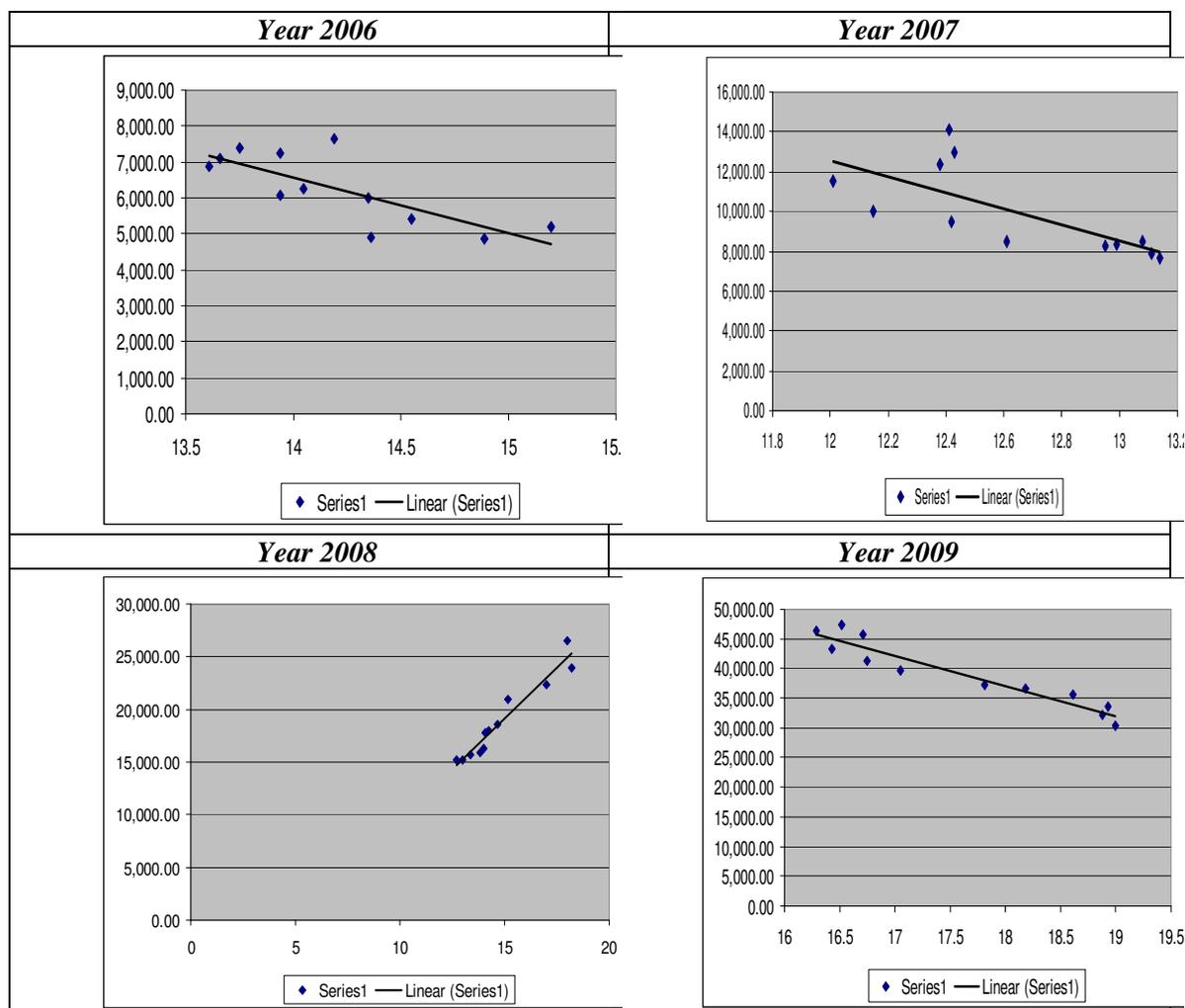


Figure no. 2 – Annual Correlation coefficient between average interest rate and non-performing loans at the level of Romanian banking system



4. Conclusions

In 2006 and 2007, the values of the Pearson coefficient correlation show a connection between variables. We suggest that there is an inverse correlation between the average interest active rate (cause variable) and the value of the non-performing loans (effect variable). In these conditions, we identify the others conditions that affect the debt service of the borrowers. The lack of banking settlements and regulation, in the mentioned period the primary banking legislation was improper¹⁰²⁹. Since 1st of January 2007, the new banking legislation¹⁰³⁰ lays down the principles concerning the taking up and pursuit of the business of credit institutions and financial investment companies within Romania's territory and their prudential supervision, as well as supervision of payment systems and financial instruments settlement systems.

During 2008-2010 (February), the different values of the Pearson correlation coefficient were obtained. The values very close to +/-1 show a direct and strong connection between variables.

¹⁰²⁹ Law no. 58/1998 on the banking activity, republished in Official Gazette of Romania no. 78/2005, as subsequently amended and supplemented

¹⁰³⁰ Emergency Ordinance no. 99/2006 on Credit Institutions and Capital Adequacy Published in Official Gazette of Romania, no. 1027/2006

We also suggest that there is an inverse correlation between variables, explained by the following causes: the fall of the prices of the loan collaterals, especially real estate; inflation pressure that contribute to the growing of the non-performing loans; unemployment and economic contraction.

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FINANCIAL PROBLEMS IN A.D. XENOPOL'S WORK

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Many of Xenopol's studies, articles and economic papers fully prove his permanent interest in this area, so important for the life of a country.. This fact urged him to look into the economic state of his people, to search for its causes and formulate solutions, some of them among the most realistic ones, for its improvement, for the reduction of the gap that separated us from the most economically developed countries

Key words: taxes, budget, national wealth, consumption, public debt, money, banks

Classification JEL: B19, G17,G21

While the foreign trade of a country is, in Xenopol's opinion "the most reliable mirror of its economic situation"¹⁰³¹, "the finances of a country are undoubtedly the most visible sign of the direction of its government. These mirror especially the competence or the incapacity of its rulers."¹⁰³² Xenopol made this statement in the Preface to "Situația financiară a României sub guvernul liberal în 1887", a paper where we encounter numerous economic arguments by means of which he intended to underline the qualities of the Liberal government in ruling the country's finances. Even if this paper, and many others, contains numerous supporting judgments as well as some erroneous assessments like those concerning the fact that the Romanian is the least tax-burdened among Europeans, that Romania's public debt is the smallest on the continent, that bimetallism is preferable to monometallism, we believe that it was not his desire to justify liberal politics which represented the main cause of this situation, but the compatibility of his economic theories with the economic policy of the Liberals. We also believe that this is the reason for Xenopol's political joining the Liberal Party – from this position he was able to influence decision making and put into practice some of his planned solutions.

In this paper he tackled the budget's problems, those of the public debt and the gold's overprice. Other financial-banking aspects such as: duties and taxes, loans, banks, usury were developed in other studies and articles such as: "The Beer Industry and Taxation", "The Rural Bank", "Misunderstood Demagogy", etc.

Just like in our days, in Xenopol's time the state's income came mainly from duties and taxes, a fact that sustained his argument that "where the private individual (as tax-payer – our note) is rich, the country is rich, and where the country is rich, the state is rich".¹⁰³³ The state should have been rich because, as noted by Xenopol, the country needed roads, ports, railways, a strong army and many others for which the budgetary means had to be enhanced. But Romania's budget in 1880 was barely of 100 millions, to which one could add approximately 20 millions representing communal budgets, which proved to be far less than the country's need, thus one would often sell the state's estate, mortgage bonds, treasury bills.¹⁰³⁴

Xenopol's conclusion was that taxes were necessary, that it would be even dangerous "for the consolidation of the idea of state to undo this connection between the individual and the political body", that is the tax.¹⁰³⁵ Due to this reason, he considered humbug the proposals of Carp's government (a conservative one) to exempt from taxation the farmers who owned less than 6 ha

¹⁰³¹ A. D. Xenopol, (1967), "Comerțul exterior al României", in *Opere economice*, Ed. Academiei Republicii Socialiste România, p.150 (Our translation).

¹⁰³² Id., "Situația financiară a României sub guvernul liberal în 1887", p. 209. (Our translation).

¹⁰³³ Id., "Agricultură și comerț" in *Românul*, 13 Septembrie, 1880, (Our translation).

¹⁰³⁴ Ibid.

¹⁰³⁵ Id. „Demagogie neînțeleasă”, in *Opinia*, VIII, No. 1216, 27 Ianuarie, 1911, (Our translation).

of land. Since very many farmers were in this situation, the state would have been deprived of an income of approximately 10 millions lei that couldn't have been replaced otherwise, believed Xenopol. Besides that, such a measure would have opened Pandora's Box; the farmers would have claimed other exemptions from their obligations toward the state, and the idea of duty would have diminished significantly. On the other hand, the farmers' exemption from a few leis a year representing land taxation wouldn't have improved too much their fate. Thus, according to Xenopol, what determined the conservatives to propose such a measure couldn't have been but their attempt "to cling by any means to the power they had no longer".¹⁰³⁶

In what a country's budget is concerned, especially that of Romania, Xenopol believed that it should be balanced, i.e. neither in a deficit which leads to public debt, neither in a surplus because in this situation on the one hand the government would be accused that it demands more than it needs, and on the other hand "the people seeing that its finances are so brilliant, would become lazy".¹⁰³⁷

Even if he did not give sufficient details and nuances regarding this problem of the budget, Xenopol understood very well that it cannot always be in a balance, that budgetary balance is just a tendency in its evolution. Thus he admitted that the country's budget was in a deficit between the years 1884/1885 and 1885/1886; but not because of the poor management or unsuitable measures taken by the liberal government, but because of the general crisis in Europe which affected our country, respectively due to the poor crops from some agricultural years.

With the obvious goal of proving the wise management of the finances by the liberals, Xenopol analyzed the way budgetary income can be increased, despite the reduction of taxes, or on the contrary, based on the increase of national wealth.

Thus he showed that in the period 1862-1886 the country budget grew up three times from 47 to 138 millions lei, proportionally with the increase in national wealth – expressed in the amount of foreign trade, an approximate and poor indicator but a necessary one when lacking more exact and relevant indicators – from 172 millions in 1862 to 515 millions in 1886. Xenopol's conclusion was that during all this time, especially in the 11 years of the liberal government (1877-1888), the taxes were reduced more than they were increased. We are speaking here about the tobacco duty, the licenses duty, the tax on salt, land taxation, individual tax or that on the means of communication; the railways fees were reduced, the state property was diminished by the distribution of farm land to newlywed couples or by selling land lots to the farmers and by the establishment of the Royal Demesne, so that the amount of all the reductions came to a total of 88 millions lei.

If despite these reductions, the state income continued to grow, it was all due, in Xenopol's opinion to a much better administration. Thus, the high priced leased tobacco was bringing the state only 8 millions in 1876, but in 1887, under State supervision, it was bringing an income of 20 millions lei; the railways which before 1877 consumed all they produced, as a consequence of the reduction of administration expenses and of the development of new lines brought to the country an income of 10.5 millions despite fee reduction.

Even if the state had increased its annual income by 28 millions lei by chasing in the taxes, by collecting a tax of 5% over wages and by supplementing the tax on alcohol, there were still "60 millions lei left by the government for the use of the tax-payers, from the revenue it had its right to cash in".¹⁰³⁸

As a consequence, concluded Xenopol, the increase of revenues is based on their right administration and on the growth of national income, the latter being supplemented among others, by the increase of indirect taxation, including monopolies, from 28 millions lei in 1876 to 66 millions lei in 1887, without a substantial growth in their taxes. The increase of about 40

¹⁰³⁶ Ibid., (Our translation).

¹⁰³⁷ Id. "Situația financiară a României sub guvernul liberal în 1887", p. 213, (Our translation).

¹⁰³⁸ Ibid. p. 217, (Our translation).

millions lei was due to the increase in consumption, therefore implicitly an increase of national wealth.

To show that Romania's population was no more burdened by taxes than the population of other countries, Xenopol made a comparative study between our country and several European countries similar to our own as surface and population, on the grounds that "the eagle doesn't resemble the frog"¹⁰³⁹, where he introduced two indicators: per capita taxation and per capita wealth.

Regarding the first indicator, with a 28 lei tax per capita (respectively only 19 lei per capita if one were to consider only the revenue from taxes), Romania was at the same level with Serbia but below the level of Denmark (37 lei per capita), that of Belgium (53 lei per capita) or Holland (62 lei per capita).¹⁰⁴⁰

Regarding wealth, with 100 lei per capita, Romania was at the same level with Italy, over the level of Serbia (50 lei per capita) but below the level of Belgium (527 lei per capita), of Holland (400 lei per capita) or Denmark (322 lei per capita).

Adding the two indicators, Xenopol reached the conclusion that the Serbian was 2.5 times more tax burdened than the Romanian as long as he paid 28 lei tax per year and traded for 50 leis, while the Romanian paid 19 lei and traded for 100 lei. More than the Romanian paid the Portuguese (1.5 times), the Italian and the French (2 times), and the Spaniard (3 times), and less than the Romanian paid the Belgian (4 times), the Dutch (3 times) and the Dane (2 times).¹⁰⁴¹

That the population of our country was not burdened by taxes was proved according to Xenopol by the ease with which these were perceived, forgetting that most of the farmers paid along the taxes owed to the state, a part of their crop to the land-owner, large interest for loans and they were further cheated by merchants, so their situation was the very one Xenopol himself described a few years later in "Starea economică a țaranului roman" (1903).

Another important aspect discussed by Xenopol regarding taxes and duties was represented by their functions, which, in his opinion, should not be reduced only to their fiscal function, but they should also have a contribution to encouraging the industry and even the hygiene state. For this it was necessary a differentiation among taxes and duties.

In the political context of the second half of the 19th century, Xenopol argued the fact that Romania couldn't afford applying protective duties at the border; in exchange it could give a series of facilities, deductions and exemptions from taxes, subsidies, loans with the purpose of encouraging and protecting some economic activities, especially industrial ones. There should be a similar differentiation of taxes, Xenopol argued, applied also to alcoholic beverages on grounds of health, hygiene with the purpose of protecting the population against the consumption of harmful drinks and for the stimulation of the consumption of beneficial drinks; all starting from the idea that "there is no such thing as a wise government which can kill its people because for the moment it can extract money from them by means of the poison it allows them to drink".¹⁰⁴²

In this respect, Xenopol makes an analysis in *Industria berei și impozitul* of the influence of taxation on the consumption of three alcoholic beverages: spirits, wine and beer, in our country and in other European countries; a relevant analysis, much appreciated in the newspapers of those days.¹⁰⁴³ He noticed that although beer contains much more nourishing substances than spirits or wine, thus being more useful, it contains less alcohol so it is less dangerous and, as opposed to

¹⁰³⁹ Ibid. p.221, (Our translation).

¹⁰⁴⁰ Xenopol mentions that in this estimation were not included the local taxes neither regarding our country nor the others— in our case the county and communal taxes).

¹⁰⁴¹ A.D. Xenopol, *Opere economice*, pp.219-220.

¹⁰⁴² A. D. Xenopol, V. C. Buțureanu, *Industria berei și impozitul*, I.V. Socec, București, 1895, p.18, (Our translation).

¹⁰⁴³ "Industria berii", an article signed "Nerva" in *Evenimentul*, IV, nr. 1590, from July 31, 1898, and nr. 1592 from August 2, 1898; the Xenopol-Buțureanu and Haret trial in *Ecoul Moldovei*, VI; Iași, 1896, nr. 19 from November 14, p.2.

spirits and wine it can hardly be forged; yet the tax on beer in our country of 40 lei per hectoliter was excessively large in comparison with other countries. The direct consequence of this situation was the fact that while beer consumption per capita in Romania was very low, of only 0.6 liters as compared to Holland – 50 liters or Belgium – 190 liters, the consumption of spirits per capita was among the highest, 4.56 liters compared to 4.20 l in Belgium, 3.50 l in Austria-Hungary, 1.04 l in Italy while only in Denmark, Germany, Switzerland and Holland was the consumption higher than in our country: between 4.58 and 8.25 l per capita. “In other words, our state protects the forgery of drinks, believes Xenopol, encouraging the spread of alcoholism and the population’s intoxication; whereas the only drink that has the most advantages and the least drawbacks is put on the black list, treated as a dangerous ingredient and hampered in its consumption through taxes three times excessive.”¹⁰⁴⁴

He also noted another fact, that spirits didn’t obey the law of demand’s flexibility, i.e. the rise in the price of this product as a follow-up of the increase of taxes didn’t limit the consumption. He found the explanation in the fact that any rise of taxes on spirits is compensated or even overrun by the cheapening of production costs as a consequence of the forgery of this product. The same thing is valid for wine too, even more so as the tax for this product was taken from the producer and not from the innkeeper, the one who forged the wine.

In these circumstances, Xenopol believed that the only way to protect the population against the poisons contained by “forged and unclean” drinks would have been the monopoly on alcohol which would have allowed state’s control over the alcohol production and the marketing of this product in closed bottles, therefore guaranteeing genuine drinks. Only then, a rise in price would have limited consumption, without causing state’s income to diminish, because although it would have sold less, it would have sold more expensively.

Convinced supporter of beer consumption, but also a member of Anti-alcohol League, Xenopol militated in favor of encouraging the beer industry, an agricultural industry, by reducing the taxes on this product, the existing one being considered irrational, unjust and harmful for the state. Irrational because it rose the price of beer, “so much that it transformed it into an ‘extra-luxury’ drink, turning people towards the consumption of spirits; unjust because it was settled arbitrarily: neither according to the alcohol concentration as was the case of spirits, neither according to the cultivated surface as was the case of plum brandy or wine; harmful because despite the high taxation it brought little revenue due to the low consumption. Thus, despite a population comparable in size to that of Belgium, where 10 million hectoliters of beer were consumed despite the low tax on beer (2.32 lei), the state would cash in almost 17 million lei a year in Romania due to the consumption of only 37.000 hectoliters; even in the case of a very high tax, the state would cash in only 1 million lei a year.”¹⁰⁴⁵

In opposition to M. C. Haretu, the author of *Degrevarea berei și monopolul alcoolului. Răspuns la ”Industria berei și impozitul lui Buțureanu și Xenopol”* (București, Editura Gobl, 1869), Xenopol adopted the theory of demand’s economy according to which the demand determines the production and since the tax is paid by the consumer, any rise of it would diminish the demand, limiting the production and the other way round. The exception to this rule is represented by forgeable drinks like spirits and wine, in the case of which the rise of the tax would lead not to an increase of the price but to the intensification of bootlegging and to the discovery of new methods of forgery meant to reduce the production costs, which in the end would threaten in an ever increasing degree the health of the population.¹⁰⁴⁶

An interesting and original proposition was formulated by Xenopol regarding the improvement of the farmers’ fate by including their debts generated by agricultural contracts in a more efficient and accessible taxation system. Xenopol harshly criticized the unbearable situation where the tax

¹⁰⁴⁴ A.D. Xenopol, V.C. Buțureanu, *Industria berei și impozitul*, pp.58-63, (Our translation).

¹⁰⁴⁵ *Ibid.*, p. 86.

¹⁰⁴⁶ The Xenopol-Buțureanu and Haret trial in *Ecoul Moldovei*, VI; Iași, 1896, nr. 19 from Nov. 14, p.2.

collectors, the mayors and the sub-prefects, being aware that the farmers could not pay their taxes, in order to ease their own job, would sell the entire village community to land-owners or land agents in exchange for the work to be carried out. This would happen because the farmers accepted this deal which not only paid their duty towards the state but sometimes gave them back some leftovers, yet this measure was profoundly unjust as long as the value of work was arbitrarily established, sometimes representing only half of its real value. In this situation not only was the farmer in a perpetual debt, sometimes for 4-5 years ahead because he couldn't discharge all his work obligations and because sometimes he would take loans from land-owners for current needs, but furthermore he didn't work his land and as a consequence of poor crops he would have to take further loans from the land-owner.

This state of facts could have ceased in Xenopol's view through the taking over by the state of the farmer's debts, through the release of "percentage carrying bonds to each land owner or land agent in accordance with the sums of money recorded in formal obligations".¹⁰⁴⁷ The state's compensation would have been realized through a special contribution of villagers, "compensation for debts". At that moment there appeared a difficulty regarding the taxation system itself: overall tax, easy to apply, would have been unfair because of the counties' debts, but also those of the farmers which were not the same and this would have meant that some of them would pay a part of somebody else's debt. Individual tax, on the other hand was impossible to apply. Thus Xenopol suggested a more equitable tax system, namely a type of taxation differentiated on counties, even on small rural districts or communes, all considering the number of inhabitants and the size of the debt. In fact, at the beginning of the 20th century, a series of judicial acts which were appreciated by Xenopol for their social impact would settle some aspects of the socio-economic field: the Law on individual tax, the Law on income taxation, the Law for the control of precious material objects, the Law for pawnshops, the Law for wine industry loans, the Law for the amendment of the Agricultural Loan – all of them replicated in their text concerning the parliamentary debates, along with the depositions, with the ministerial application instructions and a relevant commentary, in a volume edited by Benedict Voinescu, a volume on which Xenopol would present a report for the Romanian Academy in 1906.¹⁰⁴⁸

Regarding the public debt resulting from the loans contracted by the state, Xenopol believed that although it was rather high according to the state's budget, respectively of 13-30, it was at the same time also necessary considering its destination, which was mainly connected to direct or indirect production activities and in a less measure meant to cover the budgetary deficit.

The pages discussing the public debt make Xenopol a real master of numbers; yet they are not about a game of numbers, but about a serious analysis of the problem of public debt based on statistics data. He revealed the fact that although Romania's public debt increased during the liberal government with over 200 million lei compared to 1876, the year when the government changed, the annuity it had to pay remained almost the same; respectively it grew up with only 1 million lei because simultaneously with the rise in the government's credibility, the contracted loans were increasingly advantageous, therefore obtained at an ever lower interest rate.

For Xenopol the most important aspect was represented by the destination of the borrowed sums. In this respect he showed that the greater part was used to build railways, bridges, docks, military and weapon constructions, educational institutions.

"It is obvious that both the constructions and the railways are productive capitals", Xenopol said, thus "the railways are expensive for the state, but the profit for the country increases tenfold."¹⁰⁴⁹

He suggested the example of the railway that connected Fetești to the rest of the country and which had as a consequence the leasing of the real estates from Bărăgan that had not been valued until then, with prices five times bigger. But even the expenses for the army or education,

¹⁰⁴⁷ A. D. Xenopol, "Studii economice" in *Opere economice*, p. 145, (Our translation).

¹⁰⁴⁸ Id., "Raport asupra lucrării *Nouăle impozite și nouăle legi financiare și economice* by Benedict Voinescu", București, 1906, in *Analele Academiei Române. Dezbateri*, s. II, t. 29, 1906-1907, p.435.

¹⁰⁴⁹ Id. "Situațiunea financiară a României sub guvernul liberal în 1887", p.231, (Our translation).

apparently unproductive, at a more careful analysis were proven to be indirectly productive. Thus Xenopol argued in favor of providing proper hygienic conditions both in barracks as well as in schools, so that the health of the young people would not be hampered. On the other hand, Xenopol reminded the reader of the negative effects of the neglect suffered by the French army before 1871, a fact that would cost France 10 millions in damages and two lost provinces, this underlining once more that these expenses are not really unproductive.

His deep love for the country that is visible in all his historical studies is to be met also in his economic studies, a fact that gives cohesion to all Xenopolian studies, regardless of the problem they debate.

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BANKING PROBLEMS IN A.D. XENOPOL'S WORK

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Many of Xenopol's studies, articles and economic papers fully prove his permanent interest in this area, so important for the life of a country. By means of the measures suggested, he intended to give a new orientation to the economic development of agriculture, industry and commerce in the financial-banking field as a premise for the growth of the people's living standard, but also as a necessary condition for the political and cultural progress. In their essence, all these measures were intended to change the structure of Romania's economy.

Key words: taxes, budget, national wealth, consumption, public debt, money, banks

Classification JEL: B19, G17, G21

In what the overprice of gold is concerned that increased the annuity of the much debated public debt, it is analyzed and explained by Xenopol from the point of view of the causes that generated it. In his opinion these were both of a monetary as well as an economic nature.

The main monetary cause of gold's overprice was represented by the devaluation of silver, the latter being determined by a series of historical events combined with economic events. They represented the financial consequences of the French-German war, namely the obligation imposed on France to pay Germany 5 billions as war reparations. Germany used this sum, most of it in gold, to replace "its old currency the useless, effaced, silver dollars"¹⁰⁵⁰ with gold coins. Germany's devalued silver went to France or Belgium where it was transformed into coins of five silver francs. Being aware of the danger of being flooded with these coins, in 1873 France suggested to the other countries from the Latin monetary union established in 1865 (France, Italy, Belgium, Switzerland, all joined by Greece in 1868) for a first stage the restriction of the five francs coins battery, and later on the suspension of this coin battery, thus giving a strong blow to silver. Meanwhile, the discovery of a silver mine in the U.S.A. would enhance silver production with 2 million kilos a year, which would determine a supplementary devaluation of silver.

The final result of this series of events was according to Xenopol, the introduction of monometallism, joining England and Germany; later on it was introduced in the Latin union too. But Xenopol would prove using examples that this was only one of the causes of gold's overprice, but not the only one. He suggested an amendment to Gersham's law according to which the bad currency drives away the good currency. His amendment stated that the law was valid only when "the productive powers of a country are not capable of holding to the latter" (gold-our note).¹⁰⁵¹

How else could one explain the fact that in France for example, despite the circulation of both 4.5 billions in gold and of 3.5 billion silver francs at the same time, there was no overprice; while in Greece, a country from the Latin union, thus practicing a monetary policy similar to that of France, the gold overprice was at about 20-24% as a consequence of military spending caused in 1884 by the prospect of a war. Therefore, it was obvious that the economic cause used to accompany the monetary one in generating gold overprice; in other words, according to Xenopol: "gold is retained in those countries where it can be retained by the nation's productive powers and is driven away from those countries where such powers are not sufficient enough".¹⁰⁵²

¹⁰⁵⁰ A.D.Xenopol, "Situția financiară a României sub guvernul liberal în 1887", p. 233, (Our translation).

¹⁰⁵¹ Id., (1967) *Opere economice*, Ed. Academiei Republicii Socialiste România, p. 235, (Our translation).

¹⁰⁵² Ibid., p. 236, (Our translation).

This fact was visible in our country too, because each time the export grew in size, the gold's overprice dropped, but when the settling day arrived for the rent bonds or the land loans bonds, it rose again.

Xenopol believed he was right when he concluded that in our country the overprice was not due to silver circulation, but to the incapacity to hold on to gold, considering that the expenses were bigger than the production, our country being compelled to give away to foreign countries more gold values each year than it received back. Due to this aspect we did not have overprice until 1876, as long as the balance of trade was on surplus; the overprice appeared and held constant with an unfavorable balance of values, encouraged by the conditions of the Commercial Agreement with Austria-Hungary.

Xenopol's theory regarding the causes of gold's overprice was opposed to those who believed that the overprice was the result of the monetary policy of the liberal government which introduced the silver standard to replace the gold one on the occasion of the rubles' demonetization, of the foundation of the National Bank, of the issuing of the 30 million treasury notes and of some excessive operations of title loans (Lombard loans). Xenopol maintained that if this would have been the true cause of the overprice, then it would be easily removed by introducing the gold standard. But such a measure would have caused all the gold money to disappear from the country in a short interval of time, first of all in order to pay for the differences in the values' balance. This fact, showed Xenopol, would have also happened in the case of the issuing a large quantity of golden coins. Therefore he endorsed the maintenance of bimetallism in our country, because this would keep the coins inside the country, even if they were silver ones; and he also supported abandoning monometallism in Europe because in his opinion this would be the culprit for the gold's overprice. As underlined by G. Gane too, this idea, although a mistaken one, was quite widespread in Europe in the second half of the 19th century.¹⁰⁵³ Yet meanwhile Xenopol argued in favor of the improvement of our economic state, which would make the country keep the gold and thus diminish or even remove the gold's overprice.

Considering that money is "that special nerve of all things" always having "the strongest influence on the evolution of all business"¹⁰⁵⁴ and believing that "money isn't made but through work, and the work should reflect the degree of civilization that you want to represent"¹⁰⁵⁵, Xenopol gave a particular attention in his writings to the problems represented by loans, usury, banks and the monetary system. The first emissions of coins were made in Walachia during the reign of Vladislav I (1364-1377); in Moldavia during the reign of Petru Mușat (1375-1391); in Transylvania during the reign of Ioan Zapolya (1510-1540). The coin that was used in Walachia and Moldavia in the second half of the 17th century and in the first half of the 18th century was the "leu", a species of old dollar, a coin issued in the Netherlands, widely circulated in Central Europe. In our country the leu had Turkish monetary submultiples in Romanian terminology; 1 leu equaled 40 pennies, and a penny equaled 30 coins ("bani"). As a follow-up of the amassing money, the old leu disappeared from circulation, yet holding its status as calculation currency.¹⁰⁵⁶ For a long time a real monetary chaos ruled in the Romanian principalities, characterized by the usage of 70 foreign currencies, most of them effaced, worn out, pierced, without a regular currency exchange rate. They also were part of the mixture between the commercial capital with the usurious one in the usury houses, a fact that created a great confusion and caused great damages to producers. The Constitutional Regulations sanctioned this system where, next to a

¹⁰⁵³ G. Zane, "Concepția economică a lui Xenopol", in *Viața Românească*, XXV, 1972, nr. 9/September, p. 109.

¹⁰⁵⁴ A. D. Xenopol, "Situația financiară a României sub guvernul liberal în 1887", p. 209. (Our translation).

¹⁰⁵⁵ Id. "Revista economică a anului 1900" in *Evenimentul*, December 13, 1900.

¹⁰⁵⁶ Maria Mureșan, *Istoria economiei. Epoca modernă și contemporană*, Ed. Economică, București, 1995, p. 200.

fictitious monetary standard represented by the calculation leu or reckoning, there were used many foreign coins. Alexandru Ioan Cuza's attempt to create a national currency "the romanian", made of silver using the French model failed because "the issuing of coins was considered by the Turks as an attribute of sovereignty"¹⁰⁵⁷, but also due to the diplomatic troubles it would have caused, combined with the lack of financial resources.

Only in April 1897, through the Law for the establishment of a new monetary system and for the making of national coins, the old nominal leu was replaced with a real currency, also called leu but guaranteed by gold protection. This law expressed the Romanian monetary doctrine and had a political importance since it expressed the right of the principalities to their own monetary system, and an economic one since it assured a regular monetary circulation. Between 1867-1873 there have been introduced into circulation first of all the copper coin, then the silver one, and when they were about to introduce the gold coin the Russian-Romanian-Turkish war broke out. On a monetary level, this event had two major effects: the issuing of mortgage bonds, paper money and that of receiving in Romania rubles at a higher exchange rate than their real value, i.e. of 4 lei per ruble rather than 3.70 lei.¹⁰⁵⁸

Harshly criticized by the conservatives, the measure of issuing 30 million mortgage bonds was taken by the liberal government in the context of the budgetary deficits inherited from the conservative government and in the context of the impossibility to negotiate a loan while at war with the Turks. The operation proved to be a success, the bonds holding their exchange rate ad pari until they were withdrawn by the National Bank founded on the 1st of December 1880, without causing the state to suffer any loss. In addition, this operation made Romania be acquainted with paper money, get used to fiduciary circulation, thus being able to exit "the savage economic state where only the jingling metal is valued" and entering "the more cultivated economic life of civilized peoples".¹⁰⁵⁹ Only that the result obtained by issuing mortgage bonds was cancelled by the effect of introducing in our country the rubles, "bad foreign money", which next to the devaluation of silver on international markets and next to the unfavorable balance of trade, starting with 1876, led to the emergence, then the growth of gold's overprice. Even if, immediately after the peace treaty of San Stefano, the ruble was transformed into a coin of 5 Romanian lei, the situation was not mended because the new coin really valued only 4.5 lei, thus becoming a "Romanian ruble, even more dangerous as it was no longer a foreign one, but it endorsed our national form."¹⁰⁶⁰

As a consequence, this situation promoted usury, perpetuated the money lenders' abuses. These people were considered by Xenopol to be the conservative element regarding the capitals, since they opposed any law which would have established a maximum for the interest rates and any bank which would have decreased the interest rate.

At the same time Xenopol believed that usury was "one of the worst evils"¹⁰⁶¹ while the money lenders – a "greedy" and rather widespread category of "parasites" which dealt in "dishonest speculations".¹⁰⁶² This "evil" affected city dwellers as well as village dwellers, usury having various facets: from very high interest money lending to loans demanded by farmers on special situations: marriages, funerals, poor crops from land agents or land owners, loans that most often had to be paid back in work. But this work was poorly valued so that the farmer was in a constant debt.

¹⁰⁵⁷ Andrei Oțetea, *Istoria poporului român*, Editura Științifică, București, 1970, p.262, (Our translation).

¹⁰⁵⁸ A. D. Xenopol, "Raport la lucrarea 'Politica monetară și a băncilor României' by Traian Mihaiu, București, 1907, in *Analele Academiei Române. Dezbateri*, s.II. t.30, 1907-1908, p. 387.

¹⁰⁵⁹ Id. *Studii economice*, p.131, (Our translation).

¹⁰⁶⁰ Id. "Raport la lucrarea 'Politica monetară și a băncilor României', vol I, by Traian Mihaiu, in *Analele Academiei Române. Dezbateri*, p.II, t. 30, 1907/1908, p.387, (Our translation).

¹⁰⁶¹ Id. "Mijloacele de îndreptare ale stării țărânilor române" in *Arhiva*, XVIII, 1907, nr. 6/June, p. 309, (Our translation).

¹⁰⁶² Id. *Studii economice*, p. 133, (Our translation).

As a consequence, Xenopol welcomed the measures taken by the liberal government against usury: one concerned the “cancellation of the penalty clause” and the reduction of the “conventional percentages provided by the legal limit”, and the second one, “defended wages’ surveillance and the aq pensions thus declaring them necessary and untraceable.”¹⁰⁶³

On a monetary level, the most efficient measure proved to be the foundation of the banks, first of all that of the National Bank of Romania. The first Romanian bank was the National Bank of Moldavia, founded in 1857 and bankrupt only three years later, a bankruptcy motivated by Xenopol through the employment by the above named bank of two types of incompatible banking operations: “land credit and discount”.¹⁰⁶⁴

In 1861 the liberal minister Golescu – Brătianu suggested establishing the Discount Bank, an ineffectual proposal due to the revocation of this ministry. The proposition was renewed in 1873, but this time by the conservative government; yet due to the lack of interest of the “conservative party” for the economic problems, it was ineffectual this time too, believed Xenopol.¹⁰⁶⁵

Only in 1880 the National Bank of Discount and Circulation is established, having two thirds private capital and one third state capital. This bank, the most important financial institution in the country, had supported industrial and commercial development and had given to the state convenient loans, thus contributing to the capitalist evolution of the Romanian economy and on a social level, to the development of the bourgeoisie.

As predicted by Xenopol, the National Bank proved to be extremely beneficial for farmers too. First of all because withdrawing from circulation mortgage bonds and replacing them with its own bonds, the bank would allow the state to gradually sell from its property small parcels especially to newlywed couples, thus canceling the mortgage bonds. Giving land to newlyweds and therefore passing a part of the state property in the hands of the petty farmers – all this done with the help of the National Bank – was meant to give a new boost to agriculture. But the National Bank was able to help farmers in another manner too, according to Xenopol. Thus, storing their crops in docks in exchange for some receipts (called “warande”), which certified the amount of grains deposited there, the farmers could have discounted the receipts for a minimum interest, i.e. obtaining a cheaper credit.

Another financial institution supported by Xenopol was the rural bank the foundation of which was accompanied in our country by the opposition of the land owners, who thus would have lost their quality of creditors for framers. It is beyond comprehension, said Xenopol that the land owners, once they have enjoyed the benefits of the establishment of the Land Credit which saved them from the menace of usury, did not admit of a similar measure for farmers. This was due to the fact that “what previously the money lenders represented for the property, now the land owners and the land agents represented for the farmers.”¹⁰⁶⁶ In Xenopol’s view, “the rural bank would be meant to help either communities or individuals with loans contracted under the best clauses possible, first of all the leasing of land properties and second the purchasing of land”¹⁰⁶⁷. At the same time with the facilities offered by the bank, to the Romanian farmer one should make very clear the clauses for refunding the loan, any delays or respites being excluded, excepting those stipulated by the law. According to Xenopol all this happened because of the “great flaw of the Romanian character” which is the “inaccuracy of fulfilling one’s duties”.¹⁰⁶⁸ At the same time Xenopol planed in view of the economic rebirth of our country, “a special bank for helping

¹⁰⁶³ Ibid., p. 133, (Our translation).

¹⁰⁶⁴ Id., Raport la lucrarea “Politica monetară și a băncilor României”, de Traian Mihaiu, p. 587.

¹⁰⁶⁵ Id., Studii economice, p.131

¹⁰⁶⁶ Ibid., p.148, (Our translation).

¹⁰⁶⁷ Id., Banca rurală, în *Românul literar*, L, 1907, t.6, nr. 21, p.281, (Our translation).

¹⁰⁶⁸ Ibid., p. 282, (Our translation).

Romanian craftsmen and tradesmen”¹⁰⁶⁹, having as a goal stimulating the small and medium industry in Romania.

As a conclusion we can say that Xenopol’s studies, articles and economic papers fully prove his constant interest for such an important domain in the life of a country. This interest was motivated by the importance for Xenopol of the people to which he belonged, its needs and hopes. This made him research the economic state of the Romanian people, its causes, and also formulate among the most realistic solutions possible for the improvement of this state, for the reduction of the gap that separates us from the economically developed countries. By means of the measures suggested, he sought to give a new direction to the economic development of agriculture, industry and commerce; all of this being a necessary condition to the increase in the people’s living standard. It was also necessary for the political and cultural progress which would ultimately determine the changing of the economic structure of the people’s life. The same reason made him get involved in politics, without having a special talent in this activity and without wanting to make for himself a political career. Yet this way he was able to assume an attitude, he could influence decision making on the economic level which he considered to be beneficial for the country.

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¹⁰⁶⁹ Id., “Regenerarea economică a țării noastre”, in *România viitoare*, București, I, 1910, nr. 2 from December 15, p. 67, (Our translation).

CORPORATE VALUATION USING TWO-DIMENSIONAL MONTE CARLO SIMULATION

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In this paper, we have presented a corporate valuation model. The model combine several valuation methods in order to get more accurate results. To determine the corporate asset value we have used the Gordon-like two-stage asset valuation model based on the calculation of the free cash flow to the firm. We have used the free cash flow to the firm to determine the corporate market value, which was calculated with use of the Black-Scholes option pricing model in frame of the two-dimensional Monte Carlo simulation method. The combined model and the use of the two-dimensional simulation model provides a better opportunity for the corporate value estimation.

Keywords corporate valuation, free cash flow to the firm, real options, Black-Scholes option pricing model, two-dimensional Monte Carlo simulation, R statistics

JEL code: G32, C15

1. Corporate valuation

There is an ever-increasing need for financial valuation services pertaining to nonpublic companies and subsidiaries, divisions, or segments of public companies. Nowadays, the main purpose of the companies to increase their corporate value. In order to measure the value creation of a company, namely the increase in value compared to previous one, it is necessary that we can properly estimate the company's current value. The new reality presents a challenge to business managers: the need to manage value and to focus as never before on the value their corporate-level strategies are creating. Copeland-Koller-Murrin (2000) write in their book: „*We believe that clear thinking about valuation and skill in using valuation to guide business decisions are prerequisites for success in today's competitive environment. ... Underlying it is our basic belief that managers who focus on building shareholder value will create healthier companies than those who do not. We also think that healthier companies will, in turn, lead to stronger economies, higher living standards, and more career and business opportunities for individuals.*”

The valuation plays a key role in many areas of finance - in corporate finance, mergers and acquisitions and portfolio management. In general, there are three approaches to valuation. The first, discounted cashflow valuation, relates the value of an asset to the present value of expected future cashflows on that asset. The second, relative valuation, estimates the value of an asset by looking at the pricing of 'comparable' assets relative to a common variable such as earnings, cashflows, book value or sales. The third, contingent claim valuation, uses option pricing models to measure the value of assets that share option characteristics. (Damodaran, 2002)

To build our company valuation model we have used a kind of the combination of the methods above-described by Damodaran. The combined methods were designed to obtaining more accurate results and to taking into account the forecast uncertainty during the calculations. Still combining of the methods are needing, because the company valuation is a complicated process.

As business structures become more complicated, business valuations become more complicated. As transparency in corporate financial reporting becomes more desirable and less attainable, business valuations become more complicated. And, as securities market cycles become more exaggerated and less predictable, business valuations become more complicated. (Reilly-Schweih, 2004)

The corporate valuation is also important to measure the performance of the management. Value creation is the ultimate measure of performance for a management team. (Copeland-Koller-Murrin, 2000)

2. The corporate valuation model

There are only three approaches to value any asset, business or business interest:

1. the income approach;
2. the market approach;
3. the asset approach.

There are no other approaches to value. However, there are numerous methods within each one of the approaches that the analyst may consider in performing a valuation. All three approaches should be considered in each valuation. However, it is not common to use all three approaches in each valuation. (Hitchner, 2003)

To determine the market value of the company we have developed a combined model whose main stages are presented in the *Figure 1*. On behalf of the more efficient estimation we had combined more known methods and the corporate value as the final result was calculated using the so-called two dimensional Monte Carlo methods with utilization of intermediate results of the specific methods. The raw data necessary to the modeling was collected from the financial statements some of the companies listed on the Budapest Stock Exchange. We chose companies belonging to the stock exchange with the intention to compare the calculated results with the stock market capitalization of the firms.

The value determination was carried out for five companies. However, due to size limitations of the article the details of the calculation are only presented for one company (*Danubius*).

2.1. Calculation of free cash flow to the firm

To preparation of forecasting which is necessary to determine the asset value of a company we have used the last five years data (2004-2008) of the firms downloaded from the Budapest Stock Exchange web-page. The calculations have been performed in Microsoft Excel 2007 and the R statistical system. R statistical system is an integrated suit for software facilities for data manipulation, calculation and graphical display. R is an environment within which many classical and modern statistical techniques have been implemented. (Venables-Smith, 2009) The commands of R can be executed from the Microsoft Excel, and we have used this possibility.

During the forecasting we have calculated those values which were necessary to determine the free cash flow to the firm (FCFF). We used the company's growth ratio to make the forecast of the data. The forecast was based on the company growth rate¹⁰⁷⁰ and marginal taxation rate¹⁰⁷¹. To generate the latter rates we have used the normal distribution with parameters based on the averages and standard deviations of the previous years' data. (*Table 1*)

The forecast results are in the *Table 1*. The FCFF values were calculated using the after-tax operating profit, as follows

$$FCFF = \text{After-tax operating profit} + \text{Depreciation} - \text{Investments} \\ - \text{Changing in non-cash working capital} \quad (1)$$

¹⁰⁷⁰ mean=9.14, sd=2.23

¹⁰⁷¹ mean=22.55, sd=6.93

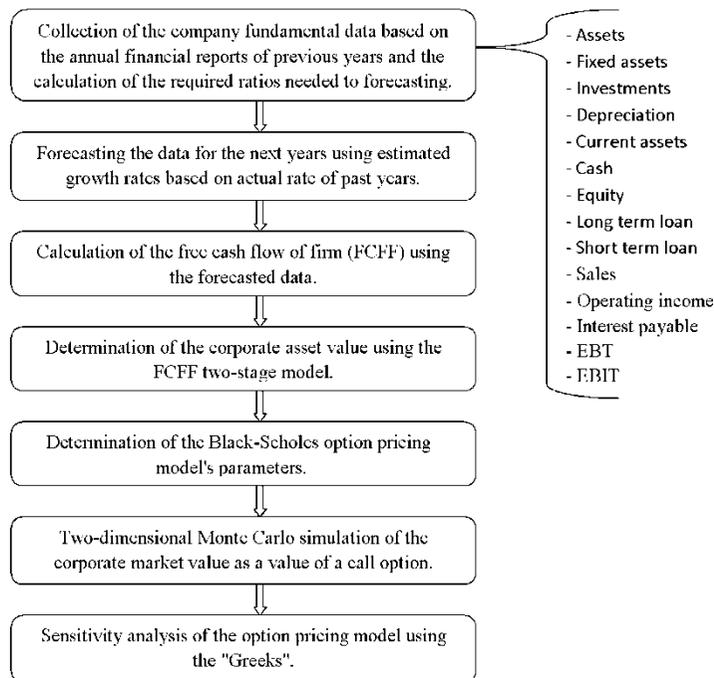
In case of Formula 1, the cash flow does not include the benefits arising from the interest payments, since the tax-saving effects of the credits has been taken into consideration in case of the determination of the cost of capital.

The corporate asset value was calculated by using of the Gordon-like two-stage valuation model, in consideration of the following relations:

$$V_A = \sum_{t=1}^n \frac{FCFF_t}{(1+r)^t} + \frac{P_n}{(1+r)^n} \quad (2)$$

$$P_n = \frac{FCFF_n * (1+g)}{(r-g)} \quad (3)$$

Figure 1: The process and the raw data of the corporate valuation



The growth rate (g) used to the determination of the terminal value (P_n) was calculated as an average of the forecasted growth rates (*the growth rate from 6th year - Table 1*). (Formula 3) The weighted average cost of capital (r – *required rate of return - Table 1*) was calculated as an average of the yearly weighted average costs of capitals. (Formula 2, 3)

2.2. Real options in corporate valuation

The calculation is essentially based on the assumption that the market capitalization of a company determines the market value of a joint stock company. Two essential factors play an important role in general to elaborate the market price: the actual performance of the company and the investor expectations. The riskiness of a company reflects in the volatility of the stock prices.

The new economy provides a challenge for the corporate decision-maker. Corporate valuation may no longer depends on traditional fundamentals but rather on future expectations. Investment strategies with high risks and uncertainty or irreversible corporate decisions coupled with managerial flexibility provide the best candidates for real options. Real options is a systematic approach and integrated solution using financial theory, economic analysis, management science, decision sciences, statistics and econometric modeling in applying options theory in valuing real

physical assets, as opposed to financial assets, in a dynamic and uncertain business environment. (Mun, 2002)

To determine the corporate market value we have used the Black-Scholes options pricing model. The value of a real options depends on five basic variables:

1. the value of underlying risky asset (**S**) – *corporate asset value*;
2. the exercise price (**K**) – *face value of the outstanding loans*;
3. the time to expiration of the option (**t**) – *weighted average maturity of loans*;
4. the standard deviation of the value of the underlying risky asset (**σ**) – **variance of the firm's share**;
5. the risk-free rate of interest over the life of the option (**r**) - **treasury bond yield rate adjusted to the option lifetime**. (Copeland-Antikarov, 2003)

Table 1: The corporate asset value calculation based on forecasted data
million HUF

Titles of data	Forecasted years				
	1	2	3	4	5
Growth rate	10,57%	8,49%	9,44%	8,22%	7,42%
Assets	91 363	99 124	108 482	117 398	126 111
Sales	49 417	53 615	58 677	63 499	68 212
Operating profit	2 324	2 521	2 759	2 986	3 208
Marginal taxation rate	32,35%	18,82%	29,02%	11,66%	28,10%
After-tax operating profit	1 572	2 047	1 958	2 638	2 306
Invested assets	83 767	90 882	99 462	107 636	115 626
Depreciation	4 937	5 357	5 863	6 344	6 815
Investments	4 685	5 083	5 563	6 020	6 467
Changing in non-cash working capital	274	297	325	351	378
Free Cash Flow to the Firm	1 551	2 023	1 933	2 610	2 277
Terminal price					38 625
Present value of FCFF	1 340	1 512	1 248	1 457	1 098
Corporate asset value	45 279				
growth rate from the 6. year	9,26%				
required rate of return	15,70%				

The weighted average maturity of loans was estimated with the using of the notes of the accounts of corporate annual reports. The variance of the firm's shares was calculated with the using the closing price of the company's shares what was downloaded from the web-page of the Budapest Stock Exchange. (Table 2)

To calculate the corporate value we have used the following formulas of the Black-Scholes model:

$$\text{value of the call option} = S * N(d_1) - K * e^{-rt} * N(d_2) \quad (4)$$

$$d_1 = \frac{\ln\left(\frac{S}{K}\right) + \left(r + \frac{\sigma^2}{2}\right) * t}{\sigma * \sqrt{t}} \quad d_2 = d_1 - \sigma * \sqrt{t} \quad (5)$$

2.3. Two dimensional Monte Carlo simulation

A two-dimensional (or second-order) Monte Carlo simulation is useful to estimate the "uncertainty" in the risk estimates stemming from parameter uncertainty. A two-dimensional Monte-Carlo simulation is a Monte-Carlo simulation where the distributions reflecting "variability" and the distributions representing "uncertainty" are sampled separately in the simulation, so that "variability" and "uncertainty" in the output may be estimated separately.

The developers of the two dimensional simulation model write in their model application guide (Pouillot, R. et al., 2010) the followings: „a QRA (Quantitative Risk Assessment) should reflect the „**variability**” in the risk and calculate the “**uncertainty**” associated with the risk estimate. The “**variability**” represents temporal, geographical and/or individual heterogeneity of the risk for a given population. The “**uncertainty**” is understood as stemming from a lack of perfect knowledge about the QRA model structure and associated parameters.” On basis of Cullen and Frey book (1999, p.3.), what can be regarded as the theoretical background of two dimensional simulation, the previous definition is supplemented by the followings: „In general, variability can not be reduced by additional study and measurement. Random and systematic measurement errors as well as reliance on models and surrogate indicators, all sources of uncertainty. ... In confronting variability and uncertainty a decision-maker stands to better understand the degree of variance in the full distribution of exposure or risk, the impact of various assumptions, data gaps, and model choice on decision making, and the most fruitful avenues for further study.” The input parameters of the simulation model are presented in Table 2.

Table 2: The input value of the simulation model

Corporate asset value		45 279	million forint
Average maturity of loans		5,54	év
Variance of the corporate shares	U		
minimum		8,85%	
mean		9,78%	
maximum		10,70%	
Outstanding loans	V		
minimum		21 310	million forint
mean		23 966	million forint
maximum		27 511	million forint
Five-year treasury bond yield	U		
minimum		4,50%	
mean		6,00%	
maximum		8,50%	

To estimate the stochastic variables marked U (*uncertainty*) and V (*variability*) letters we have used the triangular distribution with the parameter values in Table 2. (Kotz-van Dorp, 2004)

3. Results of simulation

To execute the simulation model we have used the 'mc2d'¹⁰⁷² package of R statistical system. The simulation statistical results are presented in Table 3. The statistical indicators of Table 3 show that the value of the coefficient of variation is very low, and the interquartile range¹⁰⁷³ is relatively small, which show that the estimated values are located in a relatively narrow interval around the mean and median around. All these can be easily seen in the boxplot diagram. To determine a confidence interval for the mean and median the program was used the one sample t-test and the Wilcoxon signed rank test with continuity correction. The calculation results are shown the Table 4. We can see that the intervals have a very small scale. To measure how the value of an option will change when one of the input variables changes while the others remain the same, we have used the „Greeks” (*delta*=0.7021, *gamma*=6.86*10⁻⁷).

Table 3: The statistical results of the simulation

¹⁰⁷² Monte-Carlo à Deux Dimensions

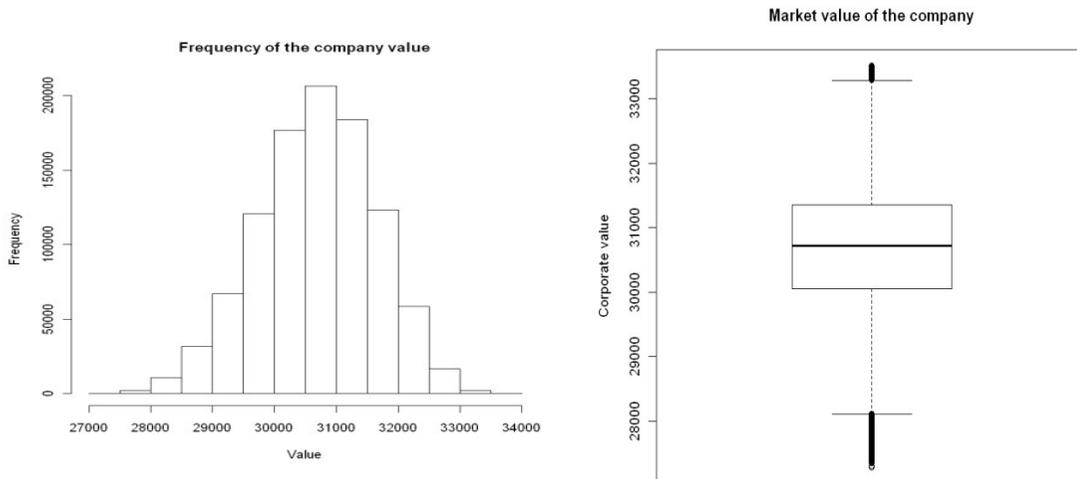
¹⁰⁷³ interquartile range = 3rd quartile – 1st quartile

Statistical indicators	Minimum	1st quartile	Median	Mean	3rd quartile	Maximum	Standard deviation	Coeff. of variation	Inter-quartile range	Kurtosis	Skewness
Value of the company	27 290	30 060	30 720	30 680	31 350	33 510	939	3,06%	1 290	-0,2228	-0,1972

Table 4: Confidence interval estimation for mean and median

Statistical indicators	confidence interval (95%)		estimated value
	lower bound	upper bound	
mean	30 683	30 687	30 685
median	30 700	30 704	30 702

Figure 3: The diagram results of simulation¹⁰⁷⁴



4. Conclusions

The performed calculations show that the constructed model can be applied in determining the market value of companies. The stock market capitalization of the company's shares was HUF 29,330 at the end of 2008, which is 2.49% less than the estimated average value. The model slightly over estimates the current market value.

The sensitivity tests carried out have confirmed the applicability of real options.

Probably we get better results of the corporate value if we would have a more accurate internal company information. We have obtained similar values in case of the other analyzed companies too. In each case, the estimate is well approximated in the current market value.

We believe that the presented model is useful to determine the value of the companies whose shares are traded on the stock exchange.

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¹⁰⁷⁴ The result variable contains 1 million piece of the estimated value.

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THE CORRELATION BETWEEN THE MARKET RISK AND THE LIQUIDITY RISK IN THE ROMANIAN BANKING SECTOR

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A series of studies on liquidity management have appeared during the financial crisis, many of them comparing the funding liquidity with the market liquidity. The paper offers a dynamic image about the liquidity in the Romanian banking sector and its integration with the market risk, comparing the Value at Risk approach with the Liquidity at Risk approach. The research also wants to highlight the most significant features to consider in order to implement an effective liquidity risk management and to achieve a more integrated supervisory framework.

Key words: liquidity risk, market crisis, liquidity limits, Value at Risk, Liquidity at Risk

JEL code: G01, G21, G32, C63.

1.Introduction

This paper analyze market risk behavior in periods characterized by extreme events and propose a liquidity model in order to quantify and manage the risk that arise from the trading book. The most used model for quantifying the market risk is Value at Risk (VaR) initiated by Jorion (1997), Dowd (1998), and Saunders (1999). Even though it replaced less standardized techniques such as Asset and Liability Management and Stress-testing, it lacks a rigorous treatment of liquidity risk. The liquidity risk has two main parts: funding liquidity risk and market liquidity risk. The first one has received the most attention from the banks for its significance. But, the market liquidity risk, described as the risk that a bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption (ECB, 2002) has gained more attention in the latest years.

A problem of the VaR models is that they don't take account of market liquidity risk, because they assume that the positions (currency rates, interest rates, stock index values, option volatilities) could be sold at a fixed market place, the midpoint quote, within a fixed period time (Laurence and Robinson, 1995). There are many studies in the related literature of incorporating market liquidity risk in the VaR models. Almgren and Chriss (2000) and Bangia et al (1999) proposed a dependent model strategy. Dubil (2001) proposed a model for determining optimal liquidation periods for different assets. Shamroukh (2000) highlight that scaling the holding period to account for orderly liquidation can only be justified if the holding period actually represents the liquidation period. Jarrow and Subramanian (1997) proposed a liquidity adjusted VaR measure that incorporates the liquidity discount, volatility of liquidity discount and the volatility of time horizon to liquidation, considering the effect of trade size and execution lag on the liquidation value of the portfolio.

In this article we present a framework for incorporating the liquidity risk into the VaR models. Section 2 presents the Value at Risk methodology, in accordance with the Basel II requirements. Section 3 describes the Liquidity at Risk methodology and reviews the techniques used to model the distribution of the returns. In section 4 is presented a case study which models the daily bid-ask spread for three important banks from the Romanian banking system, listed on the Bucharest Stock Exchange and section 5 concludes.

2.The Value at Risk methodology

Financial institutions have developed models for quantifying, comparing and aggregating the risk connected with different positions and portfolios. One of the most used methods is Value at Risk, which is defined as the expected maximum loss of a portfolio over some time period and for some level of probability. From a statistical point of view, VaR entails the estimation of the quantile of the returns' distribution. In other words, Value at Risk is the probability that returns or losses (ξ) are smaller than $-VaR$ over a period of time (T):

$$P_{VaR} = P(\xi < -VaR) = \int_{-\infty}^{-VaR} P_T \cdot \xi \cdot d\xi \quad (1),$$

where P_T is the probability distribution of returns over the time horizon T.

For a 99% confidence level the worst value is:

$$P_{99\%} = P_t \cdot e^{[E(r_t) - 2.33\sigma_t]} \quad (2),$$

where $E(r_t)$ and σ_t^2 are the first two moments of the asset returns' distribution.

In order to compute the VaR for a portfolio first we have to mark-to-market the portfolio and then to estimate the distribution of the portfolio's returns, which is a very challenging statistical problem. When the returns are normal, which is very rarely in practice, it is used the variance-covariance approach. When risk is recurrent VaR can be estimated by using historical time series and for new situations it should be modeled through EWMA and GARCH models. When risk is sensitive to rare events it is preferred the Extreme Value Theory. The main limitation of the VaR methodology is that the assumption of normal distribution can lead to large underestimation of the probability of extreme events, which affects the capital requirements. Also, the estimated distribution tends to fit central observations, while falling in fitting the extreme observations. The accuracy of VaR depends on how well the underlying markets have been simulated and how well each security has been modeled. Recent studies propose to analyze only the distribution of extreme returns, instead of describing the behavior of all of the returns (Ferreira and Lopez, 2004; Burns, 2002; Rombouts and Verbeek, 2004). Related to these studies is the EVT, introduced in finance by Embrechts (1997), although the basics were initiated by Fisher and Tippett (1928) when proposing the Generalized Extreme Value (GEV) distribution. The modeling of the financial variables through EVT was also studied by McNeil and Frail (2000), by Danielsson and De Vries (1997) which computed a model for calculating the VaR, taking into account the inconsistency of extreme values and by Huisman et al. (1997) which proposed a new estimator for the tail index.

3.The Liquidity at Risk methodology

Banks should possess a funding liquidity contingency plan in order to prevent insolvency, pass through stressful situations and maintain their reputation and credit rating. From all the proposed definitions of funding liquidity and market liquidity the next two ones are promising. Funding liquidity is the ability of a bank to maintain a prospective equilibrium between cash inflows and outflows, ensuring appropriate coverage of payments on the bank's liabilities (Erzegovesi, 2002). Market liquidity is the discounted expected price concession required for an immediate transformation of an asset into cash or cash into an asset under a specific trading strategy (Neuman and Demsetz, 1968). Jarrow and Subramanian (1997) consider the effect of trade size and execution lag on the liquidation value of the portfolio, proposing a liquidity adjusted VaR that incorporates the volatility of liquidity discount.

In order to incorporate the liquidity risk into the VaR models we would make an assumption that in stressed market conditions extreme events in returns and extreme events in spreads happen

concurrently. So, in calculating liquidity-risk adjusted VaR we incorporate both a 99th percentile movement in the underlying and a 99th percentile movement in the spread:

$$P_{99\%} = P_t \cdot e^{(-2.33\sigma_t)} - \frac{1}{2} [P_t (\bar{S} + a\tilde{\sigma})] \quad (3)$$

Assuming that the expected return $E(r_t)$ is zero, that the Liquidity at Risk can be written as follows:

$$LaR - VaR = P_t \cdot (1 - e^{(-2.33\theta\sigma_t)}) + \frac{1}{2} [P_t (\bar{S} + a\tilde{\sigma})] \quad (4)$$

where S_T is the relative medium spread ((Ask-Bid)/Mid) over the time horizon T, $\tilde{\sigma}$ is the volatility of the medium spread and a is the scaling factor, a multiple of the spread volatility, in order to achieve 99% probability coverage and θ is a correction factor that take into account the fat-tailed distribution.

4. Empirical study: analyzing the market risk and the liquidity risk in the Romanian banking system

In order to determine the VaR and the LaR we have modeled the daily data of the stock prices for three important banks in the Romanian banking system, listed on the stock exchange: Erste Bank (EBS), BRD Group Societe Generale (BRD) and Transilvania Bank (TLV), from 01.01.2007 to 31.03.2010. The observations of the closing price, bid and ask spread, are available on a period longer than that we took in consideration, but we have considered that the recent observations provides a better estimation on the risk of the portfolio. Also, we divided the data into two samples: the first sample is from 01.01.2007 to 31.08.2009 representing the “pre crisis” period and the second sample is from 01.09.2009 to 31.03.2010 representing the “post crisis” period.

The daily rentabilities were determined by logarithmation of the series of closing prices and present a lot of extreme variations that took place on the stock exchange market. Applying the Jarque Berra Test we will observe that the normal hypothesis is rejected. The distributions are leptokurtic, more sharpen than the normal ones, for all of the samples, a fact shown by the kurtosis coefficient. Analyzing the skewness coefficient we will observe that the distributions are shifted to the left, compared with the normal distribution. Applying the ADF and the Philipe-Peron tests it will be observed that the series composed of the closing prices values have one unit roots, which means that it is needed a first order differentiation in order to become stationary.

Table 1: The moments of the distributions

	EBS sample I	EBS sample II	BRD sample I	BRD sample II	TLV sample I	TLV sample II
Observations	265	323	403	323	403	323
Mean	-0.000359	-0.000202	-0.000136	-0.000241	-0.001671	0.001543
Median	0.000080	0.000000	0.000000	0.000000	0.000000	0.000000
Maximum	0.051403	00.51403	0.113482	0.139762	0.062160	1.434721
Minimum	-0.369786	-0.468803	-0.099820	-0.158523	-0.501279	-0.501279
Std. Dev.	0.037123	0.060703	0.017438	0.027437	0.025827	0.060477
Skewness	-0.975164	-0.784071	-0.057078	-0.565357	-11.15595	17.00904
Kurtosis	98.41873	54.69923	9.606578	11.33078	200.8467	427.6909
Jarque-Bera	342687.5	30483.70	1366.191	2211.710	1240438	5680052
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000

According to all these factors, the distribution of the rentabilities presents fat tails, which correspond to the extreme variations that took place on the money market. Using the historical simulation method can lead to an overestimation of VaR, especially that the method describes the maximum expected loss. Here appears the “volatility clustering” phenomena, which can be remedied by the heteroscedasticity models GARCH.

In order to eliminate the linear structure we propose some ARMA models studying the residuals’ correlogram, for which the AIC and BIC criteria are minimum. In the pre-crisis period we found ARMA(7) for EBS, ARMA(3) for BRD and ARMA(4) for TLV and in the post-crisis period we found ARMA(5) for EBS, ARMA(6) for BRD and ARMA(7) for TLV. The remained residuals have a non-linear structure which was detected by the BDS test elaborated in 1987 by Brock, Dechert and Scheinkman, in order to check the stochastic non-linearity. The BDS test’s values are strong, which sustains the rejection of the normal hypothesis. This tendency reflects a degree of heteroscedasticity, which means that the present volatility depends on the previous volatility. Unless the data is filtered, this dependence will undermine the value of VaR. In order to eliminate the correlation between residuals we had to find some GARCH models. The best models identified were: GARCH(2,3) for EBS, TGARCH for BRD, GARCH(2,4) for TLV in the pre-crisis period and GARCH(1,2) for EBS, GARCH(2,3) for BRD, GARCH(3,4) for TLV in the post-crisis period.

In order to calculate the banks’ exposure to liquidity and market risk, we have incorporated the liquidity components into the VaR approach. It is observed that during the financial crisis the liquidity component has a higher contribution in the level of VaR. The results for the two samples taken into consideration are the following:

Table 2: Market and liquidity risk for the pre-crisis period

	EBS	BRD	TLV
Price on 31.08.2009	144.10	12.5	0.288
Return volatility (σ_t)	0.037123	0.060703	0.017438
Fat tail factor (θ)	1.2	1.3	1.25
Market component (VaR) $P_t \cdot (1 - e^{(-2.33\theta\sigma_t)})$	4.3796	2.5634	0.0937
Liquidity component of (LaR) $\frac{1}{2} [P_t (\bar{S} + a\tilde{\sigma})]$	0.0816	0.1043	0.0034
Total Adjusted Value at Risk	4.4612	2.6677	0.0971
% of liquidity component	1.8291%	3.9097%	3.5015%

Table3: Market and liquidity risk for the post-crisis period

	EBS	BRD	TLV
Price on 31.03.2010	125.10	15.6	2.31
Return volatility (σ_t)	0.027437	0.025827	0.060477
Fat tail factor (θ)	1.4	1.65	1.55
Market component (VaR) $P_t \cdot (1 - e^{(-2.33\theta\sigma_t)})$	4.9872	3.0105	0.1032
Liquidity component of (LaR) $\frac{1}{2} [P_t (\bar{S} + a\tilde{\sigma})]$	0.1207	0.2032	0.0048
Total Adjusted Value at Risk	5.1079	3.2137	0.108

% of liquidity component	2.3630%	6.3229%	4.4444%
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In order to test the post efficiency of the methodologies we have used the back-testing, by simulating the stress scenarios for the least 245 days. We have applied the quadratic loss function approach, calculating how many times the VaR has been exceeded. The results are presented below:

Table 4: Backtesting results for the market portfolio with and without liquidity risk

Exceptions from of VaR _{99%}	Pre-crisis		Post-crisis	
	Market risk	Market risk & Liquidity risk	Market risk	Market risk & Liquidity risk
EBS	4	3	6	4
BRD	6	4	6	4
TLV	5	2	5	3

The best methods, which are in the minimum risk zone (which means that VaR has been exceeded for no more than 4 times), are those that take into consideration the market liquidity risk. The other models that count only the bank's exposure to the market risk are in the medium safety zone (from 5 to 9 violations of VaR), which means that the banks need more capital allocation in order to satisfy the Basel II Accord requirements.

5. Conclusion

We confirmed our hypothesis that only advanced VaR models that incorporate the liquidity risk (LaR) could adequately measure exposure of the bank to market risk and satisfy the BCBS criteria in periods characterized by extreme events. Also, in forecasting VaR for exposures in crisis periods it should be used a shorter sample of data, the most recent one, in order to capture the large movements on the market. With regard to accuracy, the risk managers should be concerned with whether the model's ex-post performance is compatible with the theoretically desired level, applying permanently back-testing criteria.

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CONSIDERATIONS ON MONETARY POLICY HELD BY THE CENTRAL BANK TO ADOPT THE EURO

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The current paper presents some considerations regarding the monetary policy held by the central bank in order to obtain the declared goal of joining the European Monetary Union. The paper refers to the strategies included in the National Accession Plan, and in the Convergence Program established by the National Bank of Romania. Furthermore, the paper presents some of the recent developments and the technical developments.

Keywords: Monetary policy, National Bank of Romania, convergence

JEL Classification: E58, F15

1.Introduction.

The Romanian National Bank has been subjected to a transformation process over the last few years, that manifested itself under the influence of 3 factors: the reorganization of the central bank by transitioning from the monobank, centralized system to a more decentralized model, more adept for a market economy; adopting the communitary acquis and the efforts made to reach the real and nominal convergence criteria in light of the future integration process and the adoption of the single european currency.

Along with the communist regime removal, the transition to a market economy has involved extensive changes at institutional level. Two-tier banking system reorganization involved the NBR to regain the traditional functions typical of a genuine central bank. Thus, its commercial bank specific activities have been abandoned, which were taken over by another newly created entity - Romanian Commercial Bank.

The new status of NBR in June 30th, 1998, provides price stability as basic objective and seeks to standardize legislation. Since 1999, the main objective of monetary policy, target inflation's reduction to gain competitive advantage to the devaluation of the leu against the euro. long with this, we wanted to stabilize the leu exchange rate, given its importance as a nominal anchor.

Since 2001, NBR announced that it abandoned to disperse efforts to multiple targets, and focus on reducing inflation, leaving the Government, through various means, especially in budgetary policy, to deal with maintaining the foreign payment's balance equilibrium. This means not only a major change in the monetary authority's practice, but also a distribution of tasks and concern for the trade balance situation.

EU integration process has been a stimulating factor in speeding up reforms, real and nominal convergence criteria become important landmarks in efforts to maximize the degree of functionality of the Romanian economy. Priorities and objectives in line with Romania's intention to join the European Union were addressed in the National Program for Accession of Romania to the European Union (PNAR). It provides: strong reducing inflation, ensuring a sustainable

¹⁰⁷⁵ “Investește în omameni!” doctorand bursier în “Proiect cofinanțat din Fondul Social European prin Programul Operațional Sectorial Dezvoltarea Resurselor Umane 2007-2013”.

external position, maintaining the budget deficit under control, improve and reform its banking system stability.

Also, one of the main factors leading to repeated update of the Romanian banking legislation was the need to adopt the *acquis communautaire*. Legislative changes have mainly focused on issues such as: central bank independence, the adaptation of central bank's regulations to modernizing the payments system, prudential requirements on commercial banks' lending activity, bank accounts coding standardization, gradual liberalization of currency transfers, adaptation regulations to combat money laundering requirements.

NBR status in June 2004 contributed to the harmonization of Romanian legislation with the EU. News had in mind primarily the strengthening of central bank independence, price stability as a fundamental objective, prohibition of direct financing of public institutions by the Central Bank, harmonization of the NBR's procedures and instruments with the ECB's.

Strengthening NBR's independence is a prerequisite to achieve nominal convergence criteria, established by the Maastricht Treaty. In the literature, central bank's independence is defined as a series of restrictions regarding monetary policy, aiming government loans, the method of economic policies and the relationship between government and central bank, restrictions which favors the price stability objective.

Central bank's independence refers to a certain degree of independence in the choice of specific instruments for achieving objectives, not setting targets itself for monetary policy¹⁰⁷⁶.

Hayo and Hefeker argues that central bank independence is not a necessary and sufficient condition for price stability, citing as an alternative, a possible agreement between central banks and governments on this objective, or setting up a fixed rate regime, by linking the national currency of another currency¹⁰⁷⁷.

Both versions cannot be valid in the case of the CEB and at the same time, are unverifiable in the case of the NBR. Therefore, in the first instance, it could occur that both the Central Bank and the Government tacitly agree on the failure to comply with the price stability objective, at a certain time. This scenario could only turn out if the partners cannot call each other into account or be called upon by a third party. Also, judging by the way the European Central Bank System is organized each Central Bank should be in close contact with the Government, which could favor cartel behavior for certain members of the area.

The second alternative has been embraced in various forms by several transitioning countries, some of which have become members of the European Union in the meantime. Yet, it has been proven that there is no correlation between price stability and the fixed exchange rate system, the government's temptation to use exchange policy as a foreign commerce competitive edge could constitute an argument in this sense.

A certain practical miscorrelation between the NBR and the Government is easily visible, in so far as the independence of the Central Bank infers the joint setting of economic policy objectives. In certain instances, the Central Bank will try to patch up the Government's decisions.

The absence of a long term fiscal and budgetary strategy renders much more difficult NBR's attempt to reach its objectives regarding inflation rates, fact proven in later years by the repeated recalculation and failure to reach the set inflation target, due in most part to unilateral Government decisions regarding the enactment of a sole tollage rate. This measure has caused an increase in consumption rates which manifests itself by the augmentation of the non-governmental credit especially the consumption allocated one, thence increasing the inflationist pressure on the economy.

¹⁰⁷⁶ Debelle, G., Fischer, S., *How Independent Should a Central Bank Be?*, in: Jeffrey C. Fuhrer (ed.) *Goals, Guidelines, and Constraints, Facing Monetary Policymakers*, The Federal Reserve Bank of Boston, Boston, 1995. p. 195-221.

¹⁰⁷⁷ Hayo, B., Hefeker, C., "Reconsidering central bank independence", *European Journal of Political Economy*, no. 18(4)72002, p. 653-674.

In the attempt to better the decision-making process between the NBR and the Government, the inflation targeted regime adopted in the summer of 2005 by the Central Bank should find its correspondent in the multiannual budgetary scheduling strategy.

The NBR reform has also brought with itself a set of measures pointed at the betterment of the Romanian banking system, taking into consideration – in this sense – passing resolutions in regards to the minimum limit. As the disinflation, in Romania, entails drastic fiscal deficit diminution measures and a cautious income policy, economic specialists think it unwise to only keep the current deficit under control through budgetary and commercial policies.

NBR and the Government should choose to correct the entire setting of the economic policy to encourage durable economic growth, even though in the context of the current economic crisis¹⁰⁷⁸ achieving this would be a difficult task.

Basel II, completed in June 2004 after a series of changes, is structured on three pillars: minimum capital requirements, capital adequacy supervision, strengthening the supervisor's role, and the third concerns market discipline, changing the central bank's reporting requirements.

The objectives of Basel II aims to provide a flexible framework for determining capital requirements, adequate risk profile of credit institutions and strengthen financial system stability assumptions. In this sense, the central bank set a clear calendar for adoption of the new Capital Accord in the national banking system, including four phases of implementation: initiating dialogue with the banking sector, development of means for banking supervision in the Basel II standards, internal rating model's validation by NBR used by credit institutions to assess clients and existing loan portfolio, provisions application's verification of the Agreement in whole banking system.

Since August 2005, central's bank monetary policy strategy pursued inflation targeting.

It was adopted after completing a training process, whose final stage was the development and functional testing framework for economic analysis and monetary policy decision specifically direct inflation targeting.

Were simultaneously satisfied and other requirements and criterias which determine the effectiveness of this strategy: lowering the annual inflation rate below 10 percent; building the central's bank credibility and consolidating it; strengthening the independence of jure (by the entry into force on July 30, 2004 of the new Statute of the BNR) and the *de facto* of the central bank; the restriction of fiscal dominance, the course of fiscal consolidation and improving coordination between fiscal and monetary policy; the relative flexibility of the exchange rate of MDL and reducing the vulnerability of the economy to fluctuations to this variable; healing and strengthening the banking system and the relative increase in banking brokerage; increasing the transparency and responsibility of the central bank as well as the intensity of central's bank communication with the public and financial markets, including issues new regarding monetary policy strategy and the preparation of its adoption; clearer outline of macroeconomic behavior and of economic function mechanisms necessary to identify and increase the efficiency of monetary transmission channels.

In the relationship between commercial banks and the real economy, central's bank monetary policy impulses are transmitted rather imperfectly and after a time that depends on the structural features of the national economy.

Although the central bank can control short-term interest rates, the real economy is influenced by *medium and long-term interest rates practiced by commercial banks for deposits and for loans offered to their customers*. The level of the later depends on the monetary policy interest rate, but also on a number of other determinants (expectations on inflation, the outlook for economic growth, etc..) and is crucial for investment decisions, consumption or saving. Generally, lower interest rates stimulate investments and consumption over saving, while higher interest rates

¹⁰⁷⁸ Anghel, Lucian , Sinteză macroeconomică trimestrială Aprilie 2009, BCR p. 34

stimulate saving, inhibiting short-term consumption and investments. Thus aggregate demand is influenced by the economy.

The aggregate supply has a capacity for adjustment to the level of aggregated demand limited to a short time horizon. On a long term, the supply mainly depends on the dynamic of some fundamental factors such as basic production capacity, employment and level of technological endowment, and therefore it adjusts more slowly and longer-term it cannot be influenced by monetary policy. Under these conditions, on the short / medium term monetary policy can affect only the gap between the actual level of economic activity and the one that is long-term sustainable (real GDP deviation from its potential level, or, excess demand).

The set of instruments and procedures by which the central bank implements monetary policy to achieve its primary objective forms the operational framework of the monetary policy.

The main instruments of monetary policy that the central bank (BNR) has at its disposal aims: open market operations; standing facilities granted to credit institutions; minimal reserves (RMO). On the medium term, the main problem that arises for BNR is to design a monetary policy that will enable the participation in "II European Monetary System (EMS II) and respectively, the entry into EMU (U.E.M).

2.The Strategy of the National Bank of Romania (NBR) regarding the adoption of Euro

Before the entry into the EMS II phase and then in the participatory phase, the inflation targeting strategy would continue to function, given that it is consistent with exchange rate flexibility and ensures the gradual fulfilment of all the Maastricht criteria.

Romanian financial sector is substantially integrated into the broader EU sector, mainly due to a high participation of foreign investors to the social capital of financial intermediation firms. Taking into account the Commission's evaluations on legal compatibility and convergence criteria plus additional factors, Romania does not meet the requirements for adopting the Euro.

The date mentioned for admission into EMS II was chosen considering that an early admission could prolong the waiting period before Euro adoption, and excessive delay could weaken the incentives for sustained reforms. Thus, the mentioned instalments can keep - for a limited period - some flexibility in terms of monetary policy and exchange rate. That flexibility is needed to make some additional structural reforms, which must be undertaken to give greater flexibility to the Romanian economy that might improve its ability to cope with "asymmetric" shocks.

Also, the reminded planning has the advantage to maintain the motivation for further reforms and reinforcement of the macroeconomic discipline. The transitional period creates the possibility of determining the "pivot rate" (the central parity) based on a fair estimate of the exchange rate's level of equilibrium after surpassing the top of capital inflows caused by favourable expectations of entering the EU.

Among the arguments that advocate possible reduction of the period of participation in EMS II, we remember the following: increased reliability - performance afforded by the latest phases of the process - is absolutely necessary for the passage to the next stage (adopting the Euro), but cannot be maintained indefinitely if the process is not completed; possibility of volatile capital movements around the time of Euro adoption, which requires greater exchange rate flexibility; this involves a transitional period even between the participation in EMS II and entering into the Euro zone, period that, by nature of its purpose, can only be very short; monetary policy applied in the meantime (inflation targeting) implies an obvious subordination of exchange rate movements to the inflation objective; or the requirements of exchange rate stability, specific to EMS II, may become incompatible with the inflation targeting.

As regards the NBR's strategy of adopting the Euro, by June 2009, NBR has not published such a strategy. Furthermore, the Board of National Bank of Romania decided to maintain the same

monetary policy for 2009, the same interest rate and the current level of mandatory minimum reserve ratios applicable to liabilities in Lei (18%) and currency (40%) of credit institutions¹⁰⁷⁹. In this context, the consolidation of the disinflation process and ensuring sustainable financing of the Romanian economy amid the international crisis requires keeping the current conduct of monetary policy in order to support the formulation and implementation of a balanced mix of macroeconomic policies. NBR continues to monitor developments in domestic and global economic environment, so by using adequate instruments it would achieve the objectives of price stability and financial stability through the applied monetary policy. Valentin Lazea, NBR chief economist, said that the national bank intervened in three ways in an attempt to control inflation and exchange rates: "It intervened verbally, and this is a weapon that all central banks use; it intervened using the interest, which grew cumulative until now with one percentage, and intervened in the money market, sterilizing Lei, meaning drawing on central bank deposits the Lei excess on the market"¹⁰⁸⁰. Also, Valentin Lazea considers that NBR should get involved in the currency market, meaning to sell foreign reserves in order to stem the exchange rate, to meddle with the minimum reserve required, and to continue increasing Lei's interest that, together with reducing interest to other international currencies, like the dollar, will grant new desirability.

To act on inflation, in 2009, the National Bank has imposed (as a crisis situation) to commercial banks especially high minimum required reserves: 40% for liabilities in foreign currency and 18% for the ones in Lei. Reserves are at these levels in order to prevent the entering in economy of a massive amount of money that could not be absorbed and thus generate inflation, as lower consumption converts in an abrupt disinflation. During the first part of 2010, NBR lowered the minimum reserve requirements to relaxation which is meant to bring money in the market and restart crediting.

The main implications for monetary policy in EMU accession are: alignment of monetary policy in the Euro area to avoid shocks caused by sudden changes in monetary policy position; maintaining the efforts to reduce inflation in a realistic tempo; it is necessary the preservation of "direct targeting of inflation", i.e. both in the period up to the entry into EMS II and during this phase; currency policy should allow the adjustment of the Leu's real exchange rate; in the period up to the entry into the EMS II, it is necessary to find the equilibrium level of exchange rate, which is then used as a *pivot point*; complete adoption of the *acquis communautaire* in the following two areas - banking and supervisory procedures and improving the institutional framework, strengthening the central bank's independence and ensuring its status compatibility with the "*European System of Central Banks*"; developing the banking system and the overall financial system, in order to increase the rationality of resource allocation and ensure monetary policy with adequate transmission channels; modernizing the payment system and connecting it to the European system TARGET; full harmonization of monetary statistics.

It is impossible to define precisely the policy after entering the EMU, but some general features can be stated as of now with pretty much certainty. First, there will not be an independent national monetary policy, but the participation of NBR representatives to the elaboration of the common monetary policy will be possible. In other words, the monetary policy will be subordinated to the common interest and therefore could not be used exclusively for solving specific problems of the Romanian economy. Secondly, we can make the assumption that until then, the national law which constitutes the

¹⁰⁷⁹ Anghel, Lucian , Sinteze macroeconomice trimestriale Aprilie 2009, BCR.

¹⁰⁸⁰ Medrega, Claudia, *Inflația coboara in aprilie la 6,45%, ajutata si de intarirea leului*. Ziarul Financiar, 13.05.2009.

framework for the adoption of monetary policy decisions would fully match the "European System of Central Banks" regulations.

3.NBR's Technical Preparation for the Euro Adoption in Romania

Preparation of Euro banknotes (denominations, graphics, technical features, safety features) will be conducted by Romania's Central Bank and European Central Bank. The manufacture of coins will be provided by the Ministry of Finance, as the legal issuer of currency will be the National Treasury, and NBR will adjust the amount of Euro coins that will enter the market. All coins of the same value will have the same size, colour, technical features, in all countries. At the moment, Romania provides harmonized statistical information, but some corrections are still necessary. For example, by the end of 2006, NBR used specific definitions of monetary aggregates (monetary base - M_0 , narrow money - M_1 , broad money - M_2 and quasi-money), but recently (March 2007) was decided to adopt the monetary aggregates definitions used by the ECB.

Furthermore, it would be indicated the realization of public information campaigns before the introduction of Euro. The NBR campaign will have to follow the mediatisation of the specific safety features graphics, and the fixed exchange rate¹⁰⁸¹.

The channels used by the NBR to transmit information can be the classical ones, used in any media campaign: the periodic publication of articles in high-circulation newspapers, conducting press conferences and symposiums, making posters and presentation folders, interviews with experts from the NBR and of course, publishing any information on the NBR website.

Especially for rural areas, banknote designs posters, identification elements and other essential information of this process may be displayed in postal offices, bank branches and subsidiaries. The presentation brochures could be made available inside the banks. For areas less connected to the mass media, local administration can be co-opted to publicise this process.

Problems that can increase the amplitude of the banknotes conversion process must be avoided, like the possibility of queues at bank counters, automatic vending machines or shops, and the problem of insufficient supply of cash in banks, the necessary of banknotes being difficult to estimate due to the psychological component - the novelty associated with this process.

4.Conclusions

The specialists' macroeconomic analysis found that Romania meets only one criterion for convergence, i.e. the public debt criterion, and that relatively, given the fast pace of Romania's indebtedness to overcome the economic and financial crisis. Consequently, in order to follow the established schedule, namely entering ERM II in 2012, and adopting the Euro in 2015, it is necessary to employ an appropriate monetary strategy, and developing economic policies that lead to fulfilment of all the convergence criteria.

As regards the monetary policy, it appears not to have changed so NBR will continue the same trend as in 2008 and 2009. However, alarming is that the NBR has not made public a strategy of monetary policy for adopting the Euro in 2015.

Central Bank's independence, reinforced by the latest status of NBR in June 2004, has not always as a support the collaboration with government authorities. A solution in linking monetary policy with the fiscal and financial plans would be the adoption of the strategy of multiannual budgetary programming that would ensure the premises for the Central Bank to meet the inflation targets. Thus, good collaboration between NBR and the Government should create favourable conditions for the performance of both nominal convergence criteria, as well as those of real convergence.

¹⁰⁸¹ Chiru Liviu, Popa, BNR: Adoptarea unilaterală a euro nu este o opțiune pentru România, Ziarul Financiar, 01.05.2009

Prospects for introducing Basel II involves an active collaboration with the banking community, an accurate assessment of internal rating models of credit institutions and strict surveillance conducted by the NBR.

Also, cooperation with monetary authorities, of supervision and regulation from other countries, especially those in the Economic and Monetary Union, is necessary.

In addition, it is recommended that, in 2014, NBR develops an information campaign for the Romanians to prepare them for the actual introduction of the Euro.

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„BLACK-SCHOLES MODEL USED TO EVALUATE STOCKS OPTIONS”

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Partial differential equation, parabolic Black-Scholes type:

$$\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0$$

is used in evaluating equity options, that paying constant and continue dividends or in evaluate options in which interest rate, volatility and dividend are dependent on time.

Keywords : stocks, asset-support, options (call and put), contracts (futures and forward), portfolio, model

JEL Classification: G12, G13

1.1 Black-Scholes equation

Further we intend to Black-Scholes equations, capitalizing above the strategy used by Paul Wilmott:

$$\text{Be } \pi = V(S;t) - \Delta S \quad (1)$$

a portfolio consists of option, with value $V = V(S;t)$ and quantity: ΔS (ie: „short” position, for asset-support: S).

Also, consider the value of „ Δ ”:

$$\Delta = \frac{\partial V}{\partial S} \quad (\text{random component: } \Delta(\text{„delta”})) \quad (2)$$

Replaced, value of „ Δ ”: $\Delta = \frac{\partial V}{\partial S} \Leftrightarrow \Delta - \frac{\partial V}{\partial S} = 0$,

in his expression: $d\pi$, we obtain:

$$d\pi = \left(\frac{\partial V}{\partial t} dt + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} \right) dt + \underbrace{\left(\frac{\partial V}{\partial S} - \Delta \right)}_0 dS \quad (3)$$

or equivalent:

$$d\pi = \left(\frac{\partial V}{\partial t} dt + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} \right) dt \quad (4)$$

(ie: „increase” of π portofolio, free of risk)

But the variation of π , ie: $d\pi$ can write (using the nonarbitration principle) in the form:

$$d\pi = r\pi dt \quad (5)$$

Conclusion:

Replaced the relations: (1), (2) and (4) \rightarrow (5), we obtain:

$$\left(\frac{\partial V}{\partial t} dt + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} \right) dt = r \left(V - S \frac{\partial V}{\partial S} \right) dt \quad | \quad dt \neq 0 \quad (6)$$

$$\leftrightarrow \frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} = r \left(V - S \frac{\partial V}{\partial S} \right) \quad (7)$$

Ordering the terms in relation (29^o), we obtain finally equation seeking, respectively:

$$\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0 \quad (\text{Black-Scholes equation}) \quad (8)$$

1.2 Interpretation of the notions:

O_1) Black-Scholes equation (deduced above), was written for the first time in this form, in 1969, but published 4 years later, in 1973, when Fischer Black and Myron Scholes proved the correctness of this equation.

O_2) Black-Scholes equation models a very important financial and economic phenomenon: the assessment of stock options.

O_3) The Black-Scholes equation, there are very important variables and parameters, respectively:

- $S=S(\mu;\sigma) \rightarrow$ stochastic variable (is the value of the asset-holder)

Where:

$$\left. \begin{array}{l} \mu = \text{drift (or unexpected return)} \\ \sigma = \text{asset volatility} \end{array} \right\} \text{parameters associated asset price „S”}$$

$$\begin{array}{l} t = \text{time (deterministic variable)} \\ r = \text{interest rate (without risk)} \\ V = V(S;t) \rightarrow \text{call option value (option to purchase).} \end{array}$$

O_4) Terms: $\frac{\partial V}{\partial t}$; $\frac{\partial V}{\partial S}$ and $\frac{\partial^2 V}{\partial S^2}$, which appeared in Black-Scholes equation, is: „indicators of sensitivity” to change the option value „V”, respectively:

$$\Delta = \frac{\partial V}{\partial S} \rightarrow \text{pointer „delta”, stands for:}$$

„percentage of modified (percentage of modified (∂V) option value V, depending on the value of asset-support (∂S)”

or even: $\Delta = \frac{\partial V}{\partial S} \rightarrow$ „hedge delta” useful (theoretical and practical) to eliminate the risk of a portfolio;

$$\theta = \frac{\partial V}{\partial t} \rightarrow \text{pointer „theta”, is:}$$

„modified of option price (∂V), depending on the variation of time (∂t)”

$$\Gamma = \frac{\partial^2 V}{\partial S^2} \stackrel{\text{def}}{=} \frac{\partial}{\partial S} \left(\frac{\partial V}{\partial S} \right) \rightarrow \text{pointer „gama”, is}$$

„sensitivity (excessive sensitivity) of $\Delta = \frac{\partial V}{\partial S}$, to price variations of asset-support S”

O_5) Finally, in the Black-Scholes equation, deduced previously, appear two terms: $rS \frac{\partial V}{\partial S}$ and rV , where:

- term: $rS \frac{\partial V}{\partial S}$, is the *convection* term of equation;

- term: rV , is the *reaction* term (which balances the first term of the equation $\frac{\partial V}{\partial t}$).

O_6) In conclusion, bringing together the 4 (four) terms:

$$\frac{\partial V}{\partial t}; \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2}; rS \frac{\partial V}{\partial S} \text{ și } -rV;$$

terms characterized briefly, above, we obtain Black-Scholes equation:

$$\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0$$

equivalent to a special equations of fluid mechanics, type: „reaction-convection-diffusion”.

1.3 Black-Scholes equation solving

General overview:

Method for solving Black-Scholes equation:

$$\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0 \quad (9)$$

aimed at obtaining the solution (exact) for the partial differential equation, parabolic type.

In literature, there are two broad categories of methods of solving this equation (ie: this type of partial differential equations).

- analytic methods
- numeric methods.

The analytical methods we can mention:

Method I: Transforming equation (8), in an equation with constant diffusion coefficient, using the change of variable:

$$V(S; t) = e^{\alpha x + \beta \tau} \cdot U(x; \tau)$$

In finally, „function”/solution $U(x; \tau)$ satisfy the basic equation of diffusion:

$$\frac{\partial U}{\partial \tau} = \frac{\partial^2 U}{\partial x^2} \quad (10)$$

(equation easier to solve than Black-Scholes equation (9)).

Method II, using Green function:

$$V'(S; t) = \frac{e^{-r(T-t)}}{\sigma S' \sqrt{2\pi(T-t)}} e^{\frac{[\log(\frac{S}{S'}) + (r - \frac{1}{2}\sigma^2)(T-t)^2]}{2\sigma^2(T-t)}} \quad (11)$$

Observations:

1) In the limit (when $t \rightarrow T$, and $T-t \rightarrow 0$ and $e^{-r(T-t)} \rightarrow e^0 = 1$) function (derivative I of V , given by (11) becomes *Dirac delta function*, ie:

„A function that is one (zero) everywhere except one point where it is infinite, so that”:

$$\int V'(S; t) dt = 1 \quad (12)$$

2) Function given by (11) is called *Green function*, which by integration, becomes:

$$V(S; t) = \frac{e^{-r(T-t)}}{\sigma \sqrt{2\pi(T-t)}} \int_0^\infty e^{-\frac{[\log(\frac{S}{S'}) + (r - \frac{1}{2}\sigma^2)(T-t)^2]}{2\sigma^2(T-t)}} \cdot \text{Payoff}(S') \frac{dS'}{S'} \quad (13)$$

where:

$\text{Payoff}(S) = V(S; T) \rightarrow$ ie: „profit/or loss for S is equal to the option V , at time $t=T$ ” (14)

There are other analytical methods to assess Black-Scholes equation, for example: Fourier and Laplace transformations.

The methods numericede solving partial differential equations, parabolic type (that is, and the equation: Black-Scholes), we can mention:

Finite difference method with the following:

- explicit finite difference method and

- implicit finite difference method

Very popular in the literature (to category: „numerical methods”) is the *Crank-Nicolson method*, which performs: „mean between the explicit and implicit method”.

Explicit method, applied Black-Scholes equation, to implement Black-Scholes model is applied to options: call and put European-style (or American type).

Default method, Crank-Nicolson equation applied to options: call and put European type, is more difficult to program, but has greater precision.

Final conclusion:

Black-Scholes Equation $\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0$ represents a partial differential equation, parabolic type which corresponds to the Black-Scholes Model published by the American economists Fischer Black and Myron Scholes in 1973. This model may be used with success in evaluating equity options.

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THE POLICY OF THE EXCHANGE RATE PROMOTED BY NATIONAL BANK OF ROMANIA AND ITS IMPLICATIONS UPON THE FINANCIAL STABILITY

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The more profound world economic crisis has strongly marked the evolution of the Romanian financial system.

The size of current account deficit, the relatively high external financing needs and the dependence of the banks on it, the high ratio between loans in foreign currency and deposits in foreign currency made of the Romanian economy, a risky destination for investors. In these conditions, since the end of 2008 and throughout 2009, the government's economic program was focused on reducing the external deficit in both public and private sector, on minimizing the effects of recession, on avoiding a crisis of the exchange rate and on cooling the inflationary pressures.

Keywords: monetary policy, exchange rate, external financing, budget deficit

JEL classification: E58

1. The interventions of NBR on the foreign exchange market

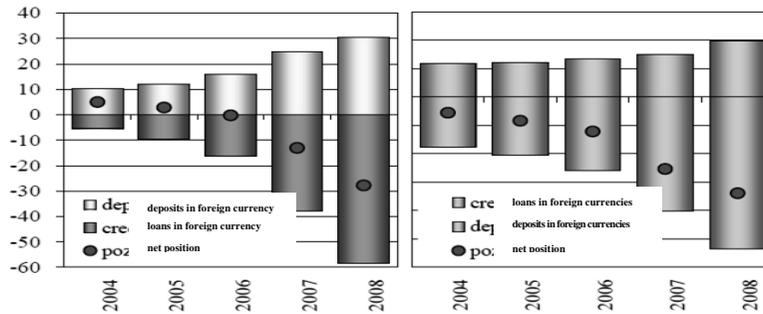
Supported by the global financial crisis, the evolution of the Leu rate has raised major problems. As in the period 2005-2007, the currency incomings have overestimated the Romanian national currency way above the level indicated by the fundamental factors of the exchange rate, the reduction of the foreign financing and the incertitude have afterwards determined an unjustified depreciation of the Romanian Leu. In spite of the high acquisition of currency in the anterior period, The National Bank of Romania has managed only to attenuate the unsustainable appreciation of the Leu, although the challenges in the bank system were very big. In the period 2004-2008, the continuous dynamics of the currency credits would have created negative effects at the level of the bank system under the circumstances of a rapid and excessive depreciation of the Leu (Chart 1).

Between October 2008 and April 2009, the Leu depreciated by 12% in comparison with the Euro (and by 21% in comparison with the Dollar), while the volatility exceeded 30% (Chart 2). These powerful contrasts between the two periods of 2008 could not have been anticipated, considerably affecting the reaction of the members of the economic environment and the business plans.

Chart no. 1. Deposits and loans in foreign currencies

non – financing organizations

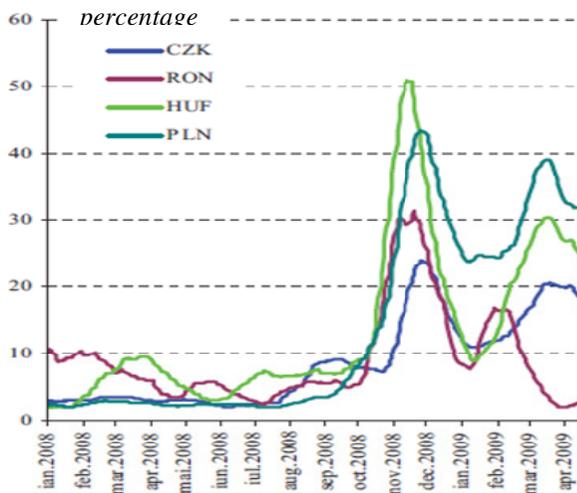
billion lei



Source: National Bank of Romania

The factors which contributed to this interruption in the dynamic evolution of the exchange rate were: **global** – a high incertitude regarding the situation of the global monetary system and the possible repercussions upon the emergent countries and **specific** – the worsening of Romania's qualification credit (of sub-investment) by two rating agencies (Fitch Ratings and Moody's). As one can notice from Chart 2, the volatility of the national currency, although in a significant progress, has remained under the level of other currencies in the region, and at present it registers some of the lowest values.

Chart no. 2. The Conditioned Volatility of the Main Currencies EEC compared to the Euro (percentage, average on a period of 20 days)



In this context, the National Bank of Romania, during the **interventions on the foreign exchange market** was oriented by the idea that a higher volatility of the exchange rate is detrimental to both the objective regarding inflation and the solidity of the real and financial sectors. Even more as the Romanian economy considered to be of small dimensions and with a high degree of openness is permanently exposed to the danger of some unfavourable capital movements at the level of the financial and especially the foreign exchange market.

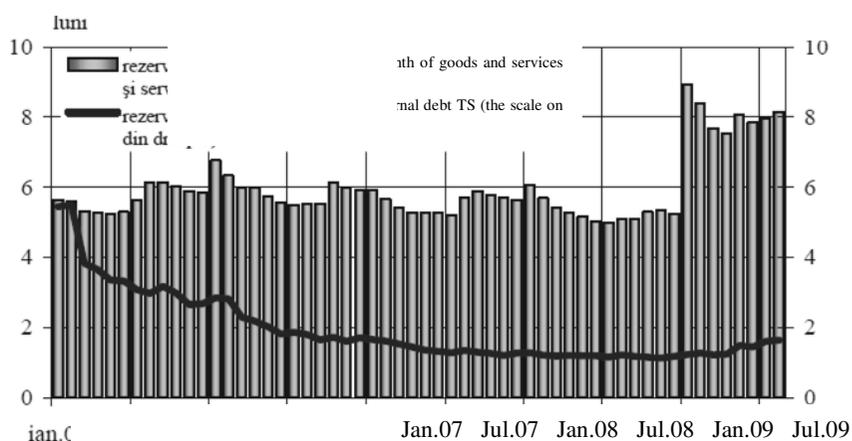
The option of the National Bank of Romania to intervene on the foreign exchange market was not singular in Central and Eastern Europe, the system of managed floating of the national currency being practiced by other Central Banks too, their foreign exchange interventions being amplified after the beginning of the global financial crisis. Under the circumstances, the National Banks

from the Czech Republic, Poland and Hungary, which have a flexible foreign exchange system have pronounced themselves against the excessive depreciation of the local currencies which could create destabilizing movements, promising, in their turn, to intervene in order to combat the phenomenon.

These interventions of the National Bank of Romania on the foreign exchange market have been aimed at the excessive depreciation of the national currency and the depreciation level was correlated to the progress registered by the adjustment of the current account.

These foreign exchange interventions were adjusted according to the **foreign exchange reserves** too. The foreign exchange reserves constituted due to the interventions from the period of overrating (2004-2008) and the sums received as a result of the financing agreement with the International Monetary Fund, the European Union and other international financial institutions have offered the central bank the possibility to support the national currency. Romania's National Bank aims at both the absolute value of the foreign exchange reserves and the derived indicators, respectively the foreign exchange reserve expressed in months of imports of goods and services and the report between the foreign exchange reserve and the short term foreign debt (Chart 3).

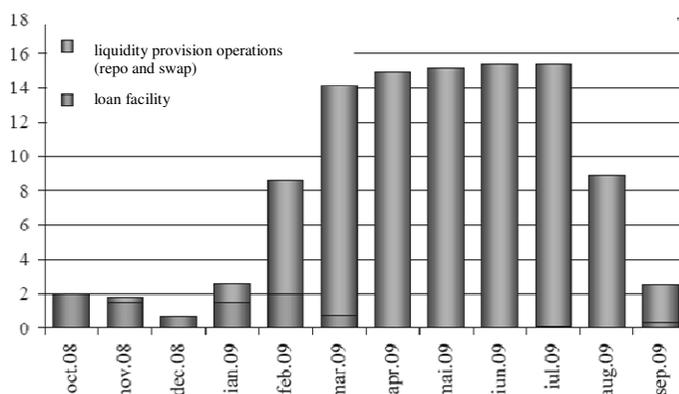
Chart no. 3. Foreign exchange reserves at NBR: derivative indicatives



Source: National Bank of Romania, National Institute of Statistics

The strategy of the National Bank of Romania to reduce the effects of the crisis has been aimed at both the correlated **amount and the moment of the foreign exchange interventions** and the **liquidities control on the monetary market**, under the circumstances in which the financing of the budgetary deficit was mainly done through the usage of the sums received from the International Monetary Fund and the European Union. In 2009, the National Bank of Romania supplied liquidities to the banks after it had been a net debtor towards the bank system due to the liquidity surplus generated by the massive capital inflow in the Romanian economy in the period 2004-2008. The foreign exchange intervention generated by the National Bank of Romania had as a purpose the attempt to avoid the reversal of its position as a creditor towards the bank system, a situation which could have caused problems for the implementation of the monetary policy (Chart 4).

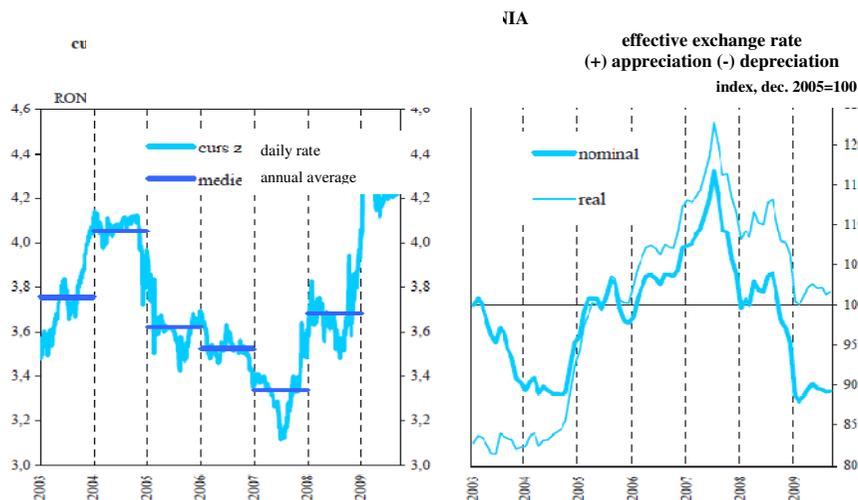
Chart no. 4. Liquidity provision operations



Source: National Bank of Romania

In this context, we can say that the foreign exchange interventions were necessary not only to maintain the exchange rate but also to properly manage the liquidities on the monetary market (Chart 5).

Chart no. 5



Source: BCE, BRI

Diminishing the depreciation of the Romanian Leu and implicitly the inflation pressures which appear by means of the exchange rate together with the fiscal consolidation efforts have allowed the National Bank to pass on to the **cautious relief of the monetary policy** ever since the beginning of 2010. The National Bank has taken the following **measures**: decreasing the monetary policy interest rate to 6.5%¹⁰⁸² per year, maintaining the present levels of the minimum reserves rates applied to both domestic and foreign currency liabilities of the crediting institutions

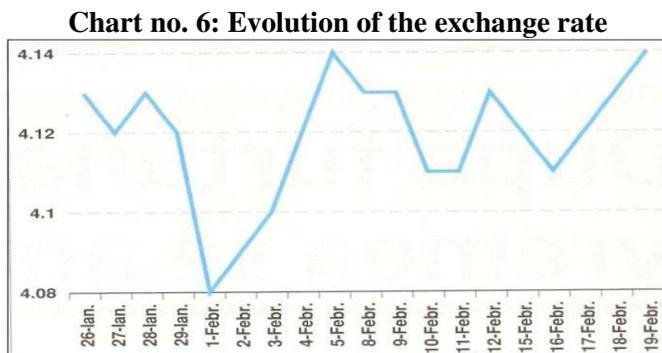
¹⁰⁸² During the meeting on 29 March 2010, the Administrative Board of Romania's National Bank decided to reduce the monetary policy interest rate to 6.5% per year.

(15%, respectively 25%), firm administrating of liquidities in the bank system in order to consolidate the signals sent by the monetary policy.

2. The measures adopted by NBR to support the exchange rate

The beginning of 2010 marked for the national currency the highest appreciation in Europe as regards Euro and one of the highest level in the world, it only being overpassed by the Japanese yen.

Among the factors that sustained the appreciation of our currency – “leu” – in January can be mentioned: the unfavourable international opinions to European currency which has registered significant depreciation as regards many other currencies such as dollar, yen or the currency met in East European area, as well as the events on the internal level such as the declaration of IMF representatives as to the funds granted to Romania (Chart 6).



Source: NBR

In the years to follow, the exchange rate had contradictory evolutions, the depreciation being influenced by the publication of data regarding the evolution of the Romanian economy in the latter half of the year and by the information regarding inflation in January.

Therefore, the 4th term of the 2009 year did not mark the end of recession, but a deeper contradiction in comparison to the former term, and the inflation proved to be quite alert (+0,5pp. as to December 2009).

The analysts foresee for the end of this year a rate of 3.95 lei / Euro on the background of improving the economic basis. The positive signals will not cease to appear, the appreciation of “leu” being influenced by the positive perception of the investments for Romania drawn by high rentability as well as by low risks as a result of the positive answer connected with the receipt of financial instalments from national investments.

3. The Agreements with the International Monetary Fund and the European Union - a Support for the Consolidation of the Macroeconomic Balance and the Financial System

Under the circumstances of a slow recovery from the crisis, **the loan agreements** negotiated with **the International Monetary Fund and the European Union** and with the Global Bank and other international financial institutions purport to financially support the Government’s economic program of macroeconomic and financial consolidation. The agreement with the International Monetary Fund and the European Union indirectly aims at an ordered adjustment of the foreign deficit with direct positive effects upon the exchange rate and implicitly upon the financial position of the companies, the population and the bank sector. These agreements have a clear preventive character ensuring **a higher degree of credibility to the Government’s economic program** as well as the financial resources for **the correction of the macroeconomic lack of balance**.

Taking into consideration the general positive evaluation regarding the bank sector, the agreements with the International Monetary Fund and the European Union aim at ensuring the

solvency of the Romanian banks in order to have a safety margin in front of some possible new pressures generated by the global financial crisis. For this reason, the solvency of the banks will be of at least 10% during the agreement (2009-2010) compared to 8% as it is stipulated.

The agreements with the International Monetary Fund and the European Union stipulate other temporary (2009-2010) or permanent measures too. The banks which commit themselves to maintain the exposure on Romania during the program and raise their own funds to ensure a solvency above 10% will no longer be expected to have minimum reserves for the subordinate loans coming from the action holders or the international financial institutions.

The credibility acquired due to the influence of the European Commission and the International Monetary Fund ensured the financing of the Romanian economy, a financing which has reflected positively in a few directions: relatively hire investments comparatively to the situation in which the agreements would not have been closed; the attenuation of the Leu exchange rate depreciation in comparison with Euro and other currencies. Signing the Vienna Treaty by means of which the banks have committed themselves to renew the financing lines and preserve the capital rates at satisfactory levels.

Conclusion

Resuming the capital inflow in 2010 could mean increasing the amount of money in economy which has to be sterilized by the National Bank of Romania. Otherwise, if the capital inflow could not be sufficiently reduced, then the National Bank of Romania could be forced to increase the international reserves by means of purchases on the interbank market. At the same time, this process of resuming the capital inflow determines new requests of coordination between the monetary policy and the fiscal policy. In order to attenuate the inflation pressures, in 2010 the budgetary deficit should be diminished. Otherwise, the monetary policy would have to compensate the differences and adopt the necessary measures, among which the one referring to the dimension of the monetary interest rates.

Due to the process of foreign financing and capital inflow resuming, the adoption of political decisions in conformity with the European measures of pump priming represents a positive sign since the IIIrd trimester of 2010.

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CHALLENGES FOR BANKS IN ROMANIA IN THE INTERNATIONAL ECONOMIC CRISIS

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In this paper we are analyzing the current state of the Romanian banking system which is facing different challenges due to the economic crisis. Identifying the main channels of crisis transmission, we can notice that the banking system has played a major role due to its structure, and the change of the banking behavior on the Romanian market. Analyzing the main indicators reflecting the health of the banking system, hence of the economy, generally speaking, the paper is trying to identify the measures which should have been taken and we still believe should be taken in order to obtain the economic recovery, the premise of a healthy economic growth.

Keywords: financial crisis, channel of transmission, Romanian banking system

JEL classification: G01, G21

1. The general frame

Considering the latest evolutions, the Romanian banking system can be considered as being stable, with a level of capitalization, solvability and liquidity according to prudential demands, despite accelerated crediting in the latest period of time and the deep effects of the international economic crisis. In general, the level of prudential indicators does not produce major concerns, but the tendency has to be monitored carefully taking into consideration the uncertain perspectives of the world economy. According to Professor Victor Jinga, the banking system¹⁰⁸³ is „an assemble of different banks, organized around a Central Bank, in order to coordinate the discount and re-discount of credits, placements and management of bank deposits”. The Romanian banking system is organized on two levels¹⁰⁸⁴:

- At the *top* – the National Bank of Romania, as a central bank for the Romania, exclusive emission body;
- At the *base* – commercial banks.

The central bank should ensure sustainability of the banking system, influence its behavior in order to fulfill objectives of the economy¹⁰⁸⁵. With the adhesion of Romania to the European Union, in 2007, The Romanian National Bank has become a member of the European Central Banks System (SEBC), and the Governor of BNR, a member of the European Central Bank General Council (BCE).

Taking into consideration the fact that the banking system was organized on the form of ownership, until December 31st 2009¹⁰⁸⁶, the Romanian National Bank has authorized 42 credit

¹⁰⁸³ Victor Jinga, *Currency and its Contemporary Problems*, Editura Dacia, Cluj Napoca, 1981.

¹⁰⁸⁴ Ligia Golosoiu, *Means, Methods and Instruments of Payment*, pg4, www.biblioteca.digitala.ase.ro.

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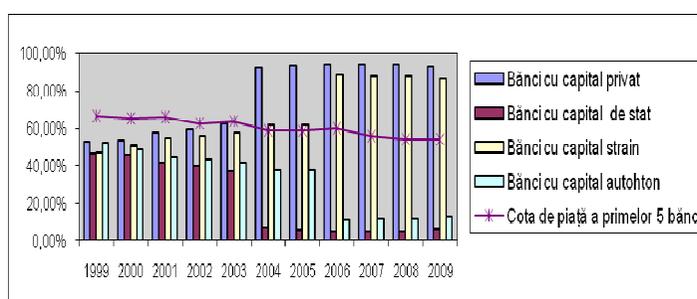
¹⁰⁸⁶ National Bank of Romania – Monthly bulletin December 2009.

institutions, Romanian legal persons, to service financial services in national currency and in foreign currency, of which there are 2 state owned capital banks, 4 private national owned capital banks, and 25 foreign owned capital banks, 10 subsidiaries of foreign banks and Creditcoop.

Table nr.1- Credit institutions

	number	
	dec. 2008	dec. 2009
State owned capital banks	2	2
Private national owned capital banks	3	4
Foreign owned capital banks	27	25
Subsidiaries of foreign banks	10	10
Total banking system	42	41
Creditcoop	1	1
Total credit insitution	43	42

Fig.1. Share of assets according to the source and structure of capital¹⁰⁸⁷



About the share of assets according to the source and structure of capital, in the 2000's **almost 50%** of the assets in the banking system were owned by state owned capital banks as opposed to 2009 when under 7% of bank assets were owned by state banks. Even though they own more than half the banking system assets, the first 5 banks according to the level of assets have continued to narrow down their heft in the banking system, from 56,3% in December 2007, to 54,3% in December 2008.

This reduction of the market share in favor of smaller banks has occurred because of the higher and higher level of offer attraction and diversity of bank product and also because of the aggressive policy of client portfolio widening.

Table nr.2: Net assets¹⁰⁸⁸

	Ponderosity(%)	
	dec. 2008	dec. 2009
State owned capital banks	5,2	7,3
Private national owned capital banks (including the subsidiaries of foreign banks and Creditcoop)	94,8	92,7
Of which:		
Foreign owned capital banks	88,2	85,3
Of which:		
Subsidiaries of foreign banks	5,6	7,4
Total credit institutions	100,0	100,0

The net assets of the banking system was 330,6 billion lei at the end of 2009, similar to the level of December 2008. In its structure, the private segment continues to hold the dominant position (92,7%) and the public segment holds 2,1%. The stagnation of net assets is attributed mainly to the divergent evolution of the main components. On one hand , the

non-bank clients credit activity has tightened with 4,4% in real terms compared to last year, their

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Source for the data: Report on financial stability 2009, www.bnro.ro.

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Banks (legal romanian persons), subsidiaries of foreign banks and Creditcoop.

heft lowering to 60,2% with 3% less. On the other hand, the credit institutions prefer placements in state notes, their heft in the structure of the assets had a significant rise (from 3,3% to 7,9%). When it comes to foreign owned capital banks, the first 3 countries regarding the capital level are: Greece (22,4%), Austria (8,4%) and Holland (9,2%). The most important change was attributed to Greece, which starting 2008, has transferred to the first position of the top foreign capital participation in Romanian banks.

2. Ways of transmitting the crisis in the Romanian Banking System

The rush for widening the clients' portfolio in order to obtain higher profitability seems it hadn't the anticipated effect, on the contraire, has led to the alteration of the bank's financial situation, which did not think about the fact that more is not necessary better. From this to the financial crisis of 2008 was not a long road. This recession period is, according to Daniel Daianu, the result of the fact that not enough was learned from previous crisis episodes during the latter two decades, and we did not pay attention to the severe warnings from prestigious financial experts. History has also shown that excessive greed is the recipe for failure.

We can affirm that the banking system has played a decisive role in triggering the crisis, which as expected created the spillover effect, flooding all sectors, mutating from a banking crisis into a financial one and further into an economic one.

Most economic analysts have identified a moment and a place for the crisis emergence, the dramatic fall of the home prices in the US, manifested starting 2006, followed by the collapse of the mortgage market, but its causes are pre-sciented from the beginning of the century. The blame falls on the monetary policy adopted by banks from great world powers – US, Japan, UK – characterized by a low interest rate that facilitated the populations' access to cheap crediting.

As a result, this led to excessive liquidity, which increased consumption of goods and services. The immediate consequence was an ungrounded rise in home prices generating a real-estate boom.

Another cause of the actual crisis is moral hazard¹⁰⁸⁹, a concept based on the principle too big to fail, according to which the state rescue coil for corporations, that cannot be left to bankruptcy, being too important for the economy. The banks now act more irrationally and riskier. Relaxing the crediting conditions for the population did not stop at low interest rates but also the eligible credit receivers range was widened. The debtors were not sufficiently analyzed and credits were given to people that had a bad credit history: late bill payments, low income, residual rates for other credits, inadequate guaranties. So subprime credits had a major contribution in triggering the crisis, because it determined the accumulation of underperformance credits in the banks portfolios.

Financial innovations also had a negative effect because they were followed by a lack of market transparency. Asset Backed Security bonds were created, which means a bank sells low liquidity assets to an intermediate firm that finances the transaction by emitting certificates guaranteed by the previous mentioned assets. The bank is benefits by taking these credits out of the balance¹⁰⁹⁰ and by gathering liquidity that can be invested in profitable activities, or using it to pay dividends or to give credits.

None the less, rating agencies activities can be questioned. There is a conflict of interest because the rating agencies are paid by those whose instruments they evaluate. As a result it is highly likely that the rating does not reflect the reality and it creates the impression that the instruments or the financial institutions are safe when in fact they have a high risk incident¹⁰⁹¹. So the

¹⁰⁸⁹ Cosmin Marinescu si restul, *Economic Crisis and Capitalism*, the Centre for Economics and Liberty.

¹⁰⁹⁰ Silviu Cerna, *Turmoil in International Financial Markets: Causes, Consequences, Remedies*, West University, Timisoara.

¹⁰⁹¹ Luminita Todoran, *Financial crisis' effects on the Romanian economy*, West University, Timisoara.

objectivity of these agencies can be altered and this would lead investors to erroneous decisions. Analyzing the succession of events that paint the crisis picture we notice that the first moments of decay for the American economy appear in 2006, when the volume of sales decreases and the non-imbursed mortgages increase. The follow-up is the great number of bankruptcies in 2007 beginning with New Century Financial, specialized in subprime credits. 2008 is the year of bankruptcies and surprising nationalizations: Bear Stearns, Fannie Mae, Freddie Mac, Merrill Lynch, Lehman Brothers. Financial turbulences are felt all around Europe, starting with UK, Holland and short after by the official recession of the US (December 1st 2008), and of the Euro area.

How was the crisis exported into Romania? The answer that puts together all the channels of crisis transmission is: Globalization! The development of commercial relations between countries determines a propagation of unbalances much more rapid towards partners of the affected countries. If in July 2008, Lucian Croitoru was transmitting an optimistically message, as an advisor for the BNR governor, saying that “the Romanian banking system is feeling good”, because “international turbulences have not affected it¹⁰⁹²”, presently we are searching for measures to limit the crisis effects on our economy.

The crisis was transmitted into Romania through different channels, indirectly (commercial channel, financial channel, trust channel, balance) and directly (bank sector, capital market and foreign currency channel). Through the commercial channel Romania is affected by its commercial relations with the US and other EU states noticing fewer export or even no exports at all in certain sectors. Through the financial channel, the crisis limits access to external financing and diminishes the crediting volume generating difficulties that “helps” external private debt. Regarding the trust channel, a lot of foreign investors have left Romania, which had as an effect the remission of the foreign investments flux. On the effects channel a deterioration of the population and companies net asset took place, following the fact that foreign currency credits had a high heft and because the fall of mobile and immobile assets prices.

Directly, the most exposure to the crisis’ effects had the Romanian Banking System, because of the fact that it is mostly made out of foreign owned capital banks. As so, problems could rise regarding refinancing resident banks, and its consequences would be the limitation of credit lines for Romanian banks, meaning a more difficult access to external financing for the Romanian private.¹⁰⁹³ A positive aspect of the fact that Romania’s Banking System has not been exposed to toxic assets, not emitting mortgage guaranteed bonds, and also the fact that the heft of the mortgage client in the amount of non-governmental credit is relatively small. When talking about the capital market, we can observe that the evolution of Bucharest Stock Exchange’s indicators has been affected, especially on the financial institutions bonds segment, and the liquidity of the market has reduced. The effects of the crisis were felt on the foreign currency channel also, the volatility of the exchange rate has affected economic agents and also people. The RON depreciation created difficulties for importers and debtors that have taken loans in foreign currencies, while the appreciation over a certain limit has under-privileged exporters.

3. The condition of the Romanian Banking System in the economical crisis context

At macroeconomic level, in Romania, the economic growth took place on unsustainable basis, based on credit consumption of imported goods. As a consequence a current account deficit took place, which indicates the dependence of external financing¹⁰⁹⁴ so that governmental credits

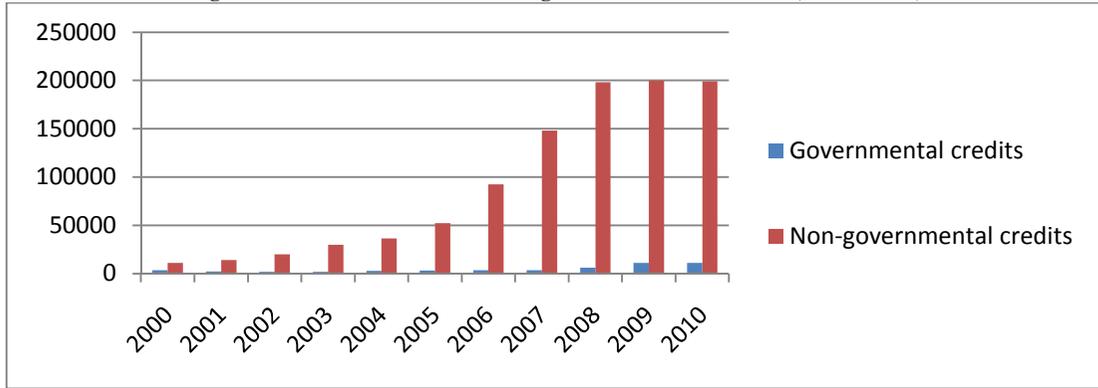
¹⁰⁹² Lucian Croitoru, interview given to the ‘Bursa’ magazine.

¹⁰⁹³ Silviu Cerna, *Turmoil in International Financial Markets: Causes, Consequences, Remedies*, West University, Timisoara.

¹⁰⁹⁴ Mugur Isarescu, *The International Financial Crisis and Challenges for Monetary Policy in Romania*.

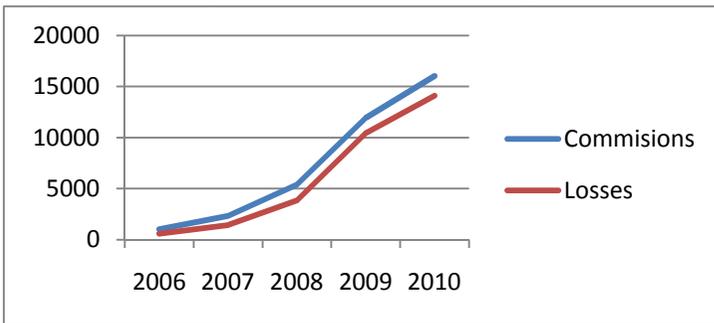
become double in 2009 compared to 2007. As non-governmental credits are concerned there is a roof level beginning 2008, when in previous years there was an alert growth due to the unsustainable economic growth.

Fig. 2 Governmental and non-governmental credits (mil. RON)



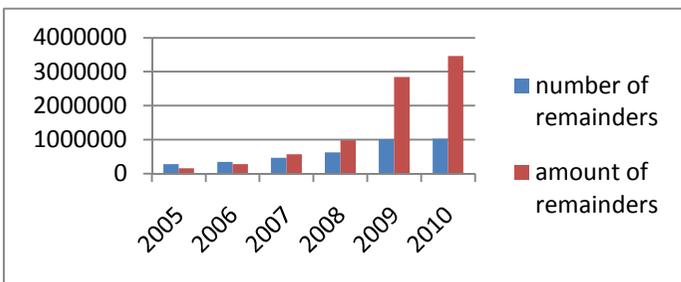
The roofing took place after the crisis begun because of the reticence towards credit of nonbanking economic agents but also because of the alterations in the banks consumers behaviour. Banks have become more prudent regarding credits for crisis affected sectors (constructions, petrol industry, automobiles, textile industry).

Fig.3 Evolution of commissions and losses of banks



The reticence of banks to give credits is put upon the growth of losses, which led to more commissions, limiting the crediting possibility.

Fig.4 The evolution of number and amount of bank remainders



Economic growth based on credit consumption of imported goods facilitated the conditions of crediting during 2006 and 2007. We could notice that after that period, beginning 2008, and an increase in the number of arrears. The remainder sums grow at a higher rate because of remainder credits.

Conclusions

Taking into consideration these characteristics of Romania's economy, the answer to the adverse effects of the crisis cannot be similar to the one formulated by some European countries or the US. The measures used in other countries cannot be simply duplicated. At a macroeconomic level, the main stimulation measures for the economy are as followed:

-adopting a complete and coherent mix of policies, by strengthening the fiscal policy and the income policy¹⁰⁹⁵;

¹⁰⁹⁵ Mugur Isarescu, *Romania in the Context of the Global Financial Crisis: An overview*, presented at the "How is the World Different After The Financial Turmoil?" conference.

-improving the absorption capacity for structural funds and replacing the private external financing with public external financing;

-creating new jobs in less occupied domains (infrastructure, tourism, food industry)that can slowly take on the role of an economic growth motor.

As the banking system is regarded, we believe that a series of actions are necessary in order to relaunch the activity of financial institutions like:

-holding the credit lines from mother banks towards their subsidiaries;

-relaunching the crediting process;-sustaining the national currency credits;

-a careful analysis of credit applicant, that take into consideration their capacity to reimburse the credit;

-soliciting guaranties accordingly to the given credit by orienting towards complementary services: Internet Banking, Mobile Banking, Home Banking;

-stimulating economy on one hand, and the justified consumption on the other hand.

After the year 2008 has been characterized by significant growth in all areas, 2009 has brought the most severe crises ever experienced in the latest decades. It seems that 2010 won't be problems free, because Romania's banking system profitability will remain at a low level, the level of un-efficient credits is expected to rise, the volume of the populations' and companies' deposits will also rise, 2010 being considered a year of economy. Probably, the banking system will know a visible come-back only in 2011.

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NEW INTERNATIONAL FINANCIAL REGULATION: NECESSITY OR REQUIRED BY CRISIS

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The global economic and financial crisis showed the limits faced by the international financial system. International financial regulations in general, and especially the banking sector regulations, should be refined and adapted to build a stronger and stable international financial system. We analyze the main trends in international regulations: the proposed amendments on capital requirements, the introduction of a global standard for liquidity and indebtedness, the winding-up directive, as well as their impact on the Romanian financial system.

Keywords: international regulations, global standard, winding-up directive

JEL classification: G01, G21

Introduction

The actual economic crisis made it clear that the way markets, financial institutions and international financial agents function needs reanalyzing, which led to a different level of understanding the way these institutions function but also to realizing the need to establish new rules, regulations and procedures. Due to the fact that the crisis is constructed as following: banking crisis financial crisis economic crisis, it becomes stringent the need to establish the rules on financial and bank markets; so the concept of financial stability exceeds reporting on country level, a certain financial stability on international markets level is needed. What began as a banking crisis on the American market has all the chances to become countries' crises (the example of Greece). Romania was affected by the international crisis, first through the banking and financial channel, and then through the commercial channel; none the less the problems our country is facing are not due exclusively to the international situation but more to great existing unbalances: rapid growth of income as opposed to the level of productivity, the current account deficit of over 10% before the crisis, a oversized state apparatus etc. It is necessary to understand the concept of financial stability, so according to The National Bank of Romania, stability is : "...a financial system, indifferent to the its size or complexity, is stable when it has the capacity to facilitate economic performances and to correct eventual unbalances that could happen as a result of adverse shocks¹⁰⁹⁶," or in Cerna(2008) "financial stability is a characteristic of the financial system, which is the ability to absorb financial unbalances that can emerge as a result of endogenous or exogenous factors of relevant size and unanticipated, by this reaching specific performance¹⁰⁹⁷". On an international level there are different organisms, governmental and non-governmental, that trace, recommend or implement different actions regarding the stability of financial systems like: The Bank of International Regulations through Basel I and Basel programs, Financial Stability Board, International Association of Insurance Supervisors,

¹⁰⁹⁶ Raport privind stabilitatea financiara, 2006 , <http://www.bnro.ro> .

¹⁰⁹⁷ Cerna Silviu &altii in Stabilitatea financiara, pg.12, Editura Universitatii de Vest, 2008.

International Association of Deposit Insurers, together with different commercial banks. In Romania, the Romanian National Bank writes, beginning 2006, “Reports on financial stability”, a document that is interested in : the international economic and financial context, the financial market and its risks, the infrastructure of financial markets, the institutions of the financial markets. The main indicators used in analyzing the financial stability are¹⁰⁹⁸:

- the system of indicators proposed by the International Monetary Fund (financial soundness indicator);
- stress-testing, that means a series of response tests of the financial system, to the factors of speculative pressure;
- early warning systems;
- other methods of analyzing and evaluating financial stability.

Even though there is large number of indicators at the disposal of the national and supra-national surveillance authorities, the world economic crisis has showed that new regulations are necessary. Implementing the Basel II recommendations in the EU has been realized by¹⁰⁹⁹ : Banking Consolidation Directive 2006/48/EC (BCD), Capital Adequacy Directive 2006/49/EC (CAD), which together have constituted the Capital Requirements Directive (CRD). CRD aims to ensure the financial soundness of credit institutions (banks, investment forms, etc) the Directive stipulates how much of their own financial resources such institutions must have in order to cover their risks and protect their depositors¹¹⁰⁰. Basel II implemented through CRD, beginning January 1st 2007, is based on 3 pillars¹¹⁰¹:

10. Minimum Capital Requirements. That aims minimum capital levels, credit risk, operational risk and market risk.
11. Supervisory Review. Regarding management risk and transparence of surveillance.
12. Market discipline. Completes the first two pillars by developing means of disseminating information to market participants giving them the necessary information regarding the level of capital, risk exposure and risk management.

Evolution of the world economy, the rise of interconnectivity at a global level, development of security and especially the economic crisis has made CRD out of date, new instruments and regulations being necessary in order to face the current challenges. So, beginning 2011, two new amendments, CRD 2 and CRD 3 will become effective, completing and bringing up to date CRD/Basel II, and also another amendment, CRD 4 is taken into consideration for the future.

Table 1. Capital Requirements Directive¹¹⁰²:

CRD 2	CRD 3	CRD 4
quality of firms capital	higher capital requirements for re-securitisations	<i>further counter-cyclical measures;</i>
management of large exposures	upgrading disclosure standards for securitisation exposures	<i>dynamic ‘buffering’ of loans;</i>
supervision of cross-border banking groups	strengthening capital requirements for the trading book	<i>liquidity standards</i>

¹⁰⁹⁸ Dupa Cerna Silviu & altii in Stabilitatea financiara, pg.79, Editura Universitatii de Vest, 2008.

¹⁰⁹⁹ Strengthening Capital Standards 3, Financial Services Authority, December 2009, pg.3,

<http://www.fsa.gov.uk/>

¹¹⁰⁰ Ibidem.

¹¹⁰¹ International Convergence of Capital Measurement and Capital Standards, A Revised Framework, June 2004, pg. 6, <http://www.bis.org/publ/bcbs107.htm>

¹¹⁰² Strengthening Capital Standards 3, Financial Services Authority, December 2009, pg.7,

<http://www.fsa.gov.uk/>

CRD 2	CRD 3	CRD 4
risk management of securitisations		<i>foreign currency mortgages;</i>
different operation on the CRD hybrid capital instruments		<i>supplementary measures (possible leverage ratio)</i>

CRD 2 & 3

Improving the quality of firms capital will be made by establishing criteria for assessing the eligibility of hybrid capital to be counted as part of a firm's overall capital. The proposals specify the features that hybrid capital must have regarding permanence, flexibility of payments and loss absorbency to be eligible as Tier 1 capital. Hybrid capital is define as being " ... a form of debt that has been substituted for equity. This type of capital has both debt and equity features. This covers a variety of instruments, such as preference shares, that are not pure equity but have traditionally been deemed close enough to it to count towards a bank's tier one capital ratio - the key measure of financial strength"¹¹⁰³

Table 2¹¹⁰⁴: Characteristics of hybrid capital

Type of instrument	Permitted features
Undated	Cannot have an option to redeem in the first five years
	No incentives to redeem allowed within first ten years
	Can be included within any bucket depending on features
	Calls allowed in 35% and 15% buckets
Dated	Must have an original maturity of at least 30 years
	No incentive to redeem allowed
	Must have a 'lock-in' feature (eg. may not be repaid if in breach of capital requirements at maturity) and supervisors may stop repayment
	Calls allowed after five years
	Included within the 15% bucket

Effects of this measure: rise in the capital cost for affected companies, but also they will lead to a rise in companies' capitalization, lower bankruptcy risk, reduces contagion risk, lowers the impact of future financial crises (reduces moral hazard).

Large exposures management regime will applies to exposures to counterparty or a group of connected clients. The basic limit is set to 25% of the company capital resources, but isn't considered that this limit could equal up to 50% of the TIER 1 (and up to 100% of the CORE TIER 1) CRD 3 will enhance CRD by adding higher capital requirements for re-securitisations

¹¹⁰³ According with <http://lexicon.ft.com/term.asp?t=hybrid-capital>

¹¹⁰⁴ Strengthening Capital Standards 3, Financial Services Authority, December 2009, pg.27, <http://www.fsa.gov.uk/>

(the 5% skin proposal), upgrading disclosure standards for securitisation exposures and strengthening capital requirements for the trading book.

CRD 4

If CRD 2 and 3 continue to base themselves on the Basel II paradigm, CRD 4 aims the strong reformation of the financial system, but especially the banking system, by introducing new requirements and measures like: counter-cyclical measures, dynamic buffering of loans, quantitative liquidity standards and systemically important financial institutions. foreign currency mortgages and possible an leverage ratio. One of the most important one is the liquidity standard which is set to be implemented with CRD 4. It will two components: liquidity coverage ratio and net stable funding ratio. The liquidity coverage ratio “identifies the amount of unencumbered, high quality liquid assets an institutions holds that can be used to offset the net cash outflows it would encounter under an acute short-term stress scenario”¹¹⁰⁵, so it will deal with the liquid assets on the short-term. The net stable funding ratio measures “the amount of longer-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets”¹¹⁰⁶.

Dynamic buffering loans (dynamic provisioning) will help to deal with the pro-cyclical in the banking sector, allowing early detection of credit losses in loan portfolios, enabling bank to build up a buffer in good times that can be used in bad times. They have an anti-cyclical nature that enhances the stability of the banking system as a whole.

Table 3¹¹⁰⁷

Historic cost accounting						Dynamic provisioning					
Balance sheet	1	2	3	4	5	Balance sheet	1	2	3	4	5
Loans balance sheet value	100	100	100	100	100	Loans balance sheet value	100	100	100	100	100
Stock of specific provisions	0	0	1	4	5	Stock of specific provisions	0	0	1	4	5
Loans balance sheet value net	100	100	99	96	95	Stock of expected loss provisions	1	2	2	0	0
						Stock of total provisions	1	2	3	4	5
						Loans balance sheet value net	99	98	97	96	95
Income statement						Income statement					
Net interest income	2	2	2	2	2	Net interest income	2	2	2	2	2
Specific provision charge	0	0	1	3	1	Expected loss provision charge	1	1	1	1	1
Total P&L	2	2	1	-1	1	Total P&L	1	1	1	1	1

¹¹⁰⁵ International framework for liquidity risk measurement, standards and monitoring, BIS, December 2009, pg. 11, <http://www.bis.org/publ/bcbs165.htm>

¹¹⁰⁶ ibidem

¹¹⁰⁷ Exemple After Financial Stability Review- Dynamic provisioning: issues and application, pg 131, www.bankofengland.co.uk

Dynamic provisions are being already applied in Spain since 2000. The mechanics is as follows¹¹⁰⁸: -the total provisions are the sum of specific (*dot.espe*) and general (*dot.gen*) provisions.

$$dot.gen_t = \alpha \Delta C_t + (B - \frac{dot.espe_t}{C_t}) * C_t$$

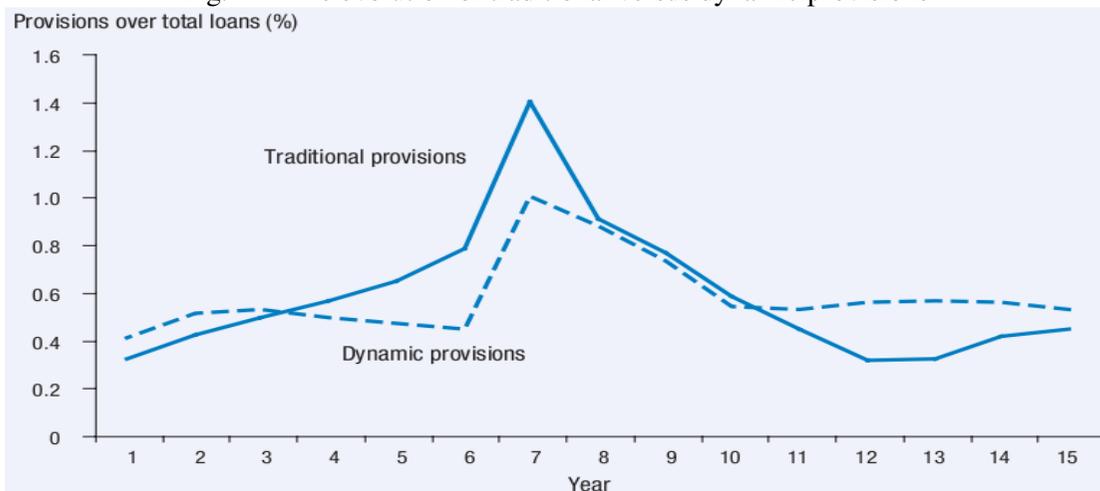
Where C_t is the stock of loans and its variation (positive in a lending expansion, negative in a credit crunch), covers the latent loss, and beta is the average specific provision for a full lending or

business cycle. There are 6 risk buckets, each with a different alpha and beta, they are:

	Alpha %	Beta %
Negligible risk, represented by cash and public sector exposures.	0	0
Low risk – mortgages with a loan-to-value ratio below 80% and exposures to corporations with A rating or above.	0.6	0.11
Medium-low risk, mortgages with a ratio above 70% and other collateral loans.	1.5	0.44
Medium risk, other loans (corporate exposures below A rating, SME)	1.8	0.65
Medium-high risk, consumer durables financing.	2	1.1
High risk, credit card and overdrafts.	2.5	1.64

While there levels may not be able to cover the all losses in case of an economic crisis they have proved useful in Spain. In 2007 the level of accumulated provisions was¹¹⁰⁹ 1.3 % of the total consolidated assets, while the capital and reserve represented 5.8 %.

Fig. 1¹¹¹⁰ The evolution of traditional versus dynamic provisions



It can be observed that using the dynamic provisions the banks exposures is not so pro-cyclical, and it offers them a buffer to use in moments of stress. The experience of Spain is very important for implementing such a method throw CRD 4, even if know Spain has a level of unemployment close to 20% it's banking system is stable.

Conclusions

¹¹⁰⁸ Dynamic Provisioning, The experience of Spain, pg. 2, www.rru.worldbank.org

¹¹⁰⁹ Ibidem, pg. 6

¹¹¹⁰ Ibidem, pg 4.

The global economic crisis has shown that current systems, especially Basel II, are no longer sufficient to cope with new type of challenges of global and financial type, even though Basel II was not the best safety net for the financial sector (or to the banking sector in particular) it was still better than the lack of any legislation. Thus the new rules and regulations issued by international supervisors are develop on the skeleton of Basel 2; CRD 2 & 3 & 4 will improve the current system, specifically by an increase in the stability of the financial sector. The CRD 2 directives which included proposals to be implemented by the end of 2010, but especially in discussions CRD 3 & 4, shows that we are heading towards a new approach both at micro as macro stability,

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SUBSECTION: ACCOUNTING

INSTRUMENTS THAT ARE NEEDED TO ENSURE THE CREDIBILITY OF ENVIRONMENTAL DISLCOSURE

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The main objective of the paper is to bring to the forefront the environmental audit and the environmental risk when auditing financial statements, in order to obtain an image on what environmental aspects represent in the field of audit. The study is based on a fundamental, theoretical research and on a questionnaire applied to financial auditors regarding their involvement in providing environmental audit. Objectivity of environmental information can be achieved only by means of the audit process. The paper supplements previous studies regarding environmental audit and brings a model for environmental accounting and audit of information.

Keywords: environmental disclosure, environmental audit, financial audit, financial auditors

JEL Code: M420

1. Introduction

The industrial development, sustained by the economic and technological progress, has been criticized for its devastating impact on the environment companies having been urged to become responsible as far as their impact on the environment is concerned. In response, many companies have begun to report ecologic activities and environmental performance and these aspects fall under the attention of the company's management, accounting professionals, researchers, regulation bodies and media. Large scale use of environmental reporting for a variety of purposes poses the problem of whether this information is objective or not. Checking the objectivity of such information can be performed by means of audit process. The same as for environmental information included in the financial statements the information presented in the environmental reports and sustainable reports are also the subject of audit process. In a study conducted by KPMG regarding the publishing of environmental information, it has been proven that most companies audit the environmental reports independently from the financial reports and that the number of companies auditing their environmental reports is increasing (Benţianu and Georgescu, 2008).

2. Research methodology

The objective of the research paper is represented by the presentation of environmental audit and environmental risk when auditing financial statements, in order to have an image of what environmental aspects mean in the audit sphere. During this research we have raised questions which we tried to answer to: Which are the environmental aspects that an auditor must have in view when auditing financial statements? What is the role of environmental audit in evaluating the way environmental aspects are being controlled and managed? Which are the similarities and differences between environmental and financial audit? What is the involvement of accounting profession in the performance of an environmental audit?

The presentation of the role of financial and environmental audit in reflecting the objectivity of environmental information supplied is based on a fundamental, theoretical research. Also, by

means of a questionnaire applied to financial auditors in Romania we have analyzed the involvement of accounting professions in the performance of environmental audit.

3. Financial Audit and Environmental Aspects

The parties that are interested in a company's financial statements need to be certain that these reports reflect a clear and complete image of the company's performance and position. Auditing financial statements or financial audit provides such assurance, thus playing an important part in providing credible and objective information to interested parties.

The specific role of financial audit process is to evaluate and report the conformity of information included in the financial statements to a series of preset criteria. The objective of financial audit is to give the auditor the possibility to express an opinion regarding the degree in which financial statements are being elaborated in conformity, under all significant aspects, to an identified accounting reference system. When environmental aspects are significant to a company, there is a risk for occurrence of significant misrepresentations or inadequate or incomplete presentation of information within the financial statements. In such cases, the auditor must pay proper attention to environmental aspects during audit of financial statements.

After having brought environmental aspects to the forefront of financial audit and the importance of financial audit related to environmental performance management, we have analyzed the aspects an auditor must have in view in order to discover the risk of significant misrepresentations in the financial statements due to environmental aspects: getting to know the client, evaluating the risks and the internal control, the role of valid legislation and regulations, the basic procedures.

As shown in studies conducted by Gray and Bebbington (Gray, 2006; Bebbington and Gray, 2001) the financial statements are incomplete or insufficient in order to reflect an accurate image of the company's environmental impact. Environmental management accounting and the environmental reporting represent the two pillars supplementing the shortcomings of the traditional financial accounting system as far as company's environmental impact is concerned. If the environmental aspects included in the accounting standards and regulations are certified by means of financial audit, as presented above, we have questioned ourselves: who handles the certification of information provided by environmental management accounting and information included in the sustainable reports, more precisely the environmental reports, in order to offer environmental information users an assurance regarding the accuracy of such information? The response to this question is the environmental audit.

4. Environmental Audit

The increasing number of voluntary environmental reporting by the developed countries companies, as well as the legal requirements related to reporting certain environmental aspects in many European countries (Denmark, Holland, Norway, Sweden etc.) and more (USA, Canada, Australia etc.) raised issues regarding the certification of information included in these reports. The *environmental audit* is the response to such issues, becoming more and more accepted in various sectors of activity, because its greatest benefit is the gradual reduction of the company's environmental risk (Unhee, 1997; Stanwick and Stanwick 2001, Mishra *et al.*, 1997).

Environmental audit represent a basic pillar for ensuring an accurate image on the environmental impact of a company. From our point of view, environmental audit represents an evaluation of how environmental aspects are managed within a company, with the purpose of improving environmental management and securing a certain level of credibility for the environmental information provided. Therefore, environmental audit can be performed either for internal reasons, representing an instrument for evaluation, control and improvement of environmental management, or for external reasons, in order to ensure a reasonable level of assurance that environmental information evidence a clear and complete image regarding the company's environmental impact. No generally accepted principles have been issued to a similar purpose as

the accounting-financial regulations to the financial audit because of the character of environmental audit which is regulated to a very small extent (Dittenhofer, 1995; De Moor and De Beelde, 2005).

Even if environmental audit is not profitable from a financial point of view, the non-financial benefits it brings (increase of company's public image, competitive advantages, assurance of credibility before clients and investors, sense of security given to the management with regard to the environmental aspects management) turn it into a profitable process or activity especially for the companies operating in industries or sectors regarded as heavy polluting or within companies that due to the activities performed or products supplied are subject to highly significant environmental laws and regulations.

There are a large number of purposes environmental audit can be conducted for. The types of audit mentioned before are not performed in full by internal or external auditors. They can be conducted individually or in combinations, as they are useful to the operating units, management and individuals using environmental reporting, in order to ensure credibility of environmental information. In the context where sustainable reports and especially environmental reporting have experienced a particular development lately, there's the question of objectivity for the data included in such reports. Thus, a distinct importance in ensuring the objectivity of environmental information is given to auditing environmental reporting, mostly conducted by external auditors, to increase interested parties confidence.

We have also conducted a comparative approach of environmental and financial audit. The regulatory status of environmental audit is quite different momentarily to the financial audit, for which most countries have elaborated sets of standards. Although focused on financial audit, some of these standards are directly relevant for environmental aspects as well. As a result of lacking a set of general set criteria and the complex nature of environmental information users creating a multitude of purposes and objectives for the report, auditing an environmental report, respectively a sustainable report, is a much more difficult of a process compared to auditing financial statements, which makes the accounting profession to avoid involvement in the performance of environmental audit. From what we mentioned above, it appears that, in case of environmental report auditing, it is almost impossible, or at least inefficient from a financial point of view, to supply a high degree of assurance regarding the quality of the environmental report taken as a whole. The auditor's opinion can include several degrees of assurance for different sections of the environmental report (Wallage, 2000; Karapetrovic and Willborn, 2001).

5. Accounting profession and environmental audit

After defining the environmental audit and its role in assuring objectivity regarding environmental information presented in annual and environmental reports we analyse the involvement of accounting profession in the performance of an environmental audit. There were many study that demonstate the important role of an Internal or external auditor in conducting environmental audits (Taylor et. all., 2001; Cahill, 2002; Tucker și Kasper, 1998; Picard, 1998; Kite et.all., 1996). The involvement of financial auditors in performing environmental audit in New Zealand have been explored by Chiang and Lightbody (Chiang and Lightbody, 2004) who conclude that although the audit proffesion could have an important role in performing environmental only a few of them explored this possibility.

For analysing the involvement of accounting professions in the performance of environmental audit we have used as a research tool the questionnaire applied to financial auditors in Romania. The auditors were selected from www.cafr.ro which is the official site of The Chamber of Financial Auditors from Romania. From a total number of 2234 financial auditors to whom we sent the questionnaire in the period 27 July-15 August 2009, we received answers from 276, representing over 12 percent, which can be statistically validated. The questions and the responses are presented in Table 1.

Table1. The involvement of financial auditors in performing environmental audit

No.	Question	Multiple choice response	Number of auditors who respond	Percent
1	What is from your opinion the importance given by the Romanian companies to environmental aspect?	Consider important	23	8%
		Not consider important	106	38%
		Limited importance	147	53%
2	Should environmental risk be considered when assessing the inherent risk?	Yes	238	86%
		No	38	14%
3	Have you been involved, along your professional experience in performing environmental audit?	Yes	23	8%
		No	253	92%
4	Do you consider that accounting profession and financial auditors should play an active role in performing environmental audit?	Yes	203	74%
		No	73	26%
5	In the next 12 months, are you going to get involved in performing environmental audit?	Yes	113	41%
		No	163	59%
6	What are the factors that hinder the involvement of a financial auditor in performing environmental audit?	The lack of a guide or standard for environmental audit	167	61%
		The lack of technical knowledge in the field	160	58%
		The lack of professional skills necessary for carrying out environmental audit	77	28%
		Other factors	64	23%

Source: representation of the responses obtained

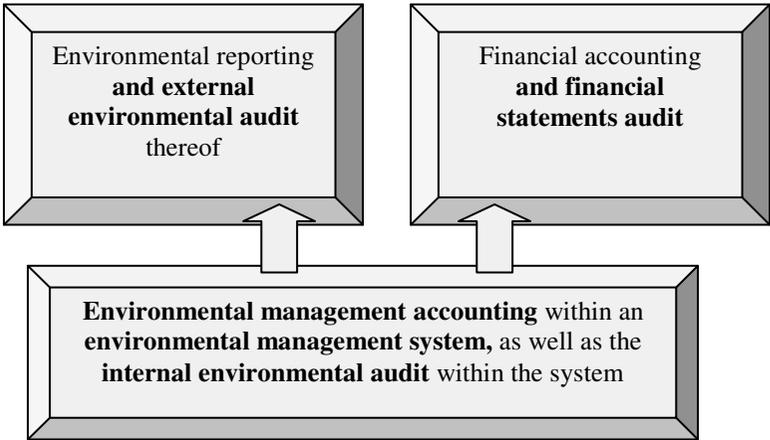
Following the conducted study we can conclude that in the financial auditors' opinion, Romanian companies give an insignificant importance to environmental aspects, the information they provide being general, insufficient and unclear to be able to reflect the company's environmental impact. The Romanian financial auditors, although they would wish to get involved in such missions (74%), very few of them take part in certification of sustainable reports, environmental balance sheets or other environmental audits (8%). Perhaps this is due to the very small demand for certification of sustainable or environmental reports (such reports in Romania are not mandatory), as for the other types of environmental audit, the accounting profession and financial auditors feel that non-existence of a guide on how to perform an environmental audit, as well as the lack of certain necessary technical knowledge are the biggest impediments to their involvement in performing environmental audits. We consider that the involvement of financial auditors alongside with engineers, physicists, biologists, ecologists and other professions in the performance of environmental audit would represent a significant gain especially when it comes to auditing environmental information of financial nature, like environmental costs, environmental debts, provisions and environmental contingent debts.

6. Results and conclusions

Objectivity of information can be achieved only by means of the audit process. Thus, we have tried to supplement the accounting model for environmental information presentation with the mechanism meant to ensure the objectivity of information provided, in order to reflect an accurate image on the environmental impact within a company. As a result, we have created *the responsible model for environmental impact presentation* represented as follows (Figure1):

- The model is based on environmental management accounting, functioning within an environmental management system, on which an internal environmental audit should be adequately performed;
- The second pillar, within the model, should be represented by traditional financial accounting, financial statements being subject to financial audit;
- The third pillar should be represented by environmental reporting and auditing thereof within the external environmental audit.

Figure1. The responsible model regarding the company's environmental impact



Source: representation created by the author

Following a comparative analysis between financial and environmental audit, we were able to point out that, due to non-existence of generally set criteria as well as the complexity of

environmental information users, creating a multitude of objectives and purposes for the report, the process of auditing an environmental report and a sustainable report respectively is a much more difficult process by comparison to the auditing of financial statements, which determines the accounting profession to avoid involvement in conducting environmental audit.

At the national and international level, only a small portion of accountants and financial auditors are effectively involved in environmental audit as a result of the accountants reserve with regard to the uncertainty coming from lack of a mandatory general framework. Lacking regulations and general reporting frameworks for environmental information determine auditors to avoid the fields where their expertise might prove useful. This can also explain why professional bodies focus this much on developing general frameworks and standards in their publications. An environmental audit requires different types of abilities and as a result, the most reasonable way to organize this type of audit appears to be teamwork, by involving auditors, accountants, engineers or other experts in environmental aspects.

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DOES FAIR VALUE REPRESENT A CONCERN FOR ROMANIAN RESEARCHERS?

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In the actual economic context, the fair value concept is of high interest. We tried to see if the concept is only talk about, or if research in Romania has been actually done on this theme. We have analyzed the Romanian Journals recognized by CNCSIS in order to see if this concept represents a concern for Romanian researchers. This article is a literature review of the economic Romanian journals recognize by CNCSIS in the field of "fair value".

Keywords: fair value, CNCSIS, concern

Cod JEL: M41

1. Introduction

Fair value has been treated, from the conceptual and methodological point of view, and its effects in accounting standards or regulations. At international level, the concept of "fair value" has aroused debates especially regarding how to obtain it. Although the FASB issued two standards dedicated to fair value- FAS 157 "Fair value Measurement" (2006), and FAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities (2007), is now trying a collaboration with FASB to issue a more complete and complex accounting standard and "Fair Value Measurement " to clarify issues like: the definition of fair value, it determination at level 3.

If international concern for "fair value" is very high, in our country, the concept is still new. Yet, it is still difficult to clarify it at the conceptual level and even more difficult to implement it. Related to this, there are questions about appropriateness of introducing an accounting system which includes fair value. We ask ourselves: Are Romanian researchers interested in the concept of „fair value”?

2. Research methodology

To review the literature in a particular area of research it is necessary first, a list of journals surveyed. Thus, from the Romanian journals, recognized by CNCSIS(National Council of Scientific Research in Higher Education) were selected 3 economics journals indexed A (ISI Journals) and 25 economics journals indexed B + (BDI Journals). All research conducted is considering a period of 4 years, from 2005 until 2009. This period was chosen because in 2005, CNCSIS introduced the classification of Romanian Journals in indexed journals A and journals indexed B. The 24 works that deals strictly with the aspects concerning the „fair value” were analyzed in terms of three factors: year of publication, article topic and research methodology.

3. Defining fair value

Considering that the article tries to evaluate the knowledge of Romanian researchers regarding the concept of fair value, it is necessary to define the concept.

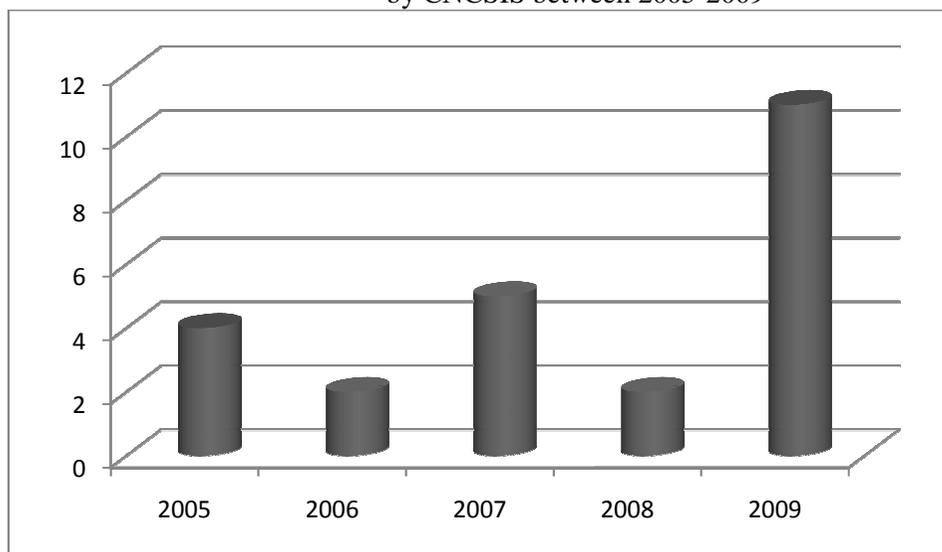
The term , known in Romanian as "valoare justa" is the translation of the phrase "fair value" which, literally speaking, corresponds to "genuine value" rather than "fair value" (R. Obert,

2004). When speaking of the contents of the concept, there are some opinions that attribute its quality of assessment base, others who claim that it represents a particular application of market value, others who consider some convention or accounting principle, finally it is also shown that fair value is an estimate and not a finding, as in the case of the market value. Another variant of the previous definition is the sum for which an asset could be exchanged in a balanced transaction, between parties informed and determined, different than in a forced liquidation sale (G. Holmes, A. Sugden & Gee A., 2002). IASB gives the following definition for fair value: *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (IASB, 2006).

4. Literature review study of the Romanian journals recognized by CNCSIS

After analyzing all studies included between the period 2005-2009 from the 28 selected national journals, it was chosen 26 studies that directly address the concept of fair value. The table below shows the number of studies that treat the subject assigned to the exact time they were published:

Figure 1: Study on the concept of „fair value”, published in the Romanian journals recognized by CNCSIS between 2005-2009

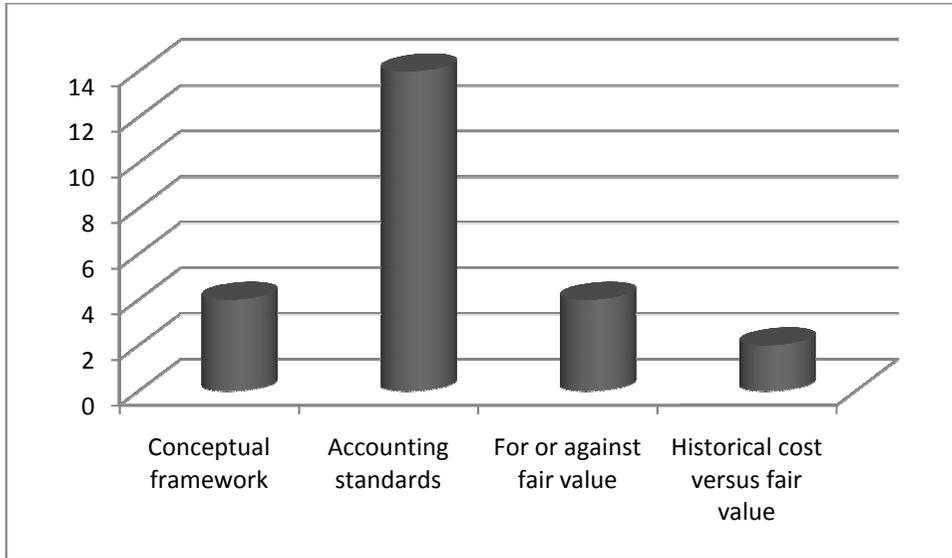


Source: autor's

compilation

After reviewing all studies during 2005-2009, we can observe that in 2009 were published a larger number of articles compared to the other years, this shows the intense concern in 2009 for fair value. This situation can be explained through an increase desire to adopt, both, internationally and nationally a modern accounting system, characterized by increasing concept of "fair value. Also the large number of articles published in 2009 can be explained by the economic crisis, which has increased the "popularity" of "fair value". Going forward, to the second analyzing factor, the theme of the article, it can be considered that the selected studies can be split in this way: conceptual framework, research on international accounting standards, studies that reveal the "marriage" between: historical cost and fair value, studies that support or reject fair value, in this being included the studies that show the advantages and disadvantages of fair value. The results can be summarized as follows:

Figure 2: Studies on the concept of fair value classified by topic published in the Romanian journals recognized by CNCSIS

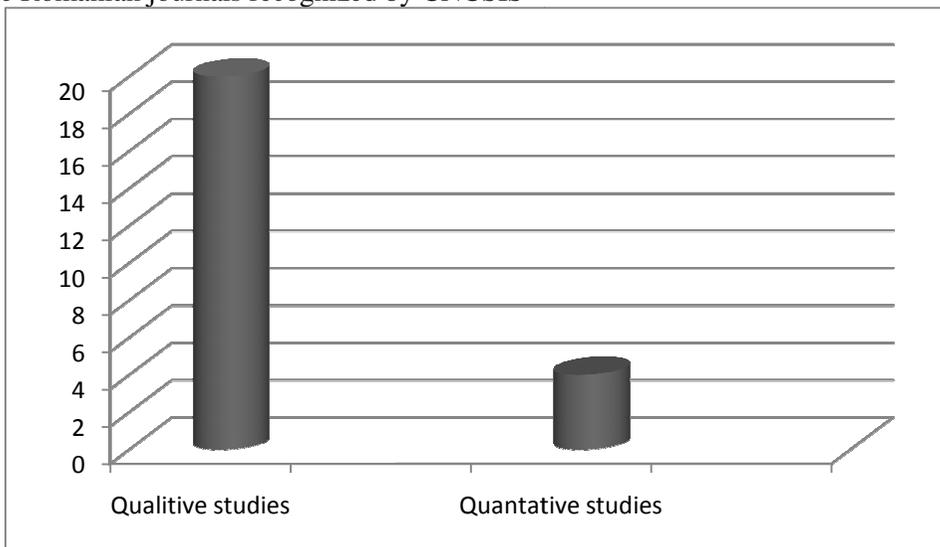


Source: Autor's compilation

As expected, the topic that caused the highest degree of interest among the Romanian researchers is the one concerning the fair value in accounting standards. This high concern can be explained by the activities undertaken by regulatory bodies accounting, FASB emitting FAS 157 in late 2006, followed by FAS 159 in early 2007, while the IASB issued Exposure Draft-measuring fair value in September 2009.

Analyzing, in terms of research methodology, selected studies, we can divide the articles in: qualitative articles and quantitative articles. We consider to be qualitative studies, the theoretical one, and quantitative studies, the empirical ones and those that describe case studies. The results can be summarized as follows:

Figure 3: Studies on the concept of fair value, classified by research methodology, published in the in the Romanian journals recognized by CNCSIS



Source: Author's compilation

We can see that the qualitative studies exceed the quantitative studies, this being expected, because in Romania the area of interest, regarding fair value is only at the beginning.

4. Conclusions

Considering all aspects of analysis we can answer the question from the beginning of the study and we can assert that the concern for the concept of fair value is very high right now, but at the same time, the literature in respect to this aspect is only at the beginning of knowing it. Therefore, it prevails theoretical studies, published in 2009 with the predominant research theme: concept of fair value in accounting standards.

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CREATIVE ACCOUNTING – PLAYERS AND THEIR GAINS AND LOSES

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The aim of this paper is to bring into attention an interesting game of accounts manipulation and its plays. Their expectations represent the genesis point of manipulative behaviour and by understanding their actions and gains and losses we may create a link to understanding the process of creative accounting thinking. The divergent interests of these users (e.g.managers, fiscal authorities and banks) derive from their position and power, and give rise to doubt regarding the objectivity of accountancy information provided by annual financial reports.

Keywords:creative accounting, manipulation accounts, information users

Cod JEL lucrare:M 41

Introduction

When and why exactly this concept first appeared and what influenced its development – these are questions that come up when opening this true Pandora’s Box: creative accounting.

With hindsight a few favourable circumstances to this concept can be identified, circumstances first related to the economical advent of world states but at the same time to the need of economic entities to create for themselves a good reputation in an increasingly competitive and tough economic environment. About this particular moment, that is - the first mention, regarding creative accounting practices, we can’t ignore the fact that the first mention belongs to the founder of accounting - Luca Paciolo. This ambition of making figures more appealing or the opposite, if the case, is as old as 500 years. Thus, Luca Paciolo was shaping in his already renowned *De Arithmetica*, the first accounting manual, practices of creative accounting.

In the context of brisk Venetian foreign trade, relationships between traders were recorded by double-entry bookkeeping with ink and quill-pen in main and subsidiary books. Where discrepancies arose, the inkwell was occasionally knocked over on these books – not always unintentionally – in order to make the entries illegible. That’s the origin of the term “cover-up”.

In the context of the world economic crisis nowadays, creative accounting will be referred to more often as a field from where it is expected either to offer live-saving solutions or be blamed for all the negative evolutions. On this aspect, Salustro and Leburn (quoted by Delesalle, 2000) would say: „Crisis periods are actually trials for enterprises; affecting their cash flow and generating risks, that accounting doesn’t deal with in a flawless manner. Therefore, managers are tempted to resort to ingenious, more often questionable procedures, for refining accounts presentation.”

The reality of an enterprise can be mirrored in several aspects, starting from the atmosphere and the environment where the employees perform their daily activity, through the company’s brand and to the yearly financial statements. This reality, though, seen from the perspective of the external environment, capitalized in clients, suppliers, public institutions, banks, investors etc, is strongly influenced by the subjectivity of the one watching.

This approach of the accounting informing system may seem absurd due to the fact that the information of the financial statements are some figures, some values which apparently cannot be

misunderstood. Yet, reading between the lines and making certain connections, several ways to manipulate the information can be discovered.

Actors and their gains and loses in the accounts manipulation game

In the chess parties there are many times when we consider that one of the parts has an important advantage, even though the number of the pieces on the board is the same. To what does this statement owe, otherwise a correct one? Obviously, it is explained through the pieces activity difference. Seldom, during the moments of maximum confrontation of the pieces on the board, one of the parts has more pieces “out of the game”. How can we avoid such situations? Simple, taking into account the piece improving principle (according to the Russians, first worded out by Makogonov) who shows that: “in balanced position, when none of the parts has immediate threats, it is necessary to rearrange the pieces, in the worst situation, on a suitable field, or if this thing is not possible, let’s try to change them.” Of course, there are multiple the situations when we have more pieces out of the game. It is necessary the successive application of this principle, starting with the strongest pieces. What we have presented above seems something absolutely ordinary, we all learn, from first steps on the land of this magical game, that we have “to arrange the pieces on the centre of the board, to be stronger”. This does not prevent us, that in the moments of relative “calm” on the board, from forgetting about the application of this principle. Otherwise, subsequently, this thing becomes already hard or impossible to achieve.

As within the framework of this “brain” game we can see the ability of the parts to use the pieces available to them (by complying more or less with the principle worded) in order to achieve the result proposed, thus, by extrapolating our analysis to the case of the enterprises, we can identify certain participants who, according to the levers available to them can shape, more or less, the image of the enterprise.

Specialist literature in creative accounting field refers to agency theory, which relates to the conflicts of interests between users of accountancy information.

An agency relationship comes into being when one party, known as the *principal*, entrusts management of their private assets to another party, known as the *agent*, who has competence and knowledge inaccessible to the principal. The most common form of agency is that in which a manager operates on behalf of a shareholder. From this point of view in the life of an enterprise, we can identify two categories of actors having a special position (Feleagă N., 2006):

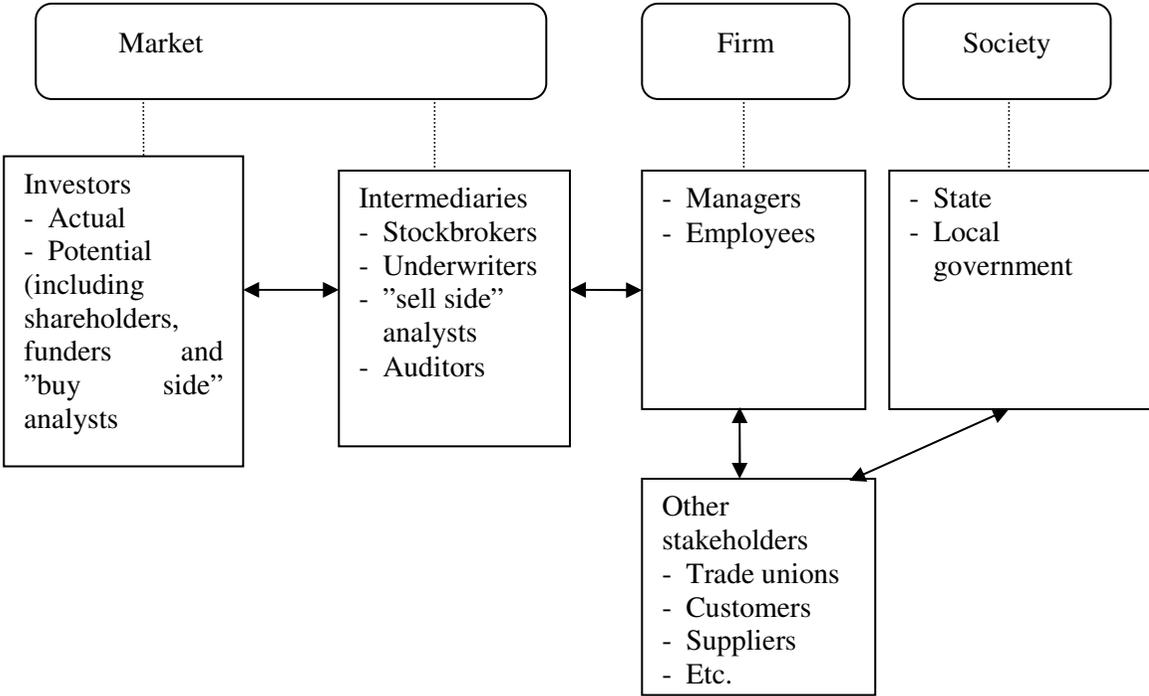
- on one side, the shareholders, because their patrimonial rights are not exercised but in the end, after the others, who have rights (creditors, suppliers, employees etc.) have emphasized their debts, the shareholders take the financial risk justifying the appropriation of a part of the year’s profit and from the residual net asset, in the case of the entity closing down;
- on the other side, the leaders, because they have privileged information, taking into account the position held in the enterprise and, therefore, are tempted to take advantage by allowing themselves considerable advantages or, generally, by directing the entity towards a direction useful for them. In the case of enterprises quoted on financial markets there is a natural distribution of responsibilities. Such a distribution and the problems arising from it have been presented in the founding papers of Berle and Means (1932).

The shareholders invest their capitals and give the leaders/managers a mandate through which they manage the best the organization, trying to maximize the performance of the enterprise. This separation of the responsibility can lead to conflicts generating costs. Manipulating accounting data is an activity reserved to company managers, even though the other players in the field influence the leaders/ managers in their decision to perform such a manipulation. If it were possible to build a theory of the accounting data management, it would not have started from the techniques used for manipulation, but based on the needs, the occasions arising and of the relations between players and investors.

The conflicts of interest among different interest groups is the real cause of creative accounting. Managing shareholders' interest is to pay less tax and dividends. Investor-shareholders are interested to get more dividends and capital gains. Country's tax authorities would like to collect more and more taxes. Employees are interested to get better salary and higher profit share. But creative accounting puts one group or two to advantageous position at the expense of others. One day the present authors had an opportunity to have a discussion with the Chief Accountant of an enterprise in this regard. The Chief Accountant told, in the course of conversation, that he was determined to retain profit for the expansion of his existing unit and establishment of new ones. Quite naturally, his interest was to pay less tax and less dividend and, accordingly, to 'create' financial statements. This type of creative accounting has led David Schiff (1993: 94) to warn investors; in general that taking a company's financial statements at face value can be ``a recipe for disaster``.

The IASC's framework for the Preparation and presentation of Financial Statements, envisaged by the IASB, presents the following categories of users: current and potential investors, employees, creditors, suppliers, and other commercial creditors, clients, government and governmental institutions and the general public. According to the position of these users relative to the business in question, they may be divided in internal and external users. *Internal users* are principally management personnel within the company. They have responsibility for information release systems, and therefore have access to supplementary information. External users fall into the other categories mentioned in the Framework; according to their authority, they may be able to dictate the nature of the information to which they are privy, as is very much the case with governmental institutions and banks, while other may be unable to have any say regarding the type of information to which they may obtain access, since they lack the necessary authority. According to Stolowy and Breton (2004) there are a lot of players in accounts manipulation game as we can see in the next scheme:

Figure 1. Players in the field of accounts manipulation



Source: Stolowy and Breton (2004)

The investors can be divided in four subgroups: real and potential shareholders and the real and potential stockholders. Their interests are very varied and the transfers of riches can be operated between these subgroups. Consequently, they react differently to manipulating accounting data.

Analysts can be grouped into two categories: “buy- side” and “sell-side”. The studies of Robb (1998) and Kasznik (1999) indicate the role of financial analysts whose issue recommendation and forecasts. According to Breton and Tafler (1995) they normally try to forecast the reported numbers including the effects of manipulation. They make profit if a manipulation raises prices, and furthermore the issues may be easier to sell.

Managers may or may not believe in market efficiency. In case they do not, they can act in order to manipulate the numbers. Their purpose would be to reduce the cost of capital, to satisfy the external demand of existing shareholders, to increase their own remuneration, to decrease the overall risk of the firm, or to avoid violating the debt covenant or incurring political capital costs. Concerning the *auditors*, two contradictory goals can be seen: on the one hand they want to satisfy the client and, on the other hand they want to avoid excessive risk from third parties. The quality of auditors may also have an effect on the degree of earnings management.

Current investors (shareholders) principally follow the progress of their investments, future profitability and the management’s administration and direction of company resources towards their individual interests.

Potential investors follow the likely estimated risk of their future investments, profitability and stability of profits over time, and the long term capacity of the business to generate liquidity.

The public, through the administration of diverse communities, is concerned with the impact of the company’s activities upon local economic development, the creation of new jobs, professional training, contributions to the local budget, and environmental impact.

There are many forces that influence the accounts and, more particularly, the profit figure. From the interests of each group arises the motivation to manage accounting figure. These motivations are studied directly and indirectly by many authors. Several have been identified ranging from the managers’ incentives to manipulate earnings to the reasons of the other stakeholders (Merchant și Rockness, 1994). The most important work in this area is the paper written by Watts și Zimmerman (1986) which proposes a theory for accounting procedure choice containing some essential underlying motivations: the remuneration package, debt covenants and political costs. Finally, Dye (1988) and Schipper (1989), propose some explanations of the manipulating behavior of shareholders based on the positive accounting theory.

Some of these stakeholders groups also have something to lose through accounts manipulation. Although, Revsine (1991) sais that everybody wins, that is not always the case.

Stolowy (2003) identified, on the one side, the potential gains of each group in manipulating accounts and the potential loss for different stakeholder groups because of accounts manipulation, on the other side. We can summarize them as follow:

Table 1. Potential gains and losses in/from manipulating accounts

Players	Gains	Losses
Managers	Reducing the cost of capital Keeping their job Managing their remuneration Respect the debts covenants Official examination Minimization of income tax Gain tax advantages Improve relations with creditors, employees and investors	The job and reputation

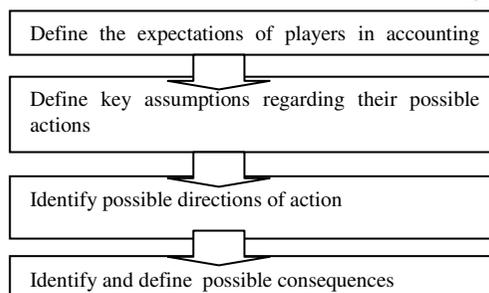
	Avoid political costs	
Existing shareholders	Increasing the market value of their shares Controlling employees claims Reducing the cost of capital Reducing the volume of transaction	Confidence in the market
Existing bondholders	Increase the market value of their bonds Controlling employees claims	Wealth transfer to the actual shareholders
Employees	Keeping their jobs Increase the remuneration	Their job from an unexpected bankruptcy
Suppliers	Keeping their client	Some money following an unexpected bankruptcy
Clients	Continuous services Warranty respected	Services interrupted Warranties not honored
State	Tax to collect Jobs for people	No more tax to collect Unemployed people to provide for
Bankers	Repayment of the loan	Some money following an unexpected bankruptcy
Society	Keeping the job Production of wealth	Jobs lost and resources wasted

Source: adapted from Stolowy and Breton (2004)

Conclusion

Even if creative accounting is not against the law, operating within the letter both of the law and of accounting standards, it is quite clearly against the spirit of both. Creative accounting is a process of using the rules, the flexibility provided by them and the omissions within them, in order to make financial statements look somewhat different from what was intended by the rule. The positive image built with the financial statements help will influence decision making both internal and external (users of accounting information being including here).

We can identify a lot of expected rewards earned by those who play this manipulative game. Understanding the players in the accounting field demands and expectations is the key to understand the process of creative accounting. If we were to articulate the process of rational reconstruction within the methodological framework that can be used in order to describe the process of characterize the manner in which their expectations can represent the genesis point of manipulative behaviour, the framework will include the following assumptions:



Source: Elaborated by the authors

Sometimes the desire reward is an upward move in a firm's share price. For others, the incentive may be a desire to improve debt ratings and reduce interest costs on borrowed amounts, or create

additional slack and reduce restrictions from debt covenants. Regarding high-profile firms, the motivation may be lower political costs, including avoiding more regulation or higher taxes. The question that arise as long as we seek in this field is: Can creative accounting be controlled? Until we'll be able to respond on this question based on our researches we come with the answer of Sir David Tweedie (quated by McBarnet D, Whelan C, 1999) when was asked whether the new regim will win the battle against creative accounting. His respond was memorable: " We're like a cross-eyed javelin thrower competing at the Olympic Games: we may not win but we'll keep the crowd on the edge of its seats!"

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ASPECTS CONCERNING THE ECONOMIC AND FINANCIAL INDICATORS USED IN THE AUDIT OF FINANCIAL STATEMENTS

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This article analyses aspects concerning economic and financial indicators used in the audit of financial statements, starting from the type of the audit in which they are included, the timing of their usage during the audit process, their application and interpretation, as well as their usage in the auditor's report. Recommendations concerning the usage of economic and financial indicators in the audit of financial statements are also made following this study.

Key words: economic and financial indicators, financial statements, audit evidence, audit procedure

JEL Classification: M41, M42, L25

Starting from the fact that not all the audit evidence that may be available can be examined and evaluated due to high costs and time that should be allocated for this purpose, **auditors are confronted with the necessity of making a decision concerning the adequate types and quantities of audit evidence** they must collect in order to substantiate their opinion concerning the accuracy of the information presented in financial statements.

The set of decisions that must be made by an auditor concerning the collection of audit evidence can be divided into the following categories:

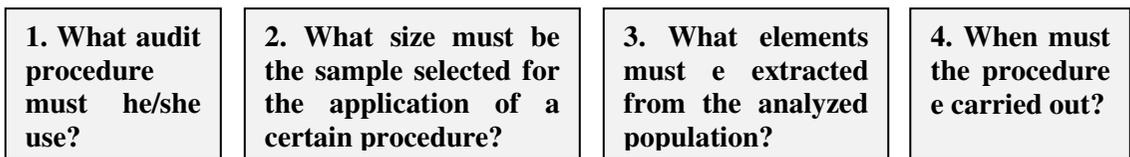


Figure no. 1 Auditor's decisions concerning the collection of evidence

Audit procedures

The audit procedure represents a set of detailed instructions related to the collection of a certain type of audit evidence that is to be obtained at a certain moment during the audit (**for example for the stock audit** – an objective related to balances – we can use as an audit procedure “The observation of the client's employees during stocktaking in order to assess whether they observe the instructions they have received”).

Consequently, in order to draw reasonable conclusions based on which the auditor can substantiate the auditor's report, he/she obtains **audit evidence**, by carrying out **audit procedures** through which:

- The auditor can acquire an understanding of the entity and its environment, including the internal control, in order to avoid the risks of material misstatements at the level of the financial statements and at the level of assertions (the audit procedures applied for this purpose are referred to in ISA as “**risk assessment procedures**”).
- The auditor can test, whenever it is necessary, or when he decides to do so, **the operating effectiveness of controls** in preventing or detecting and remedying material misstatements at the

level of assertions (the audit procedures applied for this purpose are referred to in ISA as “**tests of controls**”).

c) The auditor can detect **material misstatements at the level of assertions** (the analytical procedures applied for this purpose are referred to in ISA as “substantive procedures” and include **tests of details** for the categories of transactions, account balances and presentations of information, as well as **substantive analytic procedures**).

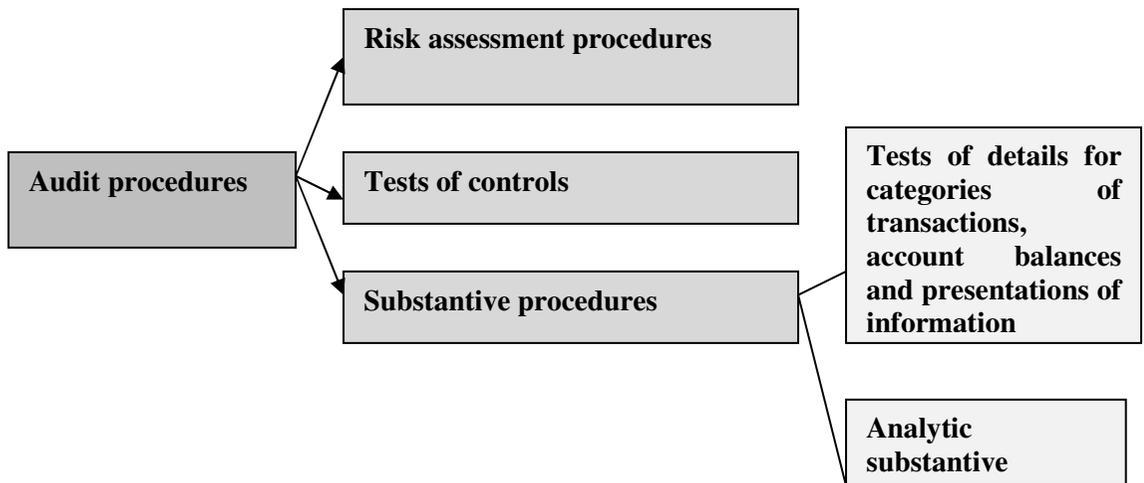


Figure no. 2 Types of audit procedures

In the decision-making process related to the audit procedure that should be used, the auditor can choose from seven main categories of evidence. These categories, referred to as **types of audit evidence** can be: physical examination, confirmation, documentation, observing and inquiring the client, reconstitution and analytical procedures.

The analytical procedures consist in the assessment of financial information made by studying the plausible relationships among both financial and non-financial data. These procedures also include the identified investigation of fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts. ISA 520 “Analytical procedures” offers additional recommendations related to the analytical procedures. The analytical procedures use comparisons of data and indicators with the purpose of assessing whether the account balances or other data seem reasonable.

The economic and financial indicators, in our opinion, can be included in the analytical procedures and can be calculated and interpreted by the auditor in various moments of the audit process for purposes such as:

- understanding the economic industry and activity of the client (the planning stage).

One of the economic indicators that can be calculated by the auditor is, for example, the gross margin percentages. Its decrease might indicate an increase in the competition in the market segment of the company and respectively, the need to analyse more carefully, during the audit, the area of the inventory evaluation. An increase in the financial fixed assets rate as compared to the one entered in the previous accounting period might indicate an expansionary policy by the acquisition of new certificates and might determine the auditor to analyse the connections created among companies through the acquisition of the certificates, types and values of the transactions performed with the affiliated entities.

The evaluation of the client’s capacity to continue its activity (planning stage, finalization stage).

The analysis of the calculated economic and financial indicators may reveal the presence of important financial difficulties and could call into question the continuation of the activity (or whether the financial situations were drawn up taking into account the continuation of the activity). For example, if an auditor finds that there is a long-term liabilities/net assets ratio above

the average, along with a profit/total assets ratio below the average value of the industry, than the conclusion can be drawn that there is a relative high risk of financial blockage

-the indicators of possible misstatements in the financial statements (during the whole audit process)

If unusual fluctuations appear, one of the possible reasons is the presence of an accounting error. Assuming that by comparing the current value of the ratio of the provisions for guarantees granted to clients to the value of the total expenses in the sold product warranty period an downward trend was found, along with an increase in the expenses (for the afferent remediation) entered during the warranty period, as compared to the previous period, then the combination of these two pieces of information may indicate a possible undervaluation of the respective provisions.

-the decrease in the quantity of the tests of details (the planning stage and the test stage).

When following the calculation and interpretation of certain economic and financial indicators (as part of the analytical procedures) no unusual fluctuations are found, than the probability of the presence of a material misstatement in the financial statements is minimal. In this case, the analytical procedure constitutes conclusive evidence in favour of an accurate statement of the respective account balances, allowing for the possibility to carry out fewer tests of details concerning the respective accounts.

In the audit performance, the balances and the economic and financial indicators calculated by the auditor for the client entity are compared, according to the type of the applied analytical procedure, with:

- the data of the respective industry;
- similar data for the previous accounting period;
- anticipated results calculated by the client;
- anticipated results, by using non-financial data.

In what the above-mentioned types of comparisons are concerned, we are mentioning the following:

The comparison of the data of the client with the data of the respective industry is made only if there are economic, financial and non-financial data related to the respective entities in the audited client's industry. There are specialized entities that accumulate financial information related to hundreds of companies and compile the data obtained on various fields of activity. Some professional evaluation/audit companies buy this information in order to use it as a basis for comparison in the industry, during their audits. In our opinion, the most important contributions of these industry data comparisons consist in the fact that they support the understanding of the client's business activity and constitute accurate indicators of the probability of the occurrence of a financial blockage. The main disadvantage of using the industry indicators consists in the difference between the nature of the client's financial information and that of the data of the business entities that take part into the compilation of the industry total values. Sometimes comparisons can be irrelevant, as the industry information is nothing but industry-wide averages. The auditor must e very strict in interpreting the results, due to the fact that companies apply different accounting methods, thus affecting the comparability of the data (different accounting methods used for stocks: FIFO, LIFO, CMP, different methods for the depreciation of fixed assets: straight-line, declining, stating fixed assets at their fair value function of the option for their re-evaluation, etc).

Comparing the client's data with similar data from previous accounting periods

The auditor can performs less complicated analyses by comparing the balances of the current accounting period with those of the previous accounting period or by comparing the details of a synthetic balance with similar details in the previous accounting period. Among the disadvantages of this type of analysis there are:

- the fact that it does not allow for taking into account the increase/decrease in the business activity;

- the correlations among data are ignored.

These disadvantages are offset by the usage of the economic and financial indicators and of relative values, the comparisons being made against the results obtained in the previous years for the same client.

Comparing the client’s data with anticipated results obtained by the client

The entities required to submit financial statements accompanied by an auditor’s report have, within their organizational structure, staff employed in a specialized compartment in charge with budgeting various aspects of their activities and for various financial results. Taking into account the fact that budgets represent the client’s estimations for the current accounting period, the analysis of the most important areas within which differences may occur between the budgeted results and the actual ones may indicate possible errors (the absence of misstatements may indicate the fact that errors are less likely to be present). In this type of comparison, the auditor should:

- evaluate whether the budgets are planned in a realistic manner (discussing the budgeting procedures with the client’s employees may support this type of evaluation);
- to evaluate whether the current financial information has been altered by the client’s employees, in order to adjust them to the budget forecasts.

Comparing the client’s data with the anticipated results calculated by the auditor is made when the auditor calculates the estimated balance with the purpose of comparing it with the actual balance. For example, the auditor can apply the results of the quality analysis specific economic indicators in order to estimate the value of wastes recorded during the accounting period (function of their turning to account, the estimated value of the final balance for wastes).

In comparing the client’s data with the anticipated results by means of non-financial data, the auditor must take into account the accuracy of the data. For example, the auditor can calculate the direct labour costs (as part of the production costs) by multiplying the total number of hours worked by the time rate. For the auditor, it is more difficult to estimate whether the total number of worked hours is correct.

A brief analysis of the types of economic and financial indicators used for auditing is made below, part of them being presented to the users of the financial audits, in the auditor’s report:

Fundamental financial indicators

During the audit, the general financial analysis could be used for the identification of possible areas with problems that will be subsequently analyzed and tested in more detail, but also for the identification of certain economic problems of the entities for which the auditor can provide another type of consultancy. The auditor calculates:

The liquidity indicators – for the interpretation of which one should take into account the fact that the circulating assets of the entities can vary both in what their value as well as their liquidity is concerned (these aspects will influence the capacity of the company to pay its short-term obligations)

$$\text{Current liquidity} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Immediate liquidity} = \frac{\text{Current assets} - \text{stocks}}{\text{Current liabilities}}$$

In order to eliminate the effects of the variation of circulating assets and their degree of liquidity, the limitation of the analysis to the most readily available and most objective circulating assets is recommended. By this method, the immediate liquidity eliminates inventories from calculation, and the limited liquidity further eliminates short-term liabilities. When a comparison is made among companies that apply different methods of evaluation, the value of the inventories can be

adjusted function of the technique of one of the methods so that a better basis for comparison may be obtained.

Solvability indicators and other financial equilibrium indicators – the auditor can calculate several indicators with the help of which the capacity of the company to pay its long-term obligations can be assessed.

$$\text{General solvability rate} = \frac{\text{Total actives}}{\text{Current debts}}$$

$$\text{Debt/Equity ratio} = \frac{\text{Debts}}{\text{Equity}}$$

$$\text{Net tangible fixed assets/equity ratio} = \frac{\text{Equity} - \text{intangible fixed assets}}{\text{Equity}}$$

The debt/equity indicator is deemed to be a key indicator: if the value of this indicator is too high, this may indicate that the entity has used its entire borrowing capacity and will not have an operating margin in case of future unfavourable events. A downward trend would indicate a good situation, the entity being in an expansionary period.

The net tangible fixed assets/equity ratio can indicate the current quality of the equity, as the intangible assets are eliminated, their substantiation largely depending of the future activities.

Risk indicators:

$$\text{Degree of indebtedness} = \frac{\text{Borrowed capital}}{\text{Owned capital}} \times 100$$

$$\text{Interest coverage ratio} = \frac{\text{Profit before interest and tax}}{\text{Interest charges}} = \text{number of times}$$

The interest coverage ratio estimates how many times the company can pay the interests of its outstanding debts. The lower the value of this indicator, the higher the risk relate to the position of the company.

Activity indicators management and performance indicators

$$\text{Inventory turnover rate} = \frac{\text{Costs of goods sold}}{\text{Average inventory}}$$

$$\text{Number of days of inventory} = \frac{\text{Average inventory}}{\text{Costs of goods sold}} \times 365$$

$$\text{Fixed assets turnover} = \frac{\text{Sales}}{\text{Fixed assets}}$$

$$\text{Total assets turnover} = \frac{\text{Sales}}{\text{Total assets}}$$

$$\text{Return on capital employed} = \frac{\text{Profit before interest and tax}}{\text{Employed capital}}$$

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Turnover}} \times 100$$

Net profit

$$\text{Result per share} = \frac{\text{Net profit}}{\text{Weighted average number of shares}}$$

The improvement in the operating activities is deemed to be the key solution of most of the financial problems. Many users of the information (especially creditors and investors) are interested in the results of the operations of a business entity; consequently, a large number of indicators related to the operating activities and the performance (results) of the company are used. The most frequent indicator related to the operations and performance is represented by the earnings per share, which are part of the financial statements of most of the companies. As mentioned before, other additional indicators that complete the picture of the operating activities and performance are also calculated.

Following studies performed concerning the economic and financial indicators used in financial audits, we recommend:

- The usage of statistical techniques for a higher relevance of the analytical procedures. These techniques are useful for the interpretation of results and allow for more complex calculations and a higher level of objectivity.
- The usage of information programmes allowing for entering data from the client's subsidiary ledger and other data in the auditor's information system. In this manner, the recorded rectifications and financial statements are transposed in electronic format and a lot of time and costs are saved. Moreover, these programmes eliminate mathematical errors related to the calculation of some economic and financial indicators and to the dynamic representation of their results in various forms such as charts and tables for the simplification of the interpretation of unprocessed data.
- The usage of economic and financial indicators as analytical procedures, during the whole audit process, in all types of above-mentioned data comparisons.
- The economic and financial indicators presented in the auditor's report should be accompanied by comments, as their mere statement is not relevant as quality information for many users of the information.

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THE ROMANIAN ACCOUNTING SYSTEM AND THE ACCOUNTING-TAXATION RATIO

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In the context of a developed capital market, the dimensioning of the accounting profit is very important for investors, considering the financing of the economical entities to a higher degree than that offered by the banking system. The disconnection between accountancy and taxation stands as an essential premise. Considering this, we find three categories of major risks to be significant, together with the expanding tendencies regarding the distortions of the accounting result, which refer especially to the Romanian accounting and taxing system: creative accountancy (a form of disconnection between accountancy and taxation), taxation (a form of connection between accountancy and taxation) and the inflationary phenomenon. Even though the latter is rather low, the particularities of the Romanian economy creates certain conditions for a significant enhancement of the effect of general frugal having important taxing implications on the decapitalization of the economic entities.

Keywords: Accountancy and taxation; The accounting-taxation ratio; Connection/disconnection.

JEL Code: M - Business Administration and Business Economics; Marketing; Accounting; M41 - Accounting

1.Introduction - the materialization of Double Entry implementation in Romania

The materialization of double entry in the Romanian Principalities was not exactly estimated, there are some opinions that sustain that “it is impossible that the venetians that came to our countries [...] should not have spread out the secrets of this art that is vital to any merchant willing to observe by systematical calculations, how his trade goes”¹¹¹¹. On the other hand, real proofs of double entry accountancy can be found “in the accounting notes registers of the great merchants from Sibiu, Braşov and Bucharest from the XVIII century”¹¹¹².

The organic regulation from 1831 played a significant role in the evolution of the Romanian accountancy. “For the first time in the Romanian Principalities a regulate accountancy was organized based on the Organic Regulation, that would make possible the controlling of the assets that were used by the state servants; [...] The public houses service, the public education service, the mining service were organised, all f them being under state control”¹¹¹³. At state level the double entry accountancy was introduced after 1929.

2.The methodology of accounting research regarding the accounting and taxation of income and the results of the economical entities

¹¹¹¹ Rusu D., *Fra Luca di Borgo și doctrinele contabilității în cultura economică românească*, Edition Junimea, Iași, 1991, pg.92.

¹¹¹² Ionaşcu I., *Epistemologia contabilității*, Edition Economică, Bucureşti, 1997, pg.176.

¹¹¹³ Demetrescu C. G., *Istoria contabilității*, Edition Ştiinţifică, Bucureşti, 1972, pg.289.

From an utility point of view, the accounting result is at the boundary of two disciplines: accountancy and taxation and it serves the interests of a large diversity of users, among the most important are the investors and the state institutions. There is a great level of difficulty in setting up the right balance between the two categories mainly because the accounting and fiscal regulations are continuously changing.

In order that a capital market should evolve in a close connection with the economy, a dimension of the factors is to be determined, in this case we refer to the profit level that will reflect objectively the result of the activity of the enterprise from the point of view of the potential investors' interest, without neglecting its utility for the taxing necessities of the state.

These details imply the necessity of a disconnection tendency between accountancy and taxation, which will be a change for the Romanian accounting system that will be achieved in time, at least from a practical point of view.

From this point of view we intended to emphasise some risks that appear at this level, from the perspective of:

-creative accountancy (an expression of the disconnection between accountancy and taxation). The risks consist in some less ethical tendencies of artificially oversizing and undersizing the accounting and the tax profit according to certain objectives. It was considered that these risks can be controlled through a better activity of accounting regulation;

-taxation (an expression of connecting accountancy to taxation). The risks consist of some tendencies of artificial diminishing of the accounting and tax profit in order to achieve a tax economy towards the state institutions. This phenomenon is against potential investors' interest that do not have the possibility of seeing the efficiency of the activity of an enterprise to its real dimension. The risks can be diminished through extraccounting determining of the size of the profit tax on the basis of the taxable profit determined on the taxing principles and regulations, with minimal influences on accountancy. We consider that regardless of the size of the profit tax due at the end of the financial period (superior or inferior), the accounting profit has to reflect the economical reality so that the investors can get some correct information.

-inflationary phenomenon which shows, even in the case of a reduced rate of inflation, the risk of calculating and paying the tax on some artificial fiscal profit with serious consequences for the enterprise decapitalization when the tax and dividends are paid.

3. Results and discussions

3.1. The historical fracture concept applied to the Romanian accountancy evolution

After the Second World War Romania did not continue its existence starting from what it used to be, but it entered the sovietical influence area. In this context, "the new political ideology that marked Romania's development, requires the utilization of the historical rupture concept in the evolution of Romanian accountancy"¹¹¹⁴.

Under these circumstances the accounting norming in Romania becomes the state's exclusive mark starting with 1947, when it was created, within the Minister of Industry and Commerce, a Permanent Council of norming the accountancy. This Council had as a priority the elaboration of a general frame of accounts, applicable to all the industrial enterprises.

It may be observed that this event coincide with the elaboration of the French Accounting Plan in 1947.

The period 1950-1990 can be characterized by the evolution of accountancy towards monism, from an informational point of view (the only receiver of the accounting information being the state).

During this period a circuit of ideas expressed globally took place in the accountancy field. But the Romanian accountancy stayed off this circuit.

¹¹¹⁴ Neag R., *Reforma contabilității românești între modelele francez și anglo-saxon*, Edition Economică, București, 2000, pg.202.

After the fallen of the communist regime, the new governmental authorities imposed a number of legislative reforms, meant to contribute to the development of an economy oriented towards a market economy. The new Accountancy Law 82/1991 supports this. This reform implied the transformation of the financial statements, from statements meant to create some statistics used in order to observe the execution of plans at macro economical level, to a complex of financial statements meant to accurately inform some different categories of users.

3.2. The primary orientation of the accounting-taxation ratio in Romania

During this post revolutionary period Romania had to choose an accounting system, adapted to the new political, economical and social changes, one of the models presented above. The option for a continental model or an Anglo-Saxon one was revealed through the Accountancy Law 82/1991, which implied a very detailed copy of the French accounting system.

The objective or subjective motifs of this option can be varied:

- the most powerful argument can be noted as being the fact that “it has never been considered that the French accounting system have not been adequate to Romania”¹¹¹⁵;

- the similarity between Romania and France as regarding the existence of a code of laws (statute law);

- due to the fact that Romania was a developing country that was orienting towards the market economy, the predominant way of financing was through creditors, banks, and less through the financial markets. The Romanian exchange market came into being much later;

- because of the informational monism in the communist period, the accounting profession in Romania was only at the beginning, and the influence that this provide in order to protect certain accounting rights was insignificant;

 - the Romanian intellectual and political elite was sent to school in France several times;

- the communist regime also had some connections with France, perhaps more than with any other country from Western Europe;

- the influence that was exerted by Belgium and French specialists, who advised the Romanian government when choosing its alternatives regarding the new accounting system (in a similar way as with the present-day influence for adopting the Accounting International Standards);

- the Anglo-Saxon accounting model was not very wide spread in Europe (being characteristic only to the United Kingdom, The Netherlands and Ireland).

Consequently, one of the elements that were adopted together with the entire French accounting system was also the strong connection between accountancy and taxation. As a conclusion, taking into account the characteristics of the Romanian accounting system, influenced by taxation, it is nowadays defined by:

- the predominance of the banking sector for financing as a disadvantage for the financial markets;

- the prevalence of the statute law as a disadvantage for unwritten law;

- the law provides detailed accounting rules, and they are not being elaborated by independent and legitimate organisms;

- the accounting profession in Romania is insufficiently developed (The Corp of Auditors and Authorized Accountants came into being only in 1994);

- the main users would be the following, taken in order: fiscal authorities, creditors, and last, the investors;

- users' role in the process of elaborating the accounting regulations is insignificant;

- the predominance of the caution principle;

- the tendency of some limited publications of accounting reports;

- a large number of evaluation and accounting options;

¹¹¹⁵ Roberts A., The recent romanian accounting reforms: another case of cultural intrusion?, Edition Economică, București, 2000, pg.36.

- the estimation of a benefit more cautious than useful;
- tendencies in creating some funds from the dispensable profit.

3.3.Perspectives regarding the accounting-taxation ratio

Regarding the perspectives for the accounting-taxation ratio in Romania, it was mentioned that they are according to the international tendencies regarding the disconnection. Taking into account some of the recent evolutions (adopting the IV Directive of the European Economic Communities) we can say that the seeds that lead (at least theoretically in the beginning) to the possibility of gradually opening the road towards an efficient accounting system, where accountancy and taxation work independently from one another, exist. This tendency becomes more certain if we take into consideration Romanian's perspectives to join the European Union. This event implies also joining the official position of the Union, regarding the acknowledgement and utilization of the international accounting norms, and at the same time the disconnection between accountancy and taxation.

The perspectives of the disconnection related to joining the European Union are promoted by the importance of a favorable regular report that depends on the taxation level, such as¹¹¹⁶:



The conclusion is that a disconnection ratio between accountancy and taxation would be associated with a low level of taxation. The consequence is the decreasing of the country risk and at the same time a favourable Regular Report on Romania.

As regarding the actual typology of the accounting-taxation ratio in Romania (connection) we consider that accounting information influenced by taxation is not very credible as regarding the possibility to ensure the faithful image and also the essential objective of accountancy.

Contextually the questions that can arise are: Wouldn't an independency ratio between the two sciences be more appropriate? Is the idea of the accounting principles being influenced by the fiscal principle or the other way around justified, taking into account the fact that their essential objectives: the faithful image and the maximization of budgetary income can be affected? To what extent would accountancy and taxation carry out their objectives, independently from one another?

And, finally, what is our opinion? Do we choose connection or disconnection?

We believe that the objectives of both sciences can be achieved, their principles being respected, but we cannot forget the fact that the information source for both of them is accountancy. Therefore the idea of total disconnection between accountancy and taxation is not completely achievable. But we can refer to an interaction relation between accountancy and taxation.

The beneficiaries of the disconnection between accountancy and taxation would be first of all the investors and, second, the state itself. This hypothesis is provided by the following causality relation described in the next diagram:

¹¹¹⁶ Berinde, Sorin R., "Perspectives regarding the taxation system in Romania", StudiaUniversitatis Babes Bolyai – Negotia, no. 3, 2009.

THE
DISCONNECTION
BETWEEN
ACCOUNTANCY
AND TAXATION

INVESTORS' OPTIMUM
ACCOUNTING
INFORMATION

THE INCREASING
OF THEIR TRUST IN
THE INFORMATION
THAT THE
FINANCIAL
INSTITUTIONS
PROVIDE THEM



STATE'S
ENRICHMENT

THE
INCREASING
OF
BUDGETARY
RECEIVINGS

THE
INCREASING
OF PROFITS

THE
EMPHASING
OF THE
TENDENCY OF
ASSOCIATION
AND
INVESTMENT
AS A
DISADVANTAGE
FOR HOARDING

Therefore the disconnection between accountancy and taxation creates the premises for a better apprising of the investors. The consequence of them disposing of real accounting information would be the increasing of their trust in the information provided by the financial statements and the investment, as a disadvantage for saving. The increasing of the profits is assimilated to the increasing of investments and at the same time to the increasing of the budgetary receivings that refer generally to taxes and especially to profit tax, this thing leading to the state's enrichment.

4. Conclusions - The limits of disconnection between accountancy and taxation

The perspectives of disconnection between accountancy and taxation reveal some disadvantages. Contextually the risks that the creative accountancy represents for an accountancy disconnected from taxation, were mentioned, they being materialized in some technics that have as a result:

- the real financial administration of the accounting result (increasing it);
- the increasing of its own capitals;
- the reducing of the debt rate.

The premises of using the accounting creativity technics in the disconnected accounting systems are ensured by:

- the determination of managers' salaries taking into account the dimension of the accounting result. The consequences would be the adopting of the creative tricks that would lead to the increasing of the accounting result in order to increase their own benefits. On the other hand there is a tendency of increasing the losses for crisis periods in order to better emphasize the next possible profits;
- the high level of interpretability and inconsistency of laws;
- the pressure of certain users categories (especially investors);
- the evaluation of the imaterial investments is sometimes difficult.

The creative account technics with direct impact on the dimension of the accounting result are:

- the lease-back operations;
- selling-rebuying the investments titles;
- circular tranzactions with high price stocks;
- production assets without real utilization.

To conclude the matters discussed we can say that the accounting result can be influenced in the case of a taxation connected ratio (decreasing it). On the other hand, the accounting result is subject to an increasing risk due to the creative accountancy. Under these circumstances, a question arises: Which risk is better to be assumed taking into account the dimension of the accounting result? We believe that the accounting result should keep an equal distance towards the risk of taxation decreasing and the risk of accounting creativity increasing. True information would be provided this way both for the investors and the state's institutions.

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“PATRIMONY” - A CONTROVERSIAL MATTER OF ROMANIA’S PROGRAM OF ACCOUNTANCY MATCHING

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The dilemma has its origins in accountancy’s international matching, namely between the accountancy system implemented in our country beginning with 1994 and the one implemented by Anglo-Saxon accountancy where patrimony is substituted by its two components: PROPERTY for ASSETS and CAPITAL for LIABILITIES, patrimony being defined owing to financial condition. Property represents the measurable reality of the goods and available values. When compared with the proprietor, property makes up patrimony in case, from a juridical point of view, there is a real guarantee upon the manner of financial covering (obtaining sources, procuring manner), namely a legal manner of justifying the origin of available values.

Key words: patrimony, assets, liabilities, accountancy.

The JEL Classification: M41

1.Introduction

Labor division and the need to manage society’s resources have determined the appearance of patrimony as an economic and juridical entity. The necessity of measuring the material and human elements as well as the rights and obligations they determine while carrying out an economic activity in order to reach the envisaged objective has always existed; during the time it has been variously implemented. Strictly connected with the “technical” means of registering the data provided by the various stages of society’s development, the need of evidence has permanently witnessed a complex growth and manifested according to different results: beginning with the clay boards or papyrus, thousands of years ago, changing to the Middle Ages England’s “stick receipt”, the manner of registering “information” have known a permanent development, reaching the nowadays electronic storage. The registering theories, systems, and methods, strictly connected with the stages of social development as well as with the technical opportunities of collecting the data provided, have also witnessed a continual evolution. Money appearance has probably been the most important element of this evolution. The existence of patrimony is the cause of the existence of accountancy and, implicitly, the object of its representation and registering. Accountancy has appeared out of the need to answer the knowledge and management problems of patrimonial mass under rational and efficient circumstances.

Accountancy is a complex and integrated complex of standards, principles, rules, and measurement techniques that display the condition, at a certain moment, as well as the quantitative and value evolution of the changes that influence patrimony during a determined period of time. Accountancy is “grafted” on the State’s patrimony and activities. As any other science, accountancy has its own object and method. Between its object and method there is a mutual connection. The object points the economic phenomena and processes that belong to a certain science; the method allows the comprehensive knowledge of the object. Specialized works have outlined several conceptions regarding the domain and definition of accountancy’s

object, namely: the administrative conception, the juridical conception, and the economical conception.

According to the administrative conception, accountancy's object represents the value expression and control of administrative facts with a view to support the management in order to get maximum effects with a minimum effort.

According to the juridical conception, accountancy's object is the patrimony of a legal subject considered from the point of view of juridical relations, namely, through the money (material) rights and obligations of a natural or juridical person in correlation with their proper objects (goods, values).

According to the economic conception, accountancy's object is given by the circuit of the capital considered in relation with its destination (fixed capital and working capital) and with the manner of acquiring it (entity's own capital and foreign capital).

Accountancy considers that patrimony is structured according to patrimony elements; each element has a unique and compulsory appellation, a distinct economic content, a compulsory money expression, and even a specific figure symbol in order to avoid any confusion. This structure is evidently relevant when compared with the existence and individual movement of elements; accountancy is thus interested in determining the manner patrimony has increased or decreased as a whole and according to its affected patrimony elements. Another essential characteristic of accountancy is that the economic operations registered by economic entities are perceived through a double patrimony change, at least, as patrimony elements are established on the basis of the principle of double representation. Depending on the content of the economic operation, the specialist who works in the domain of accountancy should settle the patrimony elements that change as well as the manner they are affected, namely whether they increase or decrease.

Accordingly, patrimony, fund, domain are notions that clearly regard a group of goods. Nevertheless, we are interested in the notion of patrimony. Accountancy's object distinctly outlines the internal economic processes of each economic entity that determine quantitative and qualitative changes of the amount and structure of the funds administrated by each economic entity. Accountancy outlines such economic processes owing to the correlation between expenditures and incomes; their comparison determines the financial result (profit or loss). Considering the various opinions regarding accountancy's object, one may state that accountancy's object represents the value expression of evidence, calculus, and control of the condition and movement of the funds grafted upon a patrimony while pointing out the origin of their destination, economic processes, and financial results. The principles and procedures that belong to general accountancy are mainly the same in the various national accountancies. There might be implementation differences as they can be influenced by the accountancy standards specific to each country, by the characteristics of the various economic sectors, and by the accounting methods adopted by each economic entity. The defining feature of accountancy is patrimony representation according to its two aspects: economic means and economic sources.

2. Content

The outlining of the concept of patrimony as a support of economic activities has gradually determined the elaboration of an accounting system that should be able to face the more and more complex registering needs of the events that take place within such an activity as well as the need to register its existence at a certain moment; accordingly, the evolution determined the foundation of the present concept based upon double representation and double registering.

As a system previous to the present double registering accounting system, the simple accounting system, still used in certain domains, provides an isolated survey of patrimony elements; it does not target their double registering (according to origin and content). Yet, its application domain is quite similar: patrimony elements.

The connection between the accounting system and the notion of patrimony as a part of economic activity is clear. Whether one deals with simple accountancy or accountancy by double entry, the two accounting systems are determined by the concept of patrimony and target the providing of evidence in this domain. At its turn, the notion of patrimony derives from the manner economic activities are carried out.

There are, among others, two main characteristics of economic activities: their dynamic character and their rational character. The dynamics of economic activities determines certain dynamism to the notion of patrimony too; accordingly, patrimony undergoes certain changes determined by the constitutive complex processes of economic activities. At its turn, the rational character of economic activities gives a rational character to patrimony too; it will thus play a certain part according to its destination. The outlining of a patrimony, of no target propriety, is nonsense.

The patrimony of an economic entity represents all material and money values at its disposal as well as the rights and obligations that derive from the relations between the other economic entities that can either be natural persons or juridical ones with the State's budget, etc. as a whole. In order that patrimony exists two interdependent elements are necessary: first, natural or juridical person as *subjects* of rights and obligations and then, economic goods as *objects* of rights and obligations.

The structure of patrimony accordingly defined by accountancy can be schematically outlined as follows:

Patrimony: Money estimated economic goods
Money estimated rights and obligations
Natural or juridical person

Economic goods represent patrimony's material content. They are identified with the means or resources employed by an economic entity in order to carry out its activities. Money estimated rights and obligations show the propriety relations within which economic goods are produced and administered. They become rights in case economic goods are ensured by their legal subject in its capacity as a proprietor; they become obligations in case economic goods are ensured by third persons in comparison with the legal subject.

All rights represent the assets while all obligations represent patrimony's liabilities. Liabilities and assets are strongly connected from an economic point of view.

PATRIMONY'S ASSETS = PATRIMONY'S LIABILITIES

The patrimony assets of a company, for example, include the following elements:

- Parts' contribution to the company's foundation which, at its turn, can include financial means, investment goods, industrial propriety rights (patents, licenses, etc.);
- Goods subsequently gained by the company as a result of its economic activity;
- The right to use the ground;
- The right of propriety upon the products manufactured by its own firms;
- The profit given by the activity carried out by the company (to the extent to which it is not distributed as dividends among associates);
- The company's debt securities.

The company's patrimony liabilities also includes several elements such as: the obligations assumed by the company towards its associates, the obligations contracted while carrying out economic and financial activities for other juridical or natural persons, the company's obligations towards its employees.

From a juridical point of view, patrimony should be distinct both from the patrimony of other juridical persons and from the patrimony of each of the natural persons that form the analyzed collective entity. A juridical person's patrimony should not only be distinct but also autonomous, independent from any other patrimony; it is neither possible or permitted that a member of the group of people that form the juridical person to be responsible with his own patrimony for the obligations assumed by that juridical person nor that the juridical person to be responsible, with its patrimony, for the obligations assumed by one of the natural persons that form it. In order to

participate on one's own account and responsibility to the civil circuit, to the juridical life, in general, the collective entity that wants to be a juridical person should have its own patrimony which includes all its money estimated economic goods, rights, and obligations.

Accordingly, article 36 of the Companies Law no. 31/1990 stipulates the following: *“during the existence of a company, the creditors” of one of the associates “may exercise their rights only upon that part of the benefits that are due to the associate after the social balance sheet and after the company’s dissolving, upon the part due after liquidation”*; they cannot pretend, in order to put an end to the debt security, goods or rights belonging to the company, but only goods or rights belonging to their own debtor, either as a result of dividing yearly net benefits or as a result of dividing the net assets that result after the company’s liquidation.

A patrimony can either be theoretically or practically outlined as accountancy’s object provided the patrimony unit is legally founded and the economic values that belong to patrimony are invested, namely they are really used by a lucrative economic activity that determines profit (work=benefit) or by other activities having a non-lucrative character (which does not determine incomes) – administrative activities, social and cultural activities, etc. The knowledge of patrimony’s structure is theoretically and practically important for accountancy; accordingly:

- Each element of patrimony divides owing to its content and certain characteristics, a fact that determines the use, under specific circumstances, of the procedures belonging to accountancy method;
- The division of patrimony mass into the two categories of structures (Assets and Liabilities) determines a certain internal structure of the balance sheet so that it can allow the modeling of patrimony’s condition according to its double representation.

Within the balance sheet, patrimony elements are grouped and synthesized from the point of view of their value both according to Assets and Liabilities on the basis of specific criteria, as follows:

- Within the Assets of the balance sheet, assets patrimony elements are synthesized in a group depending on two criteria: destination of economic goods and their degree of liquidity.

Accordingly, the assets include: **fixed assets** (intangible assets, tangible assets, financial assets); **working assets** (stocks and under manufacturing products, debts, placements, cash assets); **regulation and assimilated assets; premiums regarding obligations repayment.**

- Within the Liabilities of the balance sheet liabilities elements are grouped according to two criteria: the nature of rights and obligations and the degree of debts’ chargeability (term of payment).

Consequently, liabilities include: the entity’s **own capitals** (individual capital, capital reserves, profit, and other sorts of capital); **risks and expenditures provisions; debts** (long term bank credits, short term bank credits, suppliers, various creditors, other debts); **regulation and assimilated liabilities.**

The value expression of each patrimony element registered in the assets and liabilities of the balance sheet is equal with the final balance of the corresponding account of the checking balance. Such final balances are usually registered in the balance sheet grouped according to elements and economic content. Such a grouping within the balance sheet of the elements of patrimony assets and liabilities is called balance sheet position.

Within assets, costs are registered according to the reverse order of assets liquidity; it means that the Assets of the balance sheet contain the least liquid elements such as: intangible assets and tangible assets; the last being the cash assets also called liquidities.

Within liabilities the succession of the positions is done according to the reverse order of their chargeability; it means that the Liabilities of the balance sheet first include the entity’s own capitals as they have the longest chargeability term; then follow long and short term debts, current obligations, etc.

Subsequently, one may state that assets express the nature, destination, and the degree of liquidity of economic goods an economic unit detains, and liabilities outline the nature of the rights and obligations, the manner they form and their chargeability.

Starting from the two elements of liabilities, rights and obligations, accountancy calculates and outlines the net condition of net patrimony according to the following relation:

Patrimony's net condition = Patrimony's assets – Patrimony's liabilities

Whatever increase or decrease of net patrimony is the effect of the profit or loss determined by the transactions that have been carried out and which change the owned propriety.

In order to describe and register such operations of increase or decrease of patrimony's net condition, accountancy employs the terms of incomes and expenditures.

Expenditures + (-) Result = Incomes

Incomes as a money expression represent the operations that determine wealth; expenditures represent the operations that regard the use of wealth.

The comparison of incomes and expenditures determines the profit or the loss, namely, profit in case incomes are higher than expenditures and loss when the reverse happens.

The use of money standard is strictly connected with the carrying out of accountancy's object, namely: money evaluation of patrimony elements supports their *value homogenization* which is the essential condition of their accounting registering.

The notion of patrimony evaluation does not overlap that of company evaluation; the last one is a complex work carried out by a team of evaluators according to certain specific techniques and procedures owing to which global patrimony as well as each of its elements are up-dated from the point of view of their value in accordance with the market.

The accounting data resulting after registering the existence and movement of patrimony elements periodically undergo checking, control, and analysis operations; the following main objectives are in view:

- Getting the certitude of the exactness of accounting data – one of the essential demands able to render the proper condition of patrimony owing to the balance sheet;
- Knowing, owing to control, the degree of material integrity and of efficient use of material and money means;
- Drawing out the economic and financial analysis of all patrimony components that determines conclusions and decisions according to which future activity is going to be based upon.

One can state that, owing to its object, accountancy defines itself as a scientific field specialized in the knowledge and display of patrimony's net condition and its results (profit or loss).

3. Conclusions

The category of patrimony regarded from an economic perspective, on the one hand, and from a juridical perspective, on the other one, cannot be abandoned owing to its characteristic of being a general structure able to match all the elements of financial reports. It allows a definite outlining of the concepts of Propriety and Capital, Means and Resources, economic patrimony, and juridical patrimony. Nevertheless, patrimony should be defined from an economic point of view through a unit's resources, on the one hand, and through the use of controlled resources, on the other hand.

The two conceptions, patrimony conception and financial condition conception, can co-exist and can complete each other. Patrimony may preserve its feature of being the dominant criterion of structuring financial condition (balance sheet) due to reasons connected with tradition while the functioning of the principle of double entry, according to the concept of patrimony, has a pedagogical connotation.

The Anglo-Saxon conception where the elements that form the balance sheet are the assets, the debts, and the entity's own capitals, can co-exist and complete the concept of patrimony due to the fact that the assets, the entity's own capitals, and debts (the last ones as source of assets) are the components of patrimony regarded from an economic and juridical perspective, and the applicability field of accountancy is patrimony.

With these in view, the process of accountancy normalizing is continual, laborious, and iterative: recently elaborated norms are expected to be changed soon, etc. As a result, the assimilation of the accounting referential (IASB) within the theory and especially within Romanian legislation and practice should be accurately, prudently, and critically done, resorting to creativity and innovative boldness and adapting it to the Romanian economic and social environment, to the national cultural and historical context and traditions.

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ACCOUNTANTS ABOUT ACCOUNTING POLICIES. AN EMPIRICAL INVESTIGATION OF SMES FROM BIHOR COUNTY

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This paper examines the setting up of accounting procedures and policies in sampled SMEs from Bihor, county selected after criteria of size at the end of 2008. In order to conduct our research we have set up a questionnaire of 25 questions which has been applied to 100 SMEs. The obtained results showed that out of the 83 respondents, only 92,68% agree with the provisions of Article 10 of Order 3055/2009, according to which entities must develop their own accounting policies approved by the managers, only 75,60% of the respondents agree that the existence of written accounting policies at the enterprise level improves the quality of financial reporting and managers' decision making process and a significant number of respondents (21,95%) do not know the fact that during a financial year, a firm's accounting policies cannot be changed. The most relevant result of our investigative research consist in identifying the need to train the human resources involved in the process of writing and applying accounting policies and procedures in SMEs and the necessity to set up a manual of accounting department.

Key words: accounting policies, financial reporting, disclosure, SMEs

JEL codes: M41, M10, C81

1. Introduction

The latest decades in accounting research have been marked by empirical studies on accounting policies as well as by the reinstatement of the research methodology. Several papers which have been written on the theme of accounting options on the financial markets borrow their analysis frame from the financial theory: they use the efficiency hypotheses of the capital markets and the market model. The provisional character of the accounting information has often been associated to the truths resulting from what is considered to be obvious. Products of an *a priori* research, the accounting practices and standards lack any empirical validation. According to Casta (1997), at the end of the 60's, a part of the accounting research move away from the normative papers and approach a positive epistemology. Finding their sources in the financial theory, the positive approach has introduced, in the accounting research, a methodological sequence, not known so far, containing the stages regarding the observation of practices, the configuration, the wording of the testing hypotheses, of the empirical tests and their validation.

Our research hold forth to initiate a questionnaire based research in order to see the main perceptions of the accountant working in a small or medium sized enterprise, of their utility in providing the faithful image given by the accounting. The central objective of our research is to determine the degree of sensitivity regarding the formulation of written accounting policies by the Bihor county SMEs and the setting up of a manual of accounting policies and procedures at a certain entity level. We used directly applied questionnaires, on selected SMEs. Within each firm, we wanted to ask a person from the accounting department or from the management team to fill the questionnaire. Almost in all the cases the respondents belong to the accounting department, in most of the cases being the chief accountant or the firm's economic director. The structuring of

the questionnaire was made on 3 essential levels: 1. general information about the respondent; 2. questions testing the managers or the accountants' perception on the enterprise accounting policies; 3. personal data about the respondent. In total, the questionnaire had 25 questions out of which 19 open questions and 6 mixed questions. Of the 25 questions, 18 require answers from a scale from one to five, varying between strongly agree (5) to strongly disagree (1).

2. Explanatory grounds and literature review

Virtually, the accounting policy represents options regarding the specific principles, the evaluation stages, the rules and the procedures adopted for the setting up and presentation of the financial statements. As it results from the *IAS 1 "Presentation of Financial Statements"*, the **accounting policy** represents the *assembly of principles, conventions, rules and methods adopted at a national level or at the level of the accounting entities for the accounting recording and for the setting up of the financial statements*. To the extent to which these elements become imperatively applied norms by the legal texts, the accounting policy is reported and subordinated to the normative regulation system. Nationally, actually, the accounting policy is set up by the regulator and at enterprise level, the policy is set up and assumed by the enterprise managers. When there are no specific requirements, the management of the entity must adopt policies able to provide information through the financial statements, and the information should be: relevant for the users' needs in making decisions and credible. Lacking an explicit standard or regulation and an interpretation, the management of the enterprise will use the **professional judgment** in order to develop an accounting policy leading to the most useful information for the recipients of financial information.

Several researchers (Hagerman and Zmijewski, 1979; Zmijewski and Hagerman, 1981; Francis, 1987; Leftwich, 1981; Gopalakrishnan, 1994) have been trying to explain the motivation of the managers in choosing the accounting methods and why the capital market reacts to the accounting changes imposed. In the literature regarding accounting policies, the researchers have used the following perspectives in order to identify the determinants of the accounting policies: the opportunistic behaviour, the efficient contracting and the perspective of the information. It is known that "*long-term debts*" and "*political vision*" are important determinants of the accounting policies. Two hypotheses have been extensively tested in the choice literature in relation to the accounting policy. They are: debt/equity hypothesis: the larger a firm's debt/equity ratio, the more likely the firm's manager is to select accounting procedures that shift reported earnings from future periods to the current period; size hypothesis (or the political cost hypothesis): the larger the firm, the more likely the manager is to choose accounting procedures that defer reported earnings from current to future periods.

On the other hand, in other studies (Tarca, 2002; Gernon and Meek, 2001; Saudagaran, 2001; Schipper, 1999; Nobes, 2000) the impact of international harmonisation pressures on companies' choices of accounting policies is investigated. Demands for greater comparability in reporting have arisen from increased international business activities and greater participation in global financial markets. Companies may seek more harmony in their reporting if they expect greater comparability to have more benefits than costs. If a company selected policies that were consistent with IFRS, then it would increase comparability of reporting with other companies using IFRS. An interesting research is presented in Gietzman and Trombetta (2003) study regarding disclosure interactions: accounting policy choice and voluntary disclosure effects on the cost of capital. In their research the authors considered how disclosure of accounting policy interacts with subsequent choice over voluntary disclosure of a non-financial performance metric. In their model the case that accounting policy choice influences voluntary disclosure is dependent upon a complex mix of firm and environmental factors. The central contribution of this research, like the authors underline, is to make precise a formal setting in which accounting policy choice has significant signalling value and moreover where the signalling value dominates the value of increased voluntary disclosure when accounting policies are chosen or mandated to be uniform.

Other previous research works (Myers and Majluf, 1985; Healy and Palepu, 2001; Lang and Lundholm, 2000; Paprocki and Stone, 2004; Levine and Smith, 2006) build their study on investigating or examining choices of critical accounting policies, testing whether the quality of critical accounting policy disclosures is significantly associated with a proxy for information asymmetry. Critical accounting policies are the three, four or five policies that are very important to the portrayal of the company's financial condition and results and that require management's most difficult, subjective or complex judgments often because they require estimates about the effect of matters that are inherently uncertain. Such disclosures are intended to reduce information asymmetry.

Domestic accounting literature is mainly preoccupied with the conceptual aspects of the accounting policies and the analysis of the motivations leading to the selection of a certain policy by the management of enterprise. Authors like Duțescu (2003), Feleagă and Malciu (2002), Cernușca (2004), Diaconu (2004), Bunea (2006) are preoccupied in their research with the meanings of defining the concept of accounting policies as well as with the essential estimation criteria of accounting choices. Thus, according to Bunea (2006), if we make a review of the opinions regarding the content of the concept of accounting policies, in order to identify its nucleus, we will notice that it does exist and it is made up of an objective – restriction, represented by getting in the financial statements a superior quality piece of information, useful to different categories of users, but also from the estimation policies binomial – drafting and presentation policies of financial statements. Feleagă and Malciu (2002) are more incisive when referring to the delineation between the accounting policies and the estimation techniques: *„actually different accounting policies represent the same set of events in different ways or different aspects of the same set of events; on the contrary, the estimation techniques are used to get to the events that must be presented.”* And Cernușca (2004) considers that the accounting policy requires licit and concerted actions supported by the research of the objectives suggested by the managers of the enterprise, but it can also be the expression of some implicit accounting options. The enterprise management, through the accounting policy it draws up, sets up certain objectives regarding the size of the result. The accounting policy chosen by the enterprise management has consequences on the determination of the size of the result, represent a true decision of strategic management.

3. Methodology and research design

The methodology used in the current paper is the human behaviour research methodology, whose methods are the interview, the questionnaire, the survey, the laboratory studies, the experiments etc. Regarding the investigation of the perception of the Bihor county SMEs Romanian accountants on the necessity to set up written accounting policies at the enterprise level, we used a questionnaire based survey. Thus, the empirical research was based on a pilot study constituted on a questionnaire applied in the territory. We wanted in this way to take the pulse of the population studied which is constituted of Bihor county SMEs, sampled according to size criteria: the net turnover reported at the end of 2008 financial year and the average number of employees reported at the end of the same period.

In order to understand the economic environment in which these firms operate, we will proceed by doing a short description of the position of Bihor county within the North-West region from the point of view of the activity and the main economic indicators of the SMEs in this region. The North-West region contains 6 counties: Bihor, Bistrița - Năsăud, Cluj, Maramureș, Satu Mare and Sălaj. The number of active SMEs in this region is of 88,168 approximately 14,30% of the entire SMEs sector. If the weight has remained constant compared to 2001, the absolute number has increased with + 39%. In the North-West region, the highest weight in the firm volume is held by Cluj county with a percentage of 34,70%, followed by Bihor county with a percentage of 25,30%. According to the value volume of the turnover, the region produces almost 11% of the national volume produced by the SMEs, and from the point of view of the SME's profits, the North-West

region has 9,50% of the total national mass. In the North-West region, Cluj has 43,50%, followed by Bihor which covers 21% of the total profit of the region (Nicolescu, 2009: 168).

From the point of view of (gross) profit's average value on the enterprise the average value is of 45,40 thousand lei on enterprise, the most profitable proving to be the enterprises in Satu Mare and Cluj, Bihor county being the fourth in this classification, with a value of 38,11 thousand lei/enterprise. Both at the average county level as well as at the regional level, the SMEs in this region prove to be less profitable compared to the national average. The equity ownership proves to be relatively well capitalized, because the rate of the equity ownership quotation the equity ownership established as a ratio between the turnover and the equity ownership is superior to some regions such as the Central and the Western parts or to the national average (348,60%). At one year level, the number of rotations was higher in Bihor and Sălaj, but more reduced in Bistrița - Năsăud (3,7 times). Compared to the previous year, the rotation speed was reduced from 448,10% to 398,80%. Regarding the rate of the commercial profitability, the North-West region, with 6,91%, is situated below the national average level (7,25%), just like in the case of labour productivity, the rate of employment charges indicates a higher intensity of the payroll expenses in the North-West compared to the national average (99,60% compared to 113,70%).

The central objective of our research is to determine the degree of sensitivity regarding the formulation of written accounting policies by the Bihor county SMEs and the setting up of a manual of accounting policies and procedures at the level of an entity. Within each firm, we wanted to ask a person from the accounting department or from the management team to fill the questionnaire. Almost in all the cases the respondents belong to the accounting department, in most of the cases being the chief accountant or the firm's economic director. It is important to emphasize the fact that in our research we have used the aleatory sampling procedure. The structuring of the questionnaire was made on 3 essential levels: 1) general information about the respondent; 2) questions testing the managers or the accountants' perception on the enterprise accounting policies; 3) personal data about the respondent.

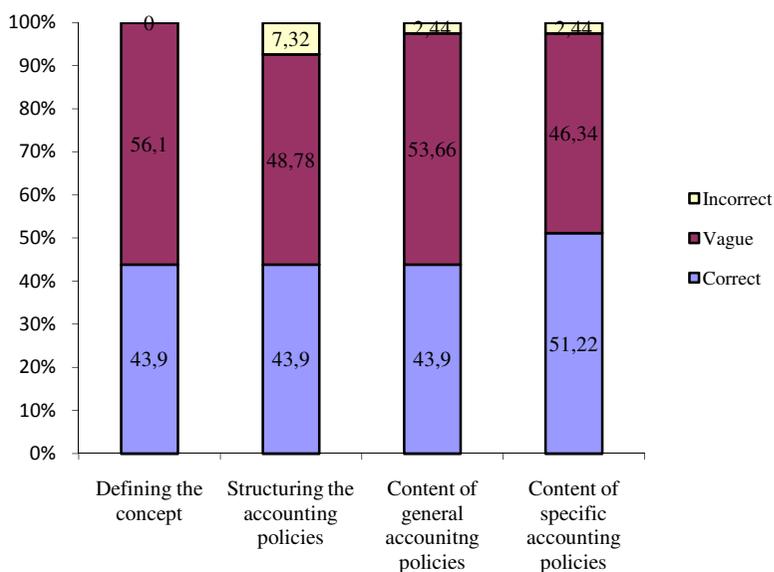
4. Descriptive statistics and results

Out of the 17 enterprises which have not filled in our questionnaire, 7 have been found in a difficult financial situation, meaning insolvency and 10 enterprises expressed their clear intention not to fill in the questionnaire. Out of the total of 83 questionnaires processed, in a number of 80, the general information section was filled in, but only 77 mentioned the name of the entity where the subjects work as well. We consider that is worth mentioning that out of the total of the answers received, a number of 65 subjects have declared that they have more than 5 year experience in making financial statements, these having a weight of more than 85% of the total of the sample, the rest having 1 to 5 year experience. Out of the 83 people interviewed, 66% were females and the distribution on age groups was the following: 41% were between 25 and 34 years old, 39% between 35 and 44 years old and the rest – over 45 years old. Regarding the subjects' professional qualification, the distribution of the sample showed that 44% of respondents are chartered accountants that have also economic college education, 7% of respondents are certified accountants with college education and 5% have economic average education.

The most interesting results have been obtained after processing the answers received at the second section of the questionnaire. Out of the 22 questions, 16 followed the acknowledgement of the provisions in the field of accounting policies of Order 3055/2009, 3 questions had in view the existence of accounting policies written at the entity level as well as their importance and 3 questions investigated the subjects regarding the training of human resources involved in drawing up personalised accounting policies at the enterprise level. By processing the answers of this section, we have followed on one hand to get an as faithful as possible image of the situation at the SMEs' level in Oradea and Bihor county, and also to analyze to what extent our hypotheses were confirmed by the empirical data.

To appreciate the degree of familiarity with the concept of accounting policy, in the questionnaire we have included questions referring to the defining of the accounting policy, the structuring of the accounting policies, the defining of the general and specific accounting policies, respectively, afferent to financial reporting. Regarding the definition of accounting policy, the respondents, by choosing the answers, have proved that they master this notion (43,90% - strongly agree and 56,10% - agree), unfortunately, in what the structuring of the accounting policies concerns, a quite important part of the respondents is not familiar with the two categories of accounting policies (7,32%) or does not know the content of the two types of accounting policies – general and specific (2,44%). Figure 1 presents, synthetically, the percentages of the correct, vague or totally incorrect answers, afferent to the aspects mentioned above. We noticed that the highest deficiencies are associated with the structuring of accounting policies into general respectively specific accounting policies.

Figure 1. Defining and understanding the notion of accounting policy in the sample



(Source: authors' calculus)

The following questions followed the assuming of own accounting policies. Out of the 83 respondents, only 92,68% agree with the provisions of Order 3055/2009, according to which the entities must develop their own accounting policies, approved by the managers or the people in charge with that particular entity's management. On the other hand, the highest percentage of them believe that the entity's management should adopt policies ensuring the providing of information in financial statements, relevant for the needs of users in making decisions which are credible at the same time.

According to Order 3055/2009, information presented in the financial statement of an entity, in order to be credible, must be faithfully represent the financial results and position of entity, reflect the economic substance of events and transactions and not only the juridical form, be neutral, prudent and complete considering all the significant aspects. A significant percentage of 92,69% of the sample considered that they agree with this statement. Only 75,60% of the respondents consider that the existence of written company accounting policies is improving the quality of financial reporting and managers and other information users' making decision process.

According to Order 3055/2009, the general accounting policy, must be notified in the explanatory notes of the financial statements, section: Accounting Policies and Methods. In spite of all these, in the sample, almost half (48,78%) of the respondents do not totally agree with the legislative provisions. The dispersion of the answers is higher than in the case of the question referring to the change of accounting policies. For example, even though the majority of respondents (82,92%) think that the implementation of a new accounting policy can be done only starting with the financial year following the one when the change took place, a significant percentage of them think differently.

During a financial year, a firm's accounting policies cannot be changed, yet, just like in the case of the previous question, a significant percentage of the respondents (21,95%) are not aware of this provision of Order 3055/2009. The changes in accounting policies can be done at the entity's initiative, in this case this has to be justified in the explanatory notes of the annual financial statements but they can be determined also by a change in the regulation, case in which the justification is not compulsory, being only mentioned in the explanatory notes. 19,51% of the respondents in our sample do not know this provision. Regarding the reasons for the change in the accounting policies, Order 3055/2009 has explicit provisions. In spite of all these, as presented in Table 1, a significant part of the respondents, between 12,19% and 53,66% gave wrong or vague answers to questions.

Table 1. The distribution of the answers regarding the change in the accounting policies in the sample

The change in the accounting policies is justified in the following situations:	Correct	Vague	Incorrect	Total
Exceptional changes occurred in the entity's statement or in the economic-financial context in which it develops its activity and/or by the getting of some credible and more relevant information	87.81%	9.76%	2.43%	100%
The change of the shareholders due to joining a group of firms when providing more secret information	82.93%	12.2%	4.87%	100%
The mergers and other similar operations made at accounting values	70.73%	17.07%	12.2%	100%
The changes in the applied estimate basis	46.34%	34.15%	19.51%	100%

(Source: authors' calculus)

According to the provisions of the same normative act, the change of the entity's managers does not justify the change in the accounting policies. In spite of all these, a significant percentage (17,07%) of those interviewed does not know it or disagree with it.

Attempting a synthesis of the degree of perception of the provisions of Order 3055/2009, we have grouped the first 16 questions of the questionnaire on essential aspects, as it can be seen in the table below. Each essential aspect has been associated with an average percentage, determined as a simple arithmetic mean of the answers in each category. The highest percentage of the correct answers, 96,95% is associated to the defining of the concept of accounting policy, at the opposite pole being, as we have mentioned previously, the familiarity with the legal regulations regarding the change in accounting policies.

Table 2. The degree of perception of the provisions of Order 3055/2009 regarding the enterprise accounting policies in the sample

The nature of the problem investigated	Answers (simple average percentages)			
	correct	vague	incorrect	total
Defining the concept of accounting policy	96.95%	3.05%	0%	100%
Assuming own accounting policies	96.35%	3.65%	0%	100%
The utility of accounting information	84.14%	12.19%	3.67%	100%
Communication of accounting policies used in order to draw up the financial statements	85.36%	12.19%	2.45%	100%
Change in accounting policies	76.52%	15.24%	8.24%	100%

(Source: authors' calculus)

We have considered as correct the answers “Strongly agree” and “Agree”, those vague are those answered with “Neither agree nor disagree” and the wrong answers had the answers “Disagree” and “Strongly disagree”. The subjects from our sample had relatively divergent opinions regarding the people in charge with making the accounting policies at the firm level. The distribution of the answers revealed that 36% of respondents consider that a group of professional specialists appointed by the firm’s management should be in charge with the writing and improving the accounting policies and procedures, 27% of respondents consider that the manager and a group of professional specialists would be much appropriate and 22% are of opinion that the economic executive or the chief accountant, 10% are for the accounting department and finally 5% are for an independent accountant to be responsible for elaborating and improving these policies.

5. Conclusions, limits and further research

As we presented in the previous sections, our study is a questionnaire based research, applied on a sample formed by 100 SMEs from Bihor county, selected using size, annual turnover at the end of 2008 as well as the average number of employees criteria. Only 83 of the applied questionnaires were validated. It is important to note that 65 of the respondents have over 5 years experience in financial reporting, that is over 85% of the sample, the others have an experience of 1 to 5 years, in the meantime, 44% of the respondents have economic higher education and other 44% are chartered accountants.

The most interesting results were obtained from the answers to the questions from the second section of the questionnaire. Out of the 22 questions in this section, 16 were designed to find out whether the respondents are familiar with the accounting regulations from the Order of Ministry of Public Finance no. 3055/2009, 3 questions were related to the existence of written accounting policies for each entity, and another 3 questions investigated the subjects’ opinion with regard to the formation and training of human resources of the personnel involved in the elaboration of specific accounting policies in a firm. In order to obtain a synthesis of the degree of perception of the Order no. 3055/2009, we have grouped the first 16 questions using some essential features – the defining of the accounting policy concept, their assuming at a firm’s level, the utility of accounting information, the accounting policy disclosure and their modification. We have computed an average weight of the correct and wrong answers for each of these essential features. The highest weight of the correct answers, 96,95% is associated to the defining of the accounting policy concept, on the opposite pole we find, as we mentioned earlier, the knowledge of the legal stipulations regarding the modification of the accounting policies.

Perhaps the most important result of our investigative research on the SMEs from Bihor county sample is the identification of the need of specialists' formation and training in the development of specific accounting policies, according to the entity's features, as well as the necessity of specialized assistance in the elaboration of a policy and procedure manual(guide) for the accounting department, which should comprise the specific theoretical framework for the development of strong accounting policies, premise of a believable and comparable financial reports, reflecting the economic substance of events and transactions. The limits of our study are related especially to the elaboration of the questionnaire, the formulation of the questions as well as the choice of the sample. We intend to remove these weaknesses in future researches, that will be focused on the investigation of specific accounting policies used in Bihor county or even North West Romanian SMEs, their presentation in the financial reports and the motivations behind the choose of an accounting policy or method in the detriment of another one.

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ACTUARIAL ACCOUNTING - THE NEW DIMENSION OF ACCOUNTING

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Starting from the international convergence and resear of accounting as a general rule and actuarial accounting particularly context, this thesis wants to be part of the harmonization world movement, of the research and application of new settles, bringing forward for the insurance and private pension experts an entire set of good aspects and specific applications.

The goal is to offer practical alternatives in accomplishing financial reports, in estimation, recognition and evaluation of premiums and technical reserves belonging to the insurance and private pension field.

The study is based on the experience and casuistry of the national and multinational companies that perform in the wide area of insurance and private pensions.

The thesis brings originality through the new concepts used that form the content of actuarial financial accounting, and the high value of the research is produced by the new approach of the accounting based on actuarial calculations, which is a beginning in Romania, lining up to the international accounting research.

Keywords: Actuarial calculation, gross/net premium, fructification factor, current value, commutation-number, mortality table.

JEL code: M41: Accounting

The XXI century, century described by convergence and harmonization, defines itself by starting the bases of actuarial accounting, based on: actualized values and actuarial calculating.

The actualized and stocked value represents a present estimation of the value, depending of the future benefices fluxes that will appear during the activities that means bringing to date a value that will became **available** later. As the IASB general frame says, the actualized value is defined trough the future cash flows at the present time, the basic principal being “ money earned today have more value that the money earned in the future” .

Actuarial accounting finds it self at its best in the insurance system. In the market economy, insurances represent, on one hand, a business and citizens money protection device, and on the other hand a commercial activity that generates profits. In this context the enterprise as an independent element of the economical system interacts with the business partners, with the different level budgets, with the stock owners and other subjects, process that conditions the economical relations. In this case, the role of accounting is to assure with true and impartial information all the user, especially the enterprise owners and the stock investors.

With the help of actuarial accounting:

- We can measure and register possible variables of the **interest** rate and the inflation rate
- We quantify in monetary terms the risk of the economical activity
- We use the actuarial calculation for estimating, evaluating and recognizing the wealth and profitability

This type of accounting uses the actuarial calculations for maximizing the enterprise value.

The concepts of actualized value, current value and future value, insurance rate, voyager fructification factor, mortality tables, commutation numbers, technical backup, mathematical

backup, solvability, margin of solvability, insure risk, risks management, actuarial calculations, covering accounting against risks, time periods, immediate/delayed payments/incomes,

1. Actuarial accounting types regarding the estimation, recognition and evaluation of the life insurance rate.

In life insurances the preoccupation of the insuring is to obtain the stability of the activity financial results. He must work so that he will cover entirely; based **on the collected insurance rate**, the obligations he has for the insured ones. The insurance rates must also cover the expenses regarding the signing of the contracts, the purchasing of the insurance, etc. because of this the technique used to calculate the insurance rate and the mathematical backup is very important.

At the base of calculating life insurance rates stands the principle of a person's loss, who suffered in the result of the insurance case, among more insured persons, that have not suffered any loss. The payment for the case that came up are made from the the fund formed by all the insured as the result of paying the insurance rate. The quantum of the insurance rate represents the expected value of the insurance payments which belong to an insured person on the entire duration of the insurance. The insurance fees, in form of insured sum, belong to the insurance company and are made, in the case of life insurances, as the result of the decease of the insured during the insurance period or his/her survival until the end of the contract period.

So, to calculate the insurance rate we need to know: the number of deceased, the number of the survivors and the current value of the sum that will be paid (the sum that must be obtained by the insuring part from the insured persons, so that it could cover the future payments in case of death or survival at a certain age, with the condition that the incoming sums will be invested, that means fructification)

It results that to calculate the insurance rate, we start from the data that we obtained fructifying the insurance funds, and also from the mortification table of the analyzed country.

2. The fructification of the insurance funds

So that he can honor the obligations regarding the payment of the insured sum in case of death or at the end of the period (survival), the insurance company creates for it self, based on the incomes from the insured persons, a fond that, fructified as a bank deposit or other placements in the economical circuit, revenues. These profits are taken in consideration when we calculate the size of the insurance rate and depend on the insurance rate value existing in the fond, on the period of time in the economical circuit and on the fructification factor.

The fructification of this funds has as basic principal the composed interests. In the end of every year, at the initial sum deposited by the company it's added afferent interest, which is also fructified in the next period in the same conditions. That means it remains at the disposition of the credit institution, and it also produces interest.

2.1 Determination of the final value by using the fructification technique

A sum of money deposited in order to be fructified on a period of n years, at the end of the cretin period, it becomes:

$$S_n = S_0 (1 + i)^n$$

where: S_n - the sum obtained after fructification;

S_0 - the sum deposited in order to be fructified;

$1 + i$ - fructification factor ;

n - number of years on which the sum was deposited to be fructified.

Example:

An insurance company wishes to dispose of a sum of 1.000 lei over 5 years, by depositing a sum X in a credit institution where the interest rate offered is 5%.

To do this, the determination of the actualized sum of 1.000 lei, is necessary:

$$S_0 = S_n \frac{1}{1+n \cdot i} = 1.000 \frac{1}{1+0,05 \cdot 5} = 784 \text{ lei}$$

Consequently the company has to monthly deposit the sum of 784 lei for fructification, with an interest rate of 5%, so that over 5 years it will dispose of a sum of 1.000 lei.

3. Tables of mortality and commutation numbers

Tables of mortality and commutation numbers contain a series of demographical indexes determined based on the data on the number of survivors and deceases, birth years and ages for men and women and both genders, they can also be laid down on demographical regions or social-professional categories. Because of certain necessities, starting from general (complete) tables of mortality, or using estimation functions, abbreviated tables are made, meaning tables for different age intervals (for example from 5 to 5 years). In order to facilitate the study and use of the table of mortality in calculating the insurance rate, the actuarial science uses an International Actuarial Symbolization System.

The calculating of the insurance rate in life insurances necessitates the use of the demographic indexes of the table of mortality, as well as the data regarding the value of the actualization factor obtained in the financial actuarial tables. In the actuarial practice it is desirable to estimate the insurance rate tariff for each age and the duration of the insurance accepted by the insurer, which contributes to the performing of some huge arithmetic operations based on big volume data series.

In order to simplify calculating the insurance rate tariff, the life insurance technique use a series of auxiliary measures, known as commutation values, which are enlisted in the table of commutation numbers. These values are obtained by combining indexes enlisted in the tables of mortality and financial actualization. Thus the replacing of the digits with different values from this two tables is done and their aggregation in a single table.

The predetermined calculus from the table of commutation numbers take in consideration a basic insured sum equal with one.

Table 1. Commutation values obtained with the number of the survivors l_x

Formula	Formula explanation
$D_x = l_x \times v^x$	The actualized value of the product between the number of survivors of x years of age and the unitary insured sum.
$N_x = D_x + D_{x+1} + \dots + D_\omega = \sum_{t=x}^{\omega} D_t$	The actualized value of the product between the total number of survivors and the unitary insured sum..

Table 2. Commutation values obtained with the number of the deceased d_x

Formula	Formula explanation
$C_x = d_x \times v^{x+1}$	The actualized value of the product between the number of deceased persons of x years of age

insurance rate

- Tax payment to the state budget

186,6 lei 4441 Payroll tax fee for life insurance incomes = 54411 Lei bank accounts 186,6 lei
concerning life insurance

- Paying the net commission for the insurance income (1.866 – 186,6 = 1.679,4)

1.679,4lei 4221 Accounts payable due to intermediate concerning life insurance rate = 54411 Lei bank accounts 1.679,4lei
concerning life insurance

Conclusions:

The main problem that appears in the Romanian specialized literature in that at the moment we can not talk about actualized accounting, personalized as evaluation, recognition and calculus system.

This is why the applicative value of the paper consists in elaborating a new concept – the one of the actuarial accounting – which will contribute to perfecting the methodological base of the accounting of the insurance companies in Romania, which will allow:

- Only including in the insurance organizations income the quota of the insurance rate obtained form direct insurance and reinsuring gained, this way the cases of information distorting in the financial reports settled by this economic agents will be excluded;

- A better risk estimation in insurance, which will make the information presented in the financial situation come closer to the truthful image principle;

- Bigger stability of the financial results of the developed activity, as a consequence of the full covering of the obligations towards the insured as well as the expenses related to contracting and insurance rate collecting, from the insurance rate income;

- The use of the fructification and actualization techniques in detriment of the final value and the actual value;

- Taking in consideration ,in order to establish the insurance rate, the number of deceased, the number of survivors, the current value of the sum which will be paid in the future (the sum needed to be collected by the insurer from the insured persons in order to cover for future payments in case of decease or survival at a certain age, with the condition that the collected sums are to be invested, meaning fructified);

- The use of tables of mortality and commutation numbers for a better estimation of the insurance rate;

- The use of the “pro rata temporis” method by the Romanian insurance organizations for calculating the not gained insurance rate reserve at the end of the fiscal period. The use of this method improves the exactness levels of the actual won income calculus from the insurance activity in the managing period, except the case when the insurer doesn’t dispose of means in the not gained insurance income reserve, in the contract action period, and guaranties to fulfill the obligations undertaken according to the conditions stipulated in the insurance contract.

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ACCOUNTING FOR FAIR VALUE HEDGING

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The derivatives appearance was generated by the discovery of new ways to limit and manage current activity risks. Derivatives couldn't hedge any type of risk. Derivative operations can be used to hedge: interest rate risks, foreign currency exchange rate risks, credit risks. Derivatives used to hedge these risks can be handled to cover fair value exposure, cash flow exposure and exposure to changes in the value of a net investment in a foreign operation. The hedging accounting roll is to protect the profit against losses generated by fluctuations of: prices, currency exchange rates and interest rates. Hedge accounting applies to recognized assets and liabilities, but also for unrecognized firm commitments. The fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognized asset or liability. The accounting for change in fair value of a derivative depends on whether the derivative has been designated as part of an effective hedging relationship.

Keywords: hedge accounting, hedge effectiveness, fair value exposure, cash flow exposure, fair value hedge

JEL code: M41: Accounting

As the use of derivatives increased on a global scale, the appearance of new accounting standards was necessary. This is why IAS 32 and 39 were issued: to provide a comprehensive list of all disclosures and presentation issues that are relate to financial instruments. Although they were issued as separate standards, they are applied in practice as a unit because they deal with the same accounting phenomenon.

The introduction of fair value as an evaluation method for financial assets has increased since the introduction of IAS 39 and thus, has generated a series of problems. The ones directly facing these problems are the companies that chose to use derivatives, weather for hedging or speculative purposes. When it comes to recording derivatives in financial reports, the most important issue is the treatment of the gains or losses resulting from the adjustment of the derivative's carrying value to fair value. The main reason for hedging accounting is to protect the profit against losses generated by fluctuations of: prices, currency exchange rates and interest rates. Gains and losses on the derivative used for hedging should be in the opposite direction from and of similar magnitude to the gain or loss¹ on the hedged item.

Requirements for Hedge Accounting

When using hedge accounting, three conditions must be met simultaneously:

- the nature of the hedge risk
- the hedge effectiveness
- the documentation

The derivatives appearance was generated by the discovery of new ways to limit and manage current activity risks. Of course, derivatives couldn't hedge any type of risk. Derivative operations can be used to hedge the following risks: interest rate risks, foreign currency exchange rate risks, credit risks.

Derivatives used to hedge these risks can be handled to cover three types of risk exposures:

Fair value exposure: A fair value risk exists if fair value can change either for a recognized asset or liability, or for an unrecognized firm commitment. To qualify for hedge accounting, the fair value risk must have the potential to affect reported earnings if it is not hedged.

Cash flow exposure: A cash flow risk exists if amounts of future cash flows that could affect earnings can change. The future cash flow at risk can be a contractual cash flow related to an existing asset or liability, or it can be a forecasted cash flow from a transaction that is expected to occur but is not yet subject to a contract.

Exposure to changes in the value of a net investment in a foreign operation: This type of risk relates to changes in the value of an investment in a foreign subsidiary or in a foreign company accounted for by the equity method. Such changes in value can occur when exchange rates increase or decrease.

In any case it is very important to calculate the value of the exposure and the potential to affect reported earnings. If the changes of the assets and liabilities value are recognized immediately in earnings do not qualify for hedge accounting. Matching the recognition of gains and losses occurs without any need for special accounting. For hedge accounting to be used, a company must expect that the hedge will be highly effective in offsetting changes in the value of the hedged item or changes in cash flows related to the hedged item.

In order to apply hedge accounting, you have to take into consideration the following:

Step 1 – choosing the derivative instrument has to generate gains and losses that offset losses and gains on the hedged item.

Step 2 – selecting a method to measure the portion of the change in value of the derivatives and evaluate hedge effectiveness (at the beginning, and while the hedge is active).

Measuring Offsetting Changes in the Derivative's Value Effectiveness tests can be based on changes in the value of the entire hedged instrument or can exclude changes in the value related to passage of time. For example, futures and forward prices can be viewed as the total of the current spot price plus a forward discount or premium. The change in forward discount or premium is unrelated to any changes in an item where futures are used to hedge, so a valid approach is to exclude the changes in discount or premium from the measurement of hedge effectiveness. In this case, hedge effectiveness would be evaluated by comparing changes in the spot rate component of futures prices to changes in the value of the hedged item. Similarly, the entire premium on an out-of-the-money call option represents the time value related to the possible gains should the option end up in the money. As the time to expiration draws closer, this time value gradually decreases. The changes in the time value component of the option is unrelated to any changes in an item that the option is used to hedge, so a valid approach is to exclude the changes in time value from the measurement of hedge effectiveness.

Hedge effectiveness would be evaluated by comparing changes in the intrinsic value of the option to changes in the value of the hedged item.

Hedge Accounting for Fair Value Hedges

IAS 39 defines the fair value hedge as a hedge of “the exposure to changes in fair value of a recognized asset or liability”. If a fair value hedge is effective, it creates a risk exposure in the opposite direction from the risk exposure of the hedged item.

Hedge accounting applies to recognized assets and liabilities, but also for unrecognized firm commitments. An unrecognized firm commitment is a contractual obligation that is not yet

reflected on the balance sheet, but in the future it will become an asset or a liability once it will appear in the balance sheet. The firm commitment must be for a fixed quantity, price, and date and has to be binding both parties (customer and supplier). In order to use hedge accounting to cover fair value risk, the hedge item must be a single asset, liability, or commitment or a group of assets, liabilities, or commitments whose values change together.

All changes that occur in the process of hedging will be reported in current earnings, the carrying value of the derivative is adjusted to fair value on the balance sheet, and the change in that carrying value from period to period is included on the income statement. At the same time, the balance sheet carrying value of the hedged item is also adjusted so that unrealized gains and losses due to the hedged risk offset the gains and losses on the derivative.

Example for Fair Value Hedge of Exposed Asset

In October N a refinery who's processing crude oil from import has an inventory of 80.000 barrels (12. 720.000 l) at 72 \$/barrel, 1\$=3lei. The company anticipates that the crude oil will be used in producing products that will ultimately be sold in June N+1.

Because on the market cruel oil's price registered an increase the company decides buying futures contracts (short position) on the American market (CME - Chicago Mercantile Exchange) in order to hedge the value of its crude oil. The company buys 10 June futures contracts at a price of 85,09 \$ per barrel . CME requires a margin deposit for 800\$ per contract (each contract refers 1000 barrels)

Hedging Designation

The refinery designates the futures contracts as a fair value hedge of the change in the value of the crude oil inventory due to changes in spot prices. It is a fair value hedge because the company is hedging the value of an existing asset. It might seem strange that the company is hedging the value of the inventory it already owns since the company has already spent the money to purchase that inventory, and the amount cannot increase. The company has a continuing need for oil in its production, however, and future purchases of oil would be at higher prices if the price of crude oil rises. Although the company designates the existing inventory as the hedged item, it is really hedging the cost of replacing that inventory once it has been used up.

Expected Hedge Effectiveness

If the value of crude oil drops, the company's inventory of it decreases in value, but it expects to make an offsetting profit on the short position in crude oil futures. It might seem that this hedge would be highly effective based on the critical terms of the derivative.

Subsequent Price Behavior the spot prices and futures prices subsequently change as follows:

Months	CME Spot cruel oil per barrel	Futures cruel oil per barrel
November 15	80,00	79,65
December 31	84,15	83,75
June 15	85.49	85,09

Accounting treatment

Since all of the conditions for hedge accounting were met, the refinery accounts for the futures contracts as a hedge of the fair value of its copper inventory. The carrying value of the inventory is adjusted by the amount of effective hedging, and changes in the futures position not attributable to effective hedging are recognized in earnings. Because CME (like all futures exchanges) requires daily settlement of futures positions, the changes in value are realized through cash payments to or from the exchange, and the open futures position always has a fair value of zero. Required journal entries at each date are as follows:

* November 15 – to record the margin deposit 800\$/contract (800 \$ x 10 contracts x 3lei/\$)

Commodities Accounts	=	Bank Account	24.000 lei
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* December 31 – payment to CME in order to cover losses:

1000 barrels x (79,65 - 83,75) x 3lei/\$ per contract			
Commodities Accounts	=	Bank Account	123.000 lei
– to record losses on futures positions			
Profit & Loss Account	=	Commodities Accounts	123.000 lei
– to adjust the carrying amount of cruel oil for changes on spot price:			
80.000 barrels x (84,15 – 80,00) x 3lei/\$ per contract			
Cruel oil inventory	=	Profit & Loss Account	996.000 lei

* June 15 – payment to CME in order to cover losses:

1000 barrels x (85,09 – 83,75) x 3lei/\$ per contract			
Commodities Accounts	=	Bank Account	40,200 lei
– to record losses on futures positions			
Profit & Loss Account	=	Commodities Accounts	40,200 lei
– to adjust the carrying amount of cruel oil for changes on spot price:			
80.000 barrels x (85,49 – 84,15) x 3lei/\$ per contract			
Cruel oil inventory	=	Profit & Loss Account	321.600 lei
to record the return of the margin deposit			
Bank Account	=	Commodities Accounts	24.000 lei

Example for Fair Value Hedge of a Firm Commitment

On October 1, N, the refinery enters into a fixed-price contract to sell 10.000 barrels of gasoline at \$125 per barrel in December N. This is a firm commitment that exposes the company to risk because the cost of the cruel oil used to make the wire could increase, reducing the company's profit on the contract. The company decides to hedge this risk by taking a long position in cruel oil futures. The company buys 10 December CME futures contracts at a price of \$90,42 per barrel. The refinery has to pay a margin deposit of \$400 per contract.

Hedging Designation

The refinery will use the futures contracts as a fair value hedge of the firm commitment to sell its finish product: gasoline.

If the company intends to purchase additional copper to make the wire, the futures could instead be designated as a cash flow hedge.

Based on an analysis of gasoline and cruel oil futures prices, the company concludes that cruel oil futures should provide a highly effective hedge of cruel oil sales prices.

Subsequent Price Behavior The spot prices and futures prices subsequently change as the following table indicates:

Months	CME Spot cruel oil per barrel	June N+1 cruel oil Futures per barrel	Gasoline spot per barrel
October 1	86,27	86,61	125
November 30	88,71	89,07	127
December 31	90,42	90,42	129

Accounting treatment

Since all of the conditions for hedge accounting were met, the refinery records in its accounting the futures contracts as a hedge of the fair value for this firm commitment to sell gasoline. The commitment is recorded on the balance sheet at the amount of the effective hedging, and changes in the futures position not attributable to effective hedging are recognized in earnings.

The daily settlement of futures positions is realized through cash payments to or from the CME, and the open futures position always has a fair value of zero. When the hedged transaction finally occurs, the balance in the commitment account adjusts the recorded amount of the hedged transaction. See the following:

* October 1– to record the margin deposit 400\$/contract (400 \$ x 10 contracts x 3lei/\$)

Commodities Accounts = Bank Account 12.000 lei

* November 30 - to record gains on futures positions

1000 barrels x (89,07 – 89,61) x 3lei/\$ per contract

Commodities Accounts = Profit & Loss Account 73.800 lei

- to record firm commitment to sell

10000 barrels x (129 - 125) x 3lei/\$:

Profit & Loss Account = Firm commitment 60.000 lei

* December 31 - to record gains on futures positions

1000 barrels x (90,42 – 89,07) x 3lei/\$ per contract

Commodities Accounts = Profit & Loss Account 40,500 lei

- to record firm commitment to sell

10.000 barrels x (129 - 127) x 3lei/\$:

Profit & Loss Account = Firm commitment 60.000 lei

to record withdrawal of gains and the margin deposit

73.800 + 40.500 + 12.000 = 136.300 lei

Bank Account = Commodities Accounts 136.300 lei

- to record sale of 10.000 barrels of gasoline at \$125 per barrel

Accounts receivable = Sales revenues 1.250.000 lei

- to reverse firm commitment balance and adjust recorded revenues

Firm commitment = Sales revenues 120.000 lei

Conclusions

Hedge accounting applies to recognized assets and liabilities, but also for unrecognized firm commitments

In absence of hedging the firm sales commitment would not be recorded on the balance sheet.

All derivatives are to be shown at fair value on the balance sheet as either assets or liabilities, depending on the specifics of the contract

The accounting for change in fair value of a derivative depends on whether the derivative has been designated as part of an effective hedging relationship.

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LIABILITY TO SUPPLIERS REPORTING STANDARDIZATION - QUALITY GROWTH FACTOR OF ACCOUNT INFORMATION

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Under No.11 position paper "Economic and Monetary Union" Romania took responsibility of reporting according to European System of Accounts ESA 95. Public Institution classification is necessary to delineate the perimeter of general government (S.13), subdividing it into sub-sectors and to define how to consolidate their financial statements. To fulfill this research we used methods of documentary research, observation, analysis and empirical observation. Through the specific procedure of documents observation performed we accomplish delineating the problem in the general context. The empirical experiments produced practical data. The purpose of this study considered the practical applicability of a solution in offering a model of reporting that lead to increased correctness, forwardness, quality, of accounting information provided to their users

Keywords: ESA 95, sub sector, liabilities, financial statements

Cod jel: M41

Framework

Through entity's relation with its environment the need for objectives, relevant information arises whose satisfaction is required adequate supply. Accounting information in an organized manner provided by practitioners of economic entities should be useful to all users of information products of accounting. Market information is the meeting place of demand and supply of such information. Informational demand represents on one side informational needs of different users, and on the other side the pressures they are putting on general information system. The informational offer represents the aggregate information obtained in the accounting information system, available to various users groups and forms and their transmission routes.

Compared to other information sources, accounting information has high credibility. This credibility is being helped by auditors intervention, which aim to certify the summary documents submitted to users by managers.

Romanian Framework

Accounting Law provides that all companies should record the transactions based on double-entry bookkeeping system, the categories of entities which record their transactions single-entry bookkeeping system being specified by law. The responsibility to organize and record all the transactions for public institutions belongs to credit release authority.

Public institutions organize the accounting system, in different compartments led by the chief financial, accounting officer, or other person empowered to perform this function.

These people should have BA in economics and jointly share responsibility with his staff in the organization and management accounting law. Public institutions to which accounting is not

organized into separate compartments or does not have staff employed by individual employment contract, can establish separately work contracts, to organize accounting system, and to present the financial statements, with professional external to this institutions, authorized by law. Conclusion of contracts is subject to the regulations in force on public goods and services.

It is specific characteristic Romanian national accounts try positioning between two accounting cultures the traditional continental one and the Anglo-Saxon one.

Indebted customs, the communist doctrine, multiple legislative changes Romanian accountant from public system shows an aversion to new, need to be talked what/how/when to do.

International Accounting Standards (IAS/IFRS/IPSAS) come with a cultural inheritance difficult to be assimilated; it is based on professional reason (not a parameter in the communist era). The professional reason based on a set of general accounting accepted principles, can lead to a multitude of valid solutions to the same type of problem (controversy giving rise to supervisory bodies that may have another option).

The continuous change of International Accounting Standards, irrespective of their form, become in a paradox way more complex, and also more clarifying, lead to a new perspective for the Romanian Accountant whom is becoming a more international one. mastering the principles, and the terms of international accounting.

To converge means to moved toward the "to the same point, the same goal"; in the accounting domain *convergence* is a relatively new concept, appearing together with the internationalization of IASB objectives, in 2001. One of these objectives states: "To cooperate in an active manner with national regulatory standards board to identify quality solutions for the convergence of national accounting standards with standards developed by the IASB"

Compliance under explanatory dictionary of Romanian language is defined as: The ratio between two similar things or identical match, consistent identity. Accounting Compliance is the process by which compliance is assessed, and action consistency in content presentation rules and drawing up financial statements represent a harmonization of national regulations with the rules set by regional and international standardization bodies."

I agree with the conclusion reached „Convergence is following up on a national spirit of IAS / IFRS / IPSAS and conceptual framework, namely the adoption of the accounting treatment under international standards while normalizing the accounting means alignment, compatibility, for example at the European level, the accounting rules of different countries"

When it comes to economic account, many of member states of European Union, by lack of economic data, it so often referred to accrual with respect to financial, characterized by recording, the finding of income and expenditure obligations is adjusted to economic values on financial dimensions management based on economic accrual.

Public Romanian Institutions, using double entry bookkeeping system, records directly incomes and expenditure based on economic accrual to the reference period.

We number through the objectives of accounting normalization:

"...ensure regulatory accounting practices and thus lead to improved accounting

"...enable users of accounting information to make rational decisions based on accounting information

.. o serve as arbitrator between the various parties involved in economic life and, in particular between producers accounting information and accounting auditors who certify the quality of information thus ensuring the credibility of social accounting information;

To allow and enhance consolidation accounting in order to obtain an accurate accounting information for group companies;

..To assure the development of national statistics ,,

Reporting on sub sectors in Romania

Under No.11 position paper "Economic and Monetary Union" Romania took responsibility of reporting according to European System of Accounts ESA 95.

Given the internal and external reporting demands in 2009 by adopting the Minister of Public Finance Order nr.629/2009 Methodological Norms for the preparation and submission of quarterly financial statements of public institutions and of monthly financial reports in 2009 with amendments and supplemented (Omf.p.nr 2290/2009, 2941/2009 Omfp.nr) was introduced the necessity of sub sectors reporting.

The user of accounting information faces two sub sectors organization so when public institutions are grouped as sub sectors compiling annex for each sub sector they belong to:

- Annex 40a "Statement of assets and liabilities of central government institutions,"
- Annex 40b "Statement of assets and liabilities of public institutions of local government"
- Annex 40c "Statement of assets and liabilities of public institutions of social insurance (State, unemployment, health).

And the reporting of their contents is performed as defined by sub sectors:

Sectors and sub sectors according to	Name	User	Code ESA'95
European System of Accounts (ESA' 95)	IN	Annex 40	
Non financial companies	Economic operators		S.11
Financial Companies			S.12
Central Bank	B.N.R.		S.121
Other monetary financial institutions	Institutions	Credit Resident	S.122
Other financial intermediaries, except insurance companies and pension funds	Other residents		S.123
Financial auxiliaries	Other residents		S.124
insurance companies and pension funds	Other residents		S.125
Public administration			S.13
public institutions of central government			S.1311
public institutions of local government			S.1313
public institutions of social insurance			S.1314
Other states	Non-residents		S.2
European Union	Non-residents		S.21
Member States of European Union	Non-residents		S.211
Institutions of European Union	Non-residents		S.212
Third countries and international organizations	Non-residents		S.22

Classifying the public institutions is necessary to delineate the perimeter of public administration, to share it in sub sectors, as well as to define how their aggregated financial statements.

ESA 95 Manual shares the sector of public administration in four sub sectors:

- Public institutions of central government (S.1311),
- Intermediate public institutions of government (S.1312), does not appear as such in Romanian division
- public institutions of local government (S.1313),
- public institutions of social insurance (S.1314).

S.13 sector structure component analysis is required to analyze sub-classification of the institutions mentioned above, to reflect the route transactions to / from government.

Demarcation of the universe of public government is essential to prepare consolidated reports of the respective sector and the public government sector under the standards identified in this respect in Europe and internationally.

It should be noted the difference between public and government that depends on the classification of institutions. According to ESA 95, an institution is included in sub S.13 on its financing arrangements and the so-called compliance with the 50% criterion. This criteria are purely statistical and therefore not include an institution on the public institution list is based not only on its economic and legal profile.

For Romania, the institutions included in the perimeter of government based on two elements:

- financing arrangements
- Legal personality.

Example of standardized reporting practice Liability to Suppliers

Next we illustrate the analytical models, disclosure of the Liability to Suppliers

Presentation in a synthetic balance sheet at this moment

40			Suppliers and similar accounts
	401		Suppliers
	404		Fixed asset suppliers
		4041	Suppliers of fixed assets under a year
		4042	Suppliers of fixed assets over a year
	408		Suppliers - invoices not arrived
	409		Suppliers - debtors
		4091	Suppliers – debtors purchases of goods inventories nature
		4092	Suppliers – debtors for service and execution of works

First version analytical on sub sectors it has been tried to complement the automatic export of data to balance the 'Annex 40 (a, b, c) Statement of assets and liabilities of public institutions, information related to "Annex 30 Delays" in which complement or encountered numerous errors.

Non-current trade payables related supplies and services (ct.401+403+4042+405+4622). Total (rd.458+459+463+464), which:	Delays of public institutions of central government - (representing unpaid debt up to term) of commercial operations (ct.401+403+404+405+462). Total (rd.492+493+497+498)from which to:
-Economic operators (S11)	- Economic operators (S11)
-Public institutions from which (rd.460+461+462):	- Public institutions from which (rd.494+495+496):
- Central government (S1311)	- Central government (S1311)
- Local government (S1313)	- Local government (S1313)
- Insurance institutions (S1314)	- - Insurance institutions (S1314)
-other residents (S123,S124,S125)	--other residents (S123,S124,S125)
--Non residents (S21,S22)	--Non residents (S21,S22)

Current trade payables related to supplies and services (ct.401+403+4041 + 405+408+419 +4621). Total (rd.466+467+468.1+468.2), din care cater:	Delays of payments to suppliers, creditors of commercial operations (ct.401, ct.403, ct.404, ct.405, ct.462) din care: (rd.07.1+08+09+10+11)	07
- Economic Operators (S11)	-under 30 days	7.1
-Public Institutions from which: (rd.467.1+467.2+467.3)	-over 30 days	08
- Central government (S1311)	-over 90 days from:	09
- Local government (S1313)	-(ct.462)	9.1
- Insurance institutions (S1314)	-over 120 days	10
-Other residents (S123,S124,S125)		
- Non-residents (S21,S22)		
Debt from clearing operations, barter and economic cooperation (ct.462/5128)		

So being for the first case we have the following structure:

Synthetic account of first degree – suppliers was divided into the current and on current period, these accounts were in turn divided into accounts on sub- sectors, which were made taking account sub-division employment or settlement within the current period.

Inconvenient of this model are defined as follows.

A) Inability to develop synthetic unit balance and accounts of others to such a level of analytical representation

B) High degree of error which may occur in filling in the current settlement, the division generating difficulties, limits applying to future periods compared to the delayed pays report which was based on previous period

C) Many operations necessary to end of the month to their correct reporting and to fulfill its role to support the preparation of cash flow (ig Receive an invoice in 7 days settlement period, if received in the first days of the month, to its end where nonpayment was delayed, whether it was delivered in late fall into these categories)

To the second model we have the following grouping: current and non-current period

As found in dividing term solution to pay current period was chosen to make settlement within months of / analytical per month.

Thus a reduced employment opportunity for error in terms of the settlement payment is due in the same month and payment of invoices within 7 days, 30 even 180 days.

Problems arise when the health sector which are required by law for payment deadlines and troubleshoot the 180 days since July as the invoice will show the debt payment deadline non-current although less than a year and even pay up to end

As computing solution for avoiding the error of Completion from the calendar month following the expiry settlement accounts within months expired may not balance being blocked from completing fields (sub-account balance by the payment due date in January from the month February should be zero or as a result of payment or the transfer of category outstanding under 30 days)

Conclusions

SWOT analisys of this standardisation of liabilities to suppliers

Strengths

Provides a clearer picture, help in preparing cash-flow,

- Information on such debt indifferent is important.
- It facilitates a better assessment of management, procurement, suppliers of credit limits.

Weaknesses

- Original complex operations, human resources, insufficient training. Lack of specialized human resource endowment.

Opportunities

Reliability of the information provided internally and especially the risk of attracting internațional. Reduce plan sanctions for exceeding the time limits for submission of the situation, or supplementing them with errors.

Threats

Insufficient allocation of human resources results in less relevant and reliable information delays in reporting information on bodies (inter) national, drawing penalties.

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COST VOLUME PROFIT MODEL, THE BREAK -EVEN POINT AND THE DECISION MAKING PROCESS IN THE HOSPITALITY INDUSTRY

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Management accounting and cost calculation in the hospitality industry is a pathless land. The present article is a starting point of a long scientific approach on the domain of the hospitality industry and on the managerial accounting in this area.

Our intention is to put the spot light back on the thorny problem of applying Financial Accounting and specifically its implementation in the hospitality industry.

One aim of this article is to provide a picture of CVP analysis in decision making with customizing the hospitality industry. To cope with the crisis period, the competition and to achieve the expected profits of the hospitality industry ,managers have the possibility to apply CVP analysis, one of the most simple and useful analytical tools.

This paper will address the basic version of the CVP model, exemplifying the main indicators of the particular model for the hospitality industry that can help guide decision-making.

Keywords: CVP model, Break-even point, hospitality industry

JEL classification M41

Introduction

Hospitality industry is one of the most dynamic sectors of contemporary society with an increased role in the globalization process.

Tourism is an economic and social phenomenon characteristic of modern civilization, very rooted in society and therefore strongly influenced by its development. Addressing the large social segments and responding to their needs, tourism is by far a economical sector characterized by an increasing dynamism, manifested both nationally and internationally. Tourism rises to a vast human and material potential due to its content and complex character table, which has important implications for the development of national economies and society.

Tourism is a factor in individual and social equilibrium, a source of fulfillment for leisure time, developed in harmony with the human environment, natural and cultural resources to be placed in a context of sustainable development.¹¹¹⁷

Taking count of from the importance of tourism, the development prospects of the sector but given the current conjuncture and national economies affected by global economic crisis, maintenance and development of hospitality industry business entity requires harmonization of resources and market opportunities with their skills, foundation strategies cost information based on tourism products and services additional information on accounts, but taking count of the company's capabilities and balance with the environmental conditions.

Lack of coherent management strategy involves a weakness inherent in the management system benefits of providing costs. Awareness of benefits of providing quality services related to the right level of prices is not a common practice today.¹¹¹⁸

¹¹¹⁷Summary of processing of congress BITS, Naples, 14-18 june 2000, over of Theoretical and Applied Economics. Supliment. 29-31 mai 2009 ,Bucharest, pg 136

The tourism sector, regardless of market structure of interest covered by an economic entity (recreation and leisure tourism, spa tourism, business travel, tourism circumstance), key factors of success are:

- Differentiating their products from those of competitive interest in a more attractive environment afforded so, but not least your own offer competitive price / quality ratio. In Romania, because it applied the wrong policy in the hospitality industry on price quality ratio, the effects of policies currently exist through a customer orientation to market massive external interest;
- Diversification and complementary tourist services and submission of integrated products in the same package to ensure all facilities during the stay;
- Flexibility and adaptability of supply to demand trends
- Steady and sustained promotion of their products on the market, highlighting the defining characteristics that distinguish them from the competition.

Theoretical framework for the direct method and CVP model

Direct Costing method is based on the principle of separating variable costs from fixed costs according to behaviour change in production volume, and is charging only variable costs on products whether they are direct or indirect.

Originally, Direct - Costing `s cost is composed only of the total costs that change directly with output (activity level) and not from direct costs as we could wrongly understand deducing from it's name.

Thus, the name that best matches the Anglo-Saxon expression is the "variable cost method"¹¹¹⁹ or "variable costing". French Accountant General Plan 1982 also used the name "proportional cost method and some authors identify this marginal cost calculation method."¹¹²⁰

Costing provides relevant information for the management team, and is useful in formulating economic entity's business decisions for the next period. This method will provide a basis for cost estimates to study the effects of planned changes in production volume, resulting from changes in economic conditions or open some management actions such as price changes, increase or decrease in stocks or special promotional activity.¹¹²¹

So the method focuses on boosting sales in that size does not allocate fixed costs on inventory (unfinished products, finished products), but must be covered by the sales of the period.. Also the emphasis is on analysis and attribution of the fixed costs and attributing the variable costs on the margin (gross).The manager has the obligation to return and maximize margin on variable costs over which fixed costs will be charged.The margin on variable costs (M / CV), also called gross profit or contribution limit is determined as the difference between gross turnover and variable costs associated with the entire production sold. The margin of variable costs is also called the global margin and it is the sum total margins on variable costs per product unit set (m / cv) multiplied by the associated production sold. The unit margin can be determined as the difference between the selling price and the unit variable cost of product j.

$$M/CV = CA - CV; \quad CA = Qv \times pv \quad \text{and} \quad CV = Qp \times cv \Rightarrow R = Qv \times (pv - cv) - CF$$

Informational value of the margins in decision-making is subject to the following factors:

- Dividing the fixed costs and variable components must be fair and consistent;

¹¹¹⁸Larisa Dragolea, Radu Matei Todoran, Ensuring the quality of services by making costs effective in the management of rural tourist boarding houseswork presented at the International Scientific Conference "Challenges of a knowledge-based economy contmporane" II-nd Edition, ICMEA, Alba Iulia, 2009.

¹¹¹⁹ Sorin Briciu, *Theoretical and practical managerial accounting*. Publisher: Editura Economică, București, 2006, p 222

¹¹²⁰ Dorina Budugan, Iuliana Georgescu, Ioan Berheci, Leontina Bețianu, *Management Accounting*, Publisher CECCAR, Bucharest 2007, p 358 (citation after Lucey, T., *Management Accounting*, 3rdEdition, D.P. Publications, London, 1992).

¹¹²¹ Sorin Briciu, citation pag 223.

- Rational use of uniform margins (gross contribution per unit) established as a basis for decisions in the sales policy , this requires constant variable costs per unit of product;
- For decisions regarding the selection of the production processes , the possibility of establish variable cost (marginal) reference constant unit cost of places is required
- Turnover, variable costs and the margin on variable costs, are three major indicators used by the Direct - Costing method , they behave proportional with the quantities sold. Assuming that the sale price is remains constant throughout the period in wich tje analis is made, we could consider that the business margin and variable costs behave in proportion to the turnover .¹¹²²

On the basis of the margins calculation we can establish wich of the products manufactured and sold is able to cover the resume and ensures participation in CF, and which product is unsuitable and produces loss to the company. Each product is judged by its ability to cover non-distributed costs (fixed costs).

The management team of the entity can decide to stop production of goods which have produced loss to the company. The decision must be taken into account if the product can help to ensure the dissolution of other products, or if there is a new product whose manufacture and disposal has good prospects to increase profit¹¹²³. We believe that in the hospitality industry we often find situations where a product conditions or contributes to the dissolution condition for others (demand for accommodation is conditional upon the existence catering unit, or the existence of bases for treatment and entertainment bring a significant contribution to the increase of outlets for lodging) . This way of approach allows considering whether to remove or develop one or other product sales. But the rationale for decision making must analyze several factors, not just gross contribution in absolute size.

A powerful tool of analysis based on Direct Costing is the Cost-volume-profit analysis , one of the most effective tools that managers of an economic entity dispose of. Cost-Volume-Profit examines the behavior of total revenue, total costs and results of operations under the influence of changes in production volume, selling price, fixed costs or variables costs. Managers routinely use CVP analysis to answer questions such as: How will the total costs and revenues be affected if we sell 1000 units more than usually? How will the production level be affected if you raise or lower the sales prices? All these questions have a common topic: What would happen if ...?¹¹²⁴

The CVP model proposed calculation and analysis of several indicators that will provide decision facets for the management team of specialized entities in the hospitality industry, information regarding the decisions of 'production' of products or packages and short term promotion. Cost calculation in direct-costing system should be organized to provide data to enable decisions based on marginal cost and coverage contributions¹¹²⁵ but also on other indicators (break-even factor coverage, range safety, etc.)

The CVP model and decision making

As we mentioned before , the CVP model analyzes the evolution of total revenue, total costs and operating profit as are changes in production levels (in the general economic activity), the selling price, the unit variable cost and / or fixed costs of a product. From practical work we could find that the even the easiest CVP analysis is useful in making decisions regarding strategic planning and offers, regarding the features of the tourism package products, prices and tariffs offered.

¹¹²²Carmen Mihaela Scorte, *Internal accounting management*, Publisher: Editura Universității din Oradea, 2005, pag 184

¹¹²³Briciu Sorin , *Management assisted by cost calculation*, Publisher: Risoprint, Cluj Napoca, 2003

¹¹²⁴Charles T.Horngren si colectiv, *Costurillor accounting, a management approach*, Publisher: Arc, 2006, pg

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¹¹²⁵ Klaus Ebbeken, Ladislau Possler, Mihai Ristea, *Calculation and cost management*, Publisher: Teora, Bucharest, 2000, pg 316

Competent economists say that in order to improve the performance of an economical entity in general, and to particularise, we will take the exemple of those from the hospitality industry, one of the first actions should be taken to improve organizational culture. If you have a culture that is not in concordance with the cost management and cost structure , or if you do not pay attention ¹¹²⁶ to the cost structure , you never get the results you want .

For the test result to be relevant we should take count of a series of constraints and limitation that have determined numerous critics from supporters of other ideologies . These restrictions include: knowing the exact cost behavior, relevant activity within the beach, all costs can be separated into fixed and variable costs, the analysis does not exceed the range of activity; variable costs that make the cost to grow proportionally with the output production fabricated and sold; input prices due not change during the period, so that appropriate costs record the progressive development of foreign business volume variation; production processes should be defined, known and not subjected to changes during the period of analyst, in the situation of obtaining more products it is required to observed and identificate: interdependencies between products, difficulties in product sales and their quantification as a linear dependency.

This type of analysis comes from the economic theory of costs, presented in Figure 1, Graph on which cost accounting analysis (Fig. 2) is a special case of the graph shown in Figure 1.

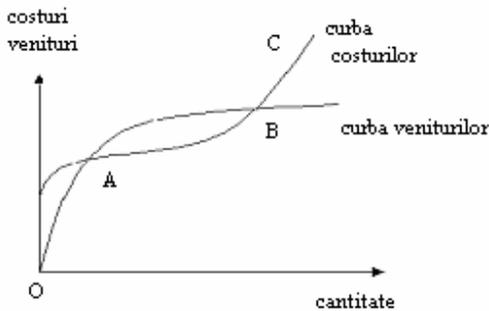


Fig.1: Economic reasoning of the cost-volume-profit analysis

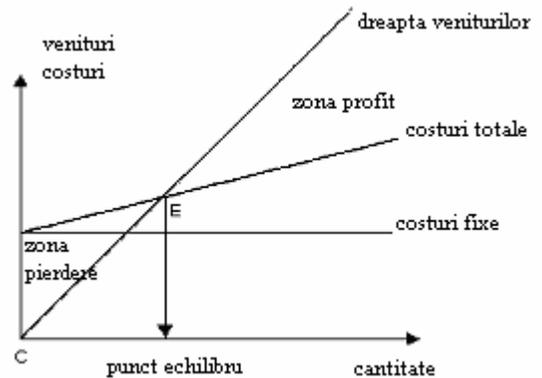


Fig. 2: Accounting rationament of the cost-volume-profit analysis

- OA: total costs exceed the revenues, the company is working in loss, since production capacity is fully used (to produce fewer products than is possible);

- AB: revenues exceed the costs (the profit), production capacity is used at a normal level

- BC: revenues exceed the costs (the loss). Production capacity is overloaded, producing more equipment than they were designed to do, there are breakdowns.

Basically, the economic model shows that there are two equilibrium points, B and C. Instead, the accounting model presents only one (point E). Accounting model is only a short-term picture of economic model is based on the concept of "relevant period" ("relevant range"), translated literature as a period of validity of the assumption of linearity.

Managers in the hospitality industry consider that the price competition in this area has the largest share a fixed cost. The issue will be at what level of "production" in the hospitality industry will the fixed costs be fully covered. The quantity of production sold for wich the total revenues equal total costs is called break-even, in other words, it reflects the amount of production sold so that the operating profit is zero. The management team of any entity is interested in the break-even as it reflects the minimum quantity of production that must be sold in order to not record losses.

¹¹²⁶ Anderson T, Elloumi F. Theory and Practice of Online Learning, Athabasca University, 2004, p.69-70

To determine the break-even (point of equilibrium critical point) the equation method is based on the formula is the result of which operate under:

$$RBE = CA - CV - CF \quad \text{and if} \quad CA = q \times p; \quad CV = q \times cv \Rightarrow \quad RBE = q \times (p - cv) - CF$$

If the equilibrium gross operating result is zero previous equation becomes:

$$q(p - cv) = CF \quad \text{and production volume to achieve equilibrium point is } q = CF / (p - cv).$$

But in the hospitality industry as we said, most of the costs are fixed, and "production" for housing units corresponds to the maximum accommodation. Therefore we think it would be appropriate to calculate the point of balance for each responsibility center or to calculate the point of equilibrium theory reporting the fixed costs to the average gross contribution.

$$P_{et} = CF / c_{bu} \quad \overline{c_{bu}} = \sum_{i=1}^n (Qv_i \times c_{bu_i}) / \sum_{i=1}^n Qv_i = Cb_{totala} / \sum_{i=1}^n Qv_i$$

In the given conditions in which an economic entity obtains and sells more products (such as travel and establishments) the breakeven structure is relevant. To get this structure it is necessary to calculate the volume of each bearer share in the total production cost, an index called specific gravity.

$$P_{ei} = gs_i \times P_{et} \quad \text{and} \quad gs_i = Q_{v_i} / \sum_{i=1}^n Q_{v_i}$$

The marginal contribution method is a variant of the previous method and we believe that the balance point is the turnover value for which the fixed costs are equal to the total contribution margin on variable costs (mv).

The unit margin on variable costs expresses increased profit earned by selling each additional unit of product. Thus, it will help cover the loss incurred by the entity until it breaks even, in time, each additional unit sold will increase profits. This affirmation holds a truth as long as the entity does not exceed the floor for which the fixed costs were determined¹¹²⁷.

Given that the equilibrium outcome is 0 value we can determined that the turnover achieving breakeven turnover called critical or break-even in monetary units according to the formula:

$$CA^* = CF / R_c \quad \text{and} \quad R_c = MV / CA \times 100 \quad \text{or} \quad R_c = Cb_{totala} / CA \times 100$$

But the fixed costs are relatively constant, so the gross operating margin result will change according to the variable costs per unit of product (mv) and by changing the quantity sold.

The margin on variable costs (gross contribution per unit) is calculated as the difference between selling price and unit variable cost and will contribute mainly to cover fixed costs which remain relatively constant in the range established and then cover up the profit or loss.

The break-even can be used to determine the physical volume of activity so as to achieve a profit (P))¹¹²⁸. Calculation formulas:

$$\text{In physical units } Pr_P = (CF + P) / CA *; \quad \text{In monetary units } CAP = (CF + P) / R_c$$

With the point of balance or breakeven we can calculate the turnover required to achieve a certain rate of profit (profit / sales). If the management team of an economic entity aims to achieve and maintain the enterprise to a certain rate of profit, he may find that using the break-even volume of activity that ensures it. The calculation formula is: $CA_{RP} = CF / (R_c - R_P)$

In the CVP analysis other indicators such as: coverage factor, dynamic factor of safety, range safety, index sampling rate volatility and operating leverage should be taken in consideration as being of an significant importance.

The coverage factor (Fa) shows how many percentes of the sales volume are needed to cover the fixed costs and obtain profit. Entities in the hospitality industry need to focus they're

¹¹²⁷ Nadia Albu, Cătălin Albu, *Performance Management Tools*, vol 1, Publisher: Editura Economică, Bucharest, 2003, pg 206

¹¹²⁸ Chirața Caraiani, Mihaela Dumitrana, *Accounting and Management Control*, Publisher: InfoMega, Bucharest, 2004, pg 161

manufacturing and selling policy with the highest coverage factor. Based on the coverage factor they can also calculate the selling price and the manager can take quick decisions and pricing policy.

Dynamic safety coefficient (Ks) shows how the revenue may decrease relative so that the entity can reach the equilibrium point. Any decrease in this ratio means that the entity is about to enter into losses.

The range of safety (IS), also known as distance or safety road shows how much can the entity afford to decrease its sales so that the unit does not enter in the area of financial losses.

Sampling index (PI) defines the percentage of turnover used to cover fixed costs, the company reaches break-even easier the lower its value is.

The purposes of any activity is to maximize the results by submitting a minimum of effort. Extent of such activity is the operational lever (Lo), which expresses how the assumption of fixed costs contribute to results. This indicator's value grows as the relationship between fixed and variable costs is higher.

Conclusions

Given the changing landscape, the hospitality industry is characterized by a dominant competitive logic, assuming a clear competitive advantage. There are several ways to create value, so there are many forms of competitive environment that have their own rules.

After identifying the competitive logic, the economical entity can adapt its strategy in an effective mode, Management accounting helps managers in the hospitality industry to organize existing and future businesses so as to assess, monitor and manage the future of the business and everything related to its economical stability.

As it has been already mentioned, CVP model allows the calculation of indicators for facets of decision-making, being useful to the entities of the hospitality industry, these indicators provide information on production decisions, selling, short-term promotion. Each of these indicators is particularly important, helping short-term management decision making, therefore we propose to analyze their influence and utility in future scientific research.

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THE THRESHOLD OF SIGNIFICATION IN AUDIT

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Within the framework of an audit of accounting data, the most important thing is to determine whether the information registered in financial reports reflects in an accurate way the economic events happened during the accounting period. The definition of the threshold of signification allows to the auditor even from the beginning of his mission to appreciate better the systems and the account liable to contain errors or significant inaccuracies, and at the end of the mission to appreciate if the anomalies discovered have to be correlated during the taxable year, for the purpose of expressing an opinion without reservation. Within the pages of this article, I tried to present a little inroad through the specialty literature in view of studying thoroughly the notion of threshold of signification and its relation with the audit risk, committing to paper their most significant aspects.

Key words: audit, threshold of signification, audit risk

Code JEL: M, M4, M42

1.Considerations regarding the threshold of signification

In a more and more active business world, the performances of economic entities are expected by its partners- shareholders, financial analysts, suppliers, creditors etc. The assembly of enterprise's activities, transposed in accounting language, is, in the first stage, the object of some internal verifications, accomplished by internal auditors or administration supervisors, which intervene in the domain of entity's business administration, contributing to the improvement of enterprise's organization and by this, to the capacity to attain the objectives established by the unit direction.

We generally define the audit as the professional examination of an information in view of expressing a responsible and independent opinion making reference to a criterion (standard, norm) of quality. The improvement of information use represents the objective of any type of audit.

The general plan of audit must comprise the following essential aspects:

- knowledge of client's activity;
- accounting and control system;
- risk and signification threshold;
- nature, duration and extent of procedures;
- coordination, advice, supervision and revision;
- other aspects;

By threshold of signification, we define „the level, size of a sum, over which the auditor considers that an error, an inaccuracy or an omission can affect not only the regularity and the correctness of annual accounts, but also the true image of the result, of the financial situation and of enterprise's patrimony.”¹¹²⁹

¹¹²⁹ Toma M., Chivulescu M., “Ghid practic pentru auditul financiar și certificarea bilanțurilor contabile”, Editura CECCAR, 1995.

The Financial Accounting Standards Committee (FASB) defined the threshold of signification thus: „The importance (gravity) of an omission or of an incorrect presentation of accounting information which from the point of view of general circumstances, gives rise to the probability that the reasoning of a reasonable person relying on the respective information had been changed or influenced by the omission or the respective error presentation”. The auditor’s duty is to determine whether the financial situations contain significant errors. In the case one notices the existence of a significant error in the presentation of information, the auditor will announce it to the client, in order to make a correction. If the client refuses to correct the situation, an opinion with reservations or an unfavourable opinion should be expressed, depending on the relative importance of the error (its signification). Consequently, the auditor must know very well the way of application of the threshold of signification concept.

The definition given by FASB emphasizes the reasonable users relying on the financial reports when taking decisions. Therefore, the auditors must know who are the possible users of the client’s situations and what decisions will be taken on the basis of these situations. For instance, if an auditor knows that financial situations will constitute the information basis for a sale and purchase agreement of the entire economic entity, the sum considered significant by the auditor could be smaller than in an audit with similar conditions, but with another objective. In practice, auditors might not know all the users or the type of decisions that they will take.¹¹³⁰

In „The General Frame for Drawing Up and Presentation of Financial Situations” of the Committee for International Standards of Accountancy, the threshold of signification was defined in the following way: „The informations are significant if their omission or incorrect declaration could influence the economic decisions of users, taken on the basis of financial situations. The threshold of signification depends on the element’s size or of the error judged in the specific circumstances of omission or incorrect declaration. Thus, the threshold of signification rather offers a limit than a primary qualitative characteristic that the information should have in order to be useful”.

The threshold of signification is a professional concept that could vary depending on the use of financial situations, of the degree of public interest, as well as of any other need of reference foreseen by the legislation. However, this variation is registered within some limits, according to the international practice (example: 0,5%-2% for expenses).

Example: Let’s suppose that the total sum of payments for the economic entity “Z” due to the accounting period N is of 200.000 lei. If the level of the threshold of signification is established to 1 % this means that the value is of 2000 lei ($200.000 \cdot 1\%$) and it is the maximum tolerable level of allowed errors. If the level of errors established by the auditor is greater than 2000 lei then, the accounts are not presented with accuracy.

1.1. Steps of application of the threshold of signification principle

The process of application of the threshold of signification principle follows five steps tightly correlated, presented above¹¹³¹:

Step I: Determination of preliminary value of the threshold of signification.

Step II: Assignment of preliminary value of the threshold of signification on audit segments.

Step III: Determination of preliminary value of the threshold of signification.

Step IV: Estimation of combined value of incorrect presentations.

Step V: Estimation comparison of combined values with preliminary or revised value of the threshold of signification.

¹¹³⁰ Arens, Loebbecke, „Audit- o abordare integrată”, Ediția a 8-a, Editura ARC, 2003.

¹¹³¹ Arens, Loebbecke, „Audit- o abordare integrată”, Ediția a 8-a, Editura ARC, 2003, pg. 289-296.

We have to underline the fact that the decisions regarding the threshold of signification refer to more than the determination of a sum for the financial situations. The reasons depend of certain factors, as for example:

An error to a certain level as part of the financial situations, referring to:

- total incomes from the profit and loss account;
- totality of assets from the balance sheet;
- totality of assets from the balance sheet.

Qualitative factors, as:

- probability that illegal payments were made;
- probability that irregularities may appear;
- clauses from the clients contracts with the bank to foresee that certain indicators from the financial situations be maintained at a minimum level;
- an interruption of the cashing flux;
- the direction attitude regarding the integrity of financial situations;

The auditor has in view the threshold of signification, respectively the dimension and the limit of error in the specific circumstances of the omission or incorrect declaration.

1.2. Specific elements of the threshold of signification

The specific elements of the threshold of signification are the following¹¹³²:

- needs of users of annual accounts;
- characteristics of the enterprise;
- characteristics of elements considered significant;

Needs of users of annual accounts

The information supplied by the annual accounts serves a large range of users: shareholders, associates, staff, creditors, clients, financial analysts etc. Depending on the users' demands and needs, the auditor will establish the threshold of signification as the users determine as significant elements different elements.

Characteristics of the enterprise

Among the characteristics of the enterprise that can be significant for the threshold of signification, we can mention:

- the activity area; in certain activity areas, the net result of the accounting period is replaced by other more representative indicators (for example, the trade domain where the net result is replaced by the gross margin);
- the enterprise's dimension determines the maximum and minimum limits of the threshold of signification;
- evolution in time of the enterprise (certain elements that modify the evolution of some important indicators);
- the social-economic environment in which the enterprise is functioning (legislation, political situation, competition, social climate etc);

Characteristics of elements considered significant

- sensibility; An element is considered "sensible" if its little variation determines a great modification in the appreciation of annual accounts.
- the approximation degree; An error is considered important if it refers to a post where precision and exactness are imposed, rather than when it refers to a post determined by appreciation (a mistake to a commission account is not as important as a mistake to the bank account in lei or to the account of cash book in lei).
- the element's evolution; The analysis in time of an element can reflect a tendency of its increase/diminution with unfair purposes.

¹¹³² Toma M., „Inițiere în auditul situațiilor financiare ale unei entități”, Editura CECCAR, 2005.

- the plurality of elements; The plurality of elements without much signification can lead to a significant resultant.

When establishing the threshold of signification, the auditor takes into account:

- the demands of information users, authorities and even those of the public opinion;
- the errors' influence at the total level of financial situations, but also in relation with the accounts' balance, with the transactions' classes and the presentations of information;
- the legal and regulation demands concerning the transactions' classes, the accounts' balance, the presentations of information and the existent relations between them;

2. Relation between the threshold of signification and the audit risk

According to the Audit Standard 320 „The objective of an audit of financial situations is to allow to an auditor the expression of an opinion, according to which the financial situations have been drawn up under all significant aspects, in accordance with an identified general frame of financial reference”. The threshold of signification expresses the maximum tolerable level of error accepted in order to decide if the accounts are correct or not.

There is a tight correlation between the threshold of signification and the audit risk. When he realizes an audit, the auditor must take into consideration the threshold of signification and its bond with the audit risk. As it is specified in the Standard of Audit 320 ”The Threshold of Signification”, the relation between this one and the audit risk is inversely proportional. The higher the threshold of signification level, the lower the audit risk and inversely. This relation is inversely proportional when the auditor determines the nature, the duration and the extent of audit procedures. For instance, if after the planning of specific audit procedures, the auditor determines that the acceptable level of the threshold of signification is low, then the audit risk is high. The auditor will compensate this either by reducing the evaluated level of the control risk, if reduction is possible or by supporting the reduced level and making some extended or additional control tests, or by reducing the fund non detection risk in the phase of audit planning.(Standard of Audit nr.320 “The Threshold of Signification in audit”)

According to the Standard of Audit 320 „The evaluation by the auditor of the threshold of signification and of the audit risk at the initial moment of the commitment planning can differ from the one in the moment of the evaluation of audit procedures results”, as a result of the new appeared circumstances or because of some changes in the knowledge stored by the auditor during the audit. When the total of unadjusted incorrect information approaches the threshold of significations level, the auditor considers the risk reduction through the application of some additional procedures or solicits to the direction to make the corrections in the financial situations due to the discovered incorrect information.

3. Examples regarding the way of interpretation of the threshold of signification

Example 1

At the company “X”, during the mission planning, the auditor determined a threshold of signification of 10% from the net profit; and for the stocks, which are badly controlled by the enterprise, the value of the threshold of signification determined by the auditor is of 650 lei, taking into account the total threshold, the effect of possible errors plurality and the fiscal incidence.

The errors found by the auditor during his checkings are of 400 lei and of 1400 lei in stocks evaluation. All the data are presented in the following table:

Data		The thresholds of signification	Found errors
	-lei-	-lei-	-lei-
Total balance	420.000		
Stocks	45.000	650	400+1400
Turnover	150.000		
Personal capitals	53.000		
Net result	9.000	10%*9000=900	
Cumulated		1550	1800

Between the two found errors, none is superior to the total threshold of signification ($400\text{lei} < 1550\text{lei}$; $1400\text{lei} < 1550\text{lei}$). Regarding the threshold of signification level determined by the auditor for stocks, the found error of 1400 lei exceeds the threshold of signification value (650 lei). Owing to the fact that the plurality of the two errors is superior to the total threshold ($1800\text{ lei} > 1640\text{ lei}$), the other error cannot be removed.

The influence of found errors over the above data will be determined through the correction of these errors with the percentage of profit tax (16%), due to the fact that the threshold of signification was established taking the net profit as base of reference.

The incidence of found errors over the characteristic figures is:

$$\text{-over the net result} = \frac{(400 + 1.400) - (1.800 * 16\%)}{9.000} = 0,168 = 16,8\% \text{ from the net result;}$$

$$\text{-over the personal capitals} = \frac{(400 + 1.400) - (1.800 * 16\%)}{53.000} = 0,0285 = 2,85\% \text{ from the personal capitals;}$$

$$\text{-over the turnover} = \frac{(400 + 1.400) - (1.800 * 16\%)}{150.000} = 0,01008 = 1,008\% \text{ from the turnover;}$$

$$\text{-over the stocks} = \frac{(400 + 1.400) - (1.800 * 16\%)}{45.000} = 0,0336 = 3,36\% \text{ from the stocks;}$$

Taking into consideration the incidence over the net profit and the fact that the cumulated error is superior to the total threshold of signification, the auditor must suggest the correction of stocks post to certificate without reservations the annual accounts.

Example 2

Let's suppose that within the financial situations of a company, we are presented the income from the exploitation activity in amount of 600.000 lei, the assets in amount of 1.270.000 lei and the total current debts of 380.000 lei. For instance, the auditors can decide that some information which distort the image much than 9% from the incomes total will be significant and will be the subject of a qualitative consideration. If the misrepresentation is smaller than 4% from the total of exploitation incomes, the auditors can consider them as non significant. The image distortions between 4% si 9% will be judged by the auditor. Thus, in this example, **the bounds of the threshold of signification** for the declarations regarding the exploitation income are between 24.000lei ($600.000 * 4\%$) and 54.000 lei ($600.00 * 9\%$). We proceed in the same way for the other posts taken from the balance, establishing the following bounds of the threshold of signification:

-for assets: between 50.800 lei and 114.300 lei;

-for current debts: between 15.200 lei and 34.200 lei;

If the cumulated value of presentation errors within the exploitation incomes is inferior to the limit of 24.000 lei, we shall consider that the financial situations present a real image; if the combined value of errors will exceed the value of 54.000 lei, then we consider that the financial

situations don't present a real image; and for the values situated between 24.000 lei and 54.000 lei, a rigorous analysis will be imposed to all the information put at disposal.

4. Consequences of threshold of signification

At the end of its mandate, the auditor draws up the recapitulative list of his findings and checkings. When the enterprise accepts the rectifications made by the auditor, this one can give a certification without reservations. Otherwise, the significant or non significant character of his findings will determine the auditor's attitude and the content of his certification. In this sense (Marin Toma, 2005):

- if his findings don't have a significant character, the auditor will give a certification of the regularity and exactness of annual accounts without reservations;
- in the situation when his findings have a significant character, the auditor, if it's case, will be determined to adopt a certification without reservations or to refuse the certification;
- the impossibility of certification, which appears in the situation when the auditor considers that the economic entity hasn't put at his disposal or couldn't supply enough elements to settle his conclusions; In this case, he will write down in his report that he is not in the position to express an opinion.

The determination of significant elements and of the threshold of signification is left to the auditor's judgement, because in audit, the professional judgement is totally irreplaceable, due to the great number of factors to take into consideration and to the subjectivity of their relative importance.

Conclusions:

The most frequent modality through which the users can obtain true information consists in the effectuation of an audit. Afterwards, the audited information is used in the final process, starting from the assumption that this information is reasonably complete, exact and impartial. The determination of the significant elements and of the threshold of signification is left to the auditor's judgement, because in audit, the professional judgement is totally irreplaceable, due to the great number of factors to take into consideration and to the subjectivity of their relative importance.

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PROBLEMATISATIONS ET RESTRUCTURATIONS CONCERNANT L'ORGANISATION DU CONTROLE DE GESTION EN ROUMANIE DANS LE CONTEXTE DE LA GLOBALISATION DE LA CRISE FINANCIERE

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La deuxième décennie du troisième millénaire va représenter un nouveau début pour la théorie et la pratique du contrôle de gestion. Les structures et les conceptions classiques qui ne peuvent plus être utilisées comme instruments adéquats pour les nouvelles demandes devront être réanalysées. Le marché, la consommation, l'environnement, la valeur, la performance et la société informationnelle ont besoin de connaissance, d'un système de relations financières, de production et de communication basées sur la confiance. Les règles du jeu de business doivent être réécrites et la production de rapports financiers doit être validée et certifiée par des professionnels agréés et indépendants. L'internet va devenir un instrument efficace du contrôle de gestion. Dans ces conditions survient la demande légitime: Nous pouvons rester indifférents à ces provocations ? Il paraît que non. La connaissance, l'adaptabilité et la flexibilité deviendront les mots clés pour la nouvelle société qui sera créée. La société de l'avenir sera une société super-paramétrisée dans ce qui concerne les règles et les normes qui doivent être connues et comprises par ses membres.

Mots Clés: evolution du contrôle de gestion, valeur, économie basée sur connaissance, performance.

Cod jel: M11, M41

Optique stratégique et optique comptable dans l'évolution du contrôle de gestion

L'objectif de cette recherche était de montrer comment, en se référant exclusivement à la valeur-travail, **contrôle de gestion** perdait de sa pertinence aujourd'hui. Alors que la main d'oeuvre directe représentait au début du siècle, pour les ingénieurs tayloriens, le poste de dépenses le plus important, l'essentiel des coûts est aujourd'hui engagé avant la phase de fabrication (conception) ou après (commercialisation), en raison des modifications de la demande, de la concurrence et de la technologie.

En se fondant plutôt sur la valeur-rareté, il est au contraire possible de prendre en compte certains éléments tels que la qualité, la flexibilité ou encore les délais, qui ne sont traditionnellement pas gérés par le contrôle de gestion, et qui sont donc devenus des enjeux stratégiques.

Le **contrôle de gestion** est une fonction qui, par l'exploitation du système d'information, vise à contrôler, mesurer et analyser l'activité d'une organisation (entreprise à but lucratif ou association). Cette fonction doit apporter des éléments d'information décisifs au management quant à l'atteinte des objectifs (opérationnels et/ou stratégiques).

Le contrôle de gestion a pour mission de s'assurer de la cohérence entre la stratégie adoptée (*où veut-on aller ?*) et les moyens mis en œuvre sur le terrain (*que fait-on et avec quoi ?*). Cela implique plusieurs choses :

- en terme de positionnement, le contrôle de gestion est un des organes de la direction, même s'il a des liens forts avec le système comptable ou financier (par exemple). Et même, les managers opérationnels roumains font du contrôle de gestion ce qui est une des difficultés de définition des missions spécifiques au contrôleur de gestion.

-le contrôle de gestion n'est pas un organe opérationnel, mais un organe d'échange d'information. Une liaison étroite avec les unités opérationnelles est indispensable pour être certain du bien fondé des indicateurs et des outils de mesure. Bien que lié à la direction générale, le contrôle de gestion doit tout autant partir "du bas" que "du haut" et veiller à être utile aux unités de travail autant qu'à la direction de l'entreprise.

- le contrôle de gestion ne peut se contenter de "cueillir" l'information qui passe, il lui faut la maîtriser complètement et s'assurer de sa qualité (fiabilité, ponctualité, etc.) ; il aura besoin d'information spécifique, sans autre usage que celui qu'il en fera, et il peut avoir besoin de la construire lui-même.

- le contrôle de gestion ne se limite pas à donner des chiffres et allumer des voyants dans un tableau de bord, il construit le tableau de bord et l'adapte en permanence aux objectifs. Il aide à déterminer les indicateurs pertinents en collaboration avec le management.

Coût et valeur dans le contrôle de gestion

Les concepts fondateurs du contrôle de gestion ont vu le jour dans un contexte économique particulier, celui d'une croissance extensive. Dans la mesure où les modèles de contrôle sont fondés sur un mode de croissance hérité du siècle passé, qui n'a que peu à voir avec le présent, il peut paraître surprenant que les premières protestations portant sur l'inadéquation des outils comptables en général, et une possible redéfinition du contrôle de gestion, aient surgi aussi tard. Ce n'est que depuis peu d'années que la prise de conscience de la disparition des conditions qui avaient présidé à l'avènement des fondements du contrôle de gestion commence à se traduire par l'arrivée d'une assise nouvelle.

Le coût est le coeur pour un système de contrôle de gestion efficace. De fait, il a modelé le contrôle de gestion de façon telle que l'aspect rentabilité à court terme prime sur le long terme, entraînant une suprématie de l'objectif efficacité-économie du contrôle de gestion au détriment de celui d'efficience. Aussi le coût a-t-il été utilisé comme substitut interne à la valeur, réalisée en externe, pour évaluer la performance.

Patrick Besson répond à cette interrogation de façon positive... à condition toutefois que le marché soit "pur et parfait", situation bien peu réaliste s'il en est ! Il considère que l'information coût est insuffisante, mais qu'il ne faut pas tant chercher à améliorer celle-ci que repenser la valeur. Besson opère une différenciation entre effet utile et valeur, cette dernière n'apparaissant qu'en amont de la transformation (elle est consommée par cette opération) et en aval, dans la matérialisation de la transaction. L'effet utile est, quant à lui, un produit de la transformation qui donne lieu à la transaction.

Le passage par cette notion d'effet utile pourrait s'expliquer par le recours à une autre définition de la valeur, qui n'est plus fondée sur le travail, mais sur l'utilité. L'effet utile devient dès lors le substitut interne de cette nouvelle valeur. **Philippe Lorino** opère une analyse comparable. Il met en évidence le renversement entre une gestion fondée sur le coût et une gestion axée autour de la valeur . Il écrit que " *la représentation économique de l'entreprise doit se structurer autour du couple coût-valeur: la valeur, c'est la richesse produite par l'entreprise; le coût, c'est la richesse qu'elle consomme.*"

Le système de calcul des coûts qui s'est dès lors élaboré au début du siècle n'a pas cherché à remettre en cause cette définition de la valeur, mais s'est concentré sur l'élaboration de mesures rapportées à des quantités de travail, d'où les difficultés actuelles pour intégrer l'évolution de l'environnement (passage à une économie d'offre) et les modifications des constituants de la valeur induite.

L'école britannique intègre très clairement la notion de travail pour expliquer l'évolution de le **contrôle de gestion**. En particulier, Hopper et Armstrong reconstruisent la comptabilité selon une conception de domination du processus de travail. En replaçant la comptabilité dans une perspective conflictuelle, ils concluent que les modes de contrôle qui caractérisent les différentes formes du capitalisme provoquent des conflits économiques et sociaux. Catalyseurs de nouvelles formes de contrôle, ceux-ci doivent permettre d'éliminer ou de concilier les résistances au contrôle du travail.

Le système du contrôle de gestion sur le travail et la mécanisation du Taylor

D'après l'oeuvre de Taylor et de ses descendants spirituels, il est possible de déterminer plusieurs facteurs contribuant à prouver le fondement de la comptabilité industrielle sur la valeur-travail. Il s'agit principalement du chronométrage, du salaire aux pièces, de la séparation du travail manuel et intellectuel et de la constitution du "Planning Department". En fondant son système sur le travail et la mécanisation, Taylor l'a en fait appuyé sur des éléments parfaitement intégrés dans la société et compris de tous, ce qui explique sa diffusion et son succès.

Taylor semble préconiser la méthode du coût complet "*Les dépenses totales de l'établissement, directes ou indirectes, y compris celles de l'Administration et des services commerciaux, doivent figurer au prix de revient de l'objet vendu*". Ce système du coût complet est logique et surtout cohérent avec la situation économique qui prévalait lorsqu'il a été conçu (fin de la deuxième révolution industrielle); il l'est encore en Europe lorsque le taylorisme s'y développe, après la première guerre mondiale. De fait, les besoins des dirigeants européens se résumaient alors à la connaissance du coût de leur produit, afin de connaître le prix minimal qu'ils pouvaient accepter afin d'attirer une clientèle appauvrie.

La démarche de Taylor pour une usine de fabrication de starters automobiles est la suivante. La première étape consiste à classer le travail (ou plutôt les charges qu'il entraîne) selon un critère d'augmentation de la valeur par le travail. Si le travail effectué ajoute de la valeur au produit à vendre ou même à l'équipement permanent, les frais sont imputés aux fonctions de fabrication; si, par contre, le travail effectué n'ajoute aucune valeur, ni au travail, ni à l'équipement, alors il s'agit de dépenses qui sont rattachées à un troisième groupe de fonctions, les services auxiliaires, d'administration et de commercialisation.

Ces services se subdivisent en départements puis en catégories de dépenses. Même cette dernière classification est faite selon ce principe du travail qui doit entraîner une modification visible et directe du produit. Ainsi, l'entretien des outils, qui fait partie du département de maintenance (service auxiliaire) se partage encore en deux : entretien de ceux qui permettent de changer la forme ou la nature de la production en cours, et de ceux d'utilisation courante (tournevis, clefs...). La classification effectuée, il reste le plus délicat, l'imputation des dépenses. Taylor cherche à répartir les frais indirects de production tout au long du processus de fabrication. Les dépenses d'administration sont imputées au prorata des salaires des sections immobilisations, produits et matériaux vendus. Les dépenses auxiliaires sont quant à elles imputées aux différents services de production en fonction du total des *cost numbers charges* (somme des coûts relatifs à une machine ou un centre de production multiplié par les heures de travail sur les machines). Une formule semblable est encore utilisée pour répartir les dépenses du service des outils et de la réparation, puis pour celles de fabrication.

Enfin, pour ce qui est des dépenses commerciales, Taylor estimait qu'elles ne devaient pas apparaître dans le coût de production, et devaient donc être allouées seulement aux produits vendus (en fait, il les passait directement en charges). Alors que Taylor prêtait relativement peu d'attention à la comptabilité industrielle, qui n'était qu'un aspect de son système parmi d'autres, ses disciples et successeurs ont au contraire établi un lien étroit entre l'organisation du travail et la comptabilité analytique.

Taylor a beaucoup insisté sur l'importance de la main d'oeuvre comme critère de répartition. Cependant, le fait d'avoir employé un critère tel que celui des *cost numbers charges* montre une ouverture que ses successeurs n'ont pas toujours eue. Que ce soit *l'heure de main d'oeuvre* qui ait été retenue plutôt que *l'heure machine* ou encore le poids s'explique par le fait que, pour les ingénieurs, l'homme est toujours derrière la machine. L'utilisation d'un coût de revient qui exprime avant tout les coûts directs de la production a par conséquent entraîné une focalisation excessive des dirigeants sur ces coûts directs. Les conséquences en sont aujourd'hui bien connues, à savoir une mauvaise estimation de la valeur entraînée par le recours à la main d'oeuvre intellectuelle (problème des activités discrétionnaires entres autres), et la multiplication des subventionnements croisés entre produits.

En développant le travail intellectuel (le plus souvent fixe et indirect) et en le répartissant en fonction de la main d'oeuvre directe, il n'est possible de voir qu'une augmentation du coût de revient. Les avantages qui en résultent sont donc ignorés, d'autant que le rendement est considéré ici comme la productivité du travail direct. Seul le volume est synonyme de performance.

Vers un changement du concept contrôle de gestion

En changeant de modèle de croissance dès les années trente, il aurait fallu en même temps modifier la comptabilité industrielle, adaptée à l'évolution technologique de l'entreprise, mais certes pas à l'évolution globale du contexte économique, et en particulier de la concurrence. La technologie et la structure organisationnelle ne sont pas suffisantes pour définir le **contrôle de gestion**. L'appréhension de l'évolution de la concurrence doit permettre de redéfinir aussi la comptabilité de gestion.

Or, depuis les années trente, les pays occidentaux sont entrés dans un modèle de croissance intensive. Alors que le taylorisme négligeait de s'intéresser aux conditions d'écoulement de la production de masse, il devient indispensable de prendre en compte les nouvelles pratiques de consommation. En ce qui concerne le système productif, la croissance intensive s'accompagne de gains de productivité élevés combinés à une forte concurrence, ce qui entraîne une large diffusion du progrès technique en particulier dans le secteur des biens capitaux.

Le nouveau contexte concurrentiel qui découle de cette situation implique de s'attacher à la demande et non plus seulement à l'offre. En effet, il est indispensable de prendre en compte, au sein de l'entreprise, la baisse de la valeur relative des biens capitaux ainsi que leur obsolescence rapide. La production de masse, associée à la faible différenciation des produits, nécessite de se tourner vers une autre notion de la valeur. Dans ce cadre où l'offre doit s'adapter à la demande, la théorie néo-classique, qui part de la demande pour déterminer la valeur des biens, donc l'offre, paraît plus appropriée. La valeur de référence de ce modèle est la valeur-rareté (ou utilité), ce qui implique de connaître la satisfaction maximale du consommateur.

En fait, les économistes ne sont pas parvenus à opérer un choix entre les deux notions de valeur (les théories de valeur-travail et valeur-rareté restent toutes deux d'actualité). Ce qui signifie qu'il est possible de garder le coût comme inducteur de la valeur, et si besoin est (selon les caractéristiques de la consommation du produit et la nature de la concurrence), de juger un coût insuffisant pour évaluer la performance, et le compléter par un outil tel qu'il prenne en compte la demande.

Il est intéressant de constater qu'en réalité, l'interrogation sur la concurrence, et plus généralement sur le marché, est plus ancienne qu'il n'y paraît. En effet, c'est à partir des années cinquante que sont apparus les premiers outils intégrant cette orientation. Certains outils développés alors peuvent être considérés comme les véritables initiateurs d'un changement du concept de valeur.

Pour le **contrôle de gestion**, l'analyse de la valeur est une manifestation importante de la prise de conscience du marché. Tout comme le coût complet dans l'optique taylorienne, l'objectif est de réduire le coût de revient, mais en respectant les besoins et les exigences du marché en matière de qualité et de performance. Cependant, contrairement aux tayloriens pour lesquels les réductions ne pouvaient s'obtenir que dans la phase de fabrication, l'analyse de la valeur s'intéresse à la

conception du produit, s'interrogeant sur la façon dont le produit répond aux exigences de la demande. Son champ d'action couvre aussi bien les produits existants que ceux en cours d'élaboration, ou encore les procédés technologiques de fabrication.

L'analyse de la valeur est " *un procédé de travail dont l'objectif est de trouver le compromis optimal entre le coût et les fonctions d'un produit, tout en assurant un niveau de qualité nécessaire et suffisant* ". Par cette définition, on met en évidence deux éléments : le premier est le concept de valeur qui sous-tend celle de la méthode. En s'intéressant aux fonctions, elle impose de regarder l'utilité pour le consommateur, l'estime qu'il en tire ou l'échange qu'il pourrait en faire. Autrement dit, l'analyse de la valeur est définie par la valeur-rareté. Le deuxième élément est le fait que cette méthode vient en complément des outils de calcul du coût existant. Elle se contente d'apporter des renseignements complémentaires aux coûts calculés.

L'analyse de la valeur a donné naissance, toujours aux Etats-Unis, au *Design to Cost* (Conception pour un Coût Objectif). Le but est de ne pas dépasser un certain coût de revient afin de rester en deçà d'un prix de vente (notamment dans le cas de prix de vente plafonnés). Cette méthode ne semble s'intéresser qu'au coût, ce qui explique pourquoi elle a été repensée. En effet, dans un marché concurrentiel, où les produits sont peu diversifiés et les prix de vente très proche, la différence ne se fera pas sur le coût, mais plutôt sur les fonctions.

Les Japonais ont repris cet outil, le transformant en *Target-Costing* (coût-cible). Cette méthode est celle qui, à nos yeux, paraît le plus tenir compte de la demande, sans pour autant oublier la notion de coût de production. Pour Jean-Noël Deglaire et Laurent Dumarest (1994), le coût-cible est une technique qui intègre le souci du consommateur, car elle s'appuie sur l'équation marché + stratégie coût: d'une part, la marge de l'entreprise est déterminée "lors de la définition de la stratégie produit"; d'autre part, le prix de vente est déterminé par le marché sur lequel le nouveau produit doit permettre, selon les auteurs, "de satisfaire un ensemble de besoins exprimés ou latents". La référence à la valeur-rareté est ici exprimée de façon implicite.

Contrairement à l'analyse de la valeur sur laquelle les ingénieurs ont la mainmise, la technique du coût-cible relève bien du domaine des comptables de gestion. Une littérature fort abondante sur l'ABC tend à faire considérer cette méthode comme Celle qui permet d'appréhender à la fois le coût de revient et le phénomène qualité, donc les deux aspects de la valeur. En effet, en identifiant des inducteurs de coûts qui expliquent le rôle et donc le montant des frais généraux (qui ne sont pas nécessairement corrélés à une variable de court terme) l'ABC leur trouve une finalité : les activités. Cependant, la réponse que l'ABC apporte à ce problème ne diffère pas fondamentalement de la méthode classique des sections homogènes. A la section -verticale- lui est substituée l'activité -transversale- ce qui implique une réorganisation complète de l'entreprise (ABM).

Données stratégiques

Le développement de technologies de gestion en Roumnaie de la production grâce à l'informatique offre l'avantage de pouvoir dominer certains aspects particuliers de la demande.

Ainsi le Juste-A-Temps, avec ses corollaires (Kanban, OPT...), doit permettre de réduire les stocks et d'éliminer le gaspillage en s'attaquant à ses sources (matière et temps). Cette technique vise l'utilisation des moyens de façon intégrée, et non la charge maximale sur les postes de travail pour augmenter leur productivité. Il est alors possible de faire passer en charges directes certaines charges considérées comme indirectes dans l'organisation traditionnelle (qualité, entretien...).

Les méthodes telles que le *Cost of Quality* ou plus largement le *Total Quality Management* s'intéressent plus particulièrement à la qualité du produit. Alors que la première consiste à mesurer le coût d'obtention d'un certain niveau de qualité, la seconde vise à réduire les coûts de traitement supposés supérieurs aux coûts de prévention. Cependant, ces techniques ne relèvent pas systématiquement du contrôle de gestion. En effet, elles sont souvent contrôlées par les fonctions qualité dont sont à présent dotées toutes les grandes entreprises.

En fait, intégrer ces données dans le champ de le contrôle de gestion signifie élargir son champ d'action. Les informations de court terme fournies par les services opérationnelles sont nécessaires, mais à condition de les intégrer dans une optique stratégique. Bouquin explique comment le contrôle de gestion doit s'occuper de l'information monétaire, même non-transactionnelle, mais tout en prenant garde à délaisser une partie de l'information non-monétaire transactionnelle. C'est du monétaire dont doit s'occuper le contrôle de gestion. Johnson - Kaplan prônent eux aussi la valorisation du non-transactionnel. Keegan, Eiler et Jones exposent pour leur part une opinion similaire, définissant des *cost-based performance measures* et des *non cost-based performance measures* (mesures de performance exprimées en termes de coût / mesures de performance non- exprimées en termes de coût), qui peuvent être internes ou externes.

En fait, la valeur-rareté ne remplace pas la valeur- travail, mais elle la complète. La nature de la demande et de la concurrence est telle que, pour la majorité des industriels, il est nécessaire de combiner les deux notions. Cette réflexion sur la valeur nous amène à nous intéresser au coût. Jusqu'à présent, il a été admis qu'il devait traduire la valeur- travail, mais peut-il et doit-il également traduire la valeur- rareté ? Le développement des indicateurs non valorisés signifie-t-il une remise en question du coût ? Ces questions découlent en fait d'une interrogation sur les mécanismes de choix du prix. En effet, si l'on se réfère à la conception du " *mark-up* " (taux de marge), l'entreprise forme ses prix en ajoutant une marge au coût de revient. C'est cette règle qui est utilisée dans la technique du coût-cible par exemple. Ses avantages sont à la fois de tenir compte du marché (par la marge) et du coût.

Conclusion

Si dans le futur une entreprise roumaine souhaite améliorer ses performances financières, elle devra en effet s'assurer régulièrement qu'elle se rapproche petit à petit de son objectif en vérifiant ses états financiers; toutefois, elle devra toujours pouvoir relier ses performances financières avec ses actions opérationnelles. Le contrôle de gestion, en tant que production humaine, est le reflet d'une époque et d'un lieu. Cette notion de la valeur est la cause première de la non-pertinence de le contrôle de gestion aujourd'hui. Certains changements nous laissent cependant espérer un renouveau de la comptabilité de gestion et implicite du contrôle de gestion .

On peut identifier **les limites actuelle du contrôle de gestion dans la pratique roumaines comme:** tout n'est pas mesurable à un coût raisonnable, et pourtant il faut bien quand même piloter le système. Le contrôle de gestion n'est pas la panacée; une fois qu'un indicateur a été choisi, il devient très vite un but en soi, susceptible de toutes les manipulations. Cela induit un stress et limite la confiance qu'on peut accorder au système de contrôle de gestion, même si l'on peut mettre en place toutes sortes de parades (renouveler les indicateurs utilisés, les garder confidentiels, etc.), les managers ne doivent pas se contenter des indicateurs du contrôle de gestion, mais doivent aussi régulièrement constater sur place ce qui se passe dans les unités de l'entreprise et avec les clients, vu que les indicateurs ne détectent pas tout.

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RISK MANAGEMENT'S IMPORTANCE AND ROLE IN AUDIT

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The importance of treating this theme is proved by the current situation that economy and the entities activating on the market are confronted with.

Risk is present in all the actions and event of humanity. Risk is in a permanent change, it evolves in complexity, among the traditional exposures to hazard other risks are added: operational, financial, strategic, market, country, legal, human, fraud risks and its complex character can be attributed to a range of factors that are grouped by the specialized literature in macroeconomic factors, also called extern, and microeconomic factors, also called intern.

In the last few years, the importance of the corporate governance involvement in risk management is more and more recognized. The organizations are under the pressure of identifying all risks that it is confronted with starting with social risks, ethical and environment risks to those financial and operational, and also to the way it manages them at an acceptable level. In the same time, using integrated risk management procedures and politics at enterprise level (ERM-Enterprise Risk Management) has extended, in this way organizations are admitting the risk management approach advantages.

The internal audit, in both his roles of providing assurance and consultancy, contributes to risk management in various ways, its importance being increasing due to the current financial crisis.

For the financial auditor the term of risk has other senses, meaning that risks are regarded through the mission type and objectives. But still, identifying and measuring audit risks during the mission's planning are strong connected to the existing risk management of the entity. In this way, if the audited entity has an implemented risk management that is proved to be efficient, this will represent a starting point for the auditor in evaluating the risks connected to his engagement, meaning that the general audit risk will be lower and the assurance level will be higher. More than that, an efficient enterprise risk management determines a higher level of trust in the internal audit department's activity.

Key words: Risk, risk management, internal audit, audit risk, efficiency

JEL Code: M 42

Introduction

While liberalization, globalization and fast development of informatics technology generate new business opportunities, financial and economic entities are exposed to more diverse and complex risks than before. Risk identification, measurement and control have never been more important for organizational and strategic management than they are today.

The paper treats issues such as the existing risks for an entity, the efficiency and advantages of implementing a risk management, the internal auditor's play in risk management functioning and its connection with the audit risk determined by the financial auditor during his engagement.

The importance of treating this theme is proved by the current situation that economy and other entities on the market are confronted with. Since the financial crisis started and up until now we could assist to the effects apparently produced by this situation, but even more by an inefficient management and by unreliable strategic plans.

Under these conditions, the entities that had developed an efficient risk management in the past had been capable to survive this period, and some of them even more, they managed to maintain profitable. It is also true that past can't be changed, but learning from it, some cautions can be taken, some decisions and plans that haven't been implemented can be reviewed.

Treating risk management and its impact in all aspects it becomes relevant for the entities which can still learn from mistakes and from other positive examples and also for those who analyze and study the market, being a subject of real interest and present.

1. About the risks

Risk has various definitions in the specialized literature. It can be defined as: "the possibility to get into danger, to face a mess or to support a damage".(I.Mihut & co.,2003:6), "the risk is practically the threat of an event to affect the ability of a company to function and to accomplish its strategic goals. The risk generally appears not from the probability that nothing is going to happen, but from the probability that something bad is going to happen" (I. Mihut & co., 2003:8). Also, "the economic life is governed by incertitude and any other view of further events is, by definition, susceptible not to fit in the predicted parameters" (I. Mihut & co., 2003:8).

The risk exists permanently and he produces or not depending of the created conditions. Risk is present in all humanity's actions and events. Risk is in a permanent change, it develops in complexity, beside traditional exposure to hazard, adding operational, financial, strategic, market, country, legislative, human, fraud risk, and the complex character of the risk can be referable to more factors that in the specialized literature are grouped in macroeconomic factors, named external factors and microeconomic, named internal factors.

Internal factors are:

- Economic, determined by: changes in interest rate, inflation, insurances, taxes, economic changes.
- Political, determined by: the ambiguous and changing legislation, some protective politics, regulations and respecting them, area political priorities.
- Competitive, determined by: the changes of the market, the pressure of big companies , the types and services offered, fashion trends, using the mass-media, the demanding and the expectations of the clients, contract requests.

Internal factors may be considered:

- Social determined by: employees' ethic and faith, individual culture of the involved people concerning risk, the pressure claimed by the employees for their compensation rights or performing inadequate activities, frequent employees' changes, to close relationships between employees.
- Economics, determined by: the changes in data processing , the material substitution, a better security for the new products and technology, a better system regarding the procedures and the new operating methods, the need to reduce the loses, the investors' and shareholders' expectations, the adopted strategy.
- Physical determined by: buildings' damages, the fraud made through the acts or intentions of the employees or clients employees.

2. Risk management's importance for internal audit

In the last few years, the importance of the corporate governance involvement in risk management is more and more recognized. The organizations are under the pressure of identifying all risks that it is confronted with starting with social risks, ethical and environment risks to those financial and operational, and also to the way it manages them at an acceptable level. In the same time, using integrated risk management procedures and politics at enterprise level (ERM-Enterprise Risk Management) has extended, in this way organizations are admitting the risk management approach advantages.

The internal audit, in both his roles of providing assurance and consultancy, contributes to risk management in various ways, its importance being increasing due to the current financial crisis. People carry on activities of managing risk in order to identify, evaluate, manage and control all types of events or situations that might affect the organization. These may vary from individual projects to defining the types of risk, for example, the market risk, in order to measure the threats and opportunities that organization as a whole is confronting with. The principles presented in this statement can be used to guide the internal audit's involvement in all risk management processes, but we are especially interested in risk management at enterprise level, because this is the one able to improve the governing processes in an organization. Enterprise Risk Management is a continuous process, structured within the organization as a whole, which allows identification, evaluation, decision upon the answers and reporting regarding the opportunities and threats that affect accomplishing the its objectives.

The Board of Directors has the general responsibility to make sure that risks are properly managed. But, in practice, the Board delegates the risk management functioning frame to the management team. Within the team, a separate function may exist, that coordinates and manages these activities and contributes through competences and knowledge.

The benefits of implementing an Enterprise Risk Management include:

- a higher probability of accomplishing the organization's objectives;
- improving the key risk understanding and their implications;
- a management that pays attention to the real important meters;
- less unpleasant surprises or crisis situations;
- the capacity of taking a higher risk for a higher reward/benefit;
- extended informing about risks and making decisions regarding risks.

Any decision regarding the accomplishment of a new objective, developments and restructures, involves a risk in obtaining the estimated results due to the influence of changes that take place all the time in the technical, economical, social, internal and external environment. The incertitude conditions influence the events that concur to obtain some indicators that can be used to evaluate the versions of realizing a project and the decisions' fundamentals.

Risk evaluation is necessary starting with the highest levels of making strategic decisions - for example, in al cases regarding of: what type of activities to be carried on, what assets to be bought or what markets to take in count- and continuing with the operational decisions- from accepting foreign currency payments to assuring a proper level of safety for the working place. Evaluation of risk plays a role even if an organization is or is not conscious of risk management (Likierman A., 2008).

Despite its complexity, risk management is actually a managerial instrument which helps the organization to hold the most proper control politics of the unfavorable results (Internal Audit Standard 1130). Even though, the general opinion saying that a good corporate governance determines management tot make the best decisions in risk conditions – meaning, well informed decisions are opposed to avoiding risk. Some specialists consider that in the current climate an attitude of adversity against risk once with the increasing importance of conformity, determined by the reactions of the regulators around the world regarding the corporate crushes (cases of Enron, Parmalat, Worldcom).

A good risk management has as a purpose the improvement of organizational decisions. This does not only refer to avoid or to minimize loses, but also to treat the opportunities in a favorable manner.

One of the key requests of the Board is to obtain the assurance that the risk management process is efficient, and key risks are managed at an acceptable level. It is possible that assurance may come from different sources, but from all of them the assurance provided by management is the most fundamental. This aspect should be complemented by providing objective assurance for which internal audit is a key source. Other sources include external audit and specialized independent reviews.

Internal audit will normally provide assurance on three areas:

- risk management process, both for process projecting and process's good functioning;
- classified risks' management as "key-risks", including controls efficiency and other response to that;
- adequate and reliable risk evaluation and reporting upon risks' status and control.

Internal audit is an independent and objective activity of assurance and advisory. Its main role regarding ERM is to provide objective assurance to the Board regarding risk management efficiency. Research has shown that Board directors and internal auditors agree upon the fact that two of the most important ways through which internal audit adds value to organization consist in providing objective assurance that major business risks are managed in a proper way and providing assurance that risk management and internal control work efficiently. One of the consultant role in which internal audit engages involves:

- Making available for management some instruments and techniques used by the internal audit to analyze risks and control performing;
- directing the process for introducing ERM in an organization due to accumulated experience;
- providing advisory, facilitating work-shops, preparing the organization for risk area and promoting the development of a common language for understanding this area;
- supporting managers that have as an objective the identification of the best ways to minimize risks.

Any time the internal audit supports the managerial team in creating or improving the risk management process, its working plan should include a well defined strategy regarding the responsibility migration for these activities to the members of the managerial team.

If within the organization exists a management risk function, that works properly, then the work volume of the internal auditors will be substantially reduced. If this function is missing, the internal auditors may support and advice the superior managers upon risk identification, their evaluation and establishment of risk appetite.

3. The connection between risk management and financial audit

In analyzing the audit process, risk evaluation takes a very important place. In some authors' opinion (I. Graz & S. Manson, 2000), risk evaluation should be the main concern of the auditor. Shortly, risk audit could be defined as the risk that an auditor assumes to give an inadequate audit opinion regarding the audited financial situations. Audit Standards mention the following definition for audit risk: "the risk that the auditor attributes to an inadequate audit opinion, when financial situations contain information significantly misstated".

For this reason, the auditors especially follow, starting with the moment they accept the engagement, but also during the whole mission, the risks that might occur that might lead them to opinions that do not reflect reality as it is. After identifying the risks, the auditors establish their procedures depending on the risk areas.

Taking into account the audit risk establishment's importance, the audit standards contain very few indications regarding the technical manner for establishing this risk. In this way, the professional judgment of the auditor is almost exclusively used.

The main objective that the auditor considers consists in projecting and implementing some audit procedures to allow risk reduction at an acceptable level. Audit risk has to be very well evaluated, because not only a superficial audit, but also too detailed applied audit procedures can have negative effects on the audit process. The issue for the auditor is that, if he is not aware of the risks he assumes, if he simply doesn't consider these risks, he might get some severe professional sanctions or payment for some significant material damages, as a consequence of being accused of bad-faith and negligence in accomplishing his attributes. All these explain the auditor's tend to

allocate a substantial part of his time during the engagement to identify the risks involved in exercising his mission.

When the general audit risk is evaluated within the engagement, it divides in three components, measured separately: inherent risk, control risk and detection risk. The relationship between the three components is the following:

Audit risk = Inherent risk x Control risk x Substantive risk or $AR=IR \times CR \times SR$

Audit risk and its components can be established both in quantity (percents) and quality (low, moderate, high) terms. In practice the most used are the quality methods of measurement for risk levels.

a) Inherent risk represents the susceptibility that the closing balance of an account or of a category of transactions to contain misstated information that might be individually significant or when misstated information are cumulated from other closing balances or transactions, supposing that there weren't effectuated side internal controls (RCFA, 2000:123).

b) Control risk represents the risk of misstated statement, that might occur in the clogging balance or in a category of transactions and might be individually significant or cumulated with other information, and can not be detected, prevented or corrected in due time by the internal control and accounting systems (RCFA, 2000:124)

External auditors base their work on the internal auditors' work by using the audit risk model. When the activity of the internal auditors is efficient, external auditors significantly reduce the control risk, reducing at the same time the quantity of substantive tests and implicitly the improving the quality of the given opinion.

c) Substantive risk represents the risk that a substantive procedure performed by the auditor might not detect misstated information in the closing balance of an account or of a category of transactions, that might be individually significant, or cumulated with other misstated information from other closing balances or other categories of accounts (RCFA, 2000: 124). Substantive risk's level is strongly connected to the substantive audit procedures performed.

As we could observe, for the financial auditor the concept of risk has another sense, meaning that risks are regarded through the engagement type and objectives. But still, identifying and measuring audit risks within the engagement planning coexists in strong connection with the existent risk management within an entity. In this way, if the audited entity has implemented a risk management that has proved its efficiency, this aspect represent a starting point for the auditor in evaluating the risks connected to his engagement, meaning that the general audit risk will be lower and the assurance level provided by the auditor will be a higher one. More than that, an efficient ERM determines o bigger trust in the activity of the internal audit department that leads the financial auditor to:

- reducing the number of tests and procedures;
- less audit evidence to be collected;
- shorter period of time for the engagement;
- concentration upon really important elements to be tested;
- higher cost/benefit report both for the audited entity and for the auditor.

4. Efficient risk management – a solution for crisis situations

The entities that knew to apply at the right time an efficient risk management are those which now look with lucidity to the market an which can take advantage of the existing crisis. Those who let themselves carried out by the increasing economy wave, and who had lost from sight the elementary risk management measures, must redirect.

The financial crisis that we are passing through is like a coin with its two faces. So managers can let themselves influenced by negative news and by the general state of pessimism, and they can concept their future plans depending on these or they can act in a way to take advantage of the situation.

Within the market, everything works on the domino principle: the increasing of the credit cost will bring the disappearance of some companies, but will consolidate the position of others, negative examples will create tensions, and, potential investors will reorient to other geographical areas.

If a company will win or not upon this situation depends of how well did it know to evaluate its business and the impact of an unwanted event, of how well did it know to develop a plan that assures upon the business continuity. And this means exactly risk management.

After this period that we are crossing might have to win the enterprisers who knew to correctly quantify the money value, the ones who will manage to balance the expenses and revenues. Up until now the consequences of the inexistence of such a balance had been seen through extreme measures as: disposals, activity interruptions, relocation.

The entities which accumulate reserve funds or the entities which increase these funds and are leading for bay markets, professionalism in serving the clients, added value, will be the winners in the current situation. Risk management represents the art of making decisions in a world governed by incertitude. More exactly, risk management represents a process of identification, analysis and answer to the risks that an organization is exposed to. The costs of implementing a risk management within a company depend on the methods of unpredictable events' managing.

Conclusions

It can be conclude that changing means insecurity, and insecurity means risk. The future belongs to the businesses based on an efficient risk management. The obtained results deserve the effort, because efficient risk administration brings important benefits for the company through: increasing the shareholders' trust, improving the company's image and the moral of the employees, increasing productivity.

The basic play that the internal audit has in connection with risk management should be providing assurance for the executive management and for the Board of Directors upon the efficiency of risk management. In the context of an extended role assumed by the internal auditor, additional protection measures should be applied.

There also is a strong relationship between the risk management's efficiency and the risk level and assurance level measured by the financial auditor. So, a risk management proved to be efficient leads the external auditor to establish a lower level for the general audit risk.

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HOW FINANCIAL AUDITORS USE CAATS AND PERCEIVE ERP SYSTEMS?

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The adoption, implementation and expansion of complex information systems [IS] have an important impact on organizations. To cope with this situation, financial auditors need to use more and more computer-assisted audit techniques [CAATs] especially when auditing organizations with complex information systems such as Enterprise Resource Planning [ERP] in place. In this article we investigate the way Romanian financial auditors use CAATs during their mission and their perception regarding the effects of ERP systems on financial accounting and reporting system evaluation. Results show that even though financial auditors consider that the existence of an ERP system is influencing at least “to a great extent” their ability to evaluate the client’s information system, they are not using CAATs to the same extent.

Keywords: financial auditors, CAATs, ERP

JEL Classification: M42

Introduction

The adoption, implementation and expansion of information technology [IT] enhanced information system [IS] have an important financial and non-financial impact on business functions and their structure within a firm (Chatzoglou and Diamantidis, 2009). It is thought that the use of IT generates competitive advantage but meanwhile exposes organizations to new risks triggered by IT complexity.

Financial auditors need to develop and/or enhance their IT knowledge and skills in order to fulfill their mission as required by their professional standards. During audit planning they have to consider how the client’s characteristics affect systems risk (Bedard *et al.*, 2005) and the possible misstatements (Bell *et al.* 1998). Also, IT complexity affects the nature of audit testing (Javrin *et al.* 2009). To cope with this financial auditors are forced, by their professional standards and the current environment in which they work, to use more and more computer-assisted audit techniques [CAATs] especially when auditing organizations with complex information systems such as Enterprise Resource Planning [ERP] in place.

Enterprise Resource Planning [ERP] systems are generating unique risks due to business-process reengineering and customizations. This triggers control weaknesses which leads to financial statements errors and inaccurate internal information. These issues need to be addressed in the implementation process overcoming the problems arising from improperly trained personnel and inadequate process reengineering efforts (Wright and Wright, 2002).

The main objectives of this article are to investigate the way Romanian financial auditors use CAATs during their mission and perceive the effects of ERP systems on the evaluation of the financial accounting and reporting system. To achieve these objectives we used a questionnaire addressed to financial auditors in which they had to answer the following questions (on a scale ranging from 1 = to small extent to 5 = to a very great extent):

- To what extent are you using computer-assisted audit techniques (CAATs) for the evaluation of the financial accounting and reporting system? and
- To what extent the existence of an ERP system affects the evaluation of the financial accounting and reporting system?

Review of prior literature

The member bodies of the International Federation of Accountants [IFAC] are required to adhere to International Education Standards [IES] and Practice Statements [IEPS] in order to implement generally accepted “good practice in the education and the development of professional accountants” (IFAC, 2009:2). According to IEPS 2 *Information Technology for Professional Accountants* candidates to the profession have to be knowledgeable in CAATs consisting of: accounting packages; professional research tools; analytical tools and pattern matching/recognition (IFAC, 2009:34). Further, International Education Guideline 11 *Information Technology for Professional Accountants*, a precursor for IEPS 2 requires for the professional development of evaluators/auditors of information systems to use CAATs in the planning phase: in order to design effective and efficient verification procedures to meet evaluation objectives; and during system evaluation when performing planned procedures (IFAC, 2003).

Information Systems Audit and Control Association considers that CAATs may be used in performing the following audit procedures:

- „Tests of details of transactions and balances;
- Analytical review procedures;
- Compliance tests of IS general controls;
- Compliance tests of IS application controls;
- Penetration testing” (ISACA, 2008:2).

During the audit plan the auditor should use an appropriate combination of manual techniques and CAATs. The factors that may influence the use of CAATs might be: computer knowledge expertise and experience of the auditor, efficiency and effectiveness of using CAATs over manual techniques; time constraints and level of audit risk (ISACA, 2008).

In the scientific literature there are only a few research papers describing the extent of CAATs use in the audit practice and the factors supporting their use (Curtis *et al.* 2009). Javrin *et al.* (2008a) reported that financial auditors use extensively CAATs for analytical procedures, audit report writing, work paper management and sampling. Also, auditors perceived other audit applications as being important for audit planning, internal control evaluation and risk assessment, but used them less. In another paper Javrin *et al.* (2008b) identified performance expectancy and organizational and technical as factors that influence the auditor’s acceptance of CAATs. They argued that CAATs usage can be increased by developing training programs within audit firms. Curtis and Payne (2008), found that audit firms influence the implementation of new technology by using long-term budgets and by communicating their support and encouragement to auditors. Hermanson *et al.* (2000) investigated the extent to which internal audit departments are using CAATs for: system analysis and documentation; program testing or data integrity testing.

Regarding the ERP influence on the audit mission, Hunton *et al.* (2004) examined the extent to which financial auditor are able to recognize higher risks associated with ERP system in comparison to non-ERP systems and assessed financial auditors’ tendency to consult with specialists when assessing ERP and non-ERP system risks during the planning stage of the audit. They observed that financial auditors “do not indicate a greater need to consult with IT audit specialists when auditing an ERP versus non-ERP system and they are equally confident in the ability of financial audit teams to assess risks in both computing environments” (Hunton *et al.* 2004: 7). They suggest that financial auditors are overconfident in their ability to assess risks in complex systems. In a previous research Hunton *et al.* (2001) found that financial auditors are unlikely to consult with specialists with IS risk management practice in their firm which suggests that potential financial statements errors and audit risks may not be identified.

Method used

This study was supported by the Chamber of Financial Auditors of Romania. A questionnaire was indicated to financial auditors addressing matters related to the perceived importance and

their opinion or approach to several IT related activities they should be performing during their engagement. The questionnaire was emailed to 1.520 financial auditors, but due to invalid or wrong email addresses 232 emails were undeliverable. Of the 1.288 valid questionnaires mailed we received 96 answers (answer rate: 7.45%). To improve the answer rate we intend to have a second round of questionnaires sent out.

The questionnaire consisted of three main parts. In the first part, the respondents were asked to answer several questions related to their educational background, both academic and professional. The second part contained questions addressing the auditor's profile: the type of their main activity; years of experience; number of audit missions completed; the nature of the client organization's activity. In the third part, respondents were asked to answer seven questions related to: the perceived importance of several IT related activities; the way the identified IT related activities are carried out (by the auditor or by an IT specialists); the extent to which auditors apply analytical procedures or use CAATS during their mission; the extent to which ERP systems affect their ability to evaluate the client's AIS and the influence of AIS evaluation on the audit opinion (using an interval scale rated from 1 = not important/to a small extent to 5 = very important/ to a very great extent).

Results

The collected data showed that 44 respondents (45,8 percent) stated that the most frequently type of business audited by them is manufacturing, followed by services (19,8 percent) public institutions (11,5 percent) and banking (10,4 percent). The majority of the respondents (52,1 percent) have less than five years of experience, while 40 of them (41,7 percent) have between five and ten years of experience. Because the financial audit profession is still "young" in Romania none of the respondents have more than 15 years of experience.

The first question analyzed in this article was: To what extent are you using computer-assisted audit techniques (CAATs) for the evaluation of the financial accounting and reporting system? For this question the auditors had to choose between: to a small extent = 1; to some extent = 2; to a moderate extent = 3; to a great extent = 4; or to a very great extent = 5. The mean rating (see Table 1) for this question (2.8646) is close to the median value (3) suggesting that, on average, financial auditors use CAATs for the evaluation of financial accounting and reporting system ranging mainly from "to some extent" to "a great extent". But the mode value (2) suggests that most frequently the respondents chose the "to some extent" option (see Table 2).

The second question analyzed in this article was: To what extent the existence of an ERP system affects the evaluation of the financial accounting and reporting system? (available options: to a small extent = 1; to some extent = 2; to a moderate extent = 3; to a great extent = 4; or to a very great extent = 5. The mean rating (see Table 1) for this question (3.6979) is also close to the median value (4) suggesting that, on average, financial auditors consider that the existence of an ERP system is influencing their ability to evaluate the financial accounting and reporting system "to a great extent" (see Table 2). This is confirmed by the mode value (4).

Table 1. Descriptive statistics

	N	Mean	Median	Mode	Std. Dev.
Use of CAATS	96	2.8646	3.0000	2.00	1.25337
Influence of ERP	96	3.6979	4.0000	4.00	1.01691

Table 2. Frequencies of answers for the two questions analyzed

	Use of CAATs		Influence of ERP	
	Frequency	Valid Percent	Frequency	Valid Percent

Valid	To a small extent	15	15.6	4	4.2
	To some extent	27	28.1	7	7.3
	To a moderate extent	20	20.8	23	24.0
	To a great extent	24	25.0	42	43.8
	To a very great extent	10	10.4	20	20.8
	Total	96	100.0	96	100.0

From Table 3, presented below, we can see that of the 15 respondents who stated they use CAATs “to a small extent”; a third of them consider that the existence of an ERP system is influencing “to a very great extent” their evaluation of the entity’s information system. From an opposite perspective, of the 42 respondents who considered that the existence of an ERP system is influencing “to a great extent” their ability to evaluate the entity’s information system, 14 stated they use CAATs “to a great extent”, while the same number stated they use CAATs “to some extent”.

Table 3. Cross-tabulation CAATs x ERP

		The influence of ERP					Total
		To a small extent	To some extent	To a moderate extent	To a great extent	To a very great extent	
Use of CAATs	To a small extent	2	3	2	3	5	15
	To some extent	1	0	10	14	2	27
	To a moderate extent	0	2	8	6	4	20
	To a great extent	0	0	3	14	7	24
	To a very great extent	1	2	0	5	2	10
	Total	4	7	23	42	20	96

Conclusions

The above analysis suggests that even though financial auditors consider that the existence of an ERP system is influencing at least “to a great extent” their ability to evaluate the client’s information system they are not using CAATs to the same extent. This means that a significant number of auditors still rely on a traditional approach “around the computer”, by using tests of details and analytic procedures rather than “with the computer” by using CAATs, when they evaluate the financial accounting and reporting system or during their overall mission. As technology is constantly evolving auditors will be forced to be knowledgeable and use IT tools and techniques that will allow them to detect misstatements and by this properly changing their audit plan in order to avoid the possibility of issuing an erroneous opinion.

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COSTS CONTROL IN THE SPHERE OF PUBLIC UTILITIES SERVICES THROUGH BUDGETARY ON RESPONSABILITY CENTERS

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Setting prices and tariffs to ensure the economic viability of public service operators, user interests, included in terms of their supportability, environmental and natural resources conservation, require a rigorous cost management, each element representing expense leverage in establishing, adjusting or modification of rates or flexible rates.

A leading method of production which subscribes to these desiderata may be budgeting costs; the method entails setting budgets that allow the creation inside the establishment of autonomous subsystems called centers (places) of responsibility, which creates the frame favorable to optimize resource consumption and profit earning. Responsibility center can be approached from two angles: part of the company but also the basis for responsible performance.

Under these auspices, the article tries to capture some aspects of the unique features of behavioral services for water and sewer, were included in the Sectoral Operational Programme (SOP) Environment Programme financed by EU.

Keywords: cost, management accounting, public utilities, responsibility centers.

JEL: M4, M41

1. Introduction

The adhesion of Romania to European Union imposes clear criteria regarding the assurance of performance services and of quality, and, in special, the development of the network industries and the connections between them through the setting of regional transport services. Regional operator is formed through the association of Local Councils of administrative-territorial units which holds in their subordination water and sewerage services into a inter-community association and the setting of an unique economical agent (regional operator) on the County territory, which has the gold to assure public services through projects for the infrastructure development of achieved public services with reimbursable financial assistance from the European Union.

2. Budgeting and calculation of cost on responsibility centers to regional operator Teleorman

2.1. Generalities on the activities of regional operator

Regional operator has established five branches with secondary offices, situated in each urban entity from the county, led by five directors, and it is organized by a pyramidal system, as it follows:

- the basic organizational structure;
- branches (five urban localities).

Within branches, departments can be set up, bands and work teams depending on management activity. The other departments develop activities which compete to achieve production activity. Project financing will provide, prioritizing, from alternative sources of EU grant funds (81 %), grant funds from the state budget (12, 4%), from the budgets of local councils (2%) and their own sources of regional operator.

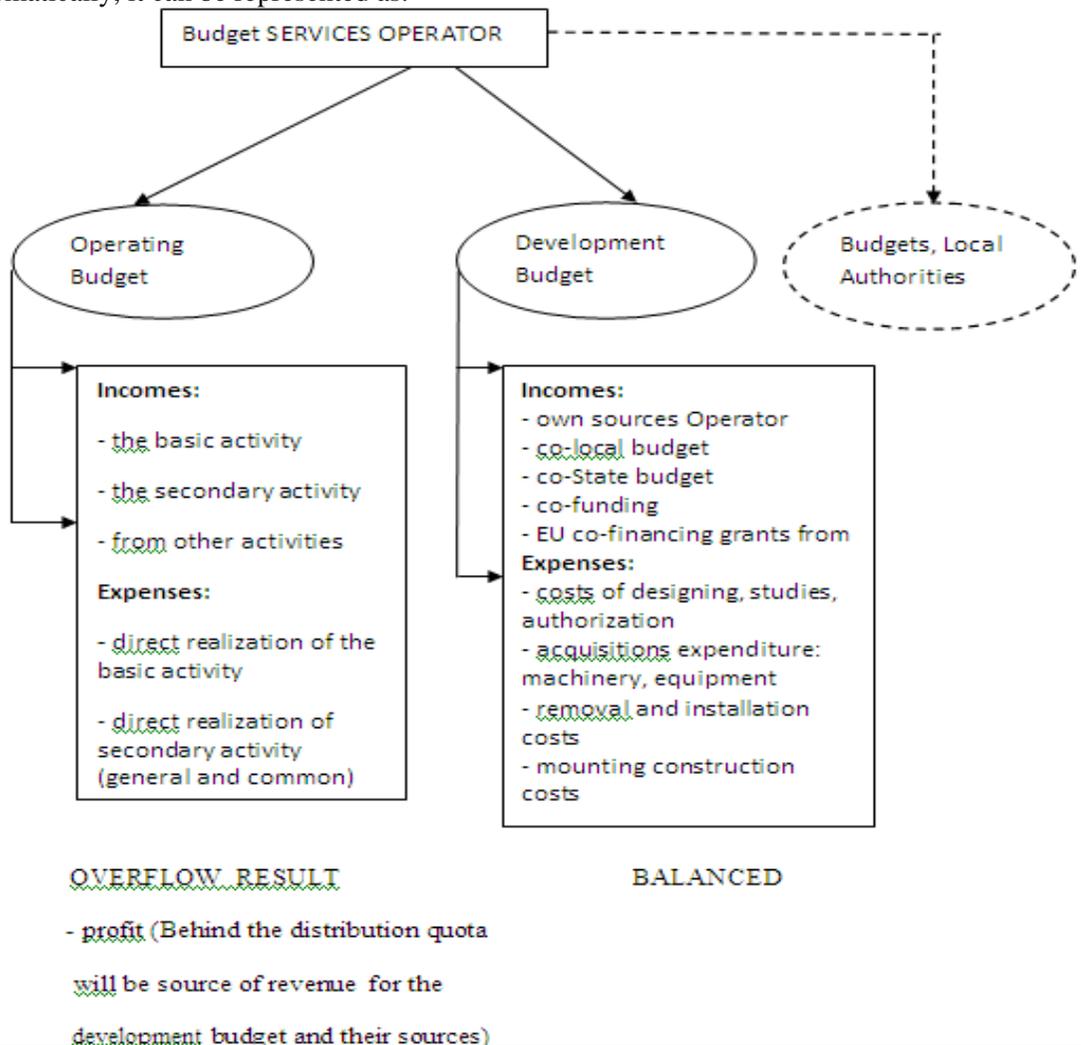
2.2. Budgeting costs

By presenting, in general, the specificity of the activity, the modality of financing, and the organizational structure of production activity and drinking water distribution and sewerage services to a regional operator, we proceed to examine the background and budgeting costs of services in this area.

In terms of temporary areal, budgeting will be on short term (a year), medium term (2- 5 years), but also on long term (5- 10 years) considering that the production activity takes place in parallel with investment activity spanning the period 2009 – 2015.

Taking into account as subject, the budgeted activity, we see that we are dealing with two types of budgets: operating budget and development budget but five budgets adjacent to development budget- budgets of territorial administrative authorities which co-finance the development budget of the regional operator and guarantee through upstream bank guarantee letters, from year to year, the branch bank loans.

Schematically, it can be represented as:



Operating budget of the regional operator services is established by adding the operating budgets of the five branches, budgets which, as structure, both revenue and expenditure are identical, considering that both the base production and the secondary is homogeneous to which are added departments' budgets.

Budget expenditure (direct and indirect) can be structured in the following budgets: budget costs for raw materials and materials; direct wage bill budget contributions to social insurance budget

and special funds budgets directly related to direct salaries; budget expenditures for electricity in a coaching gold; fuel technology spending budget; indirect costs budget to tangible and intangible amortization; indirect costs of production budget (municipalities) of the sections; administrative overheads budget; production cost budget section; general budget of the production costs; budget unit cost per product.

We present here some specific features of budgets as:

- budget costs for raw materials and materials - raw material in this situation is the raw water and what is particular element is that water is a State monopoly and is classified as priceless natural resources. Consumption of natural resources is not free in the cost of production.

- production cost budget section - coincides with the budget process production phase; department budget capture / capture phase of raw water; department budget treatment / phase raw water treatment; distribution department budget / water distribution phase; department budget sewage / wastewater channel phase; department budget treatment / phase wastewater treatment and discharge envoy. This situation is possible because production is consistent and an important feature in determining the cost centers.

- budget unit cost per product - costs included in budgets already developed, are taken in budget unit cost, and the articles regrouped according computer classes articles classification. The peculiarity is that each branch, based on the principle of decentralization, cuts out its budgetary expenditure costs, collects and distributes costs to determine the unit cost per m³ of drinking water, such as, at a regional operator where it works with five prices per m³ of drinking water.

One of the research tracks might be possible making a unique price per m³ of drinking water to operator level, after implementation of the modernization of production and distribution of technical infrastructure, when all branches will share the same management working and standards.

- development budget - regional operator services is drawn from the general department and unlikely the income and expenditure realized until now by the service operators in which it was also included the investment activities, I proposed to cut this part of BVC and to treat it separately form the development budget.

2.3. Computational costs on responsibility centers

The method of calculation on expenditure places or cost centers consist in, essentially, collecting all costs of finite product, the calculation and their distribution on the final carrier (finite product), not on the places of particular units of costs calculation. A large volume in the efficiency of this method is the proper organization of the costs' places and optimization of the number, their levels and their respondents.

Thus, the need to consider some essential elements, namely: the specific of the activity (the object of the activity); the production technology features; the production structure; the organizational and functional structure.

If the first three elements which are specific to achieve the objects are much harder to change, the fourth element may be adapted to the cutting process centers on charges by a redesign of the organizational structure and function of the operator services.

Considering the four elements and the possibility of changing some of them, we may think the responsibility centers to the structure regional operator services level, previously, presented in the paper as:

- General department - supervisor of the whole activity - can be established as a center for lifetime analysis but also by cost center budgeting overhead of operator, may be detailed in several cost centers depending on the number of its subordinate departments.

- Investment department - cost center for investment activity where development costs are budgeted will collect and distribute to other cost centers that will be affected by work on modernizing infrastructure.

- branches (of the 5 urban localities) - can be cost centers; the result, but with concomitant obligation analysis centers on the branch budgeting costs, but also the obligation to establish revenue and cost centers in the production and sale activity. In these conditions, at this level, the next steps would be:

Step 1: delineation of expenditure – it will determine the cost centers at each phase of the production process taking account that, previously, I presented as feature of this service - homogeneity of production structure and production departments with overlapping production phases;

- it will specify that the cost centers are the real centers (operational expenses), that is directly related to the structure of enterprise technology and they are functional centers (structures of expenses) that is not directly related to the structure of production technology but to the performance of activities of organization, administration and management of production that are obtained in the actual places or service operator overall.

Differences between actual and functional spaces lie in the production and identification of consumer spending. In actual job, the activity can be measured quantitatively and can be identified on product costs, work or service; on the job as long as the functional activity can not always be measured quantitatively, but it is appreciated more in terms of quality and expenses incurred in these places may be direct for its own work and indirect to the work developed for more real centers. So, the functional spaces will reflect the expenses which may not be distributed, after, no criterion to real places, but which still contain the final product cost. Place of expense or cost center must be viewed in terms of: a collection techniques of production costs on expenses places which they rose; where they appeared; a distribution possibility on cost carriers; a production obtained in that place, if it meets a distinct function or is a commodity production; the responsibility increase of the leader's of the expenses places in question.

Step 2: the optimizing of the number of places and expenditure analysis centre, considering that the budget structure will be modeled after the hierarchical structure, and it will have to determine to what level, the responsibility center will be established .

Step 3: the determination of the ventilation way of auxiliary centers in the main centers, through the determination of keys distribution arising from their specific and temporary options. After attending these organizational steps, next steps for the organization of budgeting, accounting and cost calculation on actual expenditure centers.

In the case of the method of calculation on places of expenditure, both planning and tracking of production costs, it will be made by real, functional expenses places and within these computer articles.

A peculiarity in budgeting auxiliary and annexes expenses represents the impossibility of a hair quantitative measurement, leading to their overall determination – values, using various statistical methods such as the previous year achievements corrected with the foreseeable changes of planned budget and cost reduction coefficient.

After programming expenditure places (centers) of costs by centralizing their organizational structures, it is obtained the service operator's expenditure budget operator, in which are included supply costs.

Budgeting expenditure places (centers) production requires proper organization of accounting costs on places realized as units of calculation. In this sense, collection of direct costs from the base section, will be made by account 921, "Expenditure on basic activities" that take place in analytical number of centers (the 5 branches), and within their computer articles. Collection of indirect costs related to production base is made with the help of 923 accounts "Indirect costs of production" which is developed by analytical number of centers, real expenditure (the 5 branches) maintenance and operating expenses and number of functional centers on costs of production for the main sections of the department overheads. Auxiliary expenditure activities will be collected for the 922 account "expenditure auxiliary activities" applied on analytical patterns. If it is necessary, the appropriate analytics can take place on expenditure items.

Similarly, it is organized the accounting sections and functional structures, administrative overheads that are collected for the 924 account "general administration expenses".

The recording of the actual cost of the finite production is accomplished by debiting the 902 account "internal deduction related to the obtained production". Calculation and recording differences between budgeted and actual cost is performed in the debited of the 903 account "internal deduction related to price differences". The deduction of the actual cost of the finite production is accomplished by debiting 901 account "internal deduction related to expenses" and crediting the 931 account "obtained production cost". In the debit of the 931 account, it is registered the credit of the 903 account, meaning the price differences

We can conclude that in the 901 debit account, we can find the obtained production cost (the 931 credit account) and the price differences between budgeted and actual cost, in a word, all expenses regarding the achieved finite production. Homogeneity of production (delivered water) does not require the expenses treatment with the progressed production costs. The unit cost calculation is made by the ratio of total expenditure related to the finite production of the achieved quantity.

3. Conclusions:

Redesigning the regional operator activity on water supply and sewer facilities on responsibility centers, can ensure:

- the separation of productive expenditure from the unproductive expenditure and the monitoring with the purpose to reduce the latter expenditure;
- efforts quantification, but also each employee contribution;
- locating costs on training places, which enable tracking of their evolution;
- through the elaboration of the expenses budgets and their individualization on products, it can introduce a computerized internal system for allocating the resources and tracking expenditures.

We believe that it should be followed the example of the managers of developed countries that have made from the redesign of the activity of the companies on responsibility centers a current practice, and two of the indicators of results (actual expenses related to global production and production cost of goods) are suppliers of statistical calculations and information which must be elaborated, interpreted, accounted and strictly controlled, activities for which is responsible the management accounting.

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IFRS, US GAAP OR ROMANIAN REGULATIONS CAN THEY BECOME ONE?

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In a period when convergence is the main driving force of IASB and FASB programmes, who needs a comparison of the two sets of standards-IFRS issued by IASB and US GAAP issued by FASB? Aren't they mainly the same after 5 years of hard work of those who establish the two sets of standards? The answer lies in the fact that mostly all people who work in a multinational company has to understand the present differences between these two sets of standards. A combination of the convergence of the national standards with the IFRS and the follow-up use of IFRS standards would mean that the two accounting languages from all over the world should be reduced rapidly only to IFRS and US GAAP. Although these two sets of standards are more and more similar to each other, they are not totally identical-yet. And until they become identical it will be necessary to state clearly and explain the differences that exist between them.

Keywords: IFRS, US GAAP, convergence, Romanian regulations

JEL Classification: M41

1. Introduction

Convergence is in fact a term that defines either elimination or assimilation of the differences and it represents the main priority that exists both on the agendas of the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

Nevertheless the major differences existing between US GAAP – issued by FASB - and the International Financial Reporting Standards (IFRS) issued by the IASB are the topic of many discussions. These differences suggest that the two GAAPs keep on using different languages. This apparent contradiction made many people ask themselves how different are these sets of standards and where they do exist, why do they exist and when will they disappear?

Even if the US standards and the international ones do contain differences, the general principles, the conceptual structures and the accounting results between them are most of the times the same or similar, although the differences seem to have overshadowed the similarities. We believe that an analysis of this problem should not forget the fact that the two sets of standards are more similar than different for most of the transactions, IFRS being mainly but not totally based on the same principles as US GAAP.

2. Literature review

There were issued various statistics which refer to the importance of both these accounting regulations: IFRS AND US GAAP. These statistics were realised by the most known and important firms of audit from all over the world and demonstrate the real significance of these

two accounting regulations, IFRS and US GAAP, as accounting languages of the world. The analysed indicators for realizing the statistics are: the international exchange capitalization and the presence in the list of the biggest 500 companies in the world.¹¹³³

So, out of an international exchange capitalization of 36 trillions USD¹¹³⁴:

- 11 trillions USD correspond to the companies that adopted IFRS as a financial reporting system;
- 17 trillions USD correspond to the companies that adopted US GAAP;
- 4 trillions USD correspond to the companies that apply Japanese GAAP;
- the rest refers to other financial accounting systems (Canadians; Indians).

And among the companies included in Fortune 500, in 2005, 200 applied IFRS, 176 applied US GAAP and 81 applied Japanese GAAP.

3. Methodology

The character of this paper is a theoretical one. The data were collected through analyzing of regulations and accounting standards such as: American, International and Romanian standards and through studying the existing literature regarding the differences between these standards.

The paper has two parts. The first one is about the importance of convergence for the entire world and the second one presents a comparison between the regulations or accounting systems which are internationally relevant. Of course, we also attached importance to the Romanian accounting system.

4. The process of convergence

Convergence refers to the activity of accounting regulations of heading for the same goal, leading to similar economical conclusions; but at the same time we could say that it refers to the emergence of functional or structural similarities between systems that differ from the point of view of their accounting doctrine and culture, as a result of similar conditions imposed by the economical globalization.

“To converge” means getting to the same result or to the same point. For a better understanding of this concept which is frequently used in accounting, we have to start from that point of view that a perfect harmonization of accounting regulations cannot be possible, because each accounting system is influenced by economic, financial, fiscal, social, juridical and cultural variables of the environment¹¹³⁵.

The convergence means the alignment to the International Accounting Regulations, without taking them word by word. The convergence refers to a sole set of standards, with the possibility of their conformation to the national realities, issued by the representatives of multiple countries.

As a conclusion we can say that the national accounting systems should adapt their regulations to the international ones (IFRS/IAS) or just to enact some changes.

There have been different opinions related to convergence. There have been many who didn't consider possible to achieve this convergence process but there have also been others who saw it possible.

Those who didn't see possible the achievement of convergence and only saw the obstacles are the pessimists who doubted the opportunity of adopting the international accounting regulations that might have assured the convergence.

The arguments that they bring are some realities that different accounting systems are facing with: difficulties and time in correcting some governmental errors, ethical shortages, accounting scandals

¹¹³³ Fortune 500.

¹¹³⁴ Cristea S., Armonizarea contabilă internațională și practicile contabile naționale. Studiu de caz pentru România și Italia; Editura Accent, 2007, 42.

¹¹³⁵ Palich L.E., Gomez-Mejia L.R., A theory of global strategy and firm efficiencies: considering the effects of cultural diversity, *Journal of Management*, Vol. 25, no. 4: 587-606.

Another category would be formed of those who believe in the utility and possibility of achieving this process and these will be the optimists. The main arguments brought by these are^{1136, 1137}:

- the investors and the financial analysts can understand the financial situations of foreign companies;
- the resource flow for investors streamline internationally;
- the multinational companies can easily establish the stabilized accounts;
- tax authority can measure in an easier way the profit tax owed by foreign companies;
- the enterprises can define worldwide their strategic position in their activity sector.

We consider that big efforts are made to achieve this convergence process and we think that this process is realised on 3 dimensions:

- the convergence between FASB and IASB;
- the convergence between IAS and regional regulations;
- the convergence between regional and national standards.

We have still to wait and see how long this process of convergence will last and if it will be finally achieved.

5. Differences between accounting regulations: IAS/IFRS, US GAAP and Romanian Regulations

FASB started in 1995 a project with a special importance for the international accounting, namely a comparative study between IAS and US GAAP. The goal of this project was that of offering the necessary information for appreciating the acceptance of IAS for the stock exchange quotation of the non-American companies on the capital market from USA. These differences were and are still discussed by IASB during its meetings.

The differences established by the FASB's project refer to 5 categories, namely:

- accounting method and similar application modalities, with the mention that „similar does not mean identical”, in this category were included 56 from 255 reviewed differences;
- similar accounting method but different application modalities: there aren't guides for the application of the standards, in this category are included 79 from the cases;
- different accounting method, in this category are included 56 from the cases;
- there are allowed more alternative methods or there are problems which are treated by one of the standards but not by the other one, in this category are included 64 from the cases.

Although at the beginning, not even the big accounting companies agreed that foreign companies should present financial situations issued according to IAS/IFRS, without a reconciliation with American regulation US GAAP, slowly they began to change their opinion and they joined the process of convergence between the two types of regulations.

Therefore, some of the biggest accounting companies (PriceWaterhouseCoopers and Delloite&Touche) made some studies in which they analysed the differences existing between IAS and the national standards of some countries they considered as being strategic from the point of view of the investments. Among these countries we could mention: the Netherlands, Czech Republic, Switzerland, Great Britain, Hong Kong, China and others.

Moreover, these advisory companies showed their interest and involvement in identifying the differences between US GAAP and IAS, respectively IFRS. Throughout the last years, the interest in analysing the differences between IAS/IFRS and US GAAP was constant.

Usually, the methodology of study of these differences is a simple one and it consists in comparing the requirements of the standards issued by IASB with the American ones. These

¹¹³⁶ Obert R., *Pratique des normes IAS/IFRS*, Ed. Dunod, Paris, 2004.

¹¹³⁷ Gernon H., Meek G., *Accounting – an international perspective*, McGraw-Hill International Editions, 2001.

conclusions might be punctual and accompanied by some explanations or they can be concerned with thematic, where the differences between the accounting practices are more obvious.

Of course, these differences between IFRS and US GAAP do not represent the totality of the differences that exist between these regulations because many times these differences depend on the industry where the entity is part of, on the economical nature of the entity's activity as well as on the accounting policies adopted by the entity.

These comparative studies between the two accounting regulations do not contain all the differences that exist between them, but are mostly concerned with the differences that were most often found in practice.

Therefore, in the following table we will try to present the most important similarities and differences between these three regulations¹¹³⁸.

Table 1. Comparative analysis between IFRS, US GAAP and Romanian Regulations

Subject	IFRS	US GAAP	ROMANIAN REGULATIONS
Financial Statements			
Components of financial statements	Balance sheets, income statements, cash flow statements, statement of changes in equity and accounting policies and explanatory notes present comparative information for two consecutive years.	Similar to IFRS, except that SEC requires to public companies to present in the income statement, cash flow statement, statement of changes in equity, comparative information for 3 years.	The Financial Statements comprise the: - Balance sheet; - Profit and loss account; - Statement of changes in equity; - Cash flow statement ; and - Explanatory notes. The information should be presented for 2 years.
Balance sheet	Does not prescribe a particular format. A liquidity presentation of assets and liabilities is used, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Some minimum items are presented in balance sheet.	Entities must present either a classified or non-classified balance sheet. The items of the balance sheet are presented in decreasing order of liquidity. The public companies should follow SEC regulations.	The format requested is the list (the vertical one). The assets are classified by nature and liquidity and the liabilities by nature and eligibility.
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain minimum items are presented in the income statement.	Present as either a single-step or multiple step format. Expenditures are presented by function. SEC registrants should follow SEC regulations.	The format requested is the list The operating expenditures are classified by nature.
Statement of changes in equity	This statement shows capital transactions with owners, the movement in accumulated profit/loss and a reconciliation of all other components of equity. The statement is presented as a primary statement except when a SoRIE is presented. In this case, only disclosure in the notes applies.	Similar to IFRS except that US GAAP does not have a SoRIE, and SEC rules permit the statement to be presented either as a primary statement or in the notes.	The format requested is the one presented on columns. This statement presents all the elements of equity and their evolution during the period.
Cash flow statement	Standard headings but limited guidance on contents. It is used direct or indirect method.	Similar headings to IFRS, but more specific guidance for items included in each category. Direct or indirect method is used.	Prescribe a similar model with that prescribed by IAS 7. Direct or indirect method is used.

¹¹³⁸ PWC, 2006; Deloitte, 2007; KPMG, 2007; E&Y, 2007.

6. Conclusions

No piece of work that draws a comparison between two large sets of accounting standards can include all the differences that might appear in accounting due to the large number of transactions that might take place. The existence of any differences – and their materialisation in financial situations of an entity – depends on various specific factors including the nature of the entity, the interpretation of general IFRS principles, its industrial practices and the choice of its accounting politics where US GAAP and IFRS offer a solution. Throughout this work I've tried to approach the differences that appeared mainly in the present practices.

WHY ARE THERE ANY DIFFERENCES?

While the national standards were developed, IASB and its predecessor the International Accounting Standards Committee (IASC) had the opportunity to use the thinking of standard setters from all over the world. As a result the international standards contain elements of accounting standards from different countries. Even where an international standard had as its starting point a standard that existed in the US, IASB could improve that standard. Through this action IASB could avoid some of the problems that appeared in FASB standard. Besides, as part of the annual "Improvements Project," IASB revises its existing standards in order to improve their clarity and consistency and taking advantage again of the present practice and opinions. Due to these reasons, some of the differences between US GAAP and IFRS refer to the standards – meaning, they are intentional deviations from U.S. requirements.

As a general rule, the IFRS standards are broader and are based on principles as compared to those from the US. IASB avoided issuing interpretations of its own standards and preferred to leave the implementing of the principles that are included in its standards to the preparers and auditors and its official interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). While the US standards contain important principles as well, the strong regulatory and legal environment from the U.S. markets led to a more normative approach - with far more "clear lines," more suggestive implementation advice and more complex interpretations. As a general rule, IFRS standards are more broad and "principles-based" than their U.S. counterparts, with limited interpretive guidance.

The IASB has generally avoided issuing interpretations of its own standards, preferring to instead leave implementation of the principles embodied in its standards to preparers and auditors, and its official interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). While U.S. standards contain underlying principles as well, the strong regulatory and legal environment in U.S. markets has resulted in a more prescriptive approach — with far more "bright lines," comprehensive implementation guidance, and industry interpretations.

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THE RELATIONSHIP BETWEEN ACCOUNTING AND TAXATION: A BRIEF INTERNATIONAL LITERATURE REVIEW

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This paper analyses the international literature regarding the relationship between accounting and taxation in the last 20 years. To this purpose we reviewed the 3 international economic databases (EMERALD, EBSCO and SCIENCE DIRECT).

We have found various studies approaching this relationship, the main research being performed due to the differences between them in the accounting systems that govern the world countries.

Keywords: accounting, taxation, accounting systems

JEL Classification: H25, H29, M40, M41

Introduction

The relationship between accounting and taxation is a relationship that existed, exists and will always exist; the question is related to the intensity, interrelation and mutual consequences.

When accounting intersects with taxation, many topics can be discussed. Literature gives us a rich source of documentation at the crossroads of accounting with taxation and the relationship that exists between them, the last aspect representing the object of study undertaken.

The study is intended to be an analysis of key studies that have addressed this relationship in the international literature, waiting to identify the key areas that are approached, namely accounting paradigm within the studies undertaken may be included.

Research methodology

Methodology approached followed to identify the articles from economical databases (EBSCO, EMERALD and SCIENCE DIRECT) that treated the phrase "the relationship between accounting and taxation". It was selected only the items that meet the following requirements: (1) articles are written in English (2) articles are full text, (3) selected articles were cited at least twice in the other papers.

The achieved is a qualitative research using inductive method, longitudinal analysis, identified as the positivist current.

Key areas identified

A lot of studies have examined the relationship between accounting and taxation in last two decades. These studies cover both national and various European and international countries, in this respect, the analogue method was used. In this regard, studied like the following can be mentioned: Haller (1992); Radcliffe (1993); Hoogendoorm (1996), Blake *et al.* (1997); Lamb, Nobes and Roberts (1998); Porcano and Tran (1998); Aisbit (2002); Doupnik and Salter (1993).

Doupnik and Salter (1993) have developed a classification of countries based on accounting schemes, obtaining their classification based on similarities of accounting standards, similar features of capital markets, namely the similarities corporate governance mechanisms. Eight accounting regimes have been developed, thus: (1) North American; (2) Anglo-Saxon; (3) Nordic; (4) Latin developed; (5) Latin developing; (6) Germanic; (7) Japanese and (8) Asian developing. Francis *et al.* (2002) realized a classification of financial accounting and tax compliance in relationship between accounting and taxation, based on each of the 8 aforementioned accounting regimes. The authors identified 3 level of compliance which defines the accounting systems, as follow:

- *Low level of compliance*: North American and Anglo-Saxon accounting systems;
- *Moderate level of compliance*: Nordic, Latin developed and Asian developed accounting systems;
- *High level of compliance*: Germanic, Latin developed and Japanese accounting systems.

The debate that surrounds the connection between accounting and taxation has been and still exists and as a consequence we can characterize it as being extremely intensive. Haller (1992) studied the development of the relationship between accounting and taxation in Germany treating it from an historical point of view. Moreover, Radcliff (1993) addressed the same relationship in terms of UK and France, using the analogue method. The author noticed some similarities between the two countries' accounting practices. The author focused on the example of adjustments deductibility for inventory distortion value, ordered but not delivered, even more, being the fact that both countries have denied the deduction for such adjustments. If the previous study was focused on determining the elements of similarity, the study conducted by Porcano and Tran (1998) focused on determining the factors founded in divergences surrounding the relationship between accounting and taxation. These divergences concerned the implications arising for the alignment of taxation rules with accounting rules. The study is one that can be qualified as being fundamental research and explores the relationship between accounting and taxation in countries where Anglo-Saxon accounting system is implemented: USA, UK, Australia, Canada and New Zealand.

The study conducted by Boross, Clarkson, Fraser and Weetman (1995), addresses issues regarding the new accounting system from Hungary since 1992. As a major difficulty discovered in the steps taken towards to implement the new system, the link between taxation and accounting was mentioned. The authors mentioned that tax rules have priority in preparing financial statements or cost calculation judging under detrimental bases regarding the new accounting rules.

We also recall the fundamental type of research carried out by Alley and James (2006), which addresses the relationship between accounting and taxation in terms of different objectives pursued by each of the two areas, the difficulties encountered in applying economic concepts and evolutionary process involving by both areas.

The degree of independence varied temporal and territorial belonging among the classifications of Nobes and Parker (1981) (*macro-economic orientation*), and Choi and Mueller (1992) (*micro-economic orientation*).

Micro-economic orientation refers in fact to that financial statements that are prepared primarily for shareholders and their development is not influenced by tax rules. The financial statements portraint a true picture of companies, and also, such an approach generates two types of results: accounting and tax result.

Macro-economic orientation, on the other hand, acknowledges the influence of tax rules; the companies prepare financial statements, mainly to the interests of creditors or state in order to determine the results focused on tax purposes.

A first approach used in order to asses these debates was the distinction that is made when it comes to two groups of countries, thus: countries influenced by Anglo-Saxon accounting system (e.g. USA, UK and Canada) and those under Continental accounting system influence (e.g. Italy, France, Portugal, Spain).

Using the classification of accounting systems under the aegis of the two approaches mentioned above, it is what the literature refers as the disconnection between accounting and taxation. The disconnection is primarily explained by the method of calculating of accounting and tax profit.

Accounting profit is calculated applying the principles and accounting rules, while the tax profit is calculated taking into account the tax rules. The profit calculated using two different methodologies, connote major differences.

It can mentioned that the introduction of the Fourth European Directive has produced major changes in the legislation of many European Union (EU) countries, from macro-economic

orientation to micro-economic orientation towards greater independence of accounting to taxation. The implementation of the Fourth Directive was seen as a genesis point of breaking the link between accounting and taxation (Christiansen, 1996).

Blake *et al.* (1997) focused on some dilemmas associated with the relationship between accounting and taxation, dilemmas and controversies such as:

- Tax considerations that support this link, and secondly, issues related to obtaining economic picture through the faithful representation of financial statements for some international users, and even fellow countrymen, which indicates that this goal can not be achieved as long as the link is a strong one;

- Addressing the issue of harmonization of national accounting practices at European level the fundamental link between tax and accounting rules, and accounting system is identified as a major obstacle;

- Main benefits from residing in “breaking” the link, experiencing large listed companies, while maintaining relations benefits are felt by small companies (since it not involves additional costs in the consolidated accounts as the large listed companies);

- In regard to this link, the practitioners supports the efforts of “breaking” this link, but this is not yet possible, maintaining the relationship having a major impact not only on accounting policies and practices but also spilling on the accounting conceptual framework.

The authors also highlights the fact that Sweden offers an unusual example of country that deals with two different pathways, as, legal system is based on a close relationship between accounting and taxation, while the private sector tries to "break" this link. The authors focused on ways regarding the directions in which Swedish accounting practitioners are willing to broke the link between accounting and taxation in order to develop relevant and comparable financial statements for accounting information users.

Two EU countries (Germany and United Kindom) were identified as distinctive and contrasting leaders in European accounting tradition of Anglo-Saxon and Continental origin, and an assesment was conducted regarding the major differences between those two countries. The differences are presented in **Table 1**.

Table 1 *The differences between Anglo-Saxon and Continental Accounting System*

Anglo-Saxon Accounting System (including United Kindom)	Continental Accounting System (including Germany)
Fair view	Legal view
Shareholder orientation	Creditor orientation
Disclosure of accounting information	Secrecy of accounting information
Tax rules separate	Tax dominated
Substance over form	Form over substance
Professional standards	Government rules

Source: Nobes (1992) and Blake *et al.* (1997); Author projection

The distinction between Anglo-Saxon and Continental accounting system, based on the relationship between accounting and taxation, is treated by Lamb, Nobes and Roberts (1998). The authors explained in more detail the two directions involved, as following:

- Historical link between accounting and taxation (the existence of taxation determin, to some extend, the existence of accounting);

- Degree of separation or rather contemporary connection between financial and tax reporting in respect of calculating the profit, an indicator considered to be very important in any economic activity.

Profit is the objective of empirical research conducted by Tzovas (2006). The author tried to identify the underlying factors designed to support decisions for a court accounting policies of Greece, where tax and financial accounting coincide. Study results revealed that the design decisions on accounting policies do not exclude the influence of tax minimization. Moreover, it

highlights the fact that the project objectives on the profit value may conflict the objectives to minimize the tax burden supported by companies.

Hoogendoorn (1996) has developed a taxonomy regarding the relationship between accounting and taxation in major EU countries. 13 countries were selected according to the stringency of the relationship and the possibility of maintain this connection was taken into consideration. The taxonomy considered is presented as follows:

- Accounting and taxation are characterized as being dependent and this relationship is not expected to change. In these cases we do not find deferred tax regulations, and as a result, several alternatives are allowed. Both individual and consolidated accounts are therefore influenced by tax regulations, and representing countries such as Belgium and Italy are mentioned;
- Accounting and taxation are dependent and this relationship is not expected to change. There are few deferred tax regulations and fiscal influences. France and Germany are included in this category (Germany also may be included in the first category);
- Accounting and taxation are still dependent, but the aim of breaking the relationship between them is desired. We do not find strict regulations regarding deferred taxation, and representing countries such as Sweden and Finland are mentioned;
- Accounting and taxation are formally independent; in practice the connection between them being characterized as very strong. We can find there strict deferred taxation regulations, and representing countries such as Poland and Czech Republic are mentioned;
- Accounting and taxation are independent. Alternative regulation allows deferred taxation, and as representative country is recalled Denmark;
- Accounting and taxation are independent and there are also specific deferred taxation regulations, representing countries such as Ireland, UK, Netherlands and Norway are mentioned.

Aisbit (2002) conducted a further study, based on the Hoogendoorn (1996) study. The author concludes that a close relationship between accounting and taxation lead to difficult interpretation of financial statements results. Referring strictly to the study conducted by Hoogendoorn (1996), the author highlights that this is a dynamic study and that changes have occurred in recent years regarding the classification of countries into one category or another, and the financial statements may not be fully independent from taxation. The road to independence is "paved" with good intentions by induced upon acceptance and application of IAS.

Remaining within this boundaries, Radcliffe (1993) discuss about the distinction between *tax compliance* (which necessitates of general assumption that taxable income is calculated under Generally Accepted Accounting Principles) and *financial compliance* (as a financial reporting practice involving substantial dependence on the choice of a specific accounting practice in preparing financial statements, to be conclusive for tax purposes, and also, the inclusion of specific items is a necessary condition for the granting of tax exemptions). The author explains that the existence of compliance indicate the fact that there is a close relationship between accounting and taxation, and that both of them have the power to influence each other.

On the scope of financial reporting systems correlated with taxation, we can mention a reference book for the international literature, *Comparative International Accounting (Fourth Edition)*, written by Nobes and Parker (1995). The authors identified seven factors contributing to the permanent existence of differences between financial reporting systems, as follow: legal systems, capital providers, taxation, accounting profession, inflation, accounting theory and accidents of history (1995, p. 11).

The authors highlight as a crucial extent that tax rules may affect the accounting estimates in various accounting regimes. Deferred tax is an example, mentioning that it was an endless source of controversy in Anglo-Saxon accounting system (UK, USA), while in the Continental accounting system (France, Germany), where the controversy is minor (marked by the strong influence of tax accounting rules), (1995, p. 15).

Stoianoff and Kaidonis (2005) studied the accounting and tax system in Australia, in an attempt to identify the extent to which community may benefit from them (as social function) and the

extent to which the both are emerging. The author's conclusion is bleak: both systems are disadvantages the society, supporting each other in an attempt to favor a certain class of society. Gallego (2004) realized taxonomy of relationship between accounting and taxation standards, thus bringing into focus the concerns of Spain. The taxonomy realized by the author, aimed the regulations from USA, UK, International (IAS/IFRS) and Spanish regulations.

Oliveras and Puig (2005) proposed the following verifiable *statement*: "there was a great reduction in the influence of tax in Spain in the early 1990s" (not intentionally they used the term "hypothesis" instead of usual "statement" as the authors explain that they wanted to avoid the implications that are subject of statistical tests). Although we find the fact *stated* in the literature, as a result of reducing the tax accounting rule, the authors refuting this claim.

Making use by the classification introduced by Lamb *et al.* (1998), the authors tested the previous claim, concluding that the relationship between accounting and taxation has undergone major changes over the period before 1990, moving from a definite rule, to its dramatic reduction. Taking the sample as 16 items (including assessment of fixed assets, depreciation, leasing classification, research and development costs, long-term contracts, foreign currency transactions, pensions, financial assets, etc.), the authors followed their introduction in the five cases developed by Lamb *et al.* (1998) according to the specificities of each item, underlining the analysis for three years: 1989, 1994 and 2003. Half of items were placed in Case 3 "Accounting leads" in 2003, representing a decrease of fiscal rules compared to 1989, where only 2 of 16 items were classified in this case. For 2003 we have no item included in case 5 "Taxation dominates" unlike 1989.

For clarification we brought in carefully the classification of Lamb *et al.* (1998), which provides five criterias of classification for relationship between accounting and taxation, relationship characterized in terms of accounting rules, and taxation, as follows:

- *Case 1: Disconnection* (the accounting and taxation rules are pursued for different purposes to be fulfilled. Disconnection is possible when we have tax and accounting rules separate, independent and detailed);

- *Case 2: Identity* (this identity can be a *de facto* identity or when accounting is "leader". Regardless of which way we look accounting *prima facie* will affect taxation);

- *Case 3: Accounting leads* (it is possible when accounting rules or accounting options are adopted for financial reporting purposes and for tax purposes. This scenario is possible because of lack of specific tax rules to be sufficient);

- *Case 4: Tax leads* (it is possible when a fiscal rule or option is adopted for tax purposes and financial reporting purpose. This scenario is possible because of lack of specific accounting rules to be sufficient);

- *Case 5: Tax dominates* (a tax rule or option is imposed both for the financial and tax reporting, being in conflict with financial reporting rules).

Shaviro (2009) highlights the differences that arose between tax and accounting profit reported by companies, through the reporting of accounting profit semnficativ higher than fiscal profit. The author highlights that the problem of accounting manipulation is very present despite by implementation of the Sarbanes – Oxley Act. A recent study is conducted by James (2009), the relationship between accounting and taxation being discussed both in UK and, from a wider perspective of it, in Europe. The author asserts the different goals pursued by accounting and taxation. According to author, the relationship between accounting and taxation is much more complex than it appears, and according to the jurisdiction where the relationship is dispute, there may be differences of perception or approach. The relationship between accounting and taxation is seen as the author characterized by progressive accents, since both, accounting and taxation, are dominated by permanent changes.

Conclusion

The relationship between accounting and taxation is conducted in the literature under various spectra or directions as: accounting standards, capital markets, corporate governance mechanisms, accounting procedures, in terms of transversal and longitudinal analysis, using analogue analysis, tax and accounting rules, the objectives of each of both scientific fields, micro-economic orientation versus macro-economic orientation, degree of independence that has a temporal and territorial accurate picture, tax compliance.

Accounting paradigms, identified as a result of browsing literature that treats the relationship between accounting and taxation, are: *The Antropological/Inductive Paradigm*; *Decision-Usefulness/Decision-Model Paradigm*; *Decision-Usefulness / Decision-Model Paradigm/ Aggregate-Market-Behavior Paradigm*; *Decizion-Usefulness/Decision-Maker/Individual-User Paradigm*.

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AUDITOR'S ETHICS IN THE CONTEXT OF GLOBAL CRISIS

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In the context of current global crisis, a series of questions regarding the professional accountant's position need to be clarified in order to may understand the way in which the auditors, considered objective and independent due to their ethical and professional conduct, contribute to the confidence increase of those who found their decisions on an accounted financial situations basis. We also ask ourselves to what extent our society can sustain the development of a regulation based ethical behaviour and specific institutions, taking into account the existing pressures in crisis conditions. The increased number of financial scandals lead to a regression of confidence of the accounting information users, regarding the respect of ethical standards by the auditors, and there are real reasons of concern because of the increase of the non-ethical behaviour's number of cases.

Keywords: audit, ethical dilemmas, independence, objectivity.

JEL Classification: M 42

Introduction

Of a larger approach, ethics can be defined as a set of principles or moral values that the organizations, the groups and each individual described in a separate way. There are many codes of conduct, codes of professional ethics defined by different insitutions and group of crafts, necessary and respected in order society function in a proper way. The International Federation of Accounts (IFAC) established the International Ethics Standards Board for Accountants (IESBA) having the role of the elaboration and the issue of high quality ethics and other provisions for accountant professionists all over the world.

The object of this article represents the analysis of the code regarding the ethical and professional conduct in the field of audit, in the context of current crisis, using a research methodology based on the review of the literature and legal regulations in this field.

The solution of ethical dilemmas

The ethical dilemma can be defined as a situation in which a professionist has to take a decision concerning a certain attitude. The auditor is the professionist confronting along its career with a series of ethical dilemmas, having to provide an objective and independent opinion regarding the financial situations of an individual. The solution possibilities of ethical problems are quite ample, but the auditor has to pay attention when chosing from these possibilities, because the provided services have an impact on different users, client representants, lenders, governments, financial and affairs communities and even on the economic welfare of the community that he joins. The threshold between a moral behaviour and an immoral justification conduct can be easily crossed. An example of frequently used justification mechanism is one in accordance with the principle "If it is legal, it is moral", using the argument according to which every conduct that doesn't violate the law is as well moral and bases mostly on the hypothesis on the law's perfect character. According to this reasoning an individual cannot be obliged to return a found object, but only in case the person who lost the object can prove that it belongs to him. Ethical dilemmas solution represents the permanent concern of the regulatory bodies in any field of activity and one of the easiest way of defining is the formal reference frame.

Generally, but applicable in any field, the 6 steps method represents a simple form of ethical dilemmas' solution, as it is described below:

- Getting relevant information;
- Identification of ethical problems on the basis of the given information;
- Determination of the persons or groups affected by the dilemma's final resolution and the way they will be affected;
- Identification of the alternatives that the person who has to solve the dilemma disposes of;
- Identification of the prospective consequences of each alternative;
- Decision regarding the proper actions to be undertaken.

The Code of Ethics for Professional Accountants in the field of audit represents the formal reference frame, containing a set of principles and regulations which have to rule the auditors' activity. The International Accounting Standards (IASs) no. 100 and the International Standards Certifications (ISC) 3000 forecasts the necessity that the accountant professionalist conform himself to the ethics rules issued in the Code by the IFAC.

Conduct and professional ethics national provisions

The mission of the International Federation of Accounts (IFAC), as it is prescribed by the constitution, is "to strengthen the accountant profession at a global level, applying harmonized standards which are able to provide high quality services for public interest". Taking into account the IFAC's mission, there has been established the Ethics Standards Board for Accountants having as objective the elaboration and the emission of high quality ethics standards. The code has a significant impact on the practitioners, offering fundamental principles regarding the auditing practice and specific and correctly applicable conduct rules. The auditor's activity must come up to the highest professionalism standards in order to guarantee confidence to the users regarding its services quality. To maintain this confidence, the auditor has the obligation first of all to have defined and to respect the ethical and professional conduct code.

Romania has adopted the Code through The Body of Expert Accountants and Licensed Accountants, entitled The National Code of Ethics for professional accountants, and it is compulsory to be known and to be respected by all professional accountant, no matter how they carry on their activity. The purpose of the Code supposes accomplishing the aim concerning professionalism, credibility, quality of services and the confidence conveyed by its users to reach the highest level of performance and to come up to the public interest needs. The accountant professionalist has the responsibility not only to satisfy the needs of a client, but also to act for public interest. The auditor helps to maintain the integrity and the efficiency of financial situations, a role that imposes to him to respect and to adapt himself to the ethical provisions of the Code.

The code regarding the ethical and professional conduct in the field of financial audit is structured as follows:

- *Fundamental principles* for the profession and practice of financial audit, that is the integrity, independence and objectivity, privacy, professional competence and political neutrality.
- *Conduct rules* that imposes the standard behaviour for auditors, which helps them to understand and put into practice the fundamental principles.

Integrity supposes the professionalist obligation to carry on its services in a modest, correct and incorruptible manner, acting in accordance with the profession's requirements. The auditor has to avoid the conflict of interests and to present deliberately incorrect information.

From *objectivity* point of view, it is stipulated the auditor's obligation not to discredit the professional reputation and the profession because of an unwanted influence. The accounting reports have to be precise and objective and the datas used for analysis to be employed from the provided documents according to audit standards.

Professional competence oblige the auditors to maintain the knowledge and professional aptitude at an international standards level, carrying on their activity with careful attention, competence and conscientiousness, offering to the users of the information an assurance regarding the benefit of a service based on the most current practical and legislative aspects.

From *privacy* point of view, it is necessary that auditors keep privacy regarding the facts, the information and the documents they are acquainted with both for personal interest and the benefit of a third person.

Political neutrality concerns the auditor's attitude regarding the political convictions, he must keep his independence to all political influences in order to accomplish his tasks in the most impartial way.

Conduct rules represent minimal standards of ethical behaviour, set forth as specific rules that must be respected by any professional in practice in the domain of accountancy and audit. Besides the previously detailed principles regarding independence (rule 101), integrity and objectivity (rule 102), privacy (rule 301), auditors have also to know:

Technical standards supposing the observance by the auditor of some techniques regarding: general standards (rule 201), observance of standards (rule 202) and accountant principles (rule 203). The auditors have to conform to technical and professional standards drawn up by:

- international audit standards;
- committee for international accountancy standards;
- professional member organizations or other organization with regulation competences;
- the current legislation.

The interpretation of conduct rules meets the practitioners questions regarding a specific rule. The interpretations are not officially applied, but their violation put the practitioner in the impossible situation to justify his various conduct in comparison with the conduct rules. The role of the ethical verdicts is also to give explanations regarding some specific real circumstances which are published in the complete version of the Code.

Besides the Code of Ethics for Professional Accountants issued by the IFAC, there are also other ways by means of which profession and even society can encourage the auditors and the experts in the field to behave properly to carry out high quality audit and other professional services. Other similar ways are the exams for the licence of expert accountant, licenced accountant, quality control, collegial evaluation, legal responsibility, standards defined by stock exchange values and operations committee, classification of accounting expertize companies and others.

Ethics development in crisis conditions

According to specialists estimations, the problems the individuals confront with, especially on the Romanian market, are linked first of all to the internal factors regarding the employees' discrimination, social responsibility, information disclosure, resources use for personal reasons and other problems having as starting point the ethical and moral responsibility. The financial scandals in the last years, reaching the highest point with the contemporary financial crisis, have brought forth the problems regarding ethical behaviour and social responsibility. The individuals and regulation organizations in the given field take more and more evident measures to help increase the lost confidence in accountancy.

The Sarbanes – Oxley Act (SOX) represents one of legislative measures taken by the USA, regarding corporate governance, by means of which The Public Company Accounting Oversight Board has been established in order to set up standards for rate entities and for the leading of controls concerning the audit companies activities. The SOX Act extended over the American borders, influencing thus all companies having their headquarters in another country than USA. One of the regulation measures undertaken by IFAC represents the establishment of the Public Interest Oversight Board (PIOB), in February 2005, having as object the oversight of IFAC's standardization activity regarding the audit missions. A series of conferences also debated the ethics problem in auditor's profession.

A new structure appears within "the Ethics and Compliance Officer" association having as object the establishment of internal systems and procedures by means of which employees' way of interaction is controlled and especially crisis situations are prevented.

At the base of financial scandals lay a series of specific causes regarding economical and political policies, but the lack of transparency of financial reports represents a major problem.

The reasons may vary, but they are especially due to the insufficient training of the managers who are obliged to find new resources and carry out their activities in a competitive environment. The economic environment goes through a stage of major transformations, under the influence of new technologies and the dynamics of production factors; thus, the transparency of accounting information becomes a guarantee of financial stability and performances.

Conclusions

The current economic environment in which we carry out our activity is very different from the past economic environment, accountant professionists find themselves every day in a competitive climate imposing them to obey the new rules and to adapt their activity to the requests of the market. The actual financial crisis put into evidence the necessity of solid, unitary regulations, having a real basis concerning ethics and morality in financial reference. The demand for audit and certification services depends especially on the confidence of the users in the respective profession. Thus, the management of professional activities in accordance with a Professional conduct code, known, respected and understood by the practitioners in the given field is imperatively necessary.

The aspects regarding the ethics code are and have to be permanently an effort to improve competition and quality of services. The behaviour rules recommend the auditors to remain independent and carry on faithfully their activities. Professional conduct code requires to the members "to respect the ethical and technical standards of the profession, to make a continuous effort to improve the competence and quality of services and to practice their professional responsibilities for each individual at as highest levels as possible", these requirements representing the necessary to improve the accountant information users' confidence.

The Romanian economy confronts with the lack of some performant management practices, existing at the present insufficient studies and researches to help the elaboration of a solid basis regarding management possibilities. The managers don't know how to protect themselves against some ethics and conduct problems which may appear during their activities. One of the reasons represents the reticence concerning the organization structures changes, the appearance of "the Ethics and Compliance Officer" representing an essential part in defining the activity, but the Romanian companies aren't yet used to transfer a part of their management responsibilities to a third person. As a reply to the current crisis, at the request of the professionists to focus on the civic duties, IFAC improved the support of developing countries and established an Anticorruption Working Group and enlarged the independence and other ethics advices in the Ethics Code [3]. Similar additional measures have to be undertaken and the professionists who don't respect the Code's dispositions must be penalized so that they be obstructed in the future to justify their immoral conduct. The concerns for ethics and social responsibility have to be permanently in the attention of accountant professionists, of auditors and all professionists from any other field of activity. Only a proper behaviour may offer confidence and lead to the increase of the practiced profession's prestige. The faster understand of the fact that ethics doesn't mean only legality supposing a way of communication and development will lead to the proper and quicker pass over the current economic-financial deadlock.

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A TAXONOMY OF ACCOUNTING INFORMATION SYSTEMS USED BY ROMANIAN ORGANIZATIONS

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Inspired by a series of international studies, the present article tries to determine a typology of accounting information systems used by Romanian organizations based on 3 key characteristics: the use of financial accounting, management accounting and operational reports by the management of these organizations. The three types of information systems that were identified using cluster analysis are then described based on the cluster score for these components of the accounting information system.

Keywords: accounting information systems, financial accounting, managerial accounting, operational reports.

JEL codes: M10 M40 M41

1. Introduction

Although in the past 20 years numerous studies have been published, studying various factors of internal and external influence on the organization's information system and internal control system, most of these were conducted in countries with a developed economic system, and on organizations which operate in a strong competitive environment.

There are a small number of studies that use contingency theory to study the accounting information systems in organizations operating in countries with emerging economies.

Also, there has been little research on how internal and external factors influence the accounting information systems of organization in Eastern Europe.

A few studies on the development of accounting system made in countries of Central and Eastern Europe published mainly in journals such as "Management Accounting Research" or "The European Accounting Review" tend to suggest that accounting organization in this geographical area is still in an early stage of development.

2. Research methodology

The present study has been conducted using a questionnaire containing a total of 21 sets of questions. The main objective of the survey was to determine how various factors (such as size, complexity, degree of formalization, the perceived risk of the external environment) influence the organization of accounting departments, information systems, internal control of an enterprise.

The questionnaire has been completed primarily on-line using Google Docs application, during August-September 2009. The study comprised a total of 93 organizations, most of them in Cluj county region, representing 28.70% of the organizations contacted, and 38.58% of the questionnaires sent to completion.

Accounting Information System was evaluated in terms of its level of detail using three sets of questions (no. 17, 18 and 19). Also, the Accounting Information System is conceptualized in terms of its three main components:

- financial accounting,
- management accounting,
- operational reports.

In the present paper, we present the content of the three sets of questions mentioned (Tables 1, 3 and 4), together with some descriptive statistics of their responses (Tables 2, 5 and 6) and some conclusions.

Question. 17 of the questionnaire is designed to measure the level of detail of the reports based on data extracted from financial accounts.

Table 1. Question no. 17 of the questionnaire (translated version)

17. The use of financial accounting data within your organization					
(Please indicate which of the following data from the financial accounts is reported within your organization and the hierarchical level witch is the recipient of these reports)					

		General Manager	Department Manager	Team Leader	Individual Level
(FIN01)	Expenditure on raw materials or goods	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(FIN02)	Expenditure on wages and other similar charges (CAS, CASS, etc.).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(FIN03)	Depreciation of fixed assets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(FIN04)	Expenditure on services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(FIN05)	Income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

On this set of questions, respondents were able to tick one or more hierarchical levels for which reports are prepared. The maximum theoretical value for each indicator is 10, calculated as the sum of the values 1, 2, 3 and 4, representing the encoding for each hierarchical level.

Descriptive statistics elements that characterize the answers to this question (no. 17) are presented in Table 2.

Table 2. Descriptive statistics indicators for Financial Accounting as part of the Accounting Information System

Indicator	Number of responses	Minimal value	Maximum value	Average	Standard deviation
FIN01	93	0	10	4,59	2,845
FIN02	93	0	10	4,52	2,741
FIN03	93	0	10	4,67	2,495
FIN04	93	0	10	4,67	2,597
FIN05	93	0	10	4,77	2,646

Question 18 of the questionnaire is designed to measure the degree of detail for the reports based on data extracted from management accounts and question 19 the level of detail for the reports based on data extracted from operational records.

Descriptive statistics that characterize the responses to question 18 are presented in Table 5, and responses to question 19, in Table 6.

Table 3. Question no. 18 of the questionnaire (translated version)

18. The use of management accounting data within your organization					
(Please indicate which of the following data from the management accounting is reported within your organization and the hierarchical level witch is the recipient of these reports)					

		General Manager	Department Manager	Team Leader	Individual Level
(GES01)	Direct material costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(GES02)	Direct labor costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(GES03)	Indirect costs of maintenance and operation equipment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(GES04)	Other indirect costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(GES05)	Administrative overheads and selling expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Table 4. Question no. 19 of the questionnaire (translated version)

19. The use of operational reports within your organization

(Please indicate which of the following operational reports are prepared reports within your organization and the hierarchical level which is the recipient of these reports)

		General Manager	Department Manager	Team Leader	Individual Level
(OPE01)	Consumption of resources (eg manpower expressed in person-hours)				
(OPE02)	Time (eg delivery time of orders)				
(OPE03)	Quality of products				
(OPE04)	Flexibility (eg ability to adapt to individual customer orders, the possibility of introducing new products or services)				
(OPE05)	Personnel state (eg, attitudes toward work)				

Table 5. Descriptive statistics indicators for Managerial Accounting as part of the Accounting Information System

Indicator	Number of responses	Minimal value	Maximum value	Average	Standard deviation
GES01	93	0	8	4,18	2,236
GES02	93	0	8	3,83	2,452
GES03	93	0	8	3,97	2,438
GES04	93	0	8	4,18	2,136
GES05	93	0	8	4,11	2,129

Table 6. Descriptive statistics indicators for Operational Reports as part of the Accounting Information System

Indicator	Number of responses	Minimal value	Maximum value	Average	Standard deviation
OPE01	93	0	7	3,75	1,875
OPE02	93	0	7	3,73	1,714
OPE03	93	0	7	3,84	1,721
OPE04	93	0	7	3,72	1,890
OPE05	93	0	7	3,65	1,579

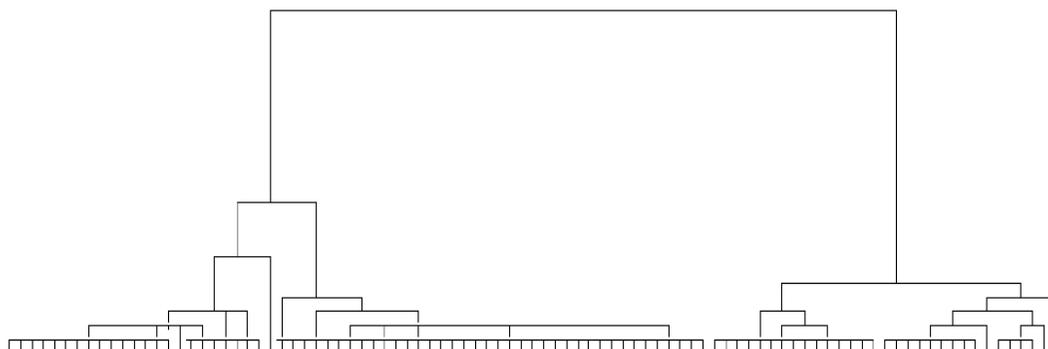
Based on these questions, a score was calculated for each of the three main components of the accounting information systems (management accounting, financial accounting and operational reports). Elements of descriptive statistics for these scores are presented in Table 7.

Table 7. Descriptive statistics of the scores for the main components of Accounting Information System

Indicators	No of cases	Average	Standard deviation
FIN	93	4.64	2.03
GES	93	4.05	1.82
OPE	93	3.74	1.31

The scores were then standardized (so that the average of each individual score is 0 and the standard deviation is equal to 1). Standardized indicators were then used for analyzing the grouping of organizations covered by this case study, using hierarchical clustering based on Euclidean distance radical. The result of this procedure is shown graphically in Figure 1.

Figure 1. Hierarchical cluster graphical representation



The analysis of the dendrogram shown in Figure 1 reveals that the organizations presented in the present research use a fairly large variety of accounting information systems. We have decided to use a grouping into three clusters. The final grouping of the organizations into clusters was performed using the K-means criteria. The result of the clustering procedure is presented in Table 8.

Table 8 The summary of accounting information systems K-means cluster grouping

Indicator	Type of Accounting Information Systems		
	Simple	Complex	Medium
Financial Accounting standardized score	<u>1,27795</u>	1,21652	0,12638
Management Accounting standardized score	<u>1,38706</u>	1,07107	0,27964
Operational Reports standardized score	<u>1,01713</u>	1,35392	- 0,11980
Number of cases	27	24	42

In Table 8, the maximum values for each criterion are in bold and the minimum values were underlined.

3. Conclusions

By analyzing data in this table, we distinguish three categories of accounting information systems:

Simple accounting information systems – the ones who achieved the lowest score in each of the three criteria used. In this type of information system various data is aggregated but it is rarely used. Perhaps the management of the organizations that use such accounting information systems is an intuitive one, and the environment in which these enterprises

operate is simple and less competitive. Communication is probably achieved in a interpersonal and less formalized manner. We expect this type of accounting information systems to be used in simple and small enterprises having a sequential dependencies between departments;

§ **medium accounting information systems** – these have an average score on each indicator that characterizes accounting information systems. We expect this type of information system to be well represented in all types of organizations with sequential dependencies between departments.

§ **complex accounting information system** – this is the most advanced type of accounting information system, characterized mainly by using lots of reports from financial and management accounting. This type of system accounting information achieved maximum scores in all three indicators used. We expect it to be used mainly in the large and complex organizations with reciprocal dependencies between departments, which require good planning and coordination.

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IS THERE ANY ROOM TO IMPROVE THE USE OF ACCOUNTING INFORMATION?

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In 2008 we have conducted a small exploratory case study regarding some factors that could lead to a better use of accounting information in the companies in Cluj area. The study was based on a small questionnaire. The test group was comprised by a group of students in the final year of study, students who already worked in financial or management positions in companies from Cluj-Napoca and the surrounding areas. The study has addressed a few technical, organizational and educational factors that – in our view – can improve the use of accounting information in managing a company.

Keywords: exploratory case study, accounting information, company management

JEL codes: M10 M40 M41

1. Research methodology

During 2008 we have conducted a small exploratory case study regarding different factors that can improve the use of accounting information in Romanian companies. A few technical, educational and organizational factors were chosen, based on the authors' personal experience. The study has been conducted using a questionnaire on a small number of companies based in Cluj, represented by students in the final year of study who occupy management or accounting positions in these companies. The study was supposed to give an insight on the factors that could or could not impact the usefulness of the accounting information system for the purpose of managing a company.

The structure of the analyzed companies grouped by size is presented in table 1. Micro and small enterprises are under-represented as nation-wide they account for about 80% of the number of companies.

Table 1. The structure of the analyzed companies by size

	Absolute frequencies	Relative frequencies (%)	Cumulated frequencies (%)
Microenterprises	7	17.9	17.9
Small enterprises	9	23.1	41.0
Medium enterprises	11	28.2	69.2
Large Enterprises	12	30.8	100.0
Total	39	100.0	

2. Technical factors

The **technical factors** that could impact the usefulness of accounting information throughout an enterprise that were taken into consideration were: the use of a better accounting software, the use of more powerful computers and the usefulness of better accounting software manuals and procedures.

Responses to the question whether the use of better accounting software could lead to a better use of accounting information within the company are presented in table 2.

Table 2. The perceived usefulness of a better accounting software

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	57.1%	42.9%	100.0%
Small enterprises	55.6%	44.4%	100.0%
Medium enterprises	72.7%	27.3%	100.0%
Large Enterprises	66.7%	33.3%	100.0%
Total	64.1%	35.9%	100.0%

We observe that - in general – the respondents agree that better accounting software would positively impact the usefulness of accounting information throughout their companies. As the size of the company increases, the percentage of positive responses has increased from 57.1% to 72.7%. An explanation for this could be that with an increase in the volume of accounting information and in the degree of complexity of operations due to the size of the company, the accounting software must meet increasing requirements.

Table 3 represents the responses of the perceived benefits of the use of more powerful computers.

Table 3. The perceived usefulness of more powerful computers

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	71.4%	28.6%	100.0%
Small enterprises	22.2%	77.8%	100.0%
Medium enterprises	54.5%	45.5%	100.0%
Large Enterprises	41.7%	58.3%	100.0%
Total	46.2%	53.8%	100.0%

We observe a high percentage of people who consider this factor would impact the use of accounting information mostly in micro-enterprises (71.4%). On the whole we conclude that this factor is not perceived as useful (53.8% of the respondents disagree on the utility of this factor). The higher perceived usefulness in micro-enterprises can be explained by their small budgets for IT procurements and probably the use of old computers.

Table 4. The perceived usefulness of better accounting software manual and procedures

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	14.3%	85.7%	100.0%
Small enterprises	22.2%	77.8%	100.0%
Medium enterprises	36.4%	63.6%	100.0%
Large Enterprises	25.0%	75.0%	100.0%
Total	25.6%	74.4%	100.0%

Table 4 presents the perceived usefulness of better accounting software manual and procedures. While - in general – we can conclude that these manuals and procedures are sound (74.4% of respondents do not believe that better manuals or procedures could impact the degree of utilization of accounting information throughout the enterprise), we observe however, an increase in the percentage of positive responses from 14.3% in micro-enterprises case to 36.4% in the case of medium sized enterprises. A possible explanation of this variation can be the increase the complexity of professional accountants work, in sync with the increase of company size. The

decrease observed in the large enterprises case could be explained by better training of their employees.

3. Educational factors

The study has also taken into account a few educational factors that could influence the usefulness of accounting information for the management of these organizations. These factors were: accounting personnel training in accounting, accounting staff training in computer-use, accounting staff training in accounting software, management staff training in accounting, management workforce training in computer-use and management personnel training in accounting software.

Table 5 presents the perceived usefulness of trainings in accounting for accounting department staff.

Table 5. The perceived usefulness of accounting staff training in accounting

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	57.1%	42.9%	100.0%
Small enterprises	44.4%	55.6%	100.0%
Medium enterprises	63.6%	36.4%	100.0%
Large Enterprises	58.3%	41.7%	100.0%
Total	56.4%	43.6%	100.0%

By analyzing the data in table 5 we conclude that 56.4% of the respondents consider that accounting department staff training courses in accounting might lead to an improved use of information provided by the accounting information system in the management of enterprises. We also note that this factor's perceived usefulness remains relatively constant (around 57-60%) with the increase in the size of the enterprise.

Table 6 presents the responses to the question whether the attendance of training courses in computer use by accounting department personnel would be beneficial for a better use of accounting information.

Table 6. The perceived usefulness of accounting personnel training in computer-use

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	28.6%	71.4%	100.0%
Small enterprises	33.3%	66.7%	100.0%
Medium enterprises	45.5%	54.5%	100.0%
Large Enterprises	41.7%	58.3%	100.0%
Total	38.5%	61.5%	100.0%

Analyzing the data in the above table shows that the majority of professional accountants consider that their preparation in the use of computers is satisfactory. The highest percentage of negative responses (71.4%) was recorded in microenterprises and the lowest in the case of medium-sized enterprises (54.5%).

On the question regarding the perceived usefulness of training in the use of accounting software, the answers vary depending on company size (see table 7). Small organizations recorded the lowest percentage of affirmative answers (22.2%). The total percentage of those who answered affirmatively is lower than those who responded negatively (43.6% vs. 54.6%), which shows that

in general, the employees of accounting departments are well trained in the use of accounting software.

Table 7. The perceived usefulness of accounting staff training in the use of accounting software

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	57.1%	42.9%	100.0%
Small enterprises	22.2%	77.8%	100.0%
Medium enterprises	54.5%	45.5%	100.0%
Large Enterprises	41.7%	58.3%	100.0%
Total	43.6%	56.4%	100.0%

Table 8 shows the perceived usefulness of management training in accounting.

Table 8. The perceived usefulness of management training in accounting

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	42.9%	57.1%	100.0%
Small enterprises	55.6%	44.4%	100.0%
Medium enterprises	63.6%	36.4%	100.0%
Large Enterprises	58.3%	41.7%	100.0%
Total	56.4%	43.6%	100.0%

We see an increase in the percentage of positive responses from 42.9% in microenterprises to 63.6% in the case of medium size organizations and a slight decrease in the case of large enterprises. In general, accounting professionals consider this factor as being beneficial for improving the use of information provided by the accounting information system.

Table 9. The perceived usefulness of computer-use training for managers

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	28.6%	71.4%	100.0%
Small enterprises	33.3%	66.7%	100.0%
Medium enterprises	18.2%	81.8%	100.0%
Large Enterprises	8.3%	91.7%	100.0%
Total	20.5%	79.5%	100.0%

By analyzing data from table 9, we see a decrease in the number of people who believe that the organization of training courses for management in the use of computers will improve the way financial accounting information is used. A possible explanation for this result could be a better training of managers of medium-sized and large enterprises in this area of expertise compared with the management of micro and small enterprises.

Table 10 presents the responses on their perceived usefulness of organizing training courses in the use of the accounting software for management to improve the use of accounting information system in their companies.

We observe a decrease in the percentage of persons who considers this factor to be beneficial from 33.3% in the case of small companies to 8.3% for large enterprises. This could be due to the same factors as in the previous question, namely better training of managers of medium-sized and large enterprises in this area compared with the management of micro and small enterprises.

Table 10. The perceived usefulness of management training in the use of accounting software

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	14.3%	85.7%	100.0%
Small enterprises	33.3%	66.7%	100.0%
Medium enterprises	27.3%	72.7%	100.0%
Large Enterprises	8.3%	91.7%	100.0%
Total	20.5%	79.5%	100.0%

4. Organizational factors

The organizational factors that were taken into account by this study were: a better collaboration between the accounting department and management and a better collaboration between accounting department and other company departments.

The influence of a better collaboration between the department of accounting and the management of the enterprises is presented in table 11.

Table 11. The perceives usefulness of a better collaboration between the accounting department and management

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	57.1%	42.9%	100.0%
Small enterprises	44.4%	55.6%	100.0%
Medium enterprises	45.5%	54.5%	100.0%
Large Enterprises	41.7%	58.3%	100.0%
Total	46.2%	53.8%	100.0%

The highest percentage of positive responses is recorded in the case of microenterprises (57.1%). This is somewhat surprising because of the interpersonal relations that should exist in small organizations. In other categories of enterprises the percentage of positive responses is relatively constant and slightly below the percentage of negative responses.

Table 12. The perceived usefulness of a better collaboration between the accounting department and other departments of the enterprise

<i>Company size</i>	<i>Agree (%)</i>	<i>Disagree (%)</i>	<i>Total (%)</i>
Microenterprises	14.3%	85.7%	100.0%
Small enterprises	22.2%	77.8%	100.0%
Medium enterprises	54.5%	45.5%	100.0%
Large Enterprises	50.0%	50.0%	100.0%
Total	38.5%	61.5%	100.0%

By analyzing the responses to the question whether a better collaboration between the department of accounting and other departments of the enterprise would lead to an improvement in the use of accounting information by management staff we observe a steady increase from 14.3% in positive responses for microenterprises to 50% in the case of large companies. A possible explanation of this result is that as a company increases in size, the communication between departments is formalized and becomes increasingly cumbersome.

5. Conclusions

This study should be repeated using a larger and more statistically representative sample. It should also be interesting to observe whether the financial and economical crisis has increased the management interest in accounting information.

The factors that proved to be the most promising in improving the use of accounting information in the management of Romanian companies are mainly educational (management and accounting staff training in accounting) and technical (better accounting software). Small sized organizations (micro and small enterprises) could also benefit from using a better IT infrastructure. Large organizations (medium and large sized companies) should improve the collaboration between the accounting department and the other departments.

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ACTUARIAL ACCOUNTING OF THE IMPLICIT OBLIGATIONS. CONCEPTUAL APPROACH

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Actuarial accounting requests that any enterprise should use the projected unit credit method to determine the actualized value of its obligations regarding the benefit and the cost of the current service related to the specific obligations, and, if it is the case, the cost of the precedent services. The projected unit credit method (sometimes known as the method of the benefit proportional to service or the benefit method/ seniority) accepts any period of working as a supplementary benefit unit and measures separately each unit to build a final obligation.

Key words: employee benefit, plan of pension, actuary

JEL: M41

1. Informal practices - involving obligations

An enterprise should account not only its legal obligation, under the formal terms of a defined benefit plan, but also any obligation that arises from the enterprise's informal practices. Informal practices give rise to an obligation, if the enterprise has no realistic alternative than paying employee benefits. An example of a constructive obligation is where a change in the informal practices of the enterprise would cause unacceptable damage to its relationship with employees. Formal terms of a defined benefit plan may permit a company to conclude what is required under that plan. However, usually it is difficult for a company to cancel a plan if employees are kept. Therefore, in the absence of evidence to the contrary, post-employment benefit accounting requires that a company which is currently promising such benefits continue to do so for its employees during the work remaining until retirement. The amount recognized as defined benefit obligation should be the net total of the following amounts:

- (a) the present value of defined benefit obligation at the balance sheet,
- (b) plus any actuarial gains (less any actuarial losses) not recognized,
- (c) minus the cost of any service rendered not yet recognized,
- (d) minus the fair value of plan assets (if any) the balance sheet date, except that obligations are established directly.

Present value of defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets. This Standard encourages, but does not require a company to engage a qualified actuary in measuring any post-employment benefit obligations significant. For practical reasons, a company may require an actuary to conduct a detailed assessment of the obligation before the balance sheet date. However, that assessment results are updated for any significant transactions and other significant changes in circumstances (including changes in market prices and interest rates) from the balance sheet date. An enterprise should recognize the net total of the following amounts as expense or income under the limit, except to the extent that other International Accounting Standard requires or permits their inclusion in the cost of an asset:

- (a) current service cost
- (b) interest cost
- (c) the expected profitability of any plan assets and any reimbursement rights
- (d) actuarial gains and losses, to the extent that they are recognized,
- (e) past service cost, it requires a firm recognize, and

(f) the effect of any curtailments and settlements. Other International Accounting Standards require the inclusion of certain employee benefit costs in the cost of assets, such as, for example, stocks or tangible.

Any post-employment benefit costs included the cost of such assets include the appropriate proportion of the components listed.

2. Recognition and Measurement

The latest cost of a defined benefit plan may be influenced by many variables such as final salaries, employee turnover and mortality, guidelines and medical costs for a funded plan, the investment earnings on plan assets. Ultimate cost of the plan is uncertain and this uncertainty is likely to persist for a long time. To assess the present value of post-employment benefit obligations and current service cost that is necessary:

- (a) apply an actuarial valuation method
- (b) attribute benefit to periods of service, and
- (c) actuarial assumptions to make.

3. Actuarial valuation method

An actuarial valuation method for companies to use the projected unit credit method to determine the present value of defined benefit obligations and their related current service cost and, where applicable, past service cost. Projected Unit Credit Method (sometimes known as proportional method for employee benefit or service as the benefit per year of service) recognize each period of service as giving rise to an additional unit of benefit and measures each unit separately to build the final obligation. Undertaking a fully updated post-employment benefit obligation, even though part of that obligation is due within twelve months of balance.

4. Periods of service award benefits

In order to determine the present value of defined benefit obligations and related current service cost and, where applicable, past service cost, an enterprise should attribute benefit to periods of service, using the formula for calculating benefits plan feature. However, if an employee's service in recent years will lead to a significant level of benefit than in earlier years, an enterprise should attribute benefit on a straight-line basis, from: (a) the date when service employee first leads to benefits calculated as planned (whether or not benefits are contingent additional services) to (b) the date when the additional services rendered by the employee will not lead to significant value and additional benefits based on the plan, other than additional growth salary. Projected Unit Credit Method requires an undertaking to award benefits for the current period (to determine the present value of benefit obligations determined). A company that is awarded benefits periods required to provide post-employment benefits. This obligation arises from conduct by employees in exchange for services post-employment benefits which an enterprise expects to pay in future reporting periods. Actuarial techniques allow an enterprise to measure that obligation with sufficient firmness to justify recognition of a liability. Employee service gives rise to an obligation under a defined benefit plan, even if benefits are conditional on future employment (in other words, they are not legitimate). Employee service before the investment gives rise to an obligation that, at each successive balance sheet value of future service, which an employee has done it before entitlement to benefit is reduced. Likelihood that particular event takes place affects the measurement requirement, but does not determine whether or not it. The obligation increases until the date the employee's service increment will not lead to significant value added benefits. Therefore, all benefits are attributable to periods ending on or after that date. Benefits attributed to individual accounting periods, benefit plan formula. However, if the service rendered by an employee in recent years will lead to a significantly higher level of benefit than in earlier years, a company awarded benefits on a straight-line basis until the date the employee's service increment will not lead to significant values Additional benefits of.

5. Assumptions

Assumptions must be unbiased and mutually compatible. Assumptions are best estimates of the variables that will determine the ultimate cost of providing post-employment benefits for a company. Assumptions include: (a) demographic assumptions about future characteristics of current and former employees (and those that depend on them) that are eligible for benefits. Demographic assumptions take into account the following: mortality both during and after employment, employee rotation rates, disability and early retirement, the proportion of dependent members participating in the plan, to be eligible for benefits, and compensation rates under medical plans; and (b) financial assumptions, which take into account the following aspects: update rate, future salary and benefit levels, in case of medical benefits, future medical costs, including, where relevant, the cost of administering claims and benefit payments, and the forecast rate of reimbursement plan assets. Actuarial assumptions are unbiased if they are not providing free or only conservative. Actuarial assumptions are mutually compatible if they reflect the economic relationship between factors like inflation, increasing wage rates, return on plan assets and discount rates.

Actuarial assumptions: discount rate

Discount rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to profit on the market at the balance sheet, high quality corporate bonds. In countries where there is no market interest in such bonds, the market should be profit (balance sheet date) for government bonds. Currency and term corporate bonds or government bonds should be consistent with the currency and estimated term post-employment benefit obligations. One actuarial assumption which has a significant effect is the rate update. Update rate reflects the time value of money, but not on the actuarial risk and investment. Moreover, the discount rate does not reflect the company's specific credit risk, risk that occurs due to its creditors, or the risk that future experience differs from actuarial assumptions. The discount rate reflects the estimated time of benefit payments. In practice, a firm that often made using a convenient single average discount rate reflects the estimated time, the benefit payments and the currency in which benefits are paid.

Assumptions: salaries, benefits and medical costs of post-employment

Benefit obligations should be valued on a basis that reflects:

- (a) estimated future salary increases,
- (b) the benefits set out in terms of the plan (or resulting from any obligation in excess those terms) at the balance sheet and
- (c) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if and only if: either those changes were enacted before the balance sheet or experience or other credible evidence indicates that those state benefits will change in a predictable manner, for example, aligns with future changes in general price levels or general salary levels.

Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors such as labor supply and demand. Assumptions do not reflect future benefit changes that are laid down in formal terms of the plan (or the implied obligation) at the balance sheet. Such changes will be to:

- (a) past service cost, to the extent that they change benefits for service before the amendment, and
- (b) current service cost for periods after amendment, to the extent that they change benefits for service made by amending.

Some post-employment benefits depend on variables such as level of state pensions or free healthcare. Measurement of such benefits reflects expected changes in such variables, based on

past experience and other credible evidence. Assumptions about medical costs should take account of changes in estimated future healthcare costs, resulting in both inflation and specific changes in medical cost level and frequency of claims, in particular, depends on age, health and sex workers (and those dependent on them), and can depend on to other factors such as geographic location. Therefore, historical data is adjusted to the extent that all demographic population differs from that used as the basis of historical data. Historical data are also adjusted where there is credible evidence that historical trends will continue.

Actuarial gains and losses

In benefit obligation assessment, an enterprise should recognize a percentage of gains and losses as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed the maximum of:

- (a) 10% of present value of defined benefit obligation at that date (before deducting plan assets),
- (b) 10% of the fair value of plan assets at any time.

These limits must be calculated and applied separately for each defined benefit plan. Gains and losses resulting from increases or decreases may be the present value of defined benefit obligation or the fair value of any related plan assets. Long term gains and losses may offset one another. Therefore, estimates of post-employment benefit obligations are best viewed as a range (or corridor) around the best estimate. An enterprise is allowed, but it is not required to recognize actuarial gains and losses that fall outside that line. Standard “employee benefits” requires a company to recognize a specified minimum percentage of gains and losses that fall outside the “corridor”;; plus or minus 10%. The standard allows also systematic methods of faster recognition, provided that those methods satisfy the requirements. Such permissive methods include, for example, immediate recognition of all actuarial gains and losses that are both inside and outside the corridor, explaining the need to consider any unrecognized part of an interim obligations in accounting for subsequent actuarial gains.

6. Conclusions. Recognition and measurement: plan assets. Fair value of plan assets

Fair value of any plan assets is deducted in determining the amount recognized in balance. When a price is not available commercially, the fair value of plan assets is estimated, for example, by updating the projected future cash flows using a discount rate that reflects both the risk associated with plan assets and the maturity or date of exit for those forecasting assets (or, if they have not matured to extinguish the obligation period associated). Plan assets exclude enterprise fund contributions payable associated report and any transferable financial instruments held by fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other debts, and liabilities resulting from derivative financial instruments. Where plan assets include qualifying insurance policies that satisfy the full amount, and when some or all benefits payable under a plan, fair value of those insurance policies should be the present value of obligations associated.

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DIVERSITY OF NATIONAL AND INTERNATIONAL ACCOUNTING PRACTICES: THE CASE OF INTANGIBLE ASSETS

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Although seven years have passed since the Norwalk Agreement has been signed, the global accounting standards continue to represent a goal for IASB and FASB, being far from the stage of practical implementation. More than that, the financial crisis made things worse, as it contributes to the unfavourable conditions for the development of convergence process. But despite all these negative elements, FASB and IASB continue to collaborate in obtaining a single set from the two distinct accounting regulations, which can serve for practical accounting purposes. The globalization phenomena imply the existence of a unique set of financial reporting standards. Thus, accounting diversity is to be reduced at international level, so that it would be in accordance with companies' interests. Therefore, one can state the importance of harmonizing both national and international accounting regulations.

Keywords: comparability, harmonization, similarity, diversity

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1. Introduction

The term of intangible assets may have different meanings, depending on the nature of accounting reference. If we consider the international standards (IAS 38), there are three conditions or criteria for intangibility: identification, non-monetary and non-physical substance forms. The Romanian accounting regulation (OMFP 3055/2009) extends this definition, by mentioning that intangible assets are to be used in the production process or goods and services supply, as well as for rent to third parties or for administrative purposes. Beside this difference, there are many others, including elements of recognition, valuation and depreciation. The aim of this paper is to identify and thus present the concept of intangibles through both national and international perspectives. In what concerns the practical approach, we study the similarity and differentiation with respect to IAS/IFRS and OMFP 3055/2009. In addition, we have chosen a sample of 50 companies listed at London Stock Exchange for which we measured the harmonization degree using Pearson Coefficient, as H Index and Taplin's Index or E(H).

2. Methodology of Research

When determining the harmonization degree, we use measurement systems for both formal and material levels. In what concerns formal harmonization, it can be established by computing Jaccard Coefficients that stand for the correlation and association between national and international accounting regulations. The other main part of the research consists of material harmonization. This results in using the option concentration analysis, and this means including H Index and E(H), in order to obtain a synthesis of the harmonization degree at practical accounting level. According to national and international accounting standards, intangible assets contain some peculiarities with respect to similarity as well as diversity degree, recognition methods, valuation and depreciation. Therefore, Jaccard Coefficients represent the most suited elements for illustrating the comparability of IFRS and RO GAAP regulations. Regarding the firm practices comparability, it evolves from statistics analysis. Thus, we determined H Index as well as Taplin's Index. In addition, our research is based on a sample of 50 companies with FTSE 100 stock index that stands for the relevance of analysed data.

3. Literature Overview

Many scientists have signalled an evolution in accounting standards, by underlying their relevance as well as professional judgment and future orientation. There is a need for a simplified accounting system, based on historical information and transactions (Rieger, 2006). Further on, we should adopt reconciliation at reporting level, by reducing diversity and thus increasing harmonization. Chand and White (2007) describe harmonization as being the process through which contradicting accounting rules are decreasing and finally it results a better comparability of financial reports. This paper underlines certain aspects regarding formal and material harmonization. When measuring the diversity between two elements we use Jaccard similarity coefficient, so as to obtain the compatibility degree of two accounting systems (Georgescu & Co, 2009).

The analysis of optional concentration implies the usage of H Index and E(H) or Taplin Index. Van der Tas (1992) has conducted some research in the field of material harmonization degree, demonstrating the importance of these indicators, that can be successfully used in determining firm practices comparability. For instance, H Index and E(H) can be determined for a group of companies, randomly selected, by computing the frequency of accounting methods usage, as well as the relative frequency. In addition, the indicators should have a value between 0 and 1, indicating the harmonization level. According to some researchers, it seems that H Index comes from an idea launched by Hirsch, who sustained the existence of H publications as a set of articles written at high performance standards. These “high performance publications”, are known in literature as “Hirsch Core” (Thompson, 2009:2). Nowadays, H Index continues to be a subject of interest for many scientists. Egghe L. (2010) mentions in his paper on information technology the influence of adding or eliminating sources belonging to H Index. Another recent study, this time conducted by Fiorenzo Franceschini (2010), explains some peculiarities and limits of this indicator, as well as the situations when it is not used in a proper manner.

Thus, we can estimate that H Index will become an objective measure of comparability of national and international accounting practices in the near future.

4. Study on Accounting Regulations Comparability: IAS 38 Intangible Assets and OMFP 3055/2009

4.1. Comparability for Regulations- Jaccard Coefficients

Figure no. 1: Accounting regulations analysis and coefficients computation

	IFRS	RO GAAP	S_{ij}	S_{ij}	D_{ij}	D_{ij}
A) Recognition						
-Setup costs	0	1				
-Development costs	1	1				
-Goodwill	1	1	0.67	0.67	0.33	0.33
-Brands	1	1				
-Licenses	1	1				
-Clients' lists	1	0				
B) Valuation						
<i>B1) Initial valuation</i>						
-Acquisition cost	1	1	1		0	
-Production cost	1	1		0.75		0.25
<i>B2) Revaluation</i>						
-Book value	1	1	0.5		0.5	
-Value after revaluation	1	0				
C) Impairment						
<i>C1) Determination models</i>						
-Impairment testing	1	0	0.5		0.5	
-Amortization	1	1		0.625		0.375
<i>C2) Amortization methods</i>						
-Linear	1	1	0.75		0.25	
-Digressive	1	1				
-Accelerated	0	1				
-Production units	1	1				
TOTAL				0.68		0.32

The above figure presents the accounting treatments according to international regulations or IFRS and Romanian regulation or RO GAAP. The notation system involves using the score “1” and “0”. Thus, we give “1” point if the accounting standard allows the usage of a certain treatment, while denoting with “0” the case when the treatment does not occur. The formulas for the coefficients are: $S_{ij} = a / (a + b + c)$, $D_{ij} = (b + c) / (a + b + c)$, $S_{ij} + D_{ij} = 1$.

4.2. Interpretation of results

The results from the computations show a similarity degree (S_{ij}) of 50% for both *revaluation of intangibles* and *models of impairment determination*. On the other hand, in what concerns the *recognition stage methods* and *amortization methods*, the level of diversity (D_{ij}) is very low and common methods are predominant in 75% of the cases, respectively 67%. These phenomena could be explained by the frequency for recognition options or the one for amortization methods. If in the first situation there were four common elements (*development costs, goodwill and licenses*), the issue of *amortization* implies a single set of methods (*linear, digressive and production unit*), which is representative for IFRS as well as RO GAAP. In what concerns the *initial evaluation*, national and international accounting regulations contain the same methods. Thus, in this situation, the diversity degree is zero, while recording a maximum similarity. Therefore, through the previous analysis, we have delimited three main cases. The first refers to the one in which Jaccard Coefficients are different and includes intangible assets *recognition* issues as well as *amortization* methods, as part of impairment. In the second case we can observe a minimum diversity point for *initial evaluation*, while the last one corresponds to a medium similarity degree.

For each of the three main issues discussed in this paper (recognition, valuation and impairment), we find the average of diversity and similarity degrees. The values of 32%, respectively 68%, or total averages, corresponding to the last row of the table, were computed as sum of the previous mentioned averages, divided by three. When calculating the average for Jaccard Coefficients, by considering the importance and thus weight of the three issues as being equal, we obtain a value of 68% for similarity, which means that there is a harmonization tendency in what concerns intangibles.

5. Study on Accounting Practices Comparability for FTSE 100 companies

5.1. Analysis of financial reports for the chosen companies

Figure no. 2 was developed using the same notations as in the previous analysis of Jaccard Coefficients.

5.2. Interpretation of results¹¹³⁹

The first element of our analysis consists of intangibles' *recognition*. In what regards *set up costs*, 49 companies do not use them. *Development costs* and *brands* are used by most of the firms (94%, respectively 98% usage degree). Further on, we can observe that all the 50 companies use goodwill and licenses as accounting treatments, generating a maximum level of harmonization of 100%. By calculating E(H), we obtain similar results, which leads us to the idea of harmonization tendency. Regarding *valuation at acquisition cost*, both indicators show 100% harmonization degree. In contrast, only 38% of the companies value their intangible assets at production cost, although when computing E(H) the level of harmonization overcomes the medium threshold. In case of *revaluation*, 90% of firms use *book value* and the accounting treatment of *value after revaluation* has an H Index of 0.5, which implies that there is a large group of companies not using it. Concerning *impairment of intangible assets*, most companies use the same treatment, the majority of them choosing *linear amortization*. For all the issues regarding impairment, the indicators values exceed 0.8, demonstrating the harmonization of accounting practices.

Finally, if we compute the average for H Index and E(H) for every accounting treatment, we obtain 0.82, respectively 0.91. In addition, we consider them having equal weights. The values are very close to 1, so that we can state the image of harmonized accounting practices for the listed companies.

The results of our analysis show a high level of harmonization degree for intangible assets, and in some cases we can even find perfect similarity between international standards.

The formulas for indexes are: $H\ Index = n p_i^2$, $E(H) = n p_i^2 + n p_i * (1 - p_i) / n$, for $i = 1, n$.

¹¹³⁹ This section applies to results obtained in Figure no. 2: Indexes Computation.

Figure no. 4: Indexes Computation

Accounting Treatment	Accounting Option	No. of companies	Frequency	Pi	H Index	Adjusted Options	No. of companies	Adjusted Frequency	Adjusted Pi	E(H)
RECOGNITION										
Set up costs		50	100%	1			50	100%	1	
a) used		0	0%	0						
b) not used		49	98%	0.9800	0.961	a) + b)	49	98%	0.9800	0.980
c) not mentioned		1	2%	0.0200		c)	1	2%	0.0200	
Development costs		50	100%	1			50	100%	1	
a) used		47	94%	0.9400		a)	47	94%	0.9400	
b) not used		3	6%	0.0600	0.887	b) + c)	3	6%	0.0600	0.944
c) not mentioned		0	0%	0						
Goodwill		50	100%	1			50	100%	1	
a) used		50	100%	1		a) + b) + c)	50	100%	1	
b) not used		0	0%	0	1					1
c) not mentioned		0	0%	0						
Brands		50	100%	1			50	100%	1	
a) used		49	98%	0.9800		a)	49	98%	0.9800	
b) not used		0	0%	0	0.961					0.980
c) not mentioned		1	2%	0.0200		c) + b)	1	2%	0.0200	
Licenses		50	100%	1			50	100%	1	
a) used		50	100%	1		a) + b) + c)	50	100%	1	
b) not used		0	0%	0	1					1
c) not mentioned		0	0%	0						
Chients Lists		50	100%	1			50	100%	1	
a) used		40	80%	0.8000		a)	40	80%	0.8000	
b) not used		6	12%	0.1200	0.661	b) + c)	10	20%	0.2000	0.840
c) not mentioned		4	8%	0.0800						
IMPAIRMENT										
DETERMINATION MODELS										
Impairment testing		50	100%	1			50	100%	1	
a) used		50	100%	1		a)+b)+c)	50	100%	1	
b) not used		0	0%	0	1					1
c) not mentioned		0	0%	0						
Amortization		50	100%	1			50	100%	1	
a) used		45	90%	0.9		a)	45	90%	0.9	
b) not used		2	4%	0.04	0.810	b)+c)	5	10%	0.1	0.902
c) not mentioned		3	6%	0.06						
AMORTIZATION METHODS										
Linear		50	100%	1			50	100%	1	
a) used		45	90%	0.9		a)	45	90%	0.9	
b) not used		2	4%	0.04	0.815	b)+c)	5	10%	0.1	0.902
c) not mentioned		3	6%	0.06						
Digressive		50	100%	1			50	100%	1	
a) used		2	4%	0.04		a)+c)	5	10%	0.1	
b) not used		45	90%	0.9	0.815	b)	45	90%	0.9	0.902
c) not mentioned		3	6%	0.06						
Accelerated		50	100%	1			50	100%	1	
a) used		1	2%	0.02		a)+c)	4	8%	0.08	
b) not used		46	92%	0.92	0.850	b)	46	92%	0.92	0.921
c) not mentioned		3	6%	0.06						
Production units		50	100%	1			50	100%	1	
a) used		2	4%	0.04		a)+c)	5	10%	0.1	
b) not used		45	90%	0.9	0.815	b)	45	90%	0.9	0.902
c) not mentioned		3	6%	0.06						
VALUATION										
INITIAL VALUATION										
Acquisition cost		50	100%	1.0000						
a) used		50	100%	1.0000		a) + b) + c)	50	100%	1.0000	
b) not used		0	0%	0	1					1
c) not mentioned		0	0%	0						
Production cost		50	100%	1.0000			50	100%	1.0000	
a) used		19	38%	0.3800		a)	19	38%	0.3800	
b) not used		27	54%	0.5400	0.442	b) + c)	31	62%	0.6200	0.764
c) not mentioned		4	8%	0.0800						
REVALUATION										
Book value		50	100%	1			50	100%	1	
a) used		45	90%	0.9		a)	45	90%	0.9	
b) not used		3	6%	0.06	0.815	b) + c)	5	10%	0.1	0.902
c) not mentioned		2	4%	0.04						
Value after revaluation		50	100%	1			50	100%	1	
a) used		32	64%	0.64		a)	32	64%	0.64	
b) not used		15	30%	0.3	0.503	b) + c)	18	36%	0.36	0.717
c) not mentioned		3	6%	0.06						

6. Conclusions

On the basis of theoretical background and quantitative research, we can underline the tendencies of both convergence and harmonization processes in what concerns national and international regulations, as well as accounting practice of the analysed companies.

Through this study, we aimed to present the concept of intangibles from national and international perspectives. The practical approach involved a research in the similarity and differentiation with respect to IAS/IFRS and OMFP 3055/2009 as well as in accounting practices. The latest assumed a study on 50 listed companies for which we measured the harmonization degree.

In the first part of the research, we investigated the harmonization level corresponding to the national and international accounting standards. Thus, the findings imply three main aspects: different Jaccard Coefficients for *recognition* and *amortization methods*, minimum diversification level in case of *initial valuation* and the medium similarity degree of *revaluation* and *impairment determination models*.

The average for Jaccard Coefficients, calculated for the whole accounting treatments, show a harmonization tendency in what regards the intangible assets.

The second part of this paper relies on measuring the comparability degree of accounting practices corresponding to the companies from the analysed sample. Therefore, we determined H Index and Taplin Index or E (H) for the accounting treatments and options, and finally we computed an average of these indicators.

Further on, the obtain results suggest the following: a high level of harmonization for *recognition* of intangibles, a tendency to reconciliation for valuation of these assets, as well as common practices concerning impairment.

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THE MODERN PRACTICE OF INTERNAL AUDITING IN THE CONTEXT OF THE GLOBALIZATION

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Perhaps no one has ever before discussed in such a concerned and intense manner in Romania about an activity which, in the West, internal auditors have had in view for a longer period of time and it has been are very useful to them in the specific internal audit activities.

If 20 years ago the Romanian companies' financial activities were part only from the accountants' duties, now the internal and external linkages of the economic units are too complex to be managed only by the accounting departments.

Various activities have appeared around accounting, such as Controlling and Auditing that connect it with strategic management.

Keywords: globalization, internal auditing, business environment, global economy, auditors.

Cod JEL: H83

Management responses to global competition have included the improvement of quality and the initiatives of risk management, the reorganization of the structures and processes, as well as a greater accountability. But all these need more time, trust and relevant information for the decision making process.

Organizations also struggle to enforce the most efficient governance structures and processes. In such a climate, there is no surprise that the internal auditing function is viewed as the most qualified profession which helps the good government process and supports the key governance processes: monitoring the controls, assessing the operational efficiency of these management strategies and initiatives.

Since the internal auditing profession has become much stronger, it has rapidly responded to the new requirements imposed by the regulations of the legislation as well as by the content of the international reports: the issuing of the Report of the National Commission of Fraudulent Financial Reporting (Treadway Commission Report, 1987); the Report of the Sponsoring Organizations Committee (COSO), of the Treadway Commission (COSO, 1992), as well as, subsequently, the internal control frameworks outlined in the Cadbury Committee Report (Cadbury Report, UK); Control Criteria Committee (COCO Report, Canada, 1995); and the recent changes in the rules of the New York Stock Exchange regarding the structure and constitution of the Board of Administration of the listed companies, plus the requirement that all publicly listed companies have an internal auditing function.

The Sarbanes-Oxley Law of 2002 and the appeals for better corporate governance.

However, to take advantage of this huge wave in the demand for their services, the internal auditors need a repertoire of skills, attributes, but also competencies considerably improved, they must properly increase the position and profile of the organization and to align adequately, within them with the respective organizations.

Ratliff & Reding offer expanded responsibilities and the qualifications set of the 21st century auditor, as follows¹¹⁴⁰: 21st century auditors must be prepared to “audit” almost everything: operations (including control systems), performance, information and information systems, compliance with the legislation, the financial positions, fraud and quality.

First, internal auditing is a new vision on the control of using the public funds and the administration of public property in the sense of extending the control’s sphere of interest beyond the strictly financial-accounting area.

Secondly, internal auditing, although it is an ex post control, provides a continuous monitoring of the system operation, especially in the field of underlying the decisions of performing the operations which employ the money or the public property.

Thirdly, it leads to performing a maximum convergence between the objectives pursued by different forms of internal control at the level of public institutions, the very fact that these forms and internal control structures are the object of internal auditing.

Fourthly, it is a real negative feedback mechanism for the Ministry of Finance as well as for the other public institutions for which such a control structure operates.

Fifthly, it helps changing the control mentality from the field in the sense of directing its analysis and evaluation effort towards the control aspects and variables of the analyzed system: the operation manner of the managerial decision, the interpersonal collaboration of the workers within the system, the way of assuming the future, the risk management manner. This will lead in the future to the detachment of control from conformity, which will remain control through exception (including the preventive financial control) from the performance control that will become a broader and broader area.

In addition, auditors must understand the concepts of independence and objectivity as concepts that refer to different types of audits practiced by different types of auditors. They must fully understand the material implications and costs of the risk and audit evidence.

In the late 1990s, partly as a result of the research studies sponsored by the I.I.A., as well as the numerous articles published in the I.I.A. magazine, “*The Internal Auditor*”, I.I.A. has recognized a fundamental need to assess the principles that govern the profession, of the guidance and of the basic knowledge relevant to skills and abilities.

Behind the strategy document issued for this purpose by I.I.A. “A vision for the future”¹¹⁴¹ there were several goals: the increase of the economic value of internal auditing; the constant assurance of high quality internal auditing and gaining a higher consciousness of the market towards the internal auditing.

The report issued by I.I.A. conducted a review of the existing professional standards, of the code of ethics, and even of defining the notion of internal auditing. The I.I.A. Committee concluded that the old terminology has failed “to properly reflect the evolution of the practice and to efficiently promote the internal auditing profession on a competitive market”.

The new definition of internal auditing is designed to fit the expansion of the role and responsibilities of the profession: “Internal auditing is an independent and objective activity that gives an organization an assurance regarding the degree of control held on operations, it guides it to improve its operations and contributes to adding value. Internal auditing helps this organization to achieve its objectives by evaluating, through a systematic and methodical approach, its risk management, control and company management processes, making proposals to improve the effectiveness”¹¹⁴².

¹¹⁴⁰ Ratlif. R.L.. AND K.F. Reding, *Introduction to Auditing: Logic, Principles, and Techniques*, Altamonte Springs, FL: The Institute of Internal Auditors, 2002, p.11

¹¹⁴¹ Report of the Guidance Task Force to The I.I.A.’s Board of Directors – *A Vision for the Future: Professional Practices Framework for Internal Auditing* (Altamonte Springs, FL: The Institute of Internal Auditors, 1999).

¹¹⁴² International Standards for the Professional Practice of Internal Auditing, I.I.A., 2004, p.1

Through the deep analysis of the definition we identify that it encapsulates the purpose, but also the challenges for modern internal auditing, marking a substantial progress as compared to other definitions previously stated, being rather a perfectible definition than a perfect one because it contains besides the essential positive aspects some negative ones as well.

Among these positive aspects there are the following:

- Reference is made to the independence of the auditing structure and of the auditor;
- The role of the internal auditing is expanded by emphasizing its “counselling” function, going even further and suggesting to the auditor to bring a substantial contribution to the management of the organization;

Among the weaknesses of the definition the following issues can be found:

- The word “activity” is used to describe the role of internal auditing, instead of “function”, given that an activity is less complex than a function, a fact which places its person in charge on a subordinate position.

- The reality that “internal auditing is exercised within an organization” is not specified. The definition emphasizes that *auditing creates plus-value*. They are specialists in the field who support the idea that the plu-value of the internal auditor is not his auditing report, this being merely a means of communication. The value consists, in the specialists’ opinion, in the auditor’s ability to make the organization prosper. The auditor is therefore creator of value through the savings it generates, the opportunities it creates and the losses avoided as a result of its activity.

Analyzing the impact of “fattening the globe”, experts say that externalization, globalized trade, chain supply chain and the political forces have permanently changed the world into a better one but also into a worse one, and the accelerated growth pace of globalization has and will continue to have a growing impact on activities¹¹⁴³. In this context, the best example is related to the current financial crisis which has as its starting point the U.S., but its repercussions, especially because of this phenomenon of globalization, can be seen in the world as well.

The globalisation of the financial markets and the financial innovations in the context of some poor regulation (or lack of them) and of the interest conflicts, can create the prerequisites for a financial crisis on an international scale, the crisis that economy is now facing. The measures to fight it are numerous, generating much debate among the top decision makers in the U.S. or the EU. Emphasis is placed on cooperation between the supervisory authorities, at the same time analyzing the causes that have generated this crisis. The origin of the financial crisis must be sought in the effects of the huge cross-border capital flows and of the more extensive use of financial instruments/derivatives (such as bonds securitization), which are neither transparent nor actually transacted on the markets. Consequently, the financial markets have become, in many areas, more and more opaque, and the identification of those who have taken risks and the evaluation of these risks have become almost unattainable goals.

The international economic growth through the new or expanded markets and the “hunt” of the foreign suppliers offering the lowest costs create a unique set of problems for the multinational companies, according to a study conducted by specialists¹¹⁴⁴. Among the most common:

- The savings from Brazil, Russia, India and China (known under the acronym of BRIC¹¹⁴⁵) have created a new order on the world markets. China and India in particular, will be the most powerful economic centres, even by 2012.

⁴ T.L. Friedman, *The Dell Theory of Conflict Prevention*, Editura Barclaz Barrios, Boston, 2008, p.49.

⁵ Price WaterHouseCoopers, *Audit Intern 2012 (Internal Auditing 2012)*, A study which examines the future of internal auditing and the potential decline of the control-based approach.

⁶ The BRIC or BRICs acronym refers to the developing economies with rapid growth in Brazil, Russia, India and China. The acronym was proposed in 2001 by Jim O’Neill, head of the global economic research department at Goldman Sachs, and developed in his book “Dreaming with BRICs” in 2003. He claimed that since they are rapidly developing countries, by 2050, the combined BRIC economies could eclipse the combined current economies of the richest countries in the world. These 4 countries comprise over 25% of

- The increase of outsourcing and a development of the offshoring and manufacturing services have made the global distribution chains to be more interconnected and more vulnerable, thus creating the financial market volatility.

Research shows that a significant and growing trend will have an impact the internal auditing, present and future. In the context in which organizations are expanding to take advantage of the global markets and of the supply chains, internal auditing faces a new demand of needs for these services and increasing responsibilities. Experts say that “it is only about speed and fluidity when taking advantage of globalization. Offshoring (moving your business from one place to another) is easier than ever, the joint-venture¹¹⁴⁶ type activities frequently take place and change is a constant in the present environment. To meet these challenges, companies must develop governance processes that are able to respond to changes”.

The opinion of internal auditors of large multinational companies is that the risks associated with the expansion towards the global markets could be quite difficult to identify and assess. Inexperienced internal auditors are likely not to understand the need to allow the adequate support to the global aspirations of the organization they work for.

The cultural aspects have been designated as an important topic, internal auditors becoming aware of the need to be attentive to how people think and act in China, India, and other areas with key partners in the marketing activities.

According to the apostles of the globalization theory, we have entered a new era of interdependence, in which stateless corporations go beyond their national boundaries driven by a new technological revolution and facilitated by the new information systems. From this perspective, the national state is an anachronism, the capital flow is unstoppable, and the world market is the one which determines macroeconomics.

The opinions expressed by advisers to the countries with less developed systems and civil servants with no experience in internal financial control practiced in public institutions refer to the fact that internal auditing should be introduced and developed in a differentiated manner in these countries.

The approach of implementing the same model both in the organizations from the developed countries and in the developing ones may be inadequate and even dangerous, leading to losses.

The pressure to change the role of internal auditing partly comes from exerting the profession of internal auditor and from the management, both looking for new ways to add value to the internal auditing function and to reduce the costs simultaneously. The philosophy of internal auditing born based on these views has strongly influenced the overall approach to internal auditing, which was adopted worldwide.

At present, for many developing countries, there is a significant difference in terms of stimulating the reform.

EU is a direct example in this context, of what can be done to improve the understanding of public sector management including the public financial control in those countries wishing to join the EU.

the inhabited area of the globe, 40% of the world population and hold a combined GDP of 15,435 trillion dollars. Almost at every scale, there would be the largest entity from the global arena.

These four countries are among the largest emerging markets with the fastest growth. Source: Wikipedia

⁷ Joint venture represents a contractual agreement through which more people agree to undertake an economic activity subject to a conjugate (concomitant) control. The control of an economic activity is conjugated when it is exercised, collegially, by virtue of a contractual agreement. None of the entrepreneurs is able to control, unilaterally, the company's joint venture-type activity. Such a control may not appear in companies with one shareholder. The conjugated control does not mean that all the decisions of the joint venture company be taken unanimously. The contractual agreement can distinguish decisions that require the approval of all contractors and those that can be taken by a determined majority. Source: Online Legal Dictionary Rubinian: <http://www.rubinian.com>.

The improvement of internal auditing should be seen as complementary to the improvement of management. Management must understand that internal auditing is a tool of it and to respond accordingly.

The effective internal auditing may exist if there are appropriate circumstances, and if they do not exist then one can have a little faith in the internal auditing. In particular, there must be a real willingness at the highest political level in order to achieve the progress in ensuring that the resources are directed towards those areas where the political decisions show that they should be. This should be a capacity of management.

For the developing countries receiving international aid, a financial condition required is that there is a strong budgetary system with clear political objectives, the political objectives should be aligned with the poverty reduction strategy. A second condition targets the accounting system. This is equivalent to the traditional role of ensuring that the existing proper financial records are done correctly. An effective accounting system should place each record chronologically.

With these two conditions met, the internal auditor may have ensured the raw material that he can process.

The internal auditor should ensure, as much as possible, that fraud and corruption, but also other abuses of funds, are minimized. This involves the internal auditor in looking for the insurance, with the support of management (the support being essential) to:

- the budget is comprehensive both concerning the expenditure and the revenue and that it meets all the legal requirements;
- the accounting system is effective and provides on time the information that management requires to manage the budget;
- the variations between the budget and the actual expenditures are properly reported and approved;
- the payrolls are accurate, the “ghost” employees are eliminated and, as employees, they are given the fair wages;
- the purchases are made in a manner that serves to minimize corruption;
- the revenues are properly assessed, the payments and returns are completed correctly.

This does not mean that the internal auditor should verify each document. This remains the responsibility of the management. What the auditor is responsible for and must do is his involvement in these systems enough to ensure that the requirements for these systems are met. This should be the minimum expected by the management of the auditing plan, and then to react to the findings from the internal auditing report. Through this process, the internal auditing work program is actually established.

Even if these limited objectives are nevertheless met, we believe that the training of both management and internal auditors is necessary for:

- Internal control practices management;
- Internal auditing management and the linkages with it;
- The internal auditors, in the basic auditing techniques;
- The internal auditors to enable them to gradually work in systems based on more sophisticated approaches.

It is assumed that this process takes time. It must be also noted that internal auditing is not a mechanical activity issued with light rules under regulations and procedures.

Successful internal auditing requires imagination and the ability to think “outside the system”.

In simple terms, the key role of the internal auditor in countries with a weak public sector should focus on the role of financial probity and on the financial regularity.

Based on an understanding of how the contemporary organizations function and on the relevant influences, the internal auditing function and its activities will be discussed from various perspectives in the following chapters of the internal auditing field.

In our opinion, we believe that these perspectives will provide a richer understanding of the context of the internal auditing function and its activities in the modern organizations and, thus, it

helps generate basic and applied research questions that are of interest for both the academia and for practitioners.

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CRITICAL DEVELOPMENT OF COSTING METHODS USED IN THE FURNITURE INDUSTRY, IN THE CONTEXT OF ECONOMIC REALITY SPECIAL XXI CENTURY.

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In the current economic downturn in the furniture industry companies, to face competition, requires new costing methods to succeed, in a flexible manner, fructifying market information, inside to find levers to identify places, resource intensive activities and then cost reduction opportunities. New methods of management cost excess the accounting and economics scope Current economic situation requires this work and converts the cost information into the main tool of insurance competitiveness and profitability of the company. Applying the standard cost in single cost model is a viable business solutions of enterprises in the furniture industry to face strong competition from European Union, specifically in the context of complex economic XXI century.

Keywords: cost, value, performance, costing system, efficiency;

JEL Cod: M 41

1. Introduction

The enterprises of the furniture industry is placed in a competitive environment, in the value chain between suppliers, on the one hand and distributors or customers on the other. External tensions who acting on it must be taken within its. To face competition companies allocate more and more research resources for research, to achieve quality products that require obtaining additional authorization. Harmonization with European standards of quality, environmental protection involves additional costs will be reflected in the indirect costs of the enterprise. Further, their share will increase in relation to total expenditures and their allocation will be made on products that are found most. This development of costs resulting from the need to launch the marketing of new products, new technologies of need to communicate with the external environment, highly complex and dynamic, which requires great efforts to adapt.

In these circumstances companies in the furniture industry to face competition requires new methods of costing. They rely on the use of techniques who involving in their quest a large number of specialists and changes in many of enterprise functions. In countries like USA, Japan, France this problem was solved by applying methods that meet current requirements as the method ABC (Activity Based Costing)-the process cost approach, the method target costing, value engineering analysis, UVA method. By implementing advanced management accounting methods to provide increased management control over the rational use of resources, proper allocation of their consumption on objects of calculation, optimizing the production process and use information as necessary to end users.

2. The impact of cost calculation methods on Operating results

Comparative studies of the results obtained by applying different methods of costing shows that the Operating results is influenced by policies and methods applied by enterprises, namely: costing method, method of inventory valuation, depreciation system practiced. Calculation method chosen has a direct impact, measurable, and one indirectly. Directly affects, the method of calculation affects income, the value of stored and fixed production (in charge of production), as and size of finished goods stock. Indirectly the influence manifests itself through the sale price, when it was based on cost. The Cost calculation errors affects enterprises performance in both variants possible: when is higher, respectively lower than the actual consumption of

resources. When the full cost is set at a level higher than normal, the price will be higher than its competitors, which will affect the competitive advantage and competitiveness of enterprise. When the full cost is set at a level lower than normal, exists the risk that the sale price does not lead the necessary margin to normal undertaking and the enterprises to operate at a loss. Also, how to "guidance" of consumption to the balance or profit and loss account significantly change the results of the company.

3. Advantages and disadvantages of using the method on orders in the furniture industry

As advantages of method on orders, identify [1]:

- the method is suitable economic context that has emerged: that of labor productivity growth mechanized companies;
- the method is adapted to work in the stable universe, because the average unit cost is calculated based on information obtained in previous years, on the "stock";
- is a tool for establishing long-term policy, because the full cost (return) is the first information used in setting the retail price (before linking with the market price and the price of competitors);
- *Can be used in evaluating tangible and intangible assets, works property built by enterprises themselves;*
- *can be used together with assessment methods based on variable costs and eliminate the incidence of changes in activity by attributing rational practice of fixed costs.*

However, in the deep economic crisis by passing both furniture enterprises, as well the environment they operate, the cost information provided by traditional method lose their relevance. *The lapse of that cost calculation model is given by changes in business environment but also the practices of firms.*

As critics of the method generated by change the economic context can remember:

- products are not homogeneous, there are a wide variety in how they consume resources;
- need to provide products and special orders, not manufactured in homogeneous series homogeneous;
- various activities and tech make impossible the existence of some homogeneous;
- decreases share of production costs for distribution, R & D and other support activities;
- reduced share of indirect costs to direct, using a single arbitrary allocation bases leading to erroneous results;
- multiplying the cost variability criteria (or, in other words, increasing fixed costs relative to production volume);
- order cost calculation system there is no explanation to obtain the production cost, but the cost-value optimizing various cost items.

4. Modern costing and the impact on measurements performance in the furniture industry

Enterprise management involves measuring costs and performance and their management. For performance measurement is calculated projected costs (standard or exanthema) and compared with realized costs (real or expost). The conditions that characterize the current global economic environment, the most important objective of an accounting system costing seems to be able to estimate involved total product offering.

The stakes of the full cost calculating are high: performance assessment at the centers of responsibility, highlighting the effect of "chain" in case of cuts in processes and activities, assess the financial accounting, decision making on products, customers and activities.

A modern management characterized by the fact that *performance and accountability that are global, collective, and costs must be integrated within the concept of value, involves the use of computer systems and performance measurement.*

4.1. Pros and cons arguments of using standard-cost calculation method

Standard-cost method has its genesis in SUA where appeared in 1901 under the name "Estimated cost system"(The pre-calculated cost), promoting first cost is determined before construction start. Standard cost has an pre-calculated cost to assess the performance over a certain period of time ."Trough Estimated cost system" was transformed in 1918 in "Standard cost accounting" (Standard cost calculation).[2]

The idea that the cost is a function of many factors has transformed the cost calculation in main objective of planning enterprise profitability. In this context, the standard cost is considered as a normal cost of production, and calculation of actual cost of products is no longer necessary. Favorable or unfavorable differences between actual and standard costs are deviations from normal manufacturing conditions, affecting company results for that period. In our country, Implementing Regulation Accounting Law states that, the standard or normal cost method is to determine in advance to the manufacturing of products both direct costs and those indirect grouped into fixed and variable, contained in the cost of production form antecalculation. By adding or subtracting deviations at the standard cost resulting the effective costs obtained production. It is noted that the Romanian version the deviations do not affect financial results.

Thus the positive points of the method can enumerate:

- *simplicity* - the standards are not influenced by short-term changes and are not reversed only when no longer reflects reality;
- *speed* - no need to wait to collect relating information to unit cost;
- *decisions* - *facilitate the application of coercive measures following calculating deviations.* Standards can be the basis for determining sales prices and allow performance evaluation of an entire component units;
- turning to production standards starting and calculating a regular manner deviations allows awareness at financial implications of of failure rules. *They facilitate the development of budgets, forecasts and incentives and simplifies the process of costing*[3];
- *can use management by exception*: managers will be contacted only when needed, to record significant deviations (exceptions);

In our view, the main conceptual advantage is increasing the accountability of staff, *orientation towards a "managerial attitude" (in the sense of Druker).*

Obviously that approach *method has drawbacks*, among which we mention:

- *implementing the method requires a long time* and the process is slow because it radically change existing habits and organization structures; standards must be substantiated and supported by staff;
- *standards must be accessible, but also ambitious.* However, the standard should not be very flexible because change milestone not allow accurately assess performance;
- *the method triggers conflicts regarding responsibility for deviations*, especially when the limits of responsibility centers are not very clearly defined and there are interactions between products and services;
- *standards are difficult to establish and watched in the field of intangible activities* (research-development, marketing, training);
- *causes high costs of implementing and adapting to changes.*

4.2. Adjustments to the standard-cost method

Following critics to the standard cost, he suffered a restriction of its application in several companies. Still others have preferred to adapt to the new system [4] :

- reduce the importance of standards and deviations relating to labor;
- manifests itself more strongly the importance of analysis based on machine hours, support services costs, product quality, production cycle;

- increasing importance inducers cost: the cost management system focuses on inductors and the number of hours-car number changes;
- advanced management accounting systems implementation requires moving attention at the unit-level costs for non unit-level costs and the growing importance of controlling overhead costs;
- need to obtain high quality and zero defect target, under JIT implementation.;
- eliminating costs that do not add value;
- shortening product life cycle;
- adoption of non-financial measures in operational control;
- Benchmarking's development as a way to control costs and increase efficiency-continuous search of the best ways to accomplish tasks through constant comparison methods and their performance with other firms or other parts of the same company;
- adoption of information systems in real time: a production system based on computer use allows the analyst to collect information even during the production process and draw up in real-time reports on the size of performance indicators. Allow thus rapid elimination of deviations.

4.3. Standard-cost method in the base model - single cost: direction of improvement of Management Accounting and Calculation Cost in furniture enterprises

Standard cost method is classified as forecast calculation methods and operational tracking of the production process allowing the establishment of production costs in advance before the start of production and making budget control actual costs against the default, on the kinds of irregularities and cases, while deployment of the production process. In this way, it offers undeniable advantages of studying and analyzing intelligence on the line of production efficiency, can meet such an important function for modern enterprise management, that the investigation and prediction tool and is therefore a valuable tool for the decision.

According to the concept of this method, unit production costs must be calculated in advance, using for this purpose preset sizes. While carrying out the production process is organized operative tracking of expenditure that gives rise to that, by comparison with standard costs, to establish the irregularities on places of spending and on the causes, so as to make the budgetary control of costs. In the original conception of standard cost method no longer have to calculate the actual cost, because the standard cost is considered scientific cost and at the same time, real, reason for any deviation the actual Costs from Standard-Costs is regarded as a deviation to normal and as such should pass directly into financial results. Still not exclude the possibility of calculating the actual costs of production achieved. This is done adding, or, subtracting of the standard-cost a deviations taken from management accounting which will track not only on places the costs and causes, but also on products. Calculation model is as it follows:

$$Cu_e = \frac{Cts \pm A}{Q} \quad \text{that,}$$

Cu_e = is the effective unit cost;

Ct_s = total Standard-cost;

Q = quantities produced.

The main work that involves the application of the standard cost method is:

- developing the standard calculation by product;
- Calculating, tracking, analysis and reporting standard deviations for control budget;
- Management Accounting organizes in terms of application of Standard-cost method.

Standard-cost method has the advantage of calculate labor rationalization, as the standard unit cost determined in advance is considered real cost and therefore not calculated the actual cost of finished products and production in progress at the end of each management period, and deviations are regarded as deviations from normal and pass directly into the company's financial results. The finished product and that in progress may settle at the cost standard. This feature but not removes the possibility calculating the actual cost of time to time, by distributing deviations to the finished product and production deviations in progress by conventional criteria, such as, for example, report that standard costs of production.

Another advantage of the standard-cost method and that cost is that although the concept is based on total costs using the classification of costs production into direct and indirect, it uses and classification of costs into variable and fixed production, allowing cost analysis compared with output and calculation of specific indicators direct-costing method, namely the equilibrium point optimal activity, the coverage factor, coefficient and interval safety, required for making based scientific decision.

A main feature of the standard-cost method consists *in the existence of an adequate operational comparison between actual expenditure and that pre-established taken as the baseline.* The application of Standard-cost method, the standard version single cost leads to increasing the practical value of accounting information and, implicitly, to improve the organization of economic activities. All this results in a better foundation costs budgets and, consequently, establish benchmarks as well to express the normal conditions of industrial activity.

Management based on predetermined size as the standard-cost method *corresponds to the principle of objective-based management and accounting gives in its quality of providing useful information decisions and corrective action , a major importance.*

In these conditions, accounting becomes the industrial enterprises, a useful tool for management, enterprise management, as its main mission is not to determine the cost of production, but to check if it determined in advance, was respected leaders sectors. In this way, management accounting can make tracking and control of classification in provisions of the budget and can provide expenditure information on the level of expenditure production.

Standard-cost method aims, mainly, to increase the role of production costs in ensuring achievement of the objectives in directing and good function of the company. *The main purpose of such calculations is to provide operational information needed to budget, evaluate, coordinate and control the activity or enterprise.*

Starting from the role and place of management accounting information in the modern, application of standard cost method gives it a matter of expediency, given the leverage in the process of preparation and decision making to trigger corrective action.

The standard-cost method replaces the simply operations of collecting and recording the actual data, to compare them to the end of the management period to achieve the commands method used in furniture industry enterprises, by providing an analytical character, operational and information predicting that their exploitation *to increase the efficiency of future activity.*

A prerequisite for the practical standard-cost method, besides the existence of a scheme sufficiently comprehensive scientifically based standards, is the existence of a well-developed techniques and operations production programming. This implies requires the existence a corresponding level of the organization of production, and a high degree of knowledge and explanation of economic and technological factors of production for all products and, especially products and new technologies.

Organization in good conditions of primary documentation on the expenditure and production cost calculation, and proper organization of records deviations from standards are also necessary prerequisites for adopting this management accounting and cost calculation method.

Considering the advantages and disadvantages of each of the three variants of standard-cost accounting organization, **I think the alternative that best meet the management needs of furniture enterprises is the standard version single cost.** This option enables for establishing

effective costs deviations from the standard costs during the unfolding process of production, costs of calculation articles and on causes, which facilitates cost effective budgetary control and decision making at all high levels of command. This also eliminates workload caused by the operation of in progress production inventory, whereas the recording system of consumption and production obtained in accounts only standard cost calculation, it is to determine the accounting method.

5. Conclusion

As a synthesis of research results I appreciate the following:

- **cost is a synthetic indicator reflecting efficiency of planning systems, record and control.**

It is measured by total consumption related to production of product, conditioned of technology and production organization, so it is designed to evaluate the product produced at a concrete stage of the production process;

- each enterprise must acquire modern management techniques to insure formation one adequate information system of a specific activity carried. Market economy requires this action, and transform *cost information into the main tool to ensure competitiveness and profitability of the furniture enterprise;*

- choosing the most appropriate costing methods in an enterprise leads to the fulfillment of two major goals: *to ensure the issue of improving quality information and user operations, control them and adding a value.*

- the costing method on orders, which are used in the furniture industry enterprises, has a number of drawbacks and *is not oriented to meet the management accounting function:* getting accurate information on the cost of manufactured products, ensuring the efficiency of the structural subdivisions of manufacturing production;

- *Using Standard-Single Cost Method, applied in conjunction with direct costing method in enterprises in the furniture industry in Romania is a direction of improving managerial accounting.*

In conclusion, it can be said that this paper has addressed a complex topic research and interest, **as improving methods of costing and managerial accounting is probably a viable solution to companies in Romania to cope with strong competition from EU Europe, in complex economic context, particular XXI century.**

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COMPARATIVE INTERNATIONAL PERSPECTIVES ON MARKET-ORIENTED MODELS OF CORPORATE GOVERNANCE

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The study of corporate governance requires not only the knowledge of economic, financial, managerial and sociological mechanisms and norms, but it must also incorporate an ethical dimension, while remaining aware of the demands of various stakeholders. The interest towards good governance practice is very present in the company laws of many countries. National differences may lead to specific attributes derived from the meaning that is given to the role of competition and market dispersion of capital. Based on a research consisting of a critical and comparative perspective, the present contribution is dominated by qualitative and mixed methods. In conclusion, it can be said that a market-oriented corporate governance model, though not part of the European Union's convergence process, may very well respond to the increasing importance of investors' rights and to the gradual evolution of corporate responsibilities, beyond the national context, with the aim of ensuring market liberalization.

Keywords: corporate governance, comparative approach, international evidence, United Kingdom, European Union convergence, financial markets, agency theory

Cod JEL lucrare: G3

1. Introduction

Corporate governance is a subject that is notoriously difficult to define in one sentence. Some view corporate governance in the narrow sense, dealing with the structure and functioning of the boards of directors, and their relationship to management. This narrow definition is the one often found in corporate governance codes and the *OECD Principles of Corporate Governance*, issued in 2004. A broader definition includes a company's relationships with shareholders, especially in organisations with concentrated ownership. Finally, academic studies dealing with governance broaden the definition to all internal relationships within a business, including the issues raised by the conduct of shareholders, especially institutional investors, the functioning of the general meeting and the company's relationship with the financial markets (Wymeersch, 2006).

No matter how complex the concept of corporate governance is, it can be eventually reduced to a simple formula by which to optimize its primary objective, the creation and distribution of wealth. Company law and the authorities regulating the financial markets are trying to formulate this optimization equation, thereby helping to design the rules by which to achieve a balance between various interests of corporate stakeholders. The different legal systems of the European Union are engaged in a convergence process: in each Member State, companies are properly functioning due to the harmonization of capital, personnel structures, sales and production opportunities. Conceptual differences relate to several aspects: the shareholders' involvement is connected to the postulate that managers are primarily appreciated for pursuing the investors' interests rather than those of other stakeholders, i.e. the degree of protection for employees and

creditors.

The local characteristics of economic entities are strongly rooted in national culture, which induces crucial features that are resistant to change. Whereas some EU Member States grant a certain privilege to the property rights of investors, a majority of countries in continental Europe are placing a particular emphasis on factors of a social nature. The issues outlined above are deemed to motivate a comparative approach to corporate governance systems. Such comparative analysis leads to the identification of two major models: one derived from a liberal approach, under which the company is considered the property of shareholders, and a second model, articulated on the financial and economic peculiarities of the Rhineland area. The latter acknowledges the fact that the enterprise is a social community dominated by solidarity expressed by all its members, (i.e. the actors of the agency theory: the principal – the shareholders – and the agents: the managers, employees and, generally, all other stakeholders). Supplementing the example of the social model and analyzing the cases of Germany, France and Japan, we find that large commercial banks, insurance companies and the governmental institutions play a dominant role in this system of governance, beyond the fact that these three major instances of economic power are backed up by the presence of financial markets. The gradual evolution of business beyond its national context is a commitment to provide market liberalization. The framework of globalization imposes the existence of an international benchmark for multinational companies. Many entities are striving to reach an optimal size, allowing them to achieve economies of scale which are necessary for better performance and increased foreign market presence. Therefore, the European economic environment is getting more and more accustomed to takeover bids which grant the transfer of economic control from smaller entities to larger conglomerates.

2. The analysis of market-oriented corporate governance

In order to analyze the events that have taken place since the second quarter of 2000, and taking into account their influence on corporate governance systems, it is possible to see further steps in the improvement of these systems, namely the institutional components and the way the agents concerned are involved. The two steps must be combined, since reducing institutional integration is a fundamental component of the profile and actions of the corporate agents. However, both the behavioral and institutional failures could be examined for each of the drivers of corporate governance system. In this respect, one could examine not only the corporate components involved but also the supporting elements, whose purpose is important in corporate governance. Some of these components bear the attribute of adjusting devices (Pérez, 2009).

If an entity's manager is also its creator and sometimes its major shareholder, the mechanisms of governance are either quasi-inexistent, either strictly peripheral. The opposite situation, when the investors' engagement leads to the formation of large companies managing a considerable fortune, is placed in the area of considerable success. In other words, to the extent that individual success can be easily explained, large enterprises have as sole concern not to be a barrier for independent development that would lead to the flourishing of new successful investment. This continuous monitoring of independent action in the context of financial markets clarifies the purpose of the securities commissions, i.e. the prevention of misleading interpretations, as it has been observed, for example, in the Microsoft case. However, the results are diametrically opposite when there is a separation between the managers and the legal rights expressed by business owners.

Two fundamental elements, both well established as American values, can be highlighted in this context. Firstly, the culture of entrepreneurship enables the managers to achieve their investments goals when confronted with new challenges related to shareholders' requests. Secondly, the primacy of property rights leads to the setup of several governance mechanisms designed to ensure that the owners are not harmed and that the entity's activities are conducted to their advantage. These two developments are more or less compatible, but they definitely lie within the

larger picture of political, ideological and cultural values of the American economic environment. They justify the implementation of specific corporate governance systems in the United States, considering the multiple facets of different historical periods under consideration.

The media implications of stock evolutions in the last decade and the increasingly significant involvement of financial analysts have led to the expansion of managerial opportunism which, in some cases, was a major driver towards the entities' bankruptcy. Some cases of accounting and auditing fraud became heavily publicized, i.e. Enron and Worldcom. The long-term vision of the company implies a strategic direction of a rational nature, leading to an enhanced performance of the entity. Profitable choices will thus contribute to improving the competitive situation for a larger market share or group of companies, primarily aimed at reducing the risks of all activities of that group. Legal representation in the short-term derives from the fact that shareholders have fixed contractual links with the entity and, as such, they can easily give up the capital they have committed. In the event of resale, the costs shall include any losses of value (when the sale price is less than the purchase price) and transaction costs (costs incurred during the buying and selling of shares). Shareholders will aim at improving financial indicators (cash flow, earnings per share), and will not take into account other indicators which point to increasing the long-term performance of the entity (Finet, 2005).

3. International perspectives on corporate governance models

The manager has a significant role in the debate concerning corporate governance because she/he is a major player in the economic process that aims at creating and distributing value. Agency theory in a formal sense originated in the early 1970s in the United States, but the concepts behind it have a long and varied history. Among the influences are property-rights theories, organization economics, contract law, and political philosophy, including the works of Locke and Hobbes. Some noteworthy scholars involved in agency theory's formative period in the 1970s included Armen Alchian, Harold Demsetz, Michael Jensen or William Meckling.

Agency theory raises a fundamental problem in organizations: a corporation's managers may have personal goals that compete with the owner's goal of maximizing shareholder wealth. Since the shareholders authorize managers to administer the firm's assets, a potential conflict of interest exists between the two groups. Countries with more concentrated ownership structures often have majority shareholders who significantly influence the board. Consequently, an 'agency' conflict arises between controlling 'majority' shareholders who may extract private benefits at the expense of minority owners. In the UK and US there is an emphasis on creating wealth for shareholders. That said, while approaches may differ, there is global appreciation of the OECD's generic corporate governance principles of responsibility, accountability, transparency and fairness.

Studying the models of corporate governance in various countries allows the determination of differences between Anglo-Saxon countries, where financial markets have a strong position, and countries belonging to Continental Europe where financial structures are a mix of three elements: bank financing, market-oriented capital and governmental intervention.

Corporate governance practices in the **United States** are not regulated by any one particular statute but instead are affected by the governing instruments, the corporate law and the court decisions of each issuer's state of incorporation, and, in the case of many publicly-owned issuers, by the U.S. federal securities laws and requirements of the national securities markets. Matters governed by state law include the voting rights accorded to shareholders, the functions of the board, and the ability of board members and executives to enter into transactions with the company. U.S. federal securities laws also affect corporate governance practices, primarily in the areas of disclosure and financial reporting, proxy voting, and the submission of shareholder proposals for consideration at shareholders' meetings. In addition, the national securities markets impact corporate governance practices through their requirements applicable to issuers of securities traded on their markets. Subject to all of these different laws and regulations as

applicable, corporations may establish their own governance practices in their corporate charters and bylaws. Stakeholders in a U.S. company may participate as shareholders (e.g., through employee stock ownership plans) and through service as directors. In the United States, the rights of stakeholders are established by a variety of laws, such as labor law, contract law and insolvency law. If their rights as established by these laws are violated, stakeholders can obtain effective redress through the courts and, in some cases, administrative agencies.

British incorporated companies listed on the UK Stock Exchange are subject to the Combined Code on Corporate Governance. The most recent (2008) version of the Code combines the Cadbury and Greenbury reports on corporate governance, the Turnbull Report on Internal Control (revised and republished as the Turnbull Guidance in 2005), the Smith Guidance on Audit Committees and elements of the Higgs Report. The changes which have taken place in British corporate governance over the past decade, both in the composition of boards and in the behavior of institutional investors, have been incremental rather than radical, and fall well short of the systemic reform which some observers believe is necessary. The Cadbury Code is a global landmark achievement in terms of financial governance, by encouraging listed company with generally recognized “best practices” in accordance with the comply-or-explain principle (Feleagă et al., 2009). British corporate governance is often described as a system of control by outsiders, rather than the insider control system which – at least until recently - has prevailed in Germany. This reflects, among other things, the larger role which the stock market plays in Britain and a different ownership structure. Germany has fewer publicly quoted companies than Britain, and most of them have at least one large shareholder who is represented on the supervisory board and takes a close interest in management decisions.

The **German** corporate governance system is different from that of the Anglo-Saxon countries insofar as it is based on the notion that it is possible, or indeed necessary, to integrate lenders and employees into the governance of large corporations. German corporate governance is shaped by a legal tradition that dates back to the 1920s and regards corporations as entities which act not only in the interests of their shareholders, but also have to serve a multitude of other interests. A narrow orientation toward shareholder value in the sense of an exclusive commitment of management to shareholders' interests is still not part of German business culture, nor is it in line with actual practice or with the law (Charkham, 1994). The German corporate governance system is generally regarded as the standard example of what Franks and Mayer (2001) have called an insider-controlled and stakeholder-oriented system. The past decade has seen a wave of developments in the German corporate governance system. Two of the factors which drive the evolution of financial systems in general, and specifically of national corporate governance systems, are European integration and globalization. It is often argued that these factors expose countries to the pressure of adopting a ‘good’ corporate governance system, and very often a good system is assumed to be one that comes as close as possible to the capital market-based Anglo-Saxon model of a financial system and the outsider-controlled model of a corporate governance system.

Following the publication of the two Vienot reports in July 1995 and July 1999, **France** now has a very extensive set of rules of corporate governance, promoting both efficiency and transparency. The aim of a corporate governance revolution in France was improving the workings of company bodies for management or the supervision of management, in particular the audit committee; the adequacy of accounting standards and practices; the quality of financial information and communication; the effectiveness of internal and external controls (by auditors and regulators); relations between companies and the various categories of shareholders; and the role and independence of various other market players, such as banks, financial analysts, ratings agencies. In the case of France, a broadening of corporate ownership has led to the opening of the Paris stock exchange to foreign investors and major. For some, it became necessary to reform the legal framework in order to impose greater transparency in the field of corporate governance. The internationalization of corporate ownership in French companies lead to the convergence of

reporting practices on matters such as proxy voting and shareholders' rights. In France, the debate on corporate governance sprung out of the financial market's opening to foreign and domestic investors. Broadening the ownership of the companies resulted in a request for greater transparency and the need to accommodate investors' expectations.

The working hypothesis is that the disclosure of accurate and timely information by the issuers of securities builds sustained investor confidence and constitutes an important tool for promoting sound corporate governance throughout the **European Community**. To that end, it is important that listed companies display appropriate transparency in dealings with investors, so as to enable them to express their views. The Council and the diverse Committees opted, in company law regulation, to provide for a framework for competitive business. This calls for flexible rules and forms of rulemaking, for light regulatory regimes where possible, scope for party autonomy and for less cumbersome and burdensome procedures. The system of harmonising company law through Directives - that have to be implemented by Member States - may have led to a certain 'petrification'. Simultaneously however, the "shelf life" of law tends to become more limited as society is changing more rapidly, and company law is no exception. Fixed rules in primary legislation may offer the benefits of certainty, democratic legitimacy and usually strong possibilities of enforcement. But this comes at the cost of little or no flexibility, and disability to keep pace with changing circumstances. EU Directives are in practice even more inflexible than primary legislation. That is the reason behind the diversity of legal instruments concerning corporate governance, when it comes to the binding power of each type of instrument.

In this respect, takeover bids are a threat to uncompetitive managers and an efficient mechanism to create shareholder value. However, in the **European Union**, Member States are reluctant to give a greater say to shareholders in the context of takeover bids. To prevent this from happening, the Takeovers Directive was adopted on 21 April 2004 and lays down, for the first time, minimum EU rules concerning the regulation of takeovers of companies whose shares are traded on a regulated market. The Takeovers Directive is one of the measures adopted under the EU Financial Services Action Plan. It aims to strengthen the Single Market in financial services by facilitating cross-border restructuring and enhancing minority shareholder protection.

4. Conclusions

The corporation has been the object of scientific research since the first decades of the 20th century. Professional management and dispersed ownership have driven the corporation into becoming the major form of business organization, mostly because it is believed that it favours a better allocation of resources. However, the classical theory that shareholder value maximization is the ultimate corporate goal has been challenged by the proponents of stakeholder theory, who argue that the satisfaction of corporate constituencies is of primary concern for managers and directors (Dragomir & Ungureanu 2009).

The institutionalization of mass shareholding through the involvement of investment funds has led to the development of a new perspective on corporate governance. The rise in the proportion of people's savings through acquisition of financial instruments has turned the attention of larger social groups to the principles of corporate governance and to the issues of shareholder value protection. On the other hand, a transnational and liquid capital market is an easy target for speculators and short-sighted investors. The last two decades of the 20th century have witnessed a series of bubbles and market contractions easily attributable to an 'irrational exuberance' (Greenspan, 1996).

In conclusion, corporate governance is intimately connected to the effect of strategic decisions on value creation (Pérez, 2009). Considering that managers are the authors of any corporate policy, the process of value maximization is almost entirely their responsibility. Within a market-oriented model, the role of corporate governance is to use various incentives and control mechanisms tailored to align managerial behaviour to the interests of shareholders. Shareholder primacy cannot be separated from the economic paradigm of the stock market; hence, the stock

market has a primordial role in the disciplining of managers and in reducing agency costs, thus creating value for the stakeholder society at large.

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DATA CAPTURE : THE KEY TO DETERMINING HOW MUCH TO HEDGE

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The key to using forex hedging to effectively manage your foreign currency risk is to capture accurate forex exposure information. The collection and evaluation of data on foreign currency transactions can be broken down into three areas: Recorded assets and liabilities on the balance sheet Firm commitments (binding third-party contracts) . Highly probable future (forecasted) transactions Once you have captured this data, you can determine the hedging ratio on your future foreign exposures.

Keywords : cash flow , fair value, hedging , forex , OCI .

Cod JEL lucrare: M 41

Other comprehensive income is the difference between [net income](#) and [comprehensive income](#) and represents the [certain gains](#) and losses of the [enterprise](#). It is commonly referred to as "OCI." In practice, it comprises [five] general items:

1 Unrealized Gains and losses on [available for sale securities](#) as required by Statement of Financial Accounting Standards No. 115 ("FAS115") - "Accounting for Certain Investments in Debt and Equity Securities"

2 Gains and losses on [derivatives](#) held as [cash flow hedges](#) as required by Statement of Financial Accounting Standards No. 133 ("FAS133") - "Accounting for Derivative Instruments and Hedging Activities".

3 Gains and losses resulting from converting foreign currency subsidiaries to the parent currency as required by Statement of Financial Accounting Standards No. 52 ("FAS52") - "Foreign Currency Translation", and

4 Minimum [pension](#) liability adjustments, as required by Statement of Financial Accounting Standards No. 158 ("FAS158")- "Employers' Accounting For Defined Benefit Pension And Other Postretirement Plans".

5 Unrealized gains and losses from a foreign currency hedge of a net investment in a foreign operation as required by FAS133.

Data Capture: The Key to Determining How Much to Hedge

The key to using forex hedging to effectively manage your foreign currency risk is to capture accurate forex exposure information. The collection and evaluation of data on foreign currency transactions can be broken down into three areas:

1. Recorded assets and liabilities on the balance sheet
2. Firm commitments (binding third-party contracts)
3. Highly probable future (forecasted) transactions

Once you have captured this data, you can determine the hedging ratio on your future foreign exposures.

Capturing Data on Recorded Assets and Liabilities

Companies need to collect and review data on foreign currency exposures (foreign currency assets and liabilities) generated from their accounting systems (accounts receivable, accounts payable, and so on), a task that becomes more challenging if there are multiple systems deployed. Ideally, this data capture should be automated through financial system inquiry programs that produce appropriate summary reports for determining hedging amounts. A review of the foreign exposure data is a prudent business practice because erroneous journal entries may have been

posted to the general ledgers. Once this data is collected and reviewed, the organization can implement its hedging program, reducing the percentage hedged based on an assessment of the risk that the data capture was susceptible to error.

Capturing Data on Firm Commitments

Firm commitments are binding agreements with third parties. Information on firm commitments is included in the methods and procedures for capturing your financial commitments as disclosed in the financial statement notes and your purchase order system. Typically, the data capture exercise entails a process of identifying signed third-party agreements and managing this information. One of the challenges in this area of data capture is the need to properly segregate how the firm commitments are included in the foreign currency forecasted transactions. Firm commitments typically offer the ability for the company to choose between using a cash flow forex hedge or a fair value forex hedge, while forecasted transactions may only use cash flow hedges. Under both the cash flow and fair value hedges, the change in the effective portion of the forex hedge is recognized on the income statement at the same time at which the gains and losses from the hedged foreign currency item impacts earnings. However, the administration of tracking the impact of the hedged items on earnings is sometimes easier when using a fair value hedge. For example, if you are hedging a foreign currency purchase of raw materials, which are used in the production of finished products, it will be more challenging to administer the accounting entries related to when the cost of raw materials (bought and sold to third parties) impacts the earnings.

Under a cash flow hedge, the impact to earnings is recorded in the OCI account and transferred to earnings when the inventory is sold to third parties (not when it is sold to a subsidiary). However, under a fair value hedge, the accounting will be easier to administer since the fair value of the raw materials will be adjusted for the effective portion of the fair value hedge. Since the impact is included directly in the raw material cost, the impact to earnings will occur whenever the third-party sale of the finished products takes place as part of the normal accounting entries.

Forex Hedge Accounting Treatment

Capturing Data on Forecasted Transactions

Accurate forecasting is critical to the company's ability to properly hedge an appropriate amount of forex risk. To improve forecasting techniques, consult with the purchasing and sales departments, and ask members of the budgeting department how accurate their prior forecasts were. To help manage the forecasting risk, consider reducing the hedging ratio (percentage to hedge) and designate and execute forex hedges in layers.

Forex Hedging Ratios

Each company will need to develop and review its own forex hedging policy and procedures. Note that forex hedging percentages or ratios can be refined as the data capture process improves. A company may choose not to hedge all of its exposure to certain currencies. For example, it may be prudent to use confidence factors to determine either a hedging ratio or a forecast of foreign cash flow. It may be a wise decision to reduce the forex hedging ratio if there is questionable data capture, at least until the data capture process improves. Predicting future cash flows requires significant judgment skills and considerable estimates of future activity. The forex hedging ratios related to longer-term future cash flows will often be lower to avoid over-hedging a position. If management reduces the forex hedging ratio because it has a certain view about future currency movements, then the company is engaging in speculative behavior (not hedging). Ideally, this activity should be tracked and reported separately to senior management and the Board of Directors.

Scenario 1 (Hedging Ratio Based on Uncertainty)

A Japanese company expects to complete a 10 million euro purchase contract. However, the purchasing department does not have sufficient confidence in this purchase amount, so it recommends a hedging ratio of 80%, and further recommends that any hedging above 5 million euros be in lots. The company hedges one lot of 5 million euros (for the first 5 million euros) and three additional lots of 1 million euros each. It does not hedge the remaining 2 million euros (which is outside of the hedging ratio). If, for some reason, the purchase contract ends up with just over 7 million euros, the majority of the hedging relationships would remain intact and only one lot of 1 million euros would need to be closed out and taken to the income statement. Conversely, if the contract is later forecasted to increase beyond the original 10 million euros, the company could make additional hedges at that later date.

Scenario 2 (Hedging Ratio Based on Speculation)

A U.S. dollar company has exposure to a 100,000 euro receivable that it hopes to collect in 60 days. The current EUR/USD rate is 1.4677/1.4678, but management feels very strongly that the U.S. dollar will drop in value over the next couple of months. In this example, the company could reduce its forex hedging on the known exposure to 75%, in the hopes of profiting from a lower U.S. dollar on the remaining 25%. Alternatively, the company could hedge out the entire 100,000 euro exposure with a spot trade, selling 100,000 units of EUR/USD, in which case any changes in future EUR/USD currency rates would be effectively hedged

To act on their judgement around the USD drop in value, the company could buy 25,000 euros through a EUR/USD spot trade as a separate transaction in their speculation account, thereby profiting from a USD decline over the next couple of months but maintaining a safe hedge on their receivable. To minimize downside risk, the company could place a stop loss order on speculative trades to limit potential loss.

Natural Hedges

The most economical forex hedge is a natural hedge. A natural hedge is where the foreign currency outflow is offset by a foreign currency inflow. However, the natural hedge may be tricky when the timing and amounts of the two cash flows do not match.

Scenario (Natural Hedge)

A British company does a great deal of business in the United States, with many American suppliers and customers. In three months, it has a large shipment worth \$10 million USD due to arrive at a US customer's factory. By coincidence, a shipment of raw materials is scheduled to arrive in Britain from the US at the same time, worth \$15 million USD. Based on past experience, the company has a high degree of confidence that it will receive payment from its US customer within 30 days of delivery, so has timed its payment to its supplier to coincide with this date.

In this scenario, there's a high probability of a natural hedge of \$10 million USD. The company only needs to hedge a \$5 million exposure.

Forex Hedge	Hedge Designation (special accounting treatment)	Documentation and Testing	Forex Hedge FMV (mark-to-market)	Hedged Items	Impact – Effective Portion of the Forex Hedge	Comments
Not designated	None	No special documentation	Hedge FMV on balance sheet- Offsetting entry direct to P&L	Recorded foreign currency assets and liabilities on the balance sheet	The gain/loss on forex hedge and the hedge item's forex revaluation impact to earnings offset each other.	Creates desired effect
				Future transactions (both firm commitments and forecasted transactions)	Protects overall economic value; however, earnings volatility occurs due to mismatch when forex hedge impacts earnings and when the future transaction impacts earnings.	Potential earnings volatility may occur.
Designated	Fair Value Hedge	Upfront documentation, periodic testing of hedge effectiveness.	Hedge FMV on balance sheet- Offsetting entry direct to P&L	Firm purchase/sale commitments (binding contracts)	Change in FMV of underlying firm commitment is recorded on the balance sheet until purchase/sale is made. When purchase/sale is completed, this recorded commitment is reclassified to the purchase/sale amount.	Purchase/sale commitment's change in value recorded on the balance sheet (not usual treatment). Easier to track hedge item's impact to earnings by adjusting purchase amount at time of purchase.
				Recorded foreign currency assets and liabilities in special circumstances. Typically, foreign denominated debt.	Change in FMV of recorded asset or liability is recorded directly to earnings as is the gain or loss on the forex hedge.	Generally designated for situations when the company is hedging foreign denominated debt against changes in foreign currency rates and interest rates.

Forex Hedge	Hedge Designation (special accounting treatment)	Documentation and Testing	Forex Hedge FMV (mark-to-market)	Hedged Items	Impact – Effective Portion of the Forex Hedge	Comments
	Cash Flow Hedge	Upfront documentation, periodic testing of hedge effectiveness. Forecasted transactions must meet definition of high probability.	Hedge FMV on balance sheet-Offsetting entry direct to P&L	Firm purchase/sale commitments (binding contracts)	After the purchase/sale is completed, its impact to earnings must be tracked to determine when to reclassify the amounts in the equity OCI account to earnings. Change in FMV of underlying firm commitment is not recorded.	Cash flow forex hedges must lock in all the variable amounts of the hedged items (i.e., both forex and interest rates). Potentially more challenging to track hedged item's impact to earnings for purchase transactions.
				Highly probable forecasted transactions	After the purchase/sale is completed, its impact to earnings must be tracked to determine when to reclassify the amounts in the equity OCI account to earnings. Change in FMV of underlying firm commitment is not recorded.	Cash flow forex hedges must lock in all the variable amounts of the hedged items (i.e., both forex and interest rates). Potentially more challenging to track hedged item's impact to earnings for forecasted purchase transactions.
				Recorded foreign currency assets and liabilities in special circumstances. Typically, foreign denominated debt.	Change in FMV of recorded asset or liability is recorded directly to earnings as is the gain or loss on the forex hedge.	Generally designated for situations when the company is hedging foreign denominated debt against changes in foreign currency rates
	Net Investment Hedge	Upfront documentation, periodic testing of hedge effectiveness.	Hedge FMV on balance sheet-Offsetting entry direct to P&L	Net investment in a subsidiary	The gain/loss on forex hedge and revaluation of the net investment in the foreign subsidiary would both be recorded in the equity OCI account for foreign currency translation accounts, hopefully, offsetting each other.	Need to assess whether intercompany foreign currency debt is considered to be long term in nature. Depending upon the frequency with which the net investment hedge is updated to reflect current notional exposure, some ineffectiveness may occur.

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CLASSIFICATION OF HIDDEN INTANGIBLE ASSETS

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In a society in which the market value of a company is given in proportion of 75-85% of the intangible assets, it can be said that the current accounting does not give sufficient relevant information for a company in order to take decisions on long-term. For Skandia, the market value of an organization is given by two components: financial capital and intellectual capital. Accounting for intellectual capital is not exactly easy to achieve, both because of the assessment and viability in the accounting process in view of current legislation. This article aims to show what are hidden intangible assets (intellectual capital), what is their place in the classification of intangible assets, what are the components of hidden intangible assets according to different existing reference models and also the possible solutions such as submission of additional financial situations.

Keywords: intellectual capital; alternative accounting; hidden intangible assets; evaluation; knowledge economy.

Jel code: M41 Accounting

1. Introduction

The global influence of information and the technological changes and communication changes have transformed our society favoring globalization of economy and innovation as key factor to global competition. Lately, economic, political and social environment suffered profound changes which have determined a higher level of globalization and higher competition, passing from the traditional accounting to modern accounting that on which day requires more information.

The evolution from the agricultural age to the industrial age is now very easy to understand. Instead, what is now happening in the new economy has an incredible impact in the process of evolution. New Economy changes everything. Thus, according to a study published recently it can be seen the growing importance of intangible assets:

- In 1978, intangible assets constituted 5% of assets.
- In 1998, intangible assets constituted 72% of assets.
- Today, 75-85% of assets are intangible.

In Europe, the interest in this phenomenon is increased realizing numerous studies financed by the European Commission which include “Mobilizing the intellectual capital in Europe” (2005) and Meritum Project (The Meritum Project - 2002): Guidelines for managing and reporting on Intangibles - Intellectual Capital Report, European Commission.

2. Intellectual capital

In the new economy, intellectual capital is the key factor of competitiveness of an organization and the long term value. Today, as well known, the value is given more by intangible assets than the physical ones. The explanation for the difference between the market value of a company and its accounting value is in its intellectual capital. After Stewart¹¹⁴⁷, intellectual capital is the source of richness for both individuals and organizations for ... and both have it in common.

“What is intellectual capital? It is, defined by a company, <<what exits the gate at the end of the day>> Are people? Company’s know-how? ... It is the sum of ideas, inventions, technologies,

¹¹⁴⁷ Stewart, Thomas A.: La Nueva Riqueza de las Organizaciones: EL Capital Intelectual, 1998, 312.

general knowledge, computer software, projection, techniques for data processing, processes, creativity and publications of the company. Intellectual capital can be simply understood as knowledge that can be turned into benefits¹¹⁴⁸.”

Edvinsson and Malone¹¹⁴⁹ define intellectual capital as the possession of knowledge, applied experience, organizational technology, customer relationships and professional skills that give a competitive advantage in the market.

Nevado and López¹¹⁵⁰ talk about intellectual capital as total assets of a firm, even if not reflected in traditional financial statements, generate or will generate value for the company in the future, and consequence of the issues related to human capital and the structural: the capacity of innovation, customer relations, quality of processes, products and services, cultural and communicational capital, which allows a company or organization to take better advantage of opportunities, giving birth to generation of future benefits.

We also find many definitions of intellectual capital that is related to intellectual capital defined as the sum of its components, and definitions that make reference only to the human aspect.

3. Intellectual capital classification

In order to measure and evaluate the intellectual capital is necessary to know and to understand which its main components are. The distinction between different components of intellectual capital will help us to understand what intellectual capital is and will allow us to apply the concept to strategic and operational level.

In the past years there have been many attempts to make a classification of intellectual capital, but let's take first a view of the classification of intangible assets in general. Nomen¹¹⁵¹ makes a classification of intangible assets according to their utility:

- With unique, superior, nesubstitubile utilities;
- With substitutable utilities (using another asset);

A second classification divides intangible assets in:

- Identifiable intangible assets (separable) and controllable;
- Unidentifiable intangible assets (inseparable) and uncontrolled.

Both may come from acquisition or can be generated internally. The third classification refers to:

- visible intangible assets;
- hidden intangible assets.

Visible intangible assets are those that are legislated in different accounting standards. They may also be identifiable and controllable or not, or whether generated internally or through acquisition.

Hidden intangible assets or intellectual capital are those for which are no accounting standards and they are not listed in the financial statements. These are unidentifiable and uncontrollable, obtained through acquisition of other company or generated internally.

Hidden intangible assets or intellectual capital consists of:

- Human capital;
- Structural capital.

In the following scheme it is presented the classification of intangible assets¹¹⁵²:

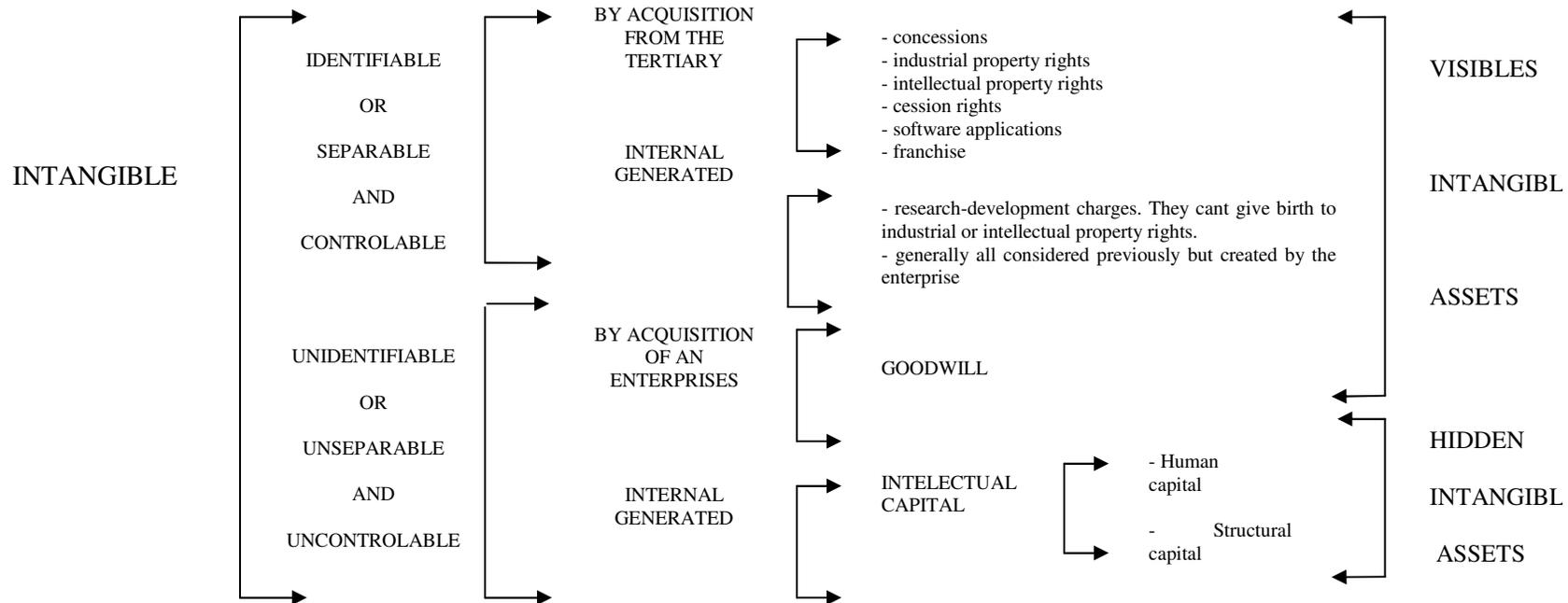
¹¹⁴⁸ Sullivan, Patrick H.: Rentabilizar el Capital Intelectual, 2001, 27.

¹¹⁴⁹ Edvinsson, Leif; Malone, M.S.: El capital intelectual. Como identificar y calcular el valor de los recursos intangibles de su empresa, 1999, 64.

¹¹⁵⁰ Nevado, Domingo y López, Víctor R.: El capital intelectual. Valoracion y evaluacion, 2002, 25.

¹¹⁵¹ Nomen, Eusebi: Valor razonable de los activos intangibles, 2005, 38-40.

¹¹⁵² Nevado, Domingo y López, Víctor R.: El capital intelectual. Valoracion y evaluacion, 2002, 18.



Intangible assets classification¹¹⁵³

¹¹⁵³ Nevado, Domingo y López, Víctor R.: El capital intelectual. Valoración y evaluación, 2002, 18.

Human capital refers to the body of knowledge, skills and training, skills and ingenuity, skill and attitude, learning ability and motivation of individuals who compose the organization. Company values, culture and philosophy are also included in the human capital.

Capital structure may be described as the infrastructure that incorporate, support and qualify human capital and made possible the labor development in the company (programs, databases, organizational structure, patents, trademarks). It also makes reference to customers, the company-customer relationships, organizational processes, management, production and marketing.

Further we follow some of the rankings made by the "parents" of intellectual capital:

1. After Kaplan and Norton¹¹⁵⁴ (Balanced ScoreCard model):

- Human capital;
- Informational capital;
- Organizational capital.

2. For Skandia¹¹⁵⁵ (Skandia Navigator model):

- Human Capital
- Structural capital:
 - Customers capital;
 - Organizational capital;
 - Innovation capital;
 - Process capital.

3. For Brooking¹¹⁵⁶ (Technology Broker model) the intellectual capital of a company shall be divided in:

- Market assets (partly derived from intangible assets related to the market);
- Intellectual property assets (know-how, manufacturing secrets, copyrights, patents, trademarks and service);
- Assets focused on individual (qualifications of persons);
- Infrastructure assets (technologies, methodologies and processes that make possible the company operation)

4. For Stewart¹¹⁵⁷:

- Human capital;
- Structural capital;
- Clients capital.

5. For Euroforum¹¹⁵⁸ (Intellect model):

- Human capital;
- Structural capital;
- Relational capital.

Most authors share the intellectual capital in almost the same groups: human, structural and relational, but with different names and not composing the same items. Most models have developed in recent years of the end of XX century because during this period began to see the importance of intangible assets. It is not fundamentally different regarding the concept of intellectual capital, even if they introduce some new concepts. The models do not assign a financial value to intellectual capital using financial indicators to measure and manage it. The financial perspective is included only in the Balanced Scorecard and not all models explicitly recognize the present / future perspective.

¹¹⁵⁴ Kaplan, Robert S.; Norton David P.: El cuadro de mando integral - The Balanced Scorecard, 2004, 239.

¹¹⁵⁵ Edvinsson, Leif; Malone, M.S.: El capital intelectual. Como identificar y calcular el valor de los recursos intangibles de su empresa, 1999, 73.

¹¹⁵⁶ Brooking, A.: El Capital Intelectual - el principal activo de las empresas del tercer milenio, 1997, 25.

¹¹⁵⁷ Stewart, Thomas A.: La Nueva Riqueza de las Organizaciones: EL Capital Intelectual, 1998, 122.

¹¹⁵⁸ Euroforum: Medición del Capital Intelectual. Modelo Intellect, 1998, 34.

Regarding the classifications, most models divide intangible assets in almost the same components: human capital, structural (organizational) and relational, but with different names and does not integrate the same elements.

In all studied models we find that the human capital is the base of the richness, less in Balanced ScoreCard where it is considered from the education-training perspective and increased staff.

Structural capital (organizational), as is called in most models, we find it in the Balanced ScoreCard as internal process perspective and in Technology Broker as infrastructure asset.

The capital is called relational in Meritum and Intellect models. In Skandia Navigator it is integrated as customer's capital in structural capital and in the Balanced ScoreCard it is considered as perspective customers. It is the most developed part in the intellectual capital. Thus we find it also by the following names: external structure, market asset.

The first report of intellectual capital that has been published as a supplement to the annual accounts of Skandia in 1994 was the "Intellectual Capital View", followed in 1995 by the "Creative Process Value", and in 1996 by "The Power of Innovation".

For Skandia, financial capital and intellectual capital are the 2 elements that define the organization, value which is actually fair value. According to IAS 16 the fair value represents the sum for an asset that might be willing changed between the 2 interested parts within a transaction developed in objectives conditions with objective determinate price¹¹⁵⁹. The intellectual capital is composed of human capital and structural capital:

According to the Skandia "Scheme of Market Value", intellectual capital consists of:

1. Human capital: personal skills, knowledge, skills and experience of employees and staff, organizational culture.
2. Structural capital: "what remains in the office when employees go home" (such as hardware, software, databases, patents), infrastructure that incorporates, forms and sustain human capital:
 - a. Capital customers: customer relations, their satisfaction and loyalty, longevity, sensitivity to price, long-term welfare clients;
 - b. Organizational Capital: Organizational competence and investment in systems:
 - Innovative capital: the capacity for renewal and innovation of new products and services and other intangible assets and used talent for creating and launching new products and services.
 - Processes capital: techniques and programs for employees in order to add value for the enterprise and to increase the efficiency, work processes.

As we can see, Skandia uses both financial elements and non-financial elements in order to establish the market value of a company. The tool measuring, managing and information of Skandia is "SKANDIA NAVIGATOR" that is presented as a home.

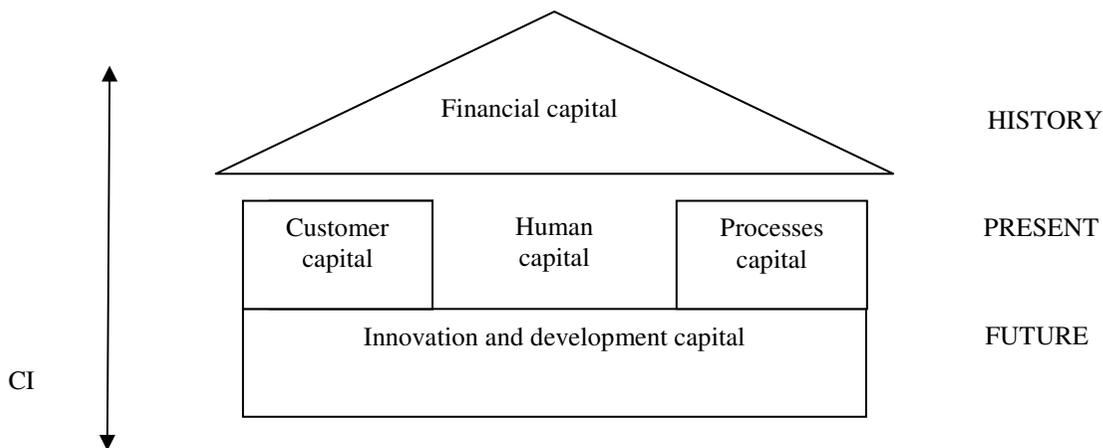
Thus, the triangle above represents the financial point of view (the past of the company - financial statements). The walls of the house represent the present and they include customer and market processes and the foundation is the innovation and development capacity. In the center we find the human capital - "the heart of the organization".

The model has 111 main indicators and 51 auxiliary indicators that are being used. They may be quantitative or percentages indicators.

The model proportionates a balance between the past (financial perspective), present (customer perspective, human perspective and perspective of processes) and future (innovation and development perspective):

1. Financial perspective surprises information stemming from the financial statements;
2. Customers perspective offer a vision of the degree in which the enterprises satisfies the needs of customers with products and services, being present indicators related to share sales customers, or how loyal are its customers.

¹¹⁵⁹ IAS 16, 2007, 6.



Skandia Navigator¹¹⁶⁰

3. Human perspective is “the heart of the organization”, “that part of the intellectual capital that goes home every night” and “the combination of experience and innovation that are in these employees and the strategies of the enterprises for change and preserve this combination” (Edvinsson and Malone, 1999, 92) it presents indicators such as employee satisfaction, their improvement.
4. Process perspective refers to the processes of efficient production of goods and efficient service-oriented to customers.
5. Innovation and development perspective aims to capture the opportunities that define the future of the enterprises - look into the future to prepare for it and to establish lines of action to ensure long term growth and profitability.

Starting from the structure of intellectual capital and respecting the requirements to be met under Meritum¹¹⁶¹ such as utility, comparability, reliability, objectivity, veracity, sustainability, relevance, understandability, timeliness, significance, we can establish the indicators needed to measure intellectual capital depending on the line of business of the enterprise.

Conclusions

Intellectual capital is, as we saw, a term with many definitions but almost all it is defined as an intangible asset that is not reflected in current financial statements. It is knowledge, experience and intellectual force of employees, as resources and knowledge stored in the databases of the organization, in systems, in processes, in culture and philosophy, all managed and used to obtain services and products with the ultimate aim of obtaining benefits. Intellectual capital includes intangible assets and resources that can be used by the organization to create value transforming them in new processes, products and services.

In the past years it has been questioned the quantification of value and explanation of the components of the organization intellectual capital. There are many companies that rely on intangible assets to achieve benefits and to gain competitive advantages but the current financial statements does not capture - and can not capture - key determinants of value that dominates the new economy. Critics suggest that companies should compensate this by extending reporting on intangible assets, especially non-financial reporting. Their reason is that this enlarged reporting

¹¹⁶⁰ Edvinsson, Leif; Malone, M.S.: El capital intelectual. Como identificar y calcular el valor de los recursos intangibles de su empresa, 1999, 90.

¹¹⁶¹ Meritum Project: Guidelines For Managing And Reporting On Intangibles - Intellectual Capital Report, 2002, 19.

will better communicate the economic situation of the company through the submission of additional information relevant to reflect the real value of the company.

Recommendations:

- Introduction of a generally accepted model for measuring intellectual capital worldwide and creating the necessary accounting frames in order to make comparisons.
- It's necessary to develop some harmonized specific rules at the global level concerning accounting and auditing intellectual capital.
- Promote the development of new complementary information systems - alternative accounting.

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THE IMPACT OF DISCONNECTION OF ACCOUNTANCY FROM TAXATION ON THE SHARE RESULT

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The opinions regarding the optimum of accounting-taxation ratio are divided between the supporters of the disconnection between accountancy and taxation, on the one hand, and those of the connection between accountancy and taxation, on the other hand. A great number of scientists' points of view converge to the idea that the emergence of the accounting science was determined by fiscal reasons. During those days the single reason of accountancy was indeed that of determining the taxable base and starting from these premises the hypothesis that relates accountancy to taxation does not seem so old-fashioned. But along with the general development of economy we observe the coming forth of new and important participants to the economical activity, these being directly interested in the growth of the activity of the enterprise in question and providing them with information could no longer be overlooked.

Keywords: Disconnection, Deferred taxation, Inflationary phenomenon, Accounting gross profit.

JEL Code: M - Business Administration and Business Economics; Marketing; Accounting; M41 - Accounting

1.Introduction - Briefing on the history of accountancy, taxation and the accounting-taxation ratio

In order to illustrate the present-day stage of evolution and social prestige of a science, one should start with its history. Starting from this point we consider that an incursion in the accountancy and taxation history helps us to better understand the present-day stage, both as a form of scientific knowledge and as a social practice. Accountancy as we can see it today is a science representing the result of a long historical process and not the result of an intended will of economical agents or the product of some scientists' thinking.

Historians have been arguing for a long time and they still are about the origins and the events related to arising of accountancy as double entry (some consider the concept evolving from the accountancy as single entry, as the economical activities began developing, others, on the contrary, consider accountancy as single entry to be a sinthetization of the double entry¹¹⁶²). Regarding these opinions we consider that the double entry is the result of the accountants' work, of their consequent preoccupation to dispose of the single entry gaps and to improve it step by step. In this field literature the opinions concerning the relation between double entry accountancy – capitalism, are also different. The question is whether the double entry accountancy generated capitalism or if the latter could be conceived without the double entry accountancy.

The German economist Sombart determined in 1982 that capitalism cannot be imagined without the double entry accountancy. He mentions that “the possibility and the impulse for achieving the

¹¹⁶² Ionașcu I., *Dinamica doctrinelor contabilității contemporane*, Edition Economică, 2003, pg. 13.

request of plenary development of the ideas belonging to the capitalist system: the idea of profit and the idea of economical rationalism were created through the calculations of double entry accountancy.”

This point of view has been severely criticised in time by historians, but especially by Fernand Braudel, who observes the fact that in some capitalist societies there are some important institutions that will resort relatively late to the double entry (insurance companies from London, The Dutch Company of Eastern Indies).

Anyway we have to admit that the double entry is an integrant element for capitalism. There is no doubt that all over the world the fiscal problem represents a preoccupation both for researchers and for the accountant practician. This thing is emphasised by the dynamic of the fiscal evolutions, the regulations stipulated by the fiscal texts being in a continuous change: “the fiscal text [...] acts exactly like a living body: it is conceived, it is born, it lives, sometimes well put up with, some other time hardly accepted, it disappears and it can be reborn, fed by different stimuli [...] Taxation is the result of the constant compromise between the care for justice and the necessity of obtaining an income”¹¹⁶³.

The results of the published researches lead us to the hypothesis according to which the study of the fiscal relations approach very rarely the period before the XVIth century, in a concret way.

The “barter” fiscal forms are gradually abandoned, just as capitalism begins to install, when the merchandise production becomes dominant, and the public actions start to vary and amplify. At this moment “the money” taxation begins. Thus until the second half of the XIX century, the capitalist system will put its mark on taxation. The real modernization of taxation begins after 1870, when a second phase of the industrial revolution takes place and the process of centralization of the micro economical structures begins. At least until the XIX century, the French treasure up in order to buy land, to pay taxes, to buy a public function. In XVII century one can find the same feudal rights all over Europe, but starting with the XVIII, in France the bondage is abolished, the peasants wanting to become landed owners and to break free from their landlords. During this time England remains governed and administrated by landlords, who are the land owners.

In this period the tax system proves to be quite unjust all over Europe, but it seems it manifested strongest in France. While here the royal power gives tax immunity to the king, as a consolation for effective ruling, in England the aristocracy is the one that endures the most severe public expenses, as an exchange for governing. Therefore the privilege of tax immunity is owned by the poor in England, the aristocracy enduring most of the taxes, while in France most of the taxes are endured by the poor. These will be the origins of the emergence of two situations and attitudes that are diametrically opposed towards taxation, between the two great European rivals, and they are emphasised also by the priorities of the business men in those two countries at that time: the French bourgeois using his savings to buy a public function, while his English homologous invests in trade. After the World War II the financial systems reflect and are conditioned by the political doctrine of each regime that comes to power. During this period the society, and at the same time the trade economy, began to evolve mostly towards a capitalist market economy (decentralised), on the one hand, and a planned collective economy (centralised) on the other. “The place and the form of taxation in these two types of economical systems will be very different, because the tax is basically related to the decentralised economy. It disappears in the pure centralised state economy”¹¹⁶⁴.

2.The importance of using the case study in order to emphasise the research results

The case studies presented during the research activity do not have to be chosen starting from the fact that they are representative from a certain point of view. That is because the research does

¹¹⁶³ Delesalle F. E., Delesalle E., Contabilitatea și cele zece porunci, Edition Economică, București, 2003, pg.35.

¹¹⁶⁴ Beltrame P., Les systèmes fiscaux, Presse Universitaire de France, Paris, 1979, pg.10.

not have to lead to establishing some statistical generalizations. The priority should focus on the theoretical generalizations¹¹⁶⁵. **Referring in particular to the case studies that we analyze for the theme of this paper work, we estimate that they have an illustrative - descriptive character** because on the one hand it is intended to be presented the classical accounting practice (emphasising the determination of the taxable profit in historical costs), and on the other hand it is tested the implementation and the consequences associated with the implementing of the innovative accounting practice (the possibilities of using the alternatives from the current cost perspective). **The exploring character of the case studies** (consisting in a preliminary investigation regarding the way in which the accounting practices are implemented) arises from the presentation of the way in which the accounting practices were implemented, which referred to the deferred taxation starting when the regulations harmonised with the international legislation in the accounting field were adopted.

The practical details are presented through the case studies of descriptive – illustrative – exploring nature, according to the case studies typology described above. Taking into account the utilization of the case studies we indicate the existence of some inductive influences in the content of this paper work.

The case studies show the practical reality at national level, with continuous references to the theoretical aspects.

The case studies focus on the activity of large enterprises and less on the activity of middle size and small enterprises, (in the large enterprises it can be taken into consideration the disconnection between accountancy and taxation, some scepticism related to the accounting creativity or the determination of the dimension of the artificial profit, that comes more from inflation and less from the growing of the activity efficiency) because they represent a greater interest for a great number of investors since they are quoted on the capital market.

As regarding the emphasizing of the impact of the deferred taxation, some case studies were chosen to illustrate the situations generating the temporary differences (some applied in the Romanian accountancy, others being just proposals in the course of implementing, arguments being brought to support this purpose).

3. Results and discussions

3.1. Models to determine the contingent interest tax

In order to emphasize the effects of accountancy connection to taxation combined with the effects of the inflationary phenomenon, some models of dimensioning the economical entities' result in historical costs, current buying capacity, current costs and real terms were presented. In order to implement them the numbers of consumer prices were used, which were provided by the National Statistics Institute. The dimensions of the accounting result can vary significantly from one model to another. The main critique that was made regarding the accounting profit and also the fiscal one, determined by historical costs, is that it leads to subevaluation of expenses (related to stocks and assets' underevaluation). The consequence is an overevaluated profit. This is shortly the explanation for the actual profitableness of that enterprise and to a less extent the explanation of a inflationary phenomenon.

We can conclude that the proportion between the real profit and the one caused by inflation depends on:

- the activity area of the enterprise;
- the dimension of the inflationary system in each economy.

We estimated that the inflationary impact with consequences regarding the artificial amplification of net or fiscal profit, is as stronger as:

- the number of immobilizations and stocks within the assets is larger;

¹¹⁶⁵ Malcolm S., Research methods in accounting, SAGE Publications Ltd, London, 2005, pg.25.
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- the number of expenses regarding the stocks is more significant as far as the total expenses are concerned during a financial exercise;
- the stock circulation flow is very low;
- the period for recovering the debts is longer than the period for paying the debts, strictly considering the number of days and not the activity field.

Therefore an enterprise that does not possess assets (they are lent) and that does not show significant stock consumes (a service provider enterprise) will not be much affected by the inflationary phenomenon even if the latter is intense enough. The outcome of such an enterprise, taking into consideration a medium level of inflation determined by historical costs, will not be too different from the outcome established by methods that rely on the impact of the inflationary phenomenon.

On the other hand, the more intense the activity production is, the greater the inflationary impact. Such an activity may require a larger production facility. Their amortization at the historical cost level, inflationary depreciated will only increase the artificial fiscal profit, since these expenses will not be levelled with the afterward registered incomes that were increased by inflation. This phenomenon has been partially reduced by the Romanian accounting system by the authorization of some revaluations, their surplus being deductible as a supplementary amortization. Following the decrement of the inflationary phenomenon, the deductibility of the amortization surplus has been abandoned, that is why few enterprises still resort to annual revaluations in order to correct the inflationary phenomenon. Even though its effect is not that strong however it could have a major impact on decapitalization. Intense activity production involves the existence of a large stock of raw materials. A later consume can lead to a subevaluation of the production cost and implicitly to the achievement of a artificial profit that would get to a real more diminished level by deflation or even to losses. We believe that this could be considerably amplified if the circulation flow of those stocks is very low:

- either because the material stock is oversized;
- or because the production system has a long cycle of production.

We can conclude that the enterprises in the production field are more exposed to the inflationary phenomenon than the enterprises acting in the field of service providing (where the number of stock consume involved in the production cost is less significant than the total amount of man-hour).

The stronger the inflation, the larger the artificial profit. Therefore there will be an inflationary tax that will trigger the decapitalization of the enterprise when it is paid out, because it has no real efficiency basis of the economical activity.

We believe that the implementation of the historical cost method in dimensioning the fiscal result is advisable, due to reasons deriving from uniformity necessities. On the other hand, it would be appropriate the implementation of one of the other three methods for internal informing necessities regarding the appraisal of the inflationary impact and its partial counter-balance.

We consider appropriate the implementation of the model of the result determination in the current buying capacity within those economies that confronted with ample inflationary phenomenon, because in this case, the prices level evolves uniformly for all elements, on a strong rising trend.

On the other hand, the result model in the current costs involves the up-dating according to some factors specific to each element that is about to be re-dealt with, therefore the difficulty level related to uniformly choosing these factors and to the implementation of this model is very high. Its advantages are that if there is an economy where the prices levels do not evolve uniformly for all elements that are re-dealt with, the inflationary impact can be more efficiently cleared out.

This is Romania's case, which over the last years has not been confronted with very ample inflationary phenomena at national level, but, on the other hand, the prices for certain categories of goods have significant rising evolutions much over the general level of prices. This thing can influence significantly the result determined by current costs, in an enterprise that owns productive assets.

3.2. Models to determine the deferred profit tax

The fixed report model or the deferred model involves the calculation of the deferred tax based on the legal tax basis in the exercise of setting the temporary difference. More than that, no adjustments are necessary in order to reflect the changes that appeared in the tax quota, the future quotas of profit tax being irrelevant. This model emphasizes the principle of connecting the income and the expenses in that year when the temporary differences appeared¹¹⁶⁶.

The arguments for the implementation of this model are the following:

- the profit and loss account is the most important financial statement, and the connection of expenses to income represents an essential feature of the accounting process. Therefore, it is less important whether the deferred taxes from the balance sheet are not assets or real debts, as a concept;
- deferred taxes are the result of past events and transactions that generated temporary differences. Since accountancy uses historical cost as an evaluation basis for most of the economic events, the deferred taxes should be evaluated similarly;
- the historical quotas of profit tax are verifiable. From this point on, the deferred taxes calculated based on the historical quotas increase the reliability of accounting information.

The variable report model or the debts model involves the calculation of the deferred tax based on the quotas estimated to be in force in the exercise of the temporary differences re-assimilation.

The arguments that sustain this model are:

- the accounting balance sheet is an important financial statement. The calculation of the deferred tax based on the quotas in force in the year when the temporary differences are reabsorbed increases the predictability of information regarding the future flows in treasury, the financial flexibility and liquidity of the enterprise;
- the calculation of the deferred taxes based on the future tax quotas, is more appropriate conceptually speaking, because their value represents future probable economic sacrifices (future tax payments) or future economic benefits (future tax decreases);
- the deferred taxes derive from past transactions, but they are taxes to be paid (or diminished) in the future, considering the quotas in force at that time;
- accountancy mostly relies on assessments. The calculation of the deferred taxes based on some future quotas creates information that is not less reliable than that regarding the assets depreciation during estimated utilization period.

The net of tax model considers the profit tax expense to be equal with the sum that is to be paid to the state in the name of the current exercise and considers the fiscal effect of the temporary differences as an adjustment of debts (assets) and expenses (income). However the implementation of this model is difficult, because some temporary differences cannot be associated with individual debts or assets. On the other hand, the information presented in the balance sheet is questionable when implementing this method. Such an example is the irrelevance of the value for an asset stated in the balance sheet, if its cost recover and the specific tax were taken from its entrance value.

¹¹⁶⁶ Feleagă N., Malciu L., Fair accounting versus bad accounting, Edition Economică, București, 2002, pg.69-72.

Taking into account the things mentioned above for the determination of the profit tax, we pronounce in favour of the implementation of the deferred tax method, and within this, of the variable report model.

Therefore, the Romanian accounting system maintains in this case the primordality of the caution principle in accountancy, that is characteristic to the continental accounting systems. Taking into account this point of view, it is considered that the probability of accomplishing each of these alternatives is quite low and the option is the disclaimer of the debts regarding the deferred tax. This situation is in accordance with the IV Directive, because it does not mention the obligation of claims and debts regarding the deferred taxes to be reflected in the individuals accounts. Only the VII Directive mentions that deferred taxes in the consolidations situation can be registered.

4. Conclusions - The impact of disconnection between accountancy and taxation

The significant level where the disconnection between accountancy and taxation (by the reflection of the deferred tax book debts and debts) influences the share result, can be observed in the reporting for an period, and can be expressed as below (for an romanian case of study) :

-romanian currency lei-

		<i>The connection between accountancy and taxation</i>	<i>The disconnection between accountancy and taxation</i>	<i>The difference</i>	
				<i>Absolute form</i>	<i>Relative form</i>
1	<i>Net result</i>	10.041.331	10.399.078	357.747	3,56%
2	<i>Number of shares in circulation</i>	207.981.560	207.981.560	-	-
3	<i>Share result (rd.1/rd.2)</i>	0,04828	0,05	0,002	4,14%

In this situation we calculated an accounting result connected to taxation (without the reflection of the deferred taxes impact) an accounting result disconnected from taxation (taking into consideration the deferred taxation). The share result determined by starting from these two situations shows a 4,14% plus for the disconnection between accountancy and taxation. We believe that this difference is significant for an economy where the capital market is very developed, where a variation of 4,14% of the marketable share course is very high, the variation being only from reasons regarding the connection or the disconnection between the accounting result and taxation, in relation with the importance of this information for investors.

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ACCOUNTING CONVERGENCE ON ECONOMIC CRISIS

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If normalization accounting is the process of harmonizing the presentation of financial statements, accounting methods and terminology, accounting convergence is the process by which accounting standards are developed in a way that is able to lead to the same fact or purpose, by highlighting the similarity of national - regional - international.

This paper put in light the importance of the normalization and harmonization process, what it's done in and what we have to do for that in Romania.

Keywords: accounting, globalization, convergence

JEL: M41

Introduction

The contemporary accounting phenomenon has features based on the need or harmonization, convergence, compatibility and unity in book-keeping, seen also as general objectives of this field, which could be realized only by its normalization. The main phenomena governing the process of current accounting reform worldwide are: normalization, harmonization, convergence, conformity and accounting internationalization. These phenomena act both individually, and through a mutual inter-conditional relationship. The accounting convergence is the process of elaboration of accounting norms in a manner able to lead to a similar fact or goal, by stressing the similarity between national - regional - international levels.

A second reason leading to the harmonization/convergence of accounting systems are the desire for unity among conditions of competition in various countries. A synthesis of phenomena and aspects which could be considered as causes leading to the need for international accounting harmonization/convergence includes:

- the economies encountering an accelerated process of globalization;
- the requests from financial accounts users (a factor determined from the first one). Thus, we shall aim towards a unity of economic language and accounting as an instrument of communicating information;
- the extension process of the European Union;
- the phenomenon of capital markets globalization. The growth and globalization trend of large companies' activities lead to a great number of foreign companies purchases. This in turn led to an increase of their financial needs, leading in the end to the development of international capital markets.

The fundamental issue of accounting harmonization/convergence is also related to the reliability mark for the accounting activity as a whole. The statement is based on the users' level of trust regarding the occurrence that the same public company, for the same period, in different countries, has different figures about the size of their own capitals and results, as a result of complying with the regulations in force in these respective countries.

Implications of convergence on accounting system

Analysing what has been stated before, the harmonization/convergence of international accounting is a positive phenomenon, and its realization is determined by the current evolution of the economic life in general, and accounting in particular.

The events characterizing the beginning of the third millennium show that the process of market globalization is not enough to create the desired economical and socio-cultural development. The economic balances request this process to be a unitary one.

Within this dialogue, using, generally, the economic language, and specifically, the accounting language to communicate needs unity not only in thought, in the conceptualization of methods for organizing and managing companies, for administering and controlling their operation, but also in the accounting principles and methods for elaboration and presentation of financial accounting balances.

The globalization is a forced adventure, while the harmonization, convergence of accounting norms can be considered as its corollary. The production of accounting norms did not commence and, naturally, will not end with the one realized by IASB, it is centuries old and has been defined as a form of expressing political power (we remind you that even since 1673, the great political figure Jacques-Baptiste Colbert, theoretician of mercantilism and protectionism, introduced in France financial book-keeping rules, subsequently included in France Commercial Code from 1807).

“To converge” means “to direct towards the same point, to the same goal”. In the field of accounting, convergence is a relatively new concept, being employed once the objectives of the International Accounting Standards Board (IASB) were defined, one of them being “to aim towards convergence in national and international accounting norms, with the goal of offering high quality solutions”.

The idea of convergence implies a approach, certain members of the Board being responsible for following the connections with the national, public or private, normative organizations in big countries which can have their own opinion at any given time (United States of America, Great Britain, France, Germany, Japan, Canada, Australia and New Zealand), in order to analyze the exigency of norms as compared to those issued by the national normalizing partners.

In this context, the national and international intercessions have as a target realizing a convergence between national and international norms.

Convergence does not mean however the failure of accounting harmonization, but an obvious intercession aimed towards using an appropriate communication in a globalizing context, with the goal of having a common reference, International Financial Reporting Statements, while the short term goal of convergence is to eliminate the individual differences between US GAAP and the current IAS IFRS. Within this short term project, FASB analyzes various issues and either suggests alterations in the American norms, in order to eliminate the differences found, or it communicates to IASB the reason for which it decided not to alter the provisions of US GAAP, while at the same time IASB is carrying on a process of revising IFRS, taking, as the case may be, the same measures as FASB.

The IFRS reference, that the convergence is aimed to, employs a certain accounting philosophy, novel for many companies, related to fundamental principles within a conceptual framework, with no connection to the legal or fiscal influences. In order to keep the accountants' perceptions, a decision was taken stating that, starting with January 1st, 2005, only the marked companies should apply the IFRS reference in its current form. While five years ago we had a serious reticence when discussing the creation of a common accounting language, today things are, in our opinion entirely different.

A study with the goal of identifying the stage of convergence between national accounting references and IFRS showed the significant progress seen in 2003, that is, before the decision of the 91 countries which authorized or imposed the application of IFRS starting with January, 1st, 2005. But future studies should not exclude the hindrances encountered by the accounting convergence:

- The complexity of certain norms, mainly those regarding the financial instruments and, generally, any norm stating the recognition of the actual value, a very sensible issue in our opinion;
- Any national accounting reference bears, in one form or another, the mark of fiscal grounds;
- Accountants training, translation of norms and interpretations.

Convergence of accounting for Romania will assume a single set of standards and Romanian professional accountant will therefore be required to become a man who has the right to think, to reflect the accounting treatment of each transaction, to deepen the processes and phenomena that have to find in financial reporting have the right to choose between several types of accounting treatment, i.e., will be entitled to use professional reasoning. European integration may have consequences for the two types of accounts in Romania. The first of them are positive. An advantage of convergence is the communication in a single language that provides a high level of trust and increase opportunities of access to capital markets and allows multinational groups to apply accounting principles common to all branches. He discussed more content convergence with International Financial Reporting Standards, and concluded that broke away was that it is essential and more accounting information users want to see done. The basic desire is to remove the accounting guidance in Romania to provide more information to one user, namely the state. This aims to introduce a new open system professional judgments transparent financial statements and accounting rules compatibility with IAS / IFRS.

Convergence of accounting for Romania to be accepted as a phenomenon "physical" that it is pointless to try to challenge or passing: but must necessarily understand it, in terms of advantages and disadvantages, also. Especially for small nations, as is the case of Romania, understanding and implementation of accounting convergence phenomenon will make the difference between winners and losers.

Conclusions

Convergence is not an easy thing! Even the president of FASB declared that the greatest challenge of the convergence process was to persuade the national business communities about the necessity for an international process accounting language. Even if Securities Exchange Commission (SEC) and the multinational companies in the USA are privileged by this convergence, the small companies and the family level businesses are less happy. Perhaps people don't like change in general, preferring rather to keep their status quo.

It is thought that the convergence process will be a long and expensive one, mainly due to the large number of differences between the US GAAP and IAS, but, if realized correctly, this process will mean an important international success. The path will not be easy and will have to deal with "revolts", and we hope that the disputes between IASB and the European banking and insurance industries, regarding the financial instruments accounting, as well as the decision of the European Commission to delay the application of IAS 32 and IAS 39 would not have a negative influence over the international accounting convergence process.

Romania is the irreversible processes of standardization and convergence aimed at production and communication of financial information relevant, reliable, comparable language to use a joint account all categories of users. If Romania fails to move quickly, will be the certainly left the bar. Integration into the EU could mean a switch to an acceptable level to IAS / IFRS. The future will show whether, in the context of European integration, convergence will be obstacle or incentive for change in accounting in our country.

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THE PERFORMANCE – A CONCEPT THAT NEEDS A NEW FIT-UP

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Almost nothing can be done nowadays without the thought of obtaining performance, of reaching high performance result. The many uses of this word almost lead to the loss of its substance and to the appearance of at least one doubt about still knowing how to obtain the performance. This is exactly what this study intends to do, bringing into question and analyzing the script of the movie called „performance”. And what could be more interesting and more exciting than the presence on the scene of accounting of the actors – Efficiency, Economy and Effectiveness, standing in the spotlights of Profitability and directed by the Man of the accounting books

Keywords: economic profitability, financial profitability, performance, effectiveness

JEL classification: M41

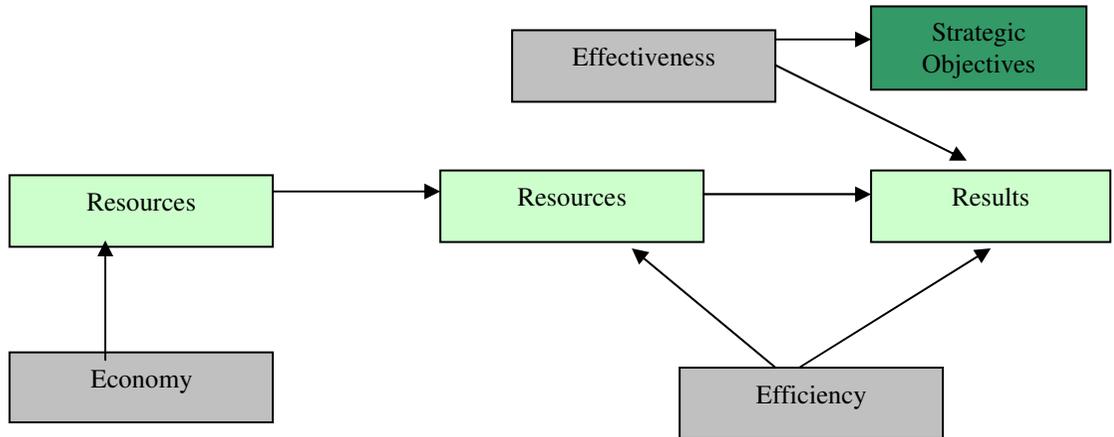
Introduction

The accounting result was, for a long time, and still continues to be considered in accounting the main indicator used for measuring the performance of an economic entity (Dhaliwal et al, 2001). There is an opinion according to which when the entity obtains profit that leads to a high performance result. Analyzed from the computation way point of view, the accounting result is past-oriented, serving as a measure of the progress an entity achieved during a past time period. In the current context of normalization, where there are several options to reflect the same transaction, there is no objective outcome. The selection of a norm or an option, which implies the abandon of other norm or option, has consequences on the financial statements and on the accounting result. The result can vary between certain boundaries, without considering, inside this space, a level of result more representative than the other. The reason the accounting result has lost and still loses “ground” in the financial performance measurement is the appearance of the comprehensive income (Jianu & Jianu, 2008).

In the field of financial management and business finances, the performance is analyzed also making appeal to concepts, other than the accounting result. Professor Ristea (1997) considers that we can associate three concepts to the performance: efficiency, economy and effectiveness. *The efficiency* implies either the maximization of the results achieved starting from a given input of resources or the minimization of the quantity of resources for a standard result. *The economy* implies to obtain the needed input at the lowest price. *The effectiveness* assumes that the obtained results reach the budgeted ones. Therefore:

$$\text{Performance} = \text{Efficiency} + \text{Economy} + \text{Effectiveness}.$$

The definition of the performance is named, by Professor Ristea M., *the equation of the three "E"s* and can be represented schematically as follows:



The true performance is achieved by bending the three “E”s only if this performance is maintained on a long time. This is the reason why, in the above mentioned scheme, we linked the effectiveness concept to the one regarding the accomplishment of the strategic objectives.

In the literature, there are also other approaches regarding the efficiency concept. *Bouquin (1998)* considers that the purpose of the entity is that of creating value. A question rises though: *Who is the beneficiary of this value?* The author gives the answer. *The efficiency aims to create value for the shareholders, while the economy is interested in creating value for the clients.* Although they reflect the same thing - the value creation, the efficiency and the economy are not congruent, because they are analyzed differently, depending on the person involved. We consider that, depending on the nature of the set objective, there are different forms of efficiency: the productivity, if the objective is production; the economy, if the set objective is saving; the profitableness/earning performance, if the objective is the profit. Due to the fact that the purpose of any business is to obtain profit, we stopped at the study of the profitability concept.

The current study is structured in three parts: in the first one, we accomplished a comparative study regarding the profitability concept from the continental, Anglo-Saxon and Romanian points of view. In the second part, we analyzed the most used rates of return in the field of financial management: the return on assets (economic profitability) and the return on equity (financial profitability). In the third part, we presented the rates of return used in the business finances, which allow the performance analysis from the accomplishment of the objectives set by the auditors the point of view.

1. A comparative analysis of the profitability concept

Most often is spoken about profitability (term known as “rentabilité” in French or “profitability” in English) comparing the invested equity to their results. In order to accomplish this comparison, the rates of return are computed. *The rate of return* represents the ratio between *the result* and *the capital invested* for obtaining it. *Colasse (2000)* associates the profitability concept with that of profit, reflecting the entity’s ability to provide a result expressed in monetary units. The profitability analysis is accomplished through the rates system that expresses the relation between a result and the capital invested to obtain it. The author suggests the following types of results that can be used in the profitability analysis: the operating result, the financial result, the current result, the exceptional result (in the French approach) and the net result. As it regards the invested capital, the following indicators can be retained: the equity, the ongoing capital, the fixed assets,

the total assets. It is assumed that there are X types of result and Y types of invested equity, this leading to a number of X*Y rates of return.

In the **continental system**, three rates of return, specific to the analysis of the economic entities, can be underlined: the operating profitability, the return on equity (financial profitability) and the earnings per share.

In order to express *the operating profitability*, two ways of computation are proposed:

$$\frac{\text{Operating result}}{\text{Total assets}} \text{ or } \frac{\text{Gross operating surplus}}{\text{Total assets}}$$

The return on equity (financial profitability) shows the payment of the investment of the owners in the entity, through their contributions in resources or in benefits belonging to them. It is also known as the return on invested equity (profitability of the invested equity). There are four rates of return on equity.

The first two rates are determined as a ratio between a result indicator and the equity.

$$\frac{\text{Net result}}{\text{Equity}} \text{ or } \frac{\text{Financing capacity}}{\text{Equity}}$$

The financing capacity is preferred to the net result, because it is not affected by the entity policy regarding the depreciation methods. This argument finds justification in an accounting connected to taxation, specific to the French practice, but it is not justified in an accounting according to the IFRSs, where the net result is one of the pertinent indicators in the financial performance measurement.

The next two rates considered to express the financial profitability of an economic entity are: the rate of benefits capitalization and the rate of dividends yield. *The rate of benefits capitalization*, which expresses the ratio between the earnings per share, has a limited interest from the financial diagnosis point of view, because two entities from the same sector and with the same net result can have different rates of capitalization. Colasse himself agrees that this rate shows the stock image of the entity rather than its profitability. *The rate of dividends yield*, computed as a ratio between the dividend per share and the share price, presents interest for the minor shareholders rather than the analysis of the financial profitability.

The third rate represents *the earnings per share*, considered by IASB one of the main indicators in the analysis of the entity performance. The earnings per share represent the unitary result, which is distributed to shareholders of the group represented by the parent entity. IAS 33 *Earnings per Share* is applied by the entities, whose ordinary shares or potential ordinary shares are listed and by the entities in process of issuing ordinary or potentially ordinary shares on the financial market. If an entity presents both consolidated and separate financial statements, according to IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, the assembly of information requested by IAS 33 applies only to the consolidated statements. If an entity chooses to disclose the earnings per share in separate financial statements, it won't include this rate in the consolidated statements.

The entities have to disclose two types of earnings per share:

- § the basic earnings per share, established based on the number of outstanding shares;
- § the diluted earnings per share, computed taking into consideration the dilutive instruments. The dilutive instruments are those which provide future access to the parent entity capital (convertible securities, contractual rights to purchase shares) and whose conversion would lead to the decrease of the earnings per share.

The basic earnings per share is obtained by dividing the net profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of the ordinary shares outstanding during the period. The preference dividends are deducted from the net earnings. The use of the weighted average number of ordinary shares outstanding during the current financial year reflects the possibility that the value of the shareholders' equity has varied, as a result of a higher or lower number of shares outstanding at a certain moment. The own shares redeemed by the entity are not taken into account in the computation of the weighted average number of shares. The time weighting factor, used in the computation of the weighted average number of shares, is equal to the number of days when the shares were outstanding, but in many circumstances, a reasonable estimation, such as the one computed based on the number of months when the shares were outstanding, is accepted. IAS 33 states that "the weighted average number of shares outstanding during the financial period, as well as the weighted averages computed for all the disclosed periods are adjusted in case of events, other than the conversion of the potential ordinary shares, which changed the number of the shares outstanding, without generating a corresponding change in resources" (IASB, 2009). An example in this regard is the case of the capital increase through internal operations, which implies the issue of bonus shares, leading to the increase of the number of shares without a corresponding increase of the entity's resources. In case an entity issues dilutive instruments, the computation of *the diluted earnings per share* is imposed. An entity will compute the values of the diluted earnings per share corresponding to the profit or the loss attributable to the ordinary equity holders of the parent entity. In case the result is obtained from continuous, as well as from discontinued activities, the diluted earnings per share must be separately computed for each of these results. We must take into consideration the general dilution generated by some of the instruments issued by the entity in the computation of the diluted earnings per share. The dilution varies depending on the type of instrument. Therefore, we distinguish:

- § dilutive instruments for which the funds are received from the moment they are issued, as well as convertible securities, preferential shares convertible in ordinary shares;
- § dilutive instruments for which the funds are received only in the moment they are exercised, as well as the options or contractual rights to purchase shares.

In the **Anglo-Saxon practice**, the rates on return are known as profitability rates. Four rates are significant in the analysis of entity's profitability: the profit rate, the economic profitability (return on total assets), the financial profitability (return on equity) and the earnings per share. We will shortly analyze the first three rates, the fourth one presenting the same computation way as in the French version.

The profit rate is computed as a ratio between the net result and the turnover and shows the profit obtained to a monetary unit of the entity's registered turnover.

The Return on Total Assets (ROA) is determined based on the following ratio:

$$\frac{\text{Net result} + \text{Interest expenses}}{\text{Average balance of total assets}}$$

The interest expenses are added to the net result due to the fact that the assets are financed by the shareholders, as well as by the creditors, and the ratio must provide information regarding the measure of earnings for both categories of investors. The denominator takes into consideration the total assets average, because the net result is obtained during an entire financial year.

The Return on Equity (ROE) expresses the ratio between the net result and the equity average. The explanation for using the equity average is the same as in the case of the total assets average: as the net result is obtained during a financial year, it is normal to use the same measurement unit in the ratio.

In the **Romanian literature**, the profitability is assimilated either to the concepts of result, or to the profitability of the listed entities, or to the rates of return. *The types of result* which can be assimilated to profitability are: the gross operating surplus, the operating result, the current result, the extraordinary result and the net result. *The profitability of the listed companies* is measured through the following set of indicators: the stock value (number of shares * share price), the turnover for a share, the market capitalization ratio (the ratio between the share price and the earnings per share), the share yield (the opposite of the market capitalization ratio). The most often met *profitability rates* in our literature include the commercial rate of return, the economic rate of return and the financial rate of return.

The commercial rate of return is expressed as a ratio between the gross operating surplus, the operating result or the net result on one side, and the turnover on the other side.

The economic rate of return is a ratio between the gross operating surplus or the operating result on one side, and total assets or total operating assets, on the other side.

As it regards **the financial rate of return**, there is a common opinion regarding the computation way, as a ratio between the net result and the equity.

Order 3055/2009 for the approval of the accounting regulations according to the European directives presents, in the explanatory notes to the financial statements, four rates that must be computed and disclosed by the Romanian entities. Our opinion is that, depending on the computation way, the four rates can be included in the category of profitability rates, even if the name of two of them is improper. We refer to *the rotation speed of fixed assets* that evaluates the effectiveness of the fix assets management by examining the turnover generated by a certain quantity of tangibles and *the rotation speed of total assets*. The computation formulas for the two rates are the following:

$$\text{The rotation speed of fixed assets} = \frac{\text{Turnover}}{\text{Fixed assets}}$$

$$\text{The rotation speed of total assets} = \frac{\text{Turnover}}{\text{Total assets}}$$

We consider the computation way of these rates inadequate, as long as the denominator and the nominator are not expressed in the same measurement unit. Therefore, for the indicator regarding the rotation speed of the tangibles, the turnover is evaluated in sale prices, while the tangibles are presented at the entry value. As it regards the indicator rotation speed of the total assets, the turnover is expressed in sale prices, while the total assets include a wide range of evaluation bases.

The other two indicators up for the profitability measurement, named **profitability indicators**, express, according to Order 3055/2009, *the efficiency of the entity in achieving profit from the available resources*. The computation way and the indicators' significance, as they are presented in order 3055/2009, are the following:

The return on equity represents the profit the entity obtains from the money invested in the business:

$$\frac{\text{Profit before interest and income tax payment}}{\text{Equity}}$$

Where the equity refers to money invested by the shareholders and the long term creditors in the entity, and includes the equity and the long term debts or total assets minus current debts.

Gross margin on sales

$$\frac{\text{Gross profit from sales}}{\text{Turnover}} * 100$$

A decrease of the percentage can point out the fact that the entity is not able to control the production costs or to obtain the optimum sale price.

As we can notice from the above presented approach, there is no mutual opinion regarding the profitability concept at the international level. *It is often said that when an entity obtains profit, it is “rentable” in the continental vision, profitable in the Anglo-Saxon vision, or both “rentable” and profitable in the Romanian version, if there is such a version!* And, because we brought into discussion the profitability concept, we also express our point of view regarding the profitability indicators, which must be taken into consideration in the analysis of the entity’s performance. A wide number of indicators make the understanding of the disclosed information difficult; therefore we stop at two profitability rates, considered by us the most pertinent: *the economic rate of return* (return on assets or operating profitability) and *the financial rate of return* (the return on equity or financial profitability).

2. THE ECONOMIC RATE OF RETURN AND THE FINANCIAL RATE OF RETURN – PERTINENT INDICATORS IN THE ENTITY’S PERFORMANCE ANALYSIS

The economic rate of return measures the payment of the assets assembly used by the company, being also known as the return on assets. The economic rate of return is computed as follows:

$$\text{Economic rate of return} = \frac{\text{Operating result}}{\text{Economic asset}}$$

The gross result is usually used in the computation of the economic rate of return. The economic asset is determined as a sum between the gross value of the fixed assets and the need of working capital.

The ratio presented above can be divided as follows:

$$\text{Economic rate of return} = \frac{\text{Operating result}}{\text{Turnover}} * \frac{\text{Turnover}}{\text{Economic asset}}$$

The economic rate of return represents thereby the product between the gross margin and the asset rotation. A normal economic rate of return can result either from low margins and a pronounced rotation of assets, or from high margins and a week rotation of assets (Amelon J-L., 2004). In order to reflect the way the economic rate of return is influenced by the net margin and the asset rotation, the following two situations are given:

<i>Elements</i>	<i>Ist Situation</i>	<i>2nd Situation</i>
Net margin	10%	2%
Rotation of assets	2	10
<i>Economic rate of return</i>	<i>20 %</i>	<i>20 %</i>

Such a comparison reflects two important types of behavior an entity can adopt, in order to increase its economic profitability: the increase of the net margin and, therefore the increase of the operating result faster than the increase of the turnover, on one side, and the increase of the assets rotation through a pronounced increase of the turnover, on the other hand. The first

situation is specific to the entities activating in the telecommunications or constructions field, while the second one characterizes the distribution entities.

The financial rate of return shows the payment of the investment made by the owners through the contributions of resources or the benefits belonging to them. It is also known as the return on equity. It is computed based on the following ratio:

$$\text{Financial rate of return} = \frac{\text{Net result}}{\text{Equity}}$$

The financial rate of return can be analyzed as a product of other rates, as follows:

$$\text{Financial rate of return} = \frac{\text{Net result}}{\text{Turnover}} * \frac{\text{Turnover}}{\text{Economic asset}} * \frac{\text{Economic asset}}{\text{Equity}}$$

The financial rate of return represents thereby the product between *the commercial rate of return*, *the assets rotation* and *the overall borrowing rate*. It results that the entity can act from three points of view in order to maximize the financial rate of return (Niculescu., 2003):

the result maximization by increasing the activity level and by improving the margins. The accomplishment of these two objectives is based on the activity optimization in all the domains: internal organization, management of stocks, quality of products and services, commercial management;

the increase of the equity yield by intensively using the fixed assets and decreasing the need of working capital, specially by reducing the stocks and claims;

the minimization of the committed equity for a given volume of the invested equity.

The financial rate of return is one of the main indicators in the analysis of the entity's performance, which depends of the fairness of the commercial policy (the commercial rate of return), the efficiency of the capital employed (the economic rate of return) and the policy and the financial structure of the entity (the overall borrowing rate). The financial rate of return of the entity is strongly influenced by *the leverage*. In order to reflect this influence, we are going to use the following abbreviations:

- § RN – net result;
- § RE – operating result;
- § D – borrowed capital;
- § CP – equity;
- § AE – economic asset;
- § Rd – interest rate;
- § Ri – income tax rate;
- § Re – economic rate of return;
- § Rf – financial rate of return.

As a general rule, the net result is obtained by deducting the financial interest expenses and the income tax expenses from the operating result. The formula for the net result computation is the following:

$$RN = RE - Rd * D - Ri * (RE - Rd * D) = (RE - Rd * D) * (1 - Ri)$$

Knowing that the economic rate of return represents the ratio between the operating result and the economic asset, where the economic asset is the sum between the equity and the borrowed capital, the above mentioned formula becomes:

$$RN = (Re * AE - Rd * D) * (1 - Ri) = [Re * (CP + D) - Rd * D] * (1 - Ri) = [Re * CP + (Re - Rd) * D] * (1 - Ri)$$

Replacing the net result in the financial rate of return formula, we reach to the following conclusion:

$$R_f = \frac{RN}{CP} = \frac{[Re * CP + (Re - Rd) * D] * (1 - Ri)}{CP} = [Re + (Re - Rd) \frac{D}{CP}] * (1 - Ri)$$

It results that the financial rate of return depends of:

- § The economic rate of return;
- § The interest rate sustained by the entity;
- § *The leverage*, which represents the difference between the economic rate of return and the interest rate;
- § *The leverage rate*, which represents the ratio between the borrowed capital and the equity;
- § Income tax rate.

The leverage explains how it is possible to accomplish an equity profitability superior to the assembly of invested assets, which is the economic profitability. The leverage is based on the following principle: when an entity is indebted and invests the borrowed funds in industrial equipment, for example, it obtains a certain result for this sum, superior to the financial expenses generated by its debt, otherwise it wouldn't invest anymore. The entity achieves a surplus from the difference between the economic profitability and the interest rate applied to the borrowed sum. This surplus returns to the shareholders and increases the financial profitability, where from its name comes. Nevertheless, if the difference between the economic profitability and the interest rate is negative, the increase of the entity's indebtedness has an opposite effect on the financial profitability. Therefore, with every percentage of debt increase, the financial profitability will decrease with the difference between the economic profitability and the interest rate. In this case, the indebtedness has a *leverage effect* (Vintilă, 1999), leading to the decrease of the return on equity, this being a reason why the entity will have to "work for his bankers".

We take the example of two entities A and B, which have different economic rates of return. The economic return on assets for entity A is 12%, while for entity B is 9%. We intend to compute the financial rate of return for the two entities in the following three hypotheses:

- 1st hypotheses: Both entities are financed exclusively from the equity (the leverage rate is 0);
- 2nd hypotheses: Both entities are financed 50 % from the equity and 50 % from debts (the leverage rate is 1);
- 3rd hypotheses: Both entities are financed 20 % from the equity and 80 % from debts (rata the leverage rate is 4).

The economic asset of the entity is of 1.000 mu, the income tax is 16 % and the interest rate 10 %.

The financial rate of return for the two enterprises, in the three hypotheses is the following:

	Entity A			Entity B		
	1 st hypotheses	2 nd hypotheses	3 rd hypotheses	1 st hypotheses	2 nd hypotheses	3 rd hypotheses
Economic rate of return	12 %	12 %	12 %	9 %	9 %	9 %
Operating result	120	120	120	90	90	90
Financial expenses	0	(50)	(80)	0	(50)	(80)

Current result	120	70	40	90	40	10
Income tax	(19,2)	(11,2)	(6,4)	(14,4)	(6,4)	(1,6)
Net result	100,8	58,8	33,6	75,6	33,6	8,4
Financial rate of return	10,08 %	11,76 %	16,8 %	7,56 %	6,72 %	4,2 %
Economic rate of return after tax	10,08 %	10,08 %	10,08 %	7,56 %	7,56 %	7,56 %

It can be noticed that in case of entity A, which has an economic rate of return superior to the interest rate, the financial rate of return increases with the indebtedness, and, therefore the leverage plays a favorable part. In the case of entity B, which has an economic rate of return inferior to the interest rate, the higher the financial rate of return is, the lower the indebtedness becomes, and, therefore the leverage plays an unfavorable part. It results that the higher the leverage rate, the higher the risk assumed by the owners of the entity is. A higher leverage rate allows the shareholders to receive a higher payment than the return on assets, but, in the same time, they can bear significant losses if the return on assets proves to be inferior to the interest rate. The leverage is *a double-edged weapon (Colasse, 1993)*, which can be mastered by the owners of the entity only if they use correct foresight regarding the economic rate of return. In the absence of such provisions, the indebtedness rate must be carefully manipulated.

3. PROSPECTIVE RATES OF RETURN

The interest of the economic and financial rates of return is limited from the financial point of view. As we have previously seen, when the economic rate of return is higher than the interest rate, the entity gains as a result of the leverage, but the risk of the entity also increases. This risk is not taken into consideration for the computation of the rates of return. Both the economic and the financial rates of return are ex-post determined, after the events have taken place. They are not corresponding to the shareholders or financers ex-ante requirements, but analyzed in time, they could provide valuable information for the foresight making. Nevertheless, although the *economic and financial rates of return* can't be used as criteria for choosing the investments or financing, they are *financial control instruments (Vernimmen, 2000)*.

In order to overcome the above-presented limits, we propose the following rates of return that correspond to the definition according to which *the performance represents the achievement of the fixed objectives* (the names of the rates belong to us).

The rate of return obtained by the shareholder is determined for a single period, based on the following relation:

The rate of return obtained by the shareholder = the yield + the plus or the minus of value =

$$\frac{d}{V_0} + \frac{V_1 - V_0}{V_0}$$

Where:

§ d – the dividend received by the shareholder for the analyzed period;

§ V_0 – the initial value of a share;

§ V_1 – the ending value of a share.

Placed in an uncertain universe, the investor can only compute this rate at the end of the period, when the share value is certain. Although the rate of return obtained by the shareholder is not computed based on the accounting data anymore, but based on the stock data, it isn't an instrument useful for the foresight making, because it is also ex post determined.

The rate of return required by the investor is equal to the rate without risk, increased by a risk premium, related only to the risk of not being diversified, which is the market risk.

The trend of a share to vary along with the market is reflected by the beta coefficient, β , which is a measure of the title volatility, reported to a medium volatility title. A low risk share is the one which tends to vary up and down, along with the market variance, measured by an index computed by the Stock Exchange. Such a share will have, by definition, a beta equal to 1, which indicates the fact that, generally, if the market increases with 10%, that share will also increase with 10%, and, if the market decreases with 10%, the share will also decrease with 10%. A question rises: which is the rate of return requested by the investor in order to compensate the risk he takes, to a certain level of beta? This profitability is obtained by adding the free of risk rate to a risk adjustment factor, required by the investors as a compensation for the risk assumption. This risk adjustment factor for a certain share is obtained by multiplying the market risk premium with the individual investment risk measured by beta. The equation for the rate of return computation required by the shareholder for a share is the following:

$$\text{Rate of return obtained by the shareholder} = r_{fr} + \beta_i * (r_p - r_{fr})$$

where:

r_{fr} - the rate of return (interest) of a share without risk;

β_i - beta coefficient of share i;

r_p - market rate of return;

$(r_p - r_{fr})$ – market risk premium.

The rate of return assessed by the investor (c_{pa}) is obtained by leveling the current price of a share (C_p) with the actualized sum of the dividends infinitely paid by the entity (d_p), as it results from the following relation:

$$C_p = \frac{d_{p1}}{(1+c_{pa})^1} + \frac{d_{p2}}{(1+c_{pa})^2} + \dots = \sum_{t=1}^{\infty} \frac{d_{pt}}{(1+c_{pa})^t}$$

There is a distinction between the rate of return *assessed* by the investor and the *required* one. The assessed rate reflects the value the investor expects to earn for a share, while the second rate represents the value required by the investor starting from the risk level of the share. Comparing the two rates, the investor can take the decision to keep or not the share. Therefore, if the rate of return estimated by the investor is higher than the rate of return required by him, the decision is to keep the action. But if the rate of return estimated by the investor is lower than he required by, the decision is to sell the share. Comparing the rate of return required by the investor with the rate of return obtained by him, the connection between the objective set by the investor - the required profitability and the current result – the obtained profitability is made. If the achieved profitability is higher than the required one, we can say that the investment is profitable; therefore it leads to high performance result.

CONCLUSIONS

We certainly believe that we succeeded in what we planned, that is to draw attention to the fact that to make performance is more than a simple goal. And, because the subject is so comprehensive and interesting, we will try to draw an informative conclusion.

Performance represents a complex concept, long debated by worldwide accounting professionals. The causes of the interest for performance, along with those already discussed, are in our opinion:

- The indissoluble relationship between performance, sustainable development, standard of life, productivity, economic growth and poverty eradication;
- The performance shaping as a self standing field of accounting, which starts to crystallize and individualize through the conceptual assembly and the particular instruments.

The performance always implies elements of productivity, efficiency and profitability; this is not an objective or a target, but a very important way of accomplishing the social welfare. The performance can also be seen as that ability of the entities to ensure a relatively high income from the exploitation of the production factors, as well as a superior income form the exploitation of the workforce.

The transition to the knowledge-based economy has as major impact the increase of the knowledge role and importance inside the production activities, developed by the entities, most frequently becoming the main source of making performance. The knowledge is a source for performance, because the main element the entities focus on is the added value and this is obtained also from knowledge.

Without pretending that we have drained the subject, but with peace of conscience that we approached a new dimension of performance – knowledge, we make an invitation to more exciting, challenging and full of substance approaches and deepening.

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A SURVEY ON BUSINESS EVALUATION METHODS USED IN MERGERS

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In mergers, a subject that arouses controversies between the leaders of the companies involved in the transaction is the determination of the exchange ratio. The basis of its determination is represented by the application of business evaluation methods that are completed by a negotiation process. In order to better understand the major aspects regarding this issue, this article presents a literature review of the main business evaluation methods used to determine the exchange ratio in merger transactions. We concluded by showing the context of use and the application conditions of the most used methods.

Keywords: business evaluation methods, mergers, exchange ratio

Cod JEL: M41

1. Introduction

For the investors in companies that seek to merge is very important to determine whether the merger will be efficient for them or not. So, they must ask themselves if the acquired company is really worth. Naturally, both sides of a merger will have different ideas about the value of a target company: the seller will tend to establish a value as high as possible while the buyer will try to pay the lowest price possible.

In mergers, the essential point, which is the subject of the negotiation between the leaders of companies involved in the transaction, is the determination of the exchange ratio between the shares of the acquiring firm and the acquired firm. This ratio results from a comparison as complete as possible between the companies to merge, a comparison that is preceded by a gathering of information on the market, competition, legislation, and especially the company. Here is the role of evaluation.

Business evaluation does not suffer from the lack of methods, but rather from the coexistence of a large number of methods, among which practitioners may feel lost. The different business evaluation methods that exist can overlap to better estimate the price of a company and minimize the risk of error. But we must be aware that "there is no unique value of a company".

2. Research methodology

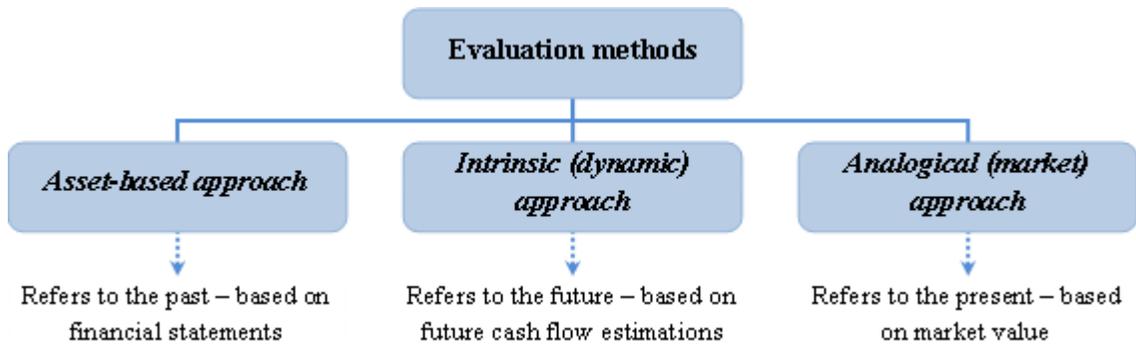
This paper is a theoretical study and its purpose is to present the different methods of evaluation used to determine the exchange ratio in merger transactions. We based our study on the information gathered from the existing literature at international level, using as a research method the qualitative approach.

This study is a fundamental research, the utility of such research, although it does not identify a problem with the purpose of solving it, being reflected in its contribution to the future developments of this research, by ensuring premises for forthcoming studies.

3. Evaluation methods – the base for exchange ratio determination

There are over a dozen methods of evaluation, these methods being structured differently from one author to another. As we can see in figure 1 Ceddaha (2005) groups the evaluation methods into three approaches.

Figure 1. Structure of evaluation methods



Source: adapted from Ceddaha (2005)

Asset-based approach

The theory underlying the asset-based approach to business valuation considers the value of a business as being equal to the sum of its parts. The asset-based approach estimates the selling value of the assets based on the financial statements. Using this method the objective is to estimate the accumulated wealth and not to determine the potential future value (Meier, 2009). In this context, the two methods used, approximates the net asset value or the adjusted net asset value.

The **net asset value method** consists in calculating the net worth of the company, namely the difference between the value of the assets adjusted for non-values and the amount of debt of a company (Meier, 2009). Even in a context of liquidation, the net assets are often penalized by the historical cost principle which involves recognition of an asset at its acquisition value and not at its resale value (Meier, 2009). Purely accounting, this approach is only a first approximation, very concise and promptly, of the value of a company (La Chapelle, 2002), which does not reflect its true value (Iselin, 2007).

The **adjusted net asset value method** aims to overcome the inherent limitations of historical cost and prudence accounting principles. The method consists in the reevaluation of the various types of assets and liabilities according to their replacement value, their use value or resale value, showing pluses or minuses of value. It is justified especially when the target company owns non-operating assets that can generate considerable gains (Meier, 2009).

This asset-based approach can be used in evaluating the exchange ratio for a merger by exchange of shares, if both of the companies are evaluated on the same principle. However, this approach has serious limitations. It is a static method that does not include the future perspectives of the company, the intangible assets (brand, corporate culture, customers), that form the competitive advantage of a company and are not included in the financial statements (Schatt & Roy, 2002).

The calculated value is a photograph at a time T, used by entrepreneurs to evaluate their assets but less relevant to a purchaser who justifies his investment by the expected profit, which is a bet on the future.

However, this approach finds its application in some cases, in real estate companies, investments companies or industrial holdings. In contrast, it is not at all adapted to rapidly changing companies: startups, business that grow quickly, where the latest balance sheet gives only a truncated picture of the business and its potential (La Chapelle, 2002). In all cases, the asset-

based approach provides only a first reference value that should always be complemented by other methods that take into account the expected trends, criteria more relevant to the investor (Iselin, 2007).

Intrinsic (dynamic) approach

The intrinsic or dynamic approach is the queen of the financial evaluation. Over the years, researchers have observed an increasing use of models based on discounted cash flows generated by the company in taking various decisions. A more recent evidence of this trend is provided by Trahan and Gitman (1995), Bruner et al. (1998) and Graham and Harvey (2001). Also, Mukherjee Kiyamaz and Baker (2004) found that almost 83% of buyers use the method based on discounted cash flows to determine the value of the target company.

Evaluation using a dynamic approach aims to determine the capacity of the company to create future value (Meier, 2009), value related to future cash flows generated by the company. Iselin (2007) considers that the philosophy behind this approach is based on the idea that the purchaser does not buy the historical flows of the company (the accumulated wealth), but the future cash flows (or the future wealth).

If the principle of the dynamic approach is simple, its application is rather complex. This method very used is based on the discounted future cash flows of the company at a rate representing the average remuneration required by the investors of the company given its risk (Ceddaha, 2005).

The enterprise value is the sum of discounted cash flow over an explicit horizon and the terminal value at the end of that horizon, when the cash flows are difficult to estimate (Salustro, 2009).

$$V = \sum_{i=1}^n \frac{CF_i}{(1+k)^i} + TV$$

CF_i - cash flow of year i ;

k - discount rate;

TV - terminal value;

n - number of years of the forecast period.

The method of discounted cash flows is divided into three steps, each of these steps posing different problems. According to Ceddaha (2005) the steps refer to: **1. establishing free cash flows over an explicit horizon; 2. choosing a terminal value at the end of the explicit horizon; 3. discounting the cash flow and the final value at a rate given the risk.**

The implementation of each of these steps is problematic: the duration of the explicit horizon, the determination of the terminal value and the discount rate are the main challenges facing the evaluator.

Regarding the **explicit horizon**, the evaluator should avoid it being too short not to give undue importance to the final value, or too long, so that the forecasts of cash flows remains only theoretical (Ceddaha, 2005). The problem of the duration of the forecast period has been often discussed by researchers: some argue that the forecast must be made for at least 10-15 years (Koller, Goedhart, Wessels, 2005) while others claim that an average of seven years is desirable (Ceddaha, 2005). There are also opinions that argued that the horizon must be long enough in order for the company to reach a stable state at the end of this period (Copeland, Koller, Murrin, 2000).

The choice of the explicit forecast period depends essentially on the number of years it is considered necessary before obtaining a stable business with constant rates of return and growth (Meier, 2009) and, in consequence, it coincides with the end of a period of extra profitability for the company (Cassia, Plati, Vismara, 2007). The explicit horizon, which coincides with the period when the company beneficiate of the competitive advantage (Cassia, Plati, Vismara, 2007)

is also determined by the business sector and the stage of business development (Ceddaha, 2005, Sherman & Hart, 2006).

In DCF method the analysis of the **terminal value** has often a considerable weight in the calculation, but its determination is often ad hoc or requires assumptions regarding free cash flows beyond the horizon (Penman & Sougiannis, 1998). The estimation of the terminal value is frequently at the heart of debate because it is often an important part of the value obtained by the DCF method (Cassia, Plati, Vismara, 2007), especially when the explicit horizon is short (Ceddaha, 2005).

Perhaps the most crucial concept of the DCF method is the **discount rate**. As the future cash flows occur in the future and the target company is valued today, it is necessary to adjust future capital inflows in today's money. The discount rate reflects the idea that the same amount of money is worth more today than in the future (Sherman & Hart, 2006). Economic and finance theory proposes the use of the corporate cost of capital as a discount rate. This value is the weighted average cost of the funds available to a company, including equity (common stock), debt (after tax rate), and preferred shares.

Even the value approach by the DCF method suppose a delicate matter, requiring a real know-how, it is the most capable of reflecting the global nature of the business and its ability to deliver performance in the future.

Analogical (market) approach

The market valuation approach, known also as the multiple valuation method or the method of comparables, is among the approaches the most used by practitioners for the evaluation of unlisted companies. For example, Asquith, Mikhail and Au (2005) reported that 99% of analysts use multiple method for evaluating companies and Roosenboom (2007) finds that underwriters typically use this method when evaluating initial public offerings (IPOs).

This method consist on transposing (by using ratios called multiples) the market capitalization of a company listed on a stock exchange to the company that we want to evaluate. It is based on the application on historical or anticipated balances of the company to evaluate, of the calculated multiples based on a sample of comparable listed companies (Ceddaha, 2005) or the "peer group".

The method proceeds in three stages: **1. defining a sample of comparable companies; 2. calculating the multiples; 3. applying the multiples to the target firm.**

Even the method is apparently simple and fast, it still involves some problems, especially in defining the sample and the choice of the multiples.

Concerning the "peer group", the companies selected to be part of it must belong to the same industry, be of similar size and have a similar stage of development and an economic model as close as possible (Pansard, 2007). But this is not enough; in order for the companies to be similar, they must have a comparable dynamic of value creation in terms of growth and economic profitability perspectives (Ceddaha, 2005). The value of a business is an increasing function of future payoffs and a decreasing function of risk (Liu, Nissim, Thomas 2000); therefore, the companies in the sample should be comparable with the evaluated company not only in terms of growth ratios but also in terms of risk.

As for the number of companies in the sample, Ceddaha (2005) considers that it is better to have a small but reliable sample rather than having fifteen companies with disparate characteristics whose value creation differs too much from the company to evaluate. Based on an empirical study, Cooper&Cordeiro (2008) demonstrated that using about five comparables is optimal when the comparable firms used are those from the same industry with expected growth rates closest to the target firm, and if their average growth rate is within 1% of the target firm's growth rate.

The problem of the "peer group" was also studied by Henschke & Homburg (2009) which considers that is not sufficient to reduce the sample to the most similar firms, because differences

remain, and correcting for them leads to the most accurate value estimates. So, to have a value of the company closer to reality, it is necessary that the sample is homogeneous.

The multiples utilized in the market approach represent the ratios between the observed market values and the measured values of the indicators for firms in the sample. When defining the multiples various indicators are utilized such as operating income (EBIT), profitability (EBITDA), price earnings ratio (PER), cash flow per share or even book value of equity per share.

The average of the ratios calculated for firms in the sample is the multiple used for determining the value of the company to evaluate. For the average be meaningful, it is important that the value of the ratios we calculate for each company in the sample be relatively close. If they are greatly different, which implies that the dispersion around the average is substantial, the average (a measure of central tendency) will not be very meaningful (Weston & Weaver, 2001).

The most utilized multiple is PER that establishes the value of the equity of a company from its historical or estimated net income. Taking into account that the market price reflects the real value of all future benefits of a company (Barker, 2002), PER represents the value of future benefits related to the current ones that is the rate at which profits are discounted.

Even if it has its limits, the market approach, which is based on the assumption of market efficiency (Ceddaha, 2005), is preferred by the evaluators because allows them to predict what the publicly traded price of a company is likely to be (Weston&Weaver, 2001).

4. Conclusions

The different evaluation methods that we have presented have each its advantages and limitations. Finally, the evaluation methods are only a measurement tool that should be adapted according to circumstances. As we can see in table 1 each method of evaluation is relevant in a certain context and taking into account specific conditions.

Table 1. Context of use and application conditions of evaluation methods

Evaluation methods	Context of use and application conditions
Net asset value	Rarely relevant in mergers
Adjusted net asset value	Relevant for holding companies (investment companies)
Discounted Cash Flow	Relevant in any context, less for holding companies, if the values used (cash flow projections, terminal value and discount rate) are correctly estimated
Multiples	Relevant for non listed firms if there are enough similar listed companies able to form the peer group

Source: adapted from Meier (2009)

Using these or other methods we obtain a value, but not a price. The value is derived from a calculation and can be adjusted while the price is the result of a negotiation between the parties and involves factors like the supply and demand, market share, synergies for the buyer, liquidity needs of the seller etc. (Salustro, 2009).

The evaluation methods are useful because they provide a starting point and a range of reasonable values based on reasonable assumptions and actual events (Sherman & Hart, 2006). However, the price of a company depends also on the real determinants objectives of stakeholders. The variety of evaluation methods led to a variety of values of a company, so we

can say that there is no single value or “fair” value. The value taken into account in a merger to determine exchange ratio of the shares is also the result of calculations, estimations, but mainly the result of negotiations.

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PRAGMATISM OF THE ACCOUNT INFORMATION, UNDER APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS AND AUDITING

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The evolution of Accounting during the transition to a market economy has demonstrated the existence of a special methodology of gathering, processing and providing information related to modern Accounting, based on specific informational system. Accounting may offer a model, as a means of expressing financial records and its economic activities.

Key words: accounting, standards, audit, financial records;

JEL: M41; M42

1. Utility of the information from the annual financial statements

Accounting remains the main provider of economic information necessary for managers to short-term decisions. It is designed currently as an internal tool in making decisions and in achieving management control. Role in addition to providing real and reliable information on whether the property, it is the financial audit. This information is useful not only managers but also other categories of users.

If the information produced by accounting, particularly those based decisions can not be disclosed because it is the company's strategy, the audit report provided by may be published.

Information provided to be useful, must first be accurate, and timely, do not require high costs for collection and, in particular, to be current. In terms of accuracy, determine the quality of decision information. Incorrect information may lead to loss-making decisions for the enterprise. **Thus, accuracy of accounting information is feasible but with higher costs.**

Accuracy of information is understood both in terms of calculation itself and in terms of actual coverage of all cost items, the causes that generated them and the responsibility for these.

Timeliness of information, characterized by promptness is transmitted, the quality of decision is crucial since a belatedly received information loses value and is equivalent to manager a total lack of information.

News information, depends on the promptness with which it is collected, processed and transmitted.

The three characteristics of information, where information can be found and released by a financial audit. Thus, the information is essential for financial audit because, based on the audit report are forecasts or future acquisitions and may lead to an incorrect date and the bankruptcy of a company. If information is appropriate to say that a financial audit report based on statements made earlier, there is no relevance to meet the objective "true picture".

Current market economy system, is characterized by a high level of technicality, modernization and upgrading in accordance with market demands immediate, is due to rapid obsolescence. The amazing speed of processing requires all sectors and industries to Western standards align to succeed and be profitable in step with social progress.

A rigorous accounting system, will reveal changes that may be made to the accounting database in order to reflect the transition from a centralized economy to a market economy, a process currently under way in Romania. The accounting system is designed to provide third parties the information that he produces are able to meet the needs of their end users.

Current and potential investors need information to help decide on the one hand, whether to buy, keep or sell their shares in an entity asset and, secondly, in relation to that company the ability to pay them dividends. They are useful information for establishing the rate of return possible in the

next period, so as to make comparisons in terms of existing opportunities at a time on the market and investment risks.

Managers need information units, which enable them to conduct business in a profitable manner. They require access to additional information that would help in better asset management entity. Tax authorities requires that financial statements are prepared so that the taxable profits of the company can be properly determined.

Tax financial statements are prepared using a system of precise rules provided by laws in force accounting and pilot companies based reasoning system based on professional, by the provisions of the Framework and International Accounting Standards.

Employees have brought attention to accounting, where they are interested in items relating to the size of profits, the distribution thereof, and growth prospects in terms of salaries and establishment of various benefits and personal opportunities available to them.

Providers are concerned about the degree to which the debtor unit will meet its obligations and at the same time, their interest on its future business volume, which can significantly influence the volume and value of orders unobtainable.

Customers are interested in the company's ability to continue their work, they require a range of information, enabling them to estimate the prospects of business partners so that in the event of major changes that might occur, appropriate reactions able, leading to their protection activities.

Lenders are a category of donors, including a significant share of banking units have.

Banks are anxious especially when pre-credit analyst, the capacity for repayment of loans to be granted, the degree of liquidity of the customer and its ability to profit in the period ahead.

Other external users are represented by groups or individuals who were not included in the categories listed, such as, for example, competitors, consumers, etc..

Depending on user requirements, the manager decides in what context will attempt to provide the information required, given that information to be provided are those prescribed by law or regulation, but on the other hand, there may be information sought by users are not included in financial statements and the company can provide. Can there another category of information called "sensitive", which the company does not want to make them public because they can significantly influence the market.

Another factor in choosing the information that is provided, the cost of collecting information, which in some cases, benefits may be more important than communication.

The database has a flexibility that allows all users needs, without double accounting records. To increase business competitiveness, it must rise in "top of the best companies", in which are highlighted national elements of profitability, turnover, which is a prerequisite for future partnerships.

In a market economy based on continually increasing the quality and level of information, "information is power."

The large number and variety of transactions undertaken in a market economy, the vast majority of large companies, shows that these benefits need speed data processing by computer.

2. Qualitative types of data derived from financial statements

Whatever the system chosen, or the computer at hand, he easily makes a reference to primary documents, any underlying transaction (eg invoice number).

Processing system mainly to record economic information, have the capacity to generate evidence of financial audit work necessary part of the financial auditor.

We can say that the financial auditor prefers a computerized data collection system, because it is easier to test the accuracy of the database. For example, in accounting for leases, according to International Accounting Standards, it must be net reveals they were registered or leased the assets held under leases, which would be very difficult if use of manual records, especially from a company whose main line of business leases.

Thus, auditors, the position of independence and impartiality that lies have a significant role in ensuring the quality of financial statements information released, bringing it greater credibility. From this perspective, the financial audit is designed to equally protect all users of accounting information.

Although financial audit does not provide an absolute guarantee, remains the most likely risk management information and thus to obtain high quality information, useful for different users decisions.

Financial Auditor role is to increase user confidence that the accounting information was obtained, processed and analyzed in accordance with international accounting standards and auditing and financial statements present all (or reserves) reflects the economic reality on financial audit.

3. Specificities, in terms of quality of financial statements conducted in accordance with the International Accounting Standards

Under the general framework of the International Accounting Standards Committee, information is significant because their omission or erroneous declaration may influence the economic decisions of users, decisions on financial statements.

Qualitative characteristics are characteristics that determine the usefulness of data derived from financial statements and are classified into four categories: understandability, relevance, reliability and comparability.

Intelligibility of information provided, is an essential quality for users, because it involves the ease with which can be understood and applied these data, but assuming that beneficiaries have sufficient knowledge of financial, accounting or even economically.

Relevance of information, is that influence economic decisions of users, helping them to assess events, confirming or correcting their past evaluations. Under the new rules, an auditor formulates an opinion on whether financial statements prepared by the company really reflects a true and fair view, carefully choosing the level of materiality.

Within each of its mission, financial auditor shall ensure that all issues may be important and may affect the audit opinion were fully taken into account. Thus, the audit procedures used are designed to provide reasonable assurance of detecting all important aspects of the problem.

Relevant information is influenced by nature and materiality. Materiality is largely subjective, but his determination, the financial auditor's reasoning makes use of his professional

Auditor is concerned to properly quantify the materiality level for two reasons:

6. To decide on the level of materiality used during the procedure for collecting audit evidence. Audit scope and purpose of the tests are mainly related to materiality;
7. To decide on the "materiality level of opinion";
8. Materiality is an expression of meaning or relative importance of an issue in the context of financial statements. An issue or value is considered significant if its omission would affect obviously, decisions of users of financial statements.

Credibility is the quality of information we ensure that it does not contain significant errors, is neutral and trustworthy. Credibility of information based on the following defining characteristics: fair representation - information to be reliable, economic transactions and events reflect exactly;

- § Prevalence of economics on the judiciary - the vast majority of transactions counting process reflects the economic substance of transactions, not just their legal form. To take into account the prevalence of a transaction, look at all aspects and implications, with emphasis on those which may have a commercial effect in practice,
- § Neutrality - the information contained in financial statements to be credible and timely in making correct decisions, it is necessary that it should not be influenced by anything
- § Prudence - professionals who prepare financial statements have various uncertainties in the presentation of economic issues, but are always careful in using professional

judgments so that their estimates are not contrary to the principle of prudence. Allows accounting records to assets of real value, or as close to reality through prudent valuation of assets and liabilities

- § Completeness - not to be invalid, the information required to be complete, without omitting significant issues, within reasonable limits of materiality chosen correctly.

Comparability - The financial statements presented are compared in time and space, so users could make a relevant opinion on the financial position of the enterprise market and its expected performance. Therefore, disclosure of the accounting records, indicators and accounting policies, and consistency is achieved in case of changing some of the techniques used, they will be presented in such a way that it can pair with the techniques used in previous periods .

4. Accounting framework in accordance with International Accounting Standards which define the limits of accounting information is relevant and reliable by:

- Opportunity - refers to the timely submission of economic data, because a delay in reporting can lead to loss of information relevant effects;
- Cost-benefit - is a limit as coercive rather than qualitative, this ratio is optimal when we refer to relevant information. If information is to obtain a price higher than the benefit of its use when it has no capacity to be relevant;
- Balance between qualitative characteristics - the specialty practice can not be rigorously quantify this balance is a problem because professional reasoning, resulting in financial statements, which belongs to both producers and users of information.

Reflects the information in the financial statements, is a concept of British origin, took over and defined by EU Directives. In the Romanian accounting, this new concept was introduced by the Accounting Act, under which, the official document of the management of economic units is the "balance sheet, which gives an accurate picture, clear and complete assets, financial position and performance".

5. Conclusion

In conclusion we can say that Romania's current accounting rules require financial statements to be made so that they reflect a true and fair view of heritage. This is possible if professional accountants and management unit uses professional reasoning. An important part of professional reasoning is related to the accurate determination of materiality for the purposes detailed presentation of financial statements (either primary or statements in the explanatory notes annexed to the balance sheet) of significant items. This is very important and is given special attention since, including detailed accounts of insignificant items could create confusion in their interpretation or analysis would hinder them. It is widely agreed that the use of judgment, not carried out with a universally valid model whose application to provide a financial audit with guaranteed positive results.

Such a goal is achieved through the rigorous pursuit through a deep understanding of the economic environment, social and institutional entities audited by resorting to specific professional standards and adherence to a code of professional ethics.

Financial auditor is a difficult approach even with meeting all these elements.

In conclusion, we believe that the opinion made by an auditor improves the quality of the information contained in financial statements and is the most efficient manner in which it appears that financial statements do not present significant deviations, thus meeting the interests of both parties.

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ENVIRONMENTAL ACCOUNTING AND CORPORATE SOCIAL RESPONSIBILITY

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Sustainable development is an economic growth strategy aimed to conciliate economic and social progress without endangering the natural equilibrium of the planet. The true stake of the future is the avoidance of environment degradation through developing of a responsibility sense both of citizens as well as of companies, for the purpose of reaching a stable sustainable development. Environmental accounting expresses the appearance of a new ethics that answer to the human worries for planetary development and progress. Starting from the damage caused to the environment, we ask ourselves about the destructive activity conducted by companies and making them responsible of the problem to the future generations.

Keywords: environmental accounting, social responsibility, environmental cost

JEL code: M41, M14

Sustainable development and corporate social responsibility

Sustainable development means that the needs of the present generation should be met without compromising the ability of future generations to meet their own needs. Sustainable development is the constant re-evaluation of the dialogue between man and nature and the connection between generations in the process of multi-dimensional evolution of human society, proving to be an essential process of this world, also being an approach superior to the environmental management traditional belief.

Protecting the environment is one of the concerns of modern societies. For example, the European Union adopted in 2002 the Sustainable Development Strategy, updated in 2006 and 2009. Within this document, one of the principles of sustainable development politics is the implication of partners from the social and business environments, principle that aims to enhance the social dialogue, corporate social responsibility and private-public partnerships to foster cooperation and common responsibilities to achieve sustainable consumption and production¹¹⁶⁷. This is a result of the idea that a concern for the state of the environment cannot be adequately examined without considering corporations¹¹⁶⁸.

As a result of this vision over development, the corporation slowly evolves towards logic of responsibility. The company is considered a part of the society, not just a production and profit instrument for the shareholders; therefore, entities have also a social responsibility. This responsibility takes into consideration the interests of all stakeholders, starting from the shareholders, employees, business partners, to the consumers and the community, and needs a social implication strategy that must integrate in the long and medium term communication and development strategy. Today, ethic preoccupation in companies is being underlined and it is brought into discussion the analysis of applying the moral rules of individuals to the concrete decisions made within the company. Companies should consider social responsibility a competition strategy component. Those that have minimized environmental risks are the ones more advanced in developing own policies regarding to employees, shareholders, clients,

¹¹⁶⁷ European Union, Renewed EU Sustainable Development Strategy, 2006, p. 5.

¹¹⁶⁸ Bullis, C., Ie F., Corporate Environmentalism, In S. K. May, G. Cheney, & J. Roper (Eds.), The debate over corporate social responsibility, Oxford University Press, New York, 2007, p. 321.

suppliers, and they managed to improve long and medium term economic performances. Research related to environment protection has shown that company social responsibility significantly increases client satisfaction and fidelity. Implementing an ecological and responsible business model considers criteria like: implementing an environmental politics that respects the entities' vision and mission; capital allocation for environmental management, implication of human resources in the process; usage of various instruments. The involvement of major corporations in matters of environment shows the concern and the interest of modern industries for environment¹¹⁶⁹.

This concern is underlined by the fact that many of the modern companies included environmental problems in the Corporate Social Responsibility Charter. Whilst there is no unitary definition of social responsibility, we consider that this represents the discernment of specific issues, problems, expectations and claims upon business organizations and their leaders regarding the consequences of organizational policies and behavior on both internal and external stakeholders. The focus is upon the products or corporate actions¹¹⁷⁰. Social responsibility is just a component of the corporation social politics process which includes corporate social responsiveness, that means development of individual and organizational processes for determining, implementing and evaluating the firm's capacity to anticipate, respond and manage the issues and problems arising from the diverse claims and expectations of internal and external stakeholder¹¹⁷¹.

Developing of such capacity for company need to set up a managerial system of environmental problems, and accounting plays a key role in this system.

Environment accounting – tool of environmental management systems

Environmental accounting represents a methodology for quantifying the costs and effects of environmental conservation activities. Initially integrated in social accounting, environment accounting has its origin in a multitude of legal, economic and social factors. To summarize, three factors are at the base of environment accounting: the legislative basis, costs evolution and pressure from the stakeholders. They challenged companies to review some of the practices regarding their decision-making process and the communication of environmental information. Through the introduction of environmental accounting, companies aim to improve the effectiveness of conservation efforts and implement sustainable environmental policies with quantifiable results over a long term.

Using environment accounting has a number of advantages like¹¹⁷²:

- the possibility of managing more efficiently the flows of energy and materials, including the quantity of wastes, their type and their destination;
- the possibility of better estimating, identifying and managing of general costs and environmental costs;
- obtaining more precise information for starting and sustaining programs for improving environment performance;
- obtaining the necessary information for measuring and reporting the environment performance¹¹⁷³, for the purpose of upgrading the image of the organization in relationship with all those interested in its activity (clients, employees, government, investors, stakeholders).

¹¹⁶⁹ Briciu S., Sistem informațional privind contabilitatea de gestiune și calculația costurilor în industrie, Publishing House Argus, Bucharest, 2000, p. 103.

¹¹⁷⁰ Epstein E. M., The corporate social policy process: Beyond business ethics, corporate responsibility and corporate social responsiveness, California Management Review, 29: 3, spring 1987, p. 107.

¹¹⁷¹ Idem.

¹¹⁷² Toms, J.S., Environmental Management, Environmental Accounting and Financial Performance, Publication: London CIMA Publishing, 2000, p. 157-168

¹¹⁷³ Idem.

Environmental information publication is a key company accountability process, and environment accounting helps entities substantially improve their trustworthiness among the people and enjoy a fair evaluation¹¹⁷⁴.

Environment accounting is the attempt to use control and tracking analogue instruments (information identification, measurement, accumulation, analysis, interpretation and communication)¹¹⁷⁵ in favor of those used in the economic management of a company or a public authority.

Environment accounting is now entirely new but it coexists with previous visions. It evolved in the last two decades and had as motivation the development of an accounting system that would supply a basis for efficient activity planning regarding environment and financial protection. The setting up of economic and environment accounts offers synthetic information to key decision makers regarding environmental resources and it is necessary for determining environmental costs and their consequences over production, income and economy.¹¹⁷⁶

The main objective of environment accounting is the reform of managerial accounting in order to allow entities to improve their profits by reducing costs. Practically, environment accounting is an instrument with which entities can modify their existing accounting systems so they can offer managers information about environmental costs.

From this point of view, in elaborating entity development politics and strategies, managers must take into consideration environmental costs. These are the expenses linked to the prevention of environment pollution and degradation, evaluating pollution and environment protection and fixing these problems¹¹⁷⁷. Taking into account the variety of the effects of an entity over environment, it's difficult to quantify the costs of environment degradation. The difficulties are generated by the lack of knowledge regarding nature and the scale of the destructions, but also by the lack of a market price. The main problems identified in quantifying environment costs are: the singularity of environmental investments and polluters, the economic horizon, the absence of a market, the absence of relations between cost and efficiency.

The analysis of environment accounting practices concludes that this branch of accounting has succeeded, in theory, to accomplish its initial objectives. It was about management help tools like accounting environmental aspects and communication of environmental information for what financial accounting stands for.¹¹⁷⁸

The requirement to establish the financial impact of environment performances was recently introduced in environment performance evaluation and reporting. As a result of such problems, not only environmental information presented in financial statements is subjected to audits, but also information presented in environmental or sustainable development reports¹¹⁷⁹.

A short analysis of the Romanian companies involvement in environmental matters

Starting from the general objective of the European Union Sustainable Development Strategy, the Sustainable Development National Strategy of Romania establishes that eco-efficient management of resources consumption and their maximum exploitation to be realized by

¹¹⁷⁴ Bețianu L., Approaches concerning environment-related information included in the annual statements, *Analele Universității din Oradea*, 2009, vol. 3, p. 768.

¹¹⁷⁵ Environment and the OECD Guidelines for Multinational Enterprises: Corporate Tools and Approaches Publication: Paris OECD, 2005, p. 34-38.

¹¹⁷⁶ Tabără N., Horomnea E., Mircea M. C., *Contabilitate internațională*, Editura Tipo Moldova, Iași, 2009, p.542-543.

¹¹⁷⁷ Briciu S., *Contabilitatea managerială, aspecte teoretice și practice*, Economic Publishing House, Bucharest, 2006, p. 101 – 106.

¹¹⁷⁸ Lafontaine, J-P., Normalisation et mondialisation : le cas de la prise en compte de l'environnement naturel par les entreprises, *XXVème Congrès de l'AFC*, Orléans, 2004, p. 1-21.

¹¹⁷⁹ Bețianu L., Georgescu I., Approaches Of Environmental Information Audit In Annual Reports, *Annales Universitatis Apulensis series Oeconomica*, 2008, 10(1), p. 113.

promoting a production and consumption model which would allow a long term sustainable economical growth and a successive rapprochement to the medium level of performance of European Union's countries.

European integration led to a greater attention given to environment by the economic agents. Romania begun to show some interest in the field of eco-efficiency, as a way to ensure sustainable development, but it lags far behind other European countries. Undoubtedly, the localization of important multinational companies (e.g. Renault, Siemens, Alcatel, and Continental) in Romania contributed to raising corporate awareness in terms of environmental impact and will foster a positive evolution in the field¹¹⁸⁰.

Sustainable Development National Strategy of Romania is a national document which complies with the sustainable development strategy of the European Union. Its main objective is the continuous upgrade of quality of life, creating durable communities able to capitalize the economy's ecological and social potential, to manage and to use resources efficiently mainly to ensure prosperity, environment protection and social cohesion.

As for the Romanian companies involvement into environmental problems, we will realize an analysis on the base of the expenditure made by these for environment protection.

In Romania, the economic agents' expenses related to environment protection are distinctly underlined for the unspecialized economic agents, the ones that carry out an environmental activity as a secondary or auxiliary activity, and for the specialized economic agents, the ones that posses a department which has environment protection as a main activity.

Table no. 1
Types of environmental expenses by types of producers
- thousand LEI current prices -

	2006		2007		2008	
	Nominal values	%	Nominal values	%	Nominal values	%
Specialized producers (total) from which:	5297304	68	7039354	72	8328234	65
- investments	793154	10	1048084	11	1716516	13
- internal current expenses	4101018	53	5487074	56	5637738	44
- external current expenses	403132	5	504196	5	973980	8
Unspecialized producers (total) from which:	2460918	32	2743422	28	4516525	35
- investments	1125384	15	1329980	14	1550499	12
- internal current expenses	961416	12	913847	9	2153762	17
- external current expenses	374118	5	499595	5	812264	6
Total environment protection expenses	7758222	100	9782776	100	12844759	100

Source: www.insse.ro

¹¹⁸⁰ Bărglăzan D., Drăghici A., Vartolomei M., Eco-Efficiency – The New Dimension Of Economic Efficiency, în journal Recent, Vol. 10, no. 3(27), November, 2009, p. 180.

Considering this data it can be ascertained that in the producers environment protection expenses total, a big part are the expenses done by the specialized producers (65% in 2008), and the unspecialized producers expenses are only 35% in 2008. In the analyzed periods, the expenses evolved contradictory, but in time they have a constant growth. In 2007 in regard with 2006, the environment protection expenses done by the specialized producers grew by 1.742.050 lei, absolute value and 33% relative value, and in 2008 in regard with 2007 they grew with 1.288.880 Lei absolute value, and 18% relative value.

By analyzing the other component taken into consideration, unspecialized producers environment protection expenses, it is observed that these registered a significant growth in the period 2007-2008. So, in 2007 in regard to 2006 the expenses grew with 282.504 Lei, absolute value, and in 2008 in regard to 2007, with 1.773.103, absolute value, or 65% in relative figures.

The explanation of this evolution is given by Romanian adhesion to the European Union and the necessity of economic agents to abide by the environment requirements imposed by the communitarian aquis.

Table no. 2

Environment protection expenses, domains and types of producers

- thousand LEI current prices -

Environment domain	2006	2007	2008
Unspecialized producers – total, of which	2460918	2743422	4516525
Air Protection	962660	803990	1242606
Water Protection	514629	642085	788120
Waste and used water elimination	411186	479853	1072457
Soil and groundwater protection	237729	179375	619360
Noise and vibration reduction	32338	19093	8900
Natural resources protection and bio-diversity conservation	119123	117202	141974
Other environment domains	183253	501824	643107
Specialized producers – total, of which	5297304	7039354	8328234
Air Protection	21762	44614	55984
Water Protection	1146586	1002417	1352751
Waste and used water elimination	4024884	5843427	6778036
Soil and groundwater protection	30304	27468	65817
Noise and vibration reduction	5912	19728	3165
Natural resources protection and bio-diversity conservation	33189	39384	21900
Other environment domains	34667	62316	50582

Source: www.insse.ro

Analyzing the environment protection expenses of domains and types of producers, we observe that in the three years taken into consideration, the specialized producers invested the largest amount in waste and used water elimination, and the smallest amount, in noise reduction.

The most sensitive environmental domains, air protection and water protection, registered an ascendant trend. Thereby, in 2008 in regard to 2007, expenses for air protection done by the unspecialized producers have risen by 438.616 lei, absolute value. Meanwhile, air protection expenses done by specialized producers have risen by just 11.370 lei, absolute value.

The expenses for water protection rose progressively, reaching 514.629 lei in 2006 for the unspecialized producers and 788.120 lei in 2008. The specialized producers spent 1.146.586 lei in 2006, and 1.352.751 lei in 2008.

Conclusions

In the face of environment problems, companies must become morally responsible, but the way in which each company understands this responsibility is different. The true problem rises in the convergence of social responsibility with economic interest followed by any company with an economic life. In this point environmental accounting intervenes, not as a supplementary cost source, but as a mean of better administration of companies' resources in the perspective of an economic sustainable development.

Environment accounting is an indispensable tool for the application of the "sustainable development" concept and the insurance of environment protection. It is constituted under the form of a system that permits environmental information organization, through physical or monetary indicators.

Companies relate more often to the concept of sustainable development, gently evolving towards responsibility logic. They must take into account more and more the economic and social restrictions of the markets in which they operate. Practically, for obtaining decision assistance tools, each company needs information regarding the state of the environment, quantifying environment costs that affect its activity. Environment accounting must supply this kind of information and to propose a way of evaluation of environment deterioration.

A successful assimilation of the notion sustainable development will take shape in options that modify the companies' business model, in the spirit of a long term vision and a sustainable mission.

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CONSIDERATIONS ON THE APPLICATION IN FORESTRY INTERNATIONAL ACCOUNTING STANDARDS (IAS 41 “AGRICULTURE”)

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Accounting Today Summum is based on the theories, concepts and sentence combining increasingly international standards and European Directives in the field. In our country, to date there is no obligation application of IFRS, but the accounting regulations with European Directives and International Accounting Standards (IAS). Of caution, most of EU countries applying national accounting regulations with European directives, the separate financial statements, and International Financial Reporting Standards are used to prepare consolidated financial statements. Many EU countries have identified the risks arising from the application of IFRS as the primary basis of accounting and have shown restraint in their application avant. According to the above we are led to think about proposing a strategy to implement IFRS / IAS forestry entities within the National Forest “Romsilva”.

KEYWORDS

Forestry entity, biologically active, biological transformation, harvest

*Cod JEL: M – Business Administration and Business Economics; Marketing; Accounting
M4 / Accounting, M41-Accounting*

International Accounting Standard for Agriculture was approved by the IASC Board in December 2000, being last in the great family of the IAS to work with major changes in previously approved standards on specific elements of farming but because of many similarities with the work forestry. The objective of this standard “Agriculture” is to prescribe “the accounting treatment and disclosures that pertain to agricultural activities”¹¹⁸¹ by these activities understanding the transformation of biological assets for sale of agricultural products or additional biological assets.

The “spirit” of IAS 41 by active biological means “a live animal or a plant”¹¹⁸² and a group of biological assets is “a group of similar living animals or plants”, and it is clear that forestry is biologically active handlers forest plants (trees and shrubs), game, fish, birds, etc. . Also to be understood very well the concept of “biological transformation” and “harvest”. Thus, the biological transformation processes means growth, genetic transformation, production and procreation, which affect the quantity of a biologically active, “harvest” implies separation of production from a biologically active or biologically active termination of life.

¹¹⁸¹ International Financial Reporting Standards (IFRS) CECCAR Publishing, Bucharest, 2006, p.2156.

¹¹⁸² IAS 41 „Agriculture” CECCAR Publishing, Bucharest, 2004, p. 37.

We believe that these definitions are sufficient to cover the full range of forestry activities, with recognition that there are a number of features such as:

1. **Ability to change** - live plants and animals are capable of biological transformation;
2. **Managing change** - involves the administration that facilitates biological transformation by increasing or at least establish the conditions necessary to conduct the process;
3. **Measuring the change** - which is to change the quality or quantity due to biological changes that are measured and monitored, there intervened and routine administration.

An entity should recognize a forest biological asset when and only when:

- entity controls the asset as a result of alternative events,
- it is probable that future economic benefits associated with the asset to run the entity;
- fair value or cost of the asset can be reliably measured.

A forestry entity within the scope of IAS 41 “Agriculture” shall not¹¹⁸³:

- a. The investment made in a forest in reducing atmospheric carbon, this gives rise to carbon credits that can be sold or used to offset pollution caused by entity,
- b. forest belts of the slopes and riverbanks,
- c. live animals and plants held for exhibitions and competitions (horse, etc. ornamental seedlings.),
- d. deforestation,
- e. hunted in natural,
- f. collection of spontaneous vegetation (berries, herbs, mushrooms, etc.).

A biological asset or a product of its assets must meet the conditions for recognition in the annual financial statements of an entity forest, according to the Framework for the Preparation and Presentation of Financial Statements issued by the IASC. In this regard in paragraph 89 of the framework states that an asset will be recognized in the balance “when it is likely to achieve a future economic benefit the company and the asset has a cost or value that can be measured reliably”¹¹⁸⁴. From the practical point of view, controlling forest establishment on a biological asset or agricultural produce is determined by property ownership, control or exercise a right like property, which arise from past events (eg, control of national forest property as forestry entity). But the question is the evaluation of these biologically active.

IAS 41 “Agriculture” and also make a very significant shift from the traditional model of assessment based on historical cost, widely applied by economic entities in general. This shift is based on evaluating fair value minus estimated costs of providing point of sale enabling more relevant information that reflects the effects of changes caused by biological transformation of assets. In a forest entities should be evaluated as a biological asset at initial recognition and at each balance sheet date at fair value less estimated costs of point of sale. Point of sale costs include commissions and fees imposed by regulatory bodies and exclude transport and other costs necessary to sell products on the market.

Determining the fair value of biological assets in forestry can be done more easily by grouping them based on significant attributes: species, age, quality, etc., But this value will be relevant if it was based in an active market. If there are more active market base will consider the most relevant market but also the biological assets used for recovery. If there is an active market can use a number of criteria including the sign:

- latest transaction price on the market,
- the market price for similar assets appropriately adjusted to reflect differences;
- benchmarking of activities such as a value in number of seedlings planted per hectare or value expressed in pounds of meat pheasants.

¹¹⁸³ IAS 41 „Agriculture” CECCAR Publishing, Bucharest, 2004, p. 37.

¹¹⁸⁴ Opera quoted, p.72.

A forest is biologically active entity generating future benefits but economic life beyond the financial year. This is the case, for example forestry plantations (forest) to obtain wood household supplies but considered biologically active and producing biological assets such as pheasants and trout farms, which produce eggs, chicken and meat. In this case the fair value measurement is compromised and has an major impact on the relevance of annual financial statements.

Forestry activities involving the gradual physical development (growth of forest plantations or increase an animal) which clearly brings a biological asset value growth is creating a new element (seedlings obtained from seed - or birth of an animal nursery: pheasants, fish, etc. .) have no place any transaction. These biological changes related to future economic benefits. For example, the rhythmic growth of forest plantations unequivocally and directly affects the expected future economic benefits, but differ in terms of pace bear all costs. If they would use the assessment based on historical cost accounting point of view, if the previous example would be the recognition of revenue to intervene at the first harvest and sales (probably more than 80-100 years after planting) wood products derived forestry entity. We believe that such a forestry entity, the processes of growth, propagation, harvesting indicators are "pawns" for assessing the performance of such entities. The assessment of biological assets at fair value result in an assessment and reporting period income growth throughout the plantation until harvest. All these arguments based on fair value assessment increases the relevance, credibility, comparability and understandability of information based on this model, than what would be obtained based on historical cost. Also believe that by determining the fair value is the relationship between the value of biological assets size of the expected future economic benefits of forestry entity from those assets. Where market prices due to the current condition of the biological assets are not available, you can use net present value of asset cash flows to pre-tax discount rate determined by market fluctuations. In this case, consider the current value of biological assets, excluding any increase in value from additional biological transformation and future activities of the entity. For example, an entity 31.12.2008 a plantation forest has 600 trees to be harnessed as silver Christmas trees over three years, namely the 2012 Act because their condition is not an active market. Current market price of silver fir Christmas tree is sold for 100 lei. The value of plantation forestry entity at year end would be 600 pcs. X 100 ROL = 60.000lei. For estimating the fair value is calculated the present value of expected cash flows from asset sales biological considering a discount rate of 8%. Discounted net cash flows of plantetei 31.12.2005 would be $60,000 / (1 + 8\%)^3 = 47,630$ lei. Fair value can be approximated by costs when:

- biological changes occurring in fewer initial costs incurred (for example, between the time of sowing in the nursery and the balance sheet),
- when the biological transformation of the price impact is not expected to be significant (for example growth of a pine plantation that has a cycle production 40-80 years),
- if the market price changes are insignificant. According to Romanian legislation in the field, fair value is equivalent to the free market price represented by the “open price competition under free form, in which no one agency can not influence the market or decide unilaterally setting the level and its dynamics, price formed on the basis of direct confrontation between buyers and sellers”¹¹⁸⁵.

At initial recognition of a biological asset at fair value less estimated costs of point of sale can be found a gain or loss will be included in net profit or net loss for the period. Such situation would meet the forest entities that own farm pheasants. Exemplified by a case study, the rearing of pheasants are produced in April this year, following incubation process 4,000 chickens live to be capitalize a foreign partner. The market price of chickens a day is 0.65 Euro/pieces. Expenses related to their supervision by veterinary treatment (vaccination) is a cost to maintain current

¹¹⁸⁵ According to Art. 1, para. (2) nr.73/2002 letter of the Law on organization and operation of agricultural and food products market in Romania, published in Gazet Oficial no.110/8.02.2002

biological assets and lute will not be counted in determining fair value. So pups will be registered as biologically active in the market price of 2,600 lei a gain resulting from the initial recognition will be reflected in the profit period. Furthermore the initial recognition of a biological asset, losses may be recorded to determine fair value as estimated costs are deducted at point of sale, but may be recorded in earnings when the quantitative and qualitative changes occur.

Suppose that fair value can be measured reliably for a biological asset. This hypothesis can be ignored for the initial recognition of a biological activity that are not available on the market determined prices or values for which estimates are credible alternatives. In this case that biological asset shall be valued at cost minus any depreciation and any losses from damage Battery.

Since value just such a biological asset can be estimated reliably, that asset should be valued at its fair value less estimated point of sale. In terms of IAS 41 "Agriculture" fair value of biological assets at the time of collection can always be measured reliably. Of particular importance it attaches to IAS 41 is subsidizing agriculture in general, but forestry and who receive conditional grants for forest road construction, to prepare conditions for the development and exploitation of forest stands located in inaccessible regions. IASs application noted above conflicting changes to the agricultural and forestry production subsidy to the initial presentation in IAS 20 "Accounting for governmental subsidies". So speaking to IAS 20 "an unconditional governmental subsidy in relation to a biological asset measured at fair value less estimated point of sale are recognized as revenue when and only when the government grant becomes receivable. If a government grant related to a biological asset measured at fair value less estimated point of sale is subject to be recognized as revenue when and only when conditions required for the grant are met"¹¹⁸⁶.

IAS 41 "Agriculture" requires a different treatment than that required by IAS 20, when a government grants linked to a biological asset measured at fair value less estimated point of sale or if the entity requires some subsidization specific conditions. IAS 20 requires that government grants should not be recognized until there is certainty that the entity meets the requirements for grant allocation.

Also, IAS 20 allows the use of two methods:

- setting up government grant as income in advance;
- government subsidy net book value of assets.

IAS 41 in optical second method is "consistent model based on fair value, an asset is assessed and presented to fair value. Deduction treatment using book value, a company should first be deducted from the subsidy for the assets carrying and secondly to measure the asset at fair value. Company recognizes that the government grant as income immediately, even if conditional grant. This contravenes the requirement of IAS 20, which government grants should not be recognized as income until there is certainty that the company meets the requirements of its grant"¹¹⁸⁷.

Particular attention should be paid by the entity forest way of disclosure in terms of IAS 41 "Agriculture". Providence in this, entities must submit forest cumulative gain or loss in current period on initial recognition of biological assets and the change in fair value less estimated point of sale costs of biological assets. Entity must provide a description of each group of biological assets and reproduction supplies mature and immature as appropriate. They provide information that may be useful in assessing the emergence of future cash flows. The entity also must provide forestry methods and significant assumptions applied in determining the fair value of each type of biological assets. Forestry entity is required by IAS 41 to present:

- existence and carrying amounts of biological assets whose title is restricted and the carrying amounts of biological assets to secure the obligation;
- the commitments for development or acquisition of biological assets;

¹¹⁸⁶ International Accounting Standards, Economic Publishing House, Bucharest, 2001, p.130.

¹¹⁸⁷ IAS 41 „Agriculture” CECCAR Publishing, Bucharest, 2004, p. 94.

- financial risk management strategies related to forestry.

Remember that, even if IAS 41 does not expressly mention forestry as a branch of a national economy encompassing agriculture many. But similarities between this branch of national economy and agriculture have led to this classification. In other countries (Finland) as new agriculture with forestry is deemed a separate economic sector. Therefore we are not indifferent approach to financial risk management strategy of both forestry activities in may shield production cycle (seeds, wickers, fishing, etc.). And own production forest itself, where life cycles are between 30 and 160 years.

Case study on the accounting record and reflect their operations in forest entity annual financial statements under IAS 41 „Agriculture”¹¹⁸⁸

An entity shall submit to the beginning of the year forestry 1.01.2009 following situation for the species „red oak” planted to increase the processing of timber and mining:

Age (years)	Surface (ha)	Fair value less estimated point of sale costs of biological assets (lei)
25	120	272
20	87	146
12	168	132
5	80	110

a. Planted consumable biological assets

In April 2009, the entity has planted 100 ha of forest seedlings „red oak”. Expenditure entity with seedlings and planting them had the value of 7200 lei. Registration seedlings and planting costs will be reflected in the accounts as follows:

Biologically active = Availability 7.200 lei

The highlight here is deducted from cost of biological assets acquired in accordance with IAS 41 „Agriculture” (paragraph 24) is approximated fair value through cost.

b. Maintaining supplies of biological assets

Maintenance areas planted with „red oak” 5 years old forest entity has incurred various expenses in 2009 amounting to 1.950 lei recorded in the accounts as follows:

Sundries = Debt / availability 1950 lei

c. Collection of biological assets consumables

In August 2009 the entity has harvested forest oaks (species „red oak”) aged 25 years. Fair value less estimated cost of point of sale of logs at harvest is 411 lei (272 lei + 139 lei). Perform record harvest oak effect on stocks and biological assets and income occurred at harvest:

Stocks = Income: Gain occurred in fair value less estimated costs of point of sale of logs

Harvested 139 lei

Stocks = Biological assets 272 lei

The effect of this accounting operations is the initial recognition of its stock in accordance with IAS 2 „Inventories” and record as income under IAS 41 (paragraph 28) the gain occurred in fair value less estimated cost of point of sale of logs made from aged oak culture for 25 years.

d. Processing of forest products

Forestry processing entity logs obtained in September 2009 conducted expenses (expenses for processing logs) worth 18,500 lei. Coverage of the accounting operations are performed as follows:

Stocks = Debt / Available 18500 lei

Accordinging accounting regulations in Romania is the next record:

Sundries = Debt / Available 18500lei

Stock = Stock change 18500 lei

¹¹⁸⁸ The study draws on Appendix 2, Exemplaie 1: Consumable Biological Exposure Assets of Daft No.90/2000 issued by the Financial Reporting Standards Board, Institute of Chartered Accountants of New Zealand

e. The sale of forestry products processing

In September 2009, 80% of processed logs (timber) were sold for the sum of 42000 lei. Record revenue from the sale of logs in the accounts is performed as follows:

Claims / availability = Revenue from timber sales 42000 lei

Unstorage forest products shall be as follows:

Cost sale = Stocks 15129 lei

Income = Stocks 329 lei

(Net gain occurred in fair value less estimated costs of point of sale of logs harvested)

Book value of the stock before the sale is 411 lei +18500 lei = 18911 lei

18500 lei x 80% = 14800 lei

411 lei x 80% = 329 lei

Appealing again to Romanian Accounting Regulations destocare this transaction is recorded as:

Changes in inventories = Stocks 15129 lei

f. Sale of consumable biological assets

In December entity sells a forest area of 40 ha oak aged 20 years for the sum of 90000 lei. Fair value less estimated costs of point of sale oak plantation 20 years old at the beginning of the period were: $(146 \times 40 / 87) = 67.12$ lei. Contabiltiate coverage of the business transaction will be done by registering:

Claims / availability = Biological assets 67 lei

Claims / availability = Income 833 lei

(Gain change occurred in the fair value less estimated point of sale costs)

This record profit reflected the sale occurred in the forest „red oak” and also noted that a reduction by selling the book value of biological assets estimated point of sale of forest sold.

In the annual balance sheet biological assets (oak forest) will be reflected in categoria „current assets” as follows: 01.01.2009 book value of biological assets is 660 lei, and the end of financial year 2009 it will be 7730 lei. Stocks will be presented in current assets (assets) on 31.12.2009, at 3782 lei valaorea accounting.

CONCLUSIONS

Romanian experts consider that the area should consider the implications of applying IAS 41 „Agriculture”, forestry for several reasons: nature of the forest creates uncertainty or conflict when applying accounting methods „rigid” because critical events associated with biological changes (growth, degeneration, production and multiplication) affecting substance biological assets are difficult to treat by means of a model based on cost accounting history and achievement; IAS changes the appearance of existing sites. Such amendments to IAS 2 „Inventories” amend the provisions on animal stocks, agricultural and forest products were valued at net realizable value based on well-established policies. Changes and provisions relating to biological assets in IAS 16 „Intangible assets”, IAS 17 „Leasing”, IAS 18 „Income from current activities”, IAS 20 „Accounting for Government Grants and Disclosure”; an international trend towards liberalization, where a continuously growing number of companies listed on international capital markets and a larger volume of investment and will have the effect of increasing the size of the scope and nature of commercial forestry activities. This will cause an even greater need for financial statements based on solid accounting principles and universally accepted. Thinking need a national IAS 41, specific Romanian agriculture and forestry and why not a national standard accounting only for forestry; education and research specialists near the specific problems of accounting in forestry management and training program for personnel directly involved in keeping and accounting organization from entities including the Central Forest National Forest „Romsilva”.

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ACCOUNTING PRACTICES AND POLICIES SPECIFIC TO THE PROVISIONS – APPLICABILITY IN THE PUBLIC SECTOR

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Abstract: *The International Public Sector Accounting Standards based on the accrual accounting get inspired from the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the provisions of these Standards being applied in the public sector. The IPSAS 19 Standard requirements „Provisions, contingent liabilities and contingent assets” have been elaborated in accordance with this policy. Without neglecting the reality of the Romanian accounting practice from the public sector, we shall gradually present the **provisions evaluation and recognition stages**. The differentiated practices applicable to the public sector in relation with the private one have led us to the analysis of the solutions proposed by IPSAS 19 „Provisions, contingent liabilities and contingent assets” versus IAS 37 „Provisions, contingent liabilities and contingent assets” (it treats the provisions, the contingent assets and the contingent liabilities at the profit oriented entities).*

Key words

Provisions evaluation, Public sector, IPSAS 19, IAS 37, Depreciation

JEL classification: M

1. Provisions for depreciation versus depreciation of value

In the old Romanian accounting regulations' acceptance, the differences found in minus between the inventory value (established at stock-taking) and the asset elements' input book value distinguished themselves in the accounting by the constitution of some rectifying structures – *provisions for depreciation or loss of value*, when the depreciation was considered reversible.

Impairment of value, in the view of IPSAS, is also a reversible process of deterioration of asset value occurring during the useful life due to various factors – internal and external. Are the two processes equivalent, knowing that both have the effect of reducing the balance sheet value of those assets?

Differences arise in how to determine whether the two structures: if the provision for depreciation is determined as the difference between the input (gross) book value and the inventory asset value, depreciation value is spread between the net book value and recoverable amount. We notice a clear distinction between different terms such as gross book value - net book value, i.e. value of inventory - amount recoverable. Moreover, depreciation of value is deterioration in the value of an asset with little chance of disappearing in the future due to specific factors and requires direct debit account for impaired assets, just to show the direct influence of the decrease in value.

1.1 Provisions for depreciations versus other liabilities

The provisions can be distinguished from other liabilities such as *payable and accruals* because there is *uncertainty about the timing or amount of the future expenditure required in the settlement*. By contrast:

- payables, which are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier;

- accruals, including amounts due to employees, are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, but the uncertainty of their amount or timing is generally much less than for provisions.

1.2 Provisions for depreciation versus contingent liabilities

In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, the international standards distinguish them from the contingent liabilities by the recognition treatment – within the public sector standards, the term “contingent” is used for liabilities and assets that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. If the provisions are recognized as liabilities – they are present obligations and it is probable an outflow of resources embodying economic benefits to settle the obligation; the contingent liabilities are not recognized as liabilities because they are either possible obligations as it has yet to be confirmed whether the entity has a present obligation, or they represent present obligations for the entity but they do not determine an outflow of resources embodying economic benefits. In exchange, the entity shall monitor and evaluate permanently the contingent liabilities as a result of their possible evolution towards the initial estimation, in order to recognize a provision, where necessary.

Example no.1:

The production department of the public entity X, during its activity in exercise N, has breached an environmental law but it remains unclear whether any damage was caused to the environment. In exercise N+2 it becomes clear that the damage was caused and remediation will be required by the competent environment authority.

In the period N – N+2, the evolution of the contingent liability shall be carefully monitored, because there is no legal obligation to make probable an outflow of future economic benefits for the entity.

In exercise N+2, the entity shall recognize a provision as a result of the existence of legal obligation that implies an outflow of economic benefits to extinguish it.

2. Provisions recognition

A provision should be recognized when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation

2.1 Present obligation – legal or constructive – generated by a past event

In this structure there are included those obligations generated by past events that are independent of the entity’s future actions or the ongoing activities in the future. Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future. The only liabilities recognized in an entity’s statement of financial position are those that exist at the reporting date.

Examples of situations in which the provision is imposed by a legal obligation

Example no. 2:

A government-owned research institute uses a nuclear power station to create radio isotopes that are used in medical purposes. According to the contract through which it received the right to use the station, for the decommissioning of one unit, which is to be expected no sooner than 50 years, the entity estimates the site restoring costs of 400,000,000 lei.

At the end of the budgetary exercise, it is recognized a provision of 400,000,000 lei, following the existence of the site restoring obligation stipulated in the contract, obligation that implies from the behalf of the entity outflows of resources materialized in the diminishing of future economic benefits.

Examples of situations in which the provision is imposed by a constructive obligation

A constructive obligation is that obligation that results from the actions of an entity if:

- from the previous conduct, from the entity written policy or from a specific declaration, the entity indicated to its partners that it assumes certain responsibilities; and
- as a result, the entity induced to its partners the idea that it shall honor those responsibilities

Example no. 3:

The local authority from region X with a wide opening to the sea promotes an environmental policy in which it undertakes to clean up all the contamination that it causes. The local authority has a record of honoring this published policy. There is no environmental legislation in place in the jurisdiction.

In this situation, the obligating event is the contamination of the environment, which gives rise to a constructive obligation because the policy and previous conduct of the local authority has created a valid expectation that it will clean up the contamination. A provision is recognized for the best estimate of the costs of the clean-up of the contaminated land.

A constructive obligation for the entity also results from the restructure process. The following examples of events may fall under the definition of restructuring:

- termination or disposal of an activity or service;
- the closure of a branch office in a specific region or relocation of activities from one region to another;
- changes in management structure, for example, eliminating a layer of management
- fundamental reorganizations that have a material effect on the nature and focus of the entity's operations

2.2 Probable Outflow of Resources embodying Economic Benefits or Service Potential

For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources. An outflow of resources or other event is regarded as probable if the probability that the event will occur is greater than the probability that it will not.

Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Example no. 4:

During the budgetary exercise N, the Local Council X gives a guarantee of an entity from its subordination with the view of finalizing an investment. The entity is financed from its own incomes and in completion, from budget subventions. During the exercise N+1, the financial condition of the entity deteriorates and it fails to pay its due rates.

At the end of the exercise N, although there is a legal obligation from the guarantee of the credit, no outflow of economic benefits is probable and thus, no provision is recognized. The guarantee is disclosed as a contingent liability.

In the budgetary exercise N+1, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. A provision is recognized for the best estimate of the obligation.

2.3 Reliable Estimate of the Obligations

Except in extremely rare cases, an entity will be able to make an estimate of the obligation that is sufficiently reliable to use in recognizing a provision.

Best estimate

The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. The estimates of financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, report from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

The name for this statistical method of estimation is “expected value”. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60% or 80%. Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the mid-point of the range is used.

Example no. 5:

A manufacturer of medical equipment offers warranty at the moment of sale to the purchasers. According to the terms of the sale contract, the manufacturer understands to eliminate by repairs or replacement, the defects that become apparent within 12 months after purchase.

If minor defects were detected, the repair and replacement costs of 1,000,000 lei would result. If major defects were detected, costs of 5,000,000 lei would result. The past experience indicate that, for the coming years 80% of the equipment will have no defects, 15% of the equipment will have minor defects and 5% of the equipment will have major defects.

The expected value of the cost of spare parts and repairs is:

Specification	Cost
80% of the equipment will have no defects	zero
15% of the equipment will have minor defects	150.000
5% of the equipment will have major defects	250.000

A provision for warranties given to the clients in the amount of 400,000 lei, evidenced in accounting as follows:

6812	=	1512	400.000
„Operational expenditures concerning provisions”		„Provisions for warranties given to the clients”	

Risks and Uncertainties

The risks that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision. A risk adjustment may increase the amount at which a liability is measured.

Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities.

Present value

Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation.

The discount rate (rates) should reflect current market assessments of the time value of money and the risks specific to the liability. The discount rate should not reflect risks for which future cash flows estimates have been adjusted.

The discount rate of a provision is known as a pre-tax rate.

Future events

Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision there is sufficient objective evidence that they will occur.

Expected Disposal of Assets

Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision.

The entity recognizes gains on expected disposals of assets at the time specified by the Accounting Standard dealing with the assets concerned.

Reimbursements

Where some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement should be recognized when it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount recognized for the reimbursement should not exceed the amount of the provision.

Example no. 6:

Local authority X, through a specialized agency, operates a gravel quarry on land used for the construction and maintenance of roads. The agreement with the landowners requires the local authority to restore the quarry site in order to remove the effects over the environment. At the end of the reporting date it is constituted a provision in the amount of 750,000 lei.

In the concluded contract it is stipulated that, if the environment works are entirely executed, the entity shall receive from the local budget a 20% financing from the cost of the works executed with the remedy operations.

Provision recognition

6812	=	1518	750,000
„Operational expenditures concerning provisions”		„Other provisions”	

Expenditures recording occasioned by the removal of the effects over the environment, after their nature

6xx	=	%	680,000
„Expenditures account”		3xx	
		„Stocks’ accounts”	
		4xx	
		„Third parties’ accounts”	
		5xx	
		„Treasury accounts”	

Annulment of the provision recognized in this purpose

1518	=	7812	750,000
„Other provisions”		„Incomes from provisions”	

Recording of the amount to be received as financing, at the date of fulfilling the recognition conditions

4xx	=	7722	150,000
„Third parties’ accounts”		„Subventions from other budgets”	

In the patrimonial result account, the provision related expenditures can be presented at the value reduced with the amount recognized for a reimbursement.

Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses or suppliers’ warranties). The other party may either reimburse amounts paid by the entity or pay the amounts directly.

In most cases, the entity will remain liable for the whole of the amount in questions so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognized for the full amount of liability, and a separate asset for the expected reimbursement is recognized when it is virtually certain that reimbursement will be received if the entity settles the liability.

Changes in provisions

Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources economic benefits or service potential will be required to settle the obligation, the provision should be reversed.

Use of Provisions

A provision should be used only for expenditures for which the provision was originally recognized.

Future Operating Net Deficits

Provisions should not be recognized for net deficits from future operating activities. Net deficits from future operating activities do not meet the definition of liabilities and the provisions general recognition criteria.

An expectation of net deficits from future operating activities is an indication that certain assets used in these activities may be impaired. The entity shall treat these assets in accordance with IPSAS 21 „Impairment of non-cash-generating assets”.

Onerous contracts

If an entity has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision. Many contracts (for example, some purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard and a liability exists which is recognized.

Example no. 7:

An entity performs a production activity in a rented building under a contract of lease. During December the budgetary exercise N, the entity relocates to a new building.

According to the contract of lease, the lease on the building continues for the next two years. The contract cannot be cancelled and the building cannot be re-let to another user because no such clauses were stipulated in the contract.

A provision is recognized for the best estimate of the unavoidable lease payments.

Disclosure

For each class of provisions, an entity should disclose:

- The carrying amount at the beginning and the end of the period;
- Additional provisions made in the period, including increases to existing periods;
- Amounts used during the period;
- Unused amounts reversed during the period;
- The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate;
- A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- An indication of the uncertainties about the amount or timing of those outflows;

- The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

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THE INFLUENCE OF GLOBAL FINANCIAL CRISIS ON THE ACCOUNTING POLICIES

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Accounting practices are deeply implicated in the current financial crisis and in proposals for recapitalizing financial institutions and restoring stability to the global financial system. Noting that very little research has been done on the accounting policies implications of such crises, particular consideration is given to exploring the significance of and potential for research on this topic. This article discusses the changes that occur in the accounting policies starting with 2007 when the economic catastrophe begins. The empirical results suggest that companies introduced new components on their accounting policies with the emergence of financial crisis and there isn't a trend of changes in accounting policies depending on the activity of a company.

Keywords: Accounting policies, economic-financial crisis, financial statements, management decisions

JEL Classification: M41 – Accounting

1. INTRODUCTION

While it has become common place to blame bankers and their bonuses for the current global financial crisis, as the economic ruin deepens and spreads more fundamental questions will undoubtedly be asked about our economic system and the institutions upon which it is founded. The magnitude of this financial and economic crisis calls for a fundamental reassessment of all areas of business and economic scholarship, including accounting research.

The current economic and financial crisis has significant implications for accounting, both for practice and for the research community. In the areas of financial accounting, auditing, management accounting and the regulatory institutions that oversee accounting and auditing practices there are genuine worries that the crisis has revealed numerous problems and inadequacies.

There is a sample of companies that have already responded to the requirements of changing the components of the accounting policies caused by the current economic environment, this is the reason why we consider a study to quantify and analyze the changes in accounting policies.

2. RESEARCH METHODOLOGY

The importance of having accounting policies well presented and the relation between costs and benefits trigger the interest of all the professionals in this field. In the qualitative stage, in order to deepen the knowledge of this theme, we used the method of documentation, through rigorous analysis of the specialized literature, the international regulations (IAS 8 and IFRS with direct implication into the accounting policies). Based on our findings we try to establish a trend in terms of accounting policies for 23 entities listed on the New York Stock Exchange.

3. LITERATURE REVIEW

The world of accounting practice is implicated in the current financial crisis in a number of ways. The most obvious is through financial reporting requirements governing asset valuation and off-balance sheet entities (Ryan, 2008). The importance of these seemingly mundane accounting rules is underscored by the fact that the solvency and survival of our major financial institutions now turns on how accountants value bank assets and the extent to which auditors require firms to consolidate off-balance sheet entities.

The number reported on the various financial statements provide important information to decision makers, but most users require additional details to facilitate their analysis. All financial reports include additional information in notes that follow the statements.

The first note is typically a summary of significant accounting policies. The summary of significant accounting policies tells the user which accounting methods have been adopted by the company. It is impossible to analyze a company's financial results effectively without first understanding the various accounting methods that have been used. It would be similar to discussing a swimmer's time in the 100 freestyle without knowing if the race had been measured in yard or meters. (Short D., 2003)

PricewaterhouseCoopers and KPMG have been conducted a study, in 2009, regarding the significant accounting policy disclosures and the result of their research is summarized above:

- § PwC noted that information around the decision to consolidate (or not) was largely inadequate. For many of the banks surveyed they found that the significant accounting policy disclosures surrounding SPEs failed to provide a tailored discussion of the specific policies. Quite often, disclosures took the form of a repetition of the wording in the consolidation standards. Of the banks surveyed, 20 disclosed securitization activity as well as their accounting policies surrounding derecognition. However most of the banks provided only a brief repetition of the derecognition standard as opposed to providing a tailored discussion of the judgments made in applying accounting policies.
- § KPMG figures that 9 banks provided a detailed description of their accounting policy in relation to the consolidation of SPEs. Only 6 banks provided detailed descriptions of the reasons for not consolidating some vehicles, or the nature of changes that led them to consolidation.

Accountants inevitably make many accounting estimates and policy decisions when preparing financial statements. They must select depreciable lives for long-lived assets choose: inventory costing method, make assumptions about pensions, and make many more judgments. These accounting estimates are driven by an entity's accounting policy as it applies to the issues at hand. These decisions could significantly affect a company's financial statements and how users understand a company's results and financial position. (Holtzman M., 2007)

Financial statements must be clear and understandable. They are based on accounting policies which vary from enterprise to enterprise, both within a single country and among countries. Disclosure of the significant accounting policies on which the financial statements are based is therefore necessary so that they may be properly understood. (International Accounting Standards No. 1, paragraph 10)

Accounting standard setters argue that information about the accounting policies used by a reporting entity is essential for financial statement users in interpreting financial statements. (Hope O., 2007)

4. QUALITATIVE ANALYSIS OF REGULATIONS REGARDING THE ACCOUNTING POLICIES

IAS 8 Accounting policies, changes in accounting estimates and errors is the international regulation which prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall

be determined by applying the IFRS and considering any relevant Implementation Guidance issued by the IASB for the IFRS.

IFRSs set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorization of items for which different policies may be appropriate. If an IFRS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category. An entity shall change an accounting policy only if the change:

(a) is required by an IFRS; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. (Technical Summary of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IASB , 01.01.2009)

From a substantive viewpoint relating to IFRS, this is so in that addressing global business changes that are uncertain, uneven, ongoing and evolving requires the application of judgment in assessing financial performance and position beyond mere reliance on the application of pre-defined rules.

5. QUANTITATIVE ANALYSIS REGARDING THE ACCOUNTING POLICIES CHANGES

Based on theoretical considerations and previous empirical research we developed a series of hypotheses that link the company's accounting policies changes caused by the current crisis. Quantitative research methodology initiate with choosing the investigated population. In this respect we have consulted the website of the New York Stock Exchange to identify the entities that have a major role in the international economy, and we choose those companies which were most active on the financial market from NYSE. To form a representative sample we have chosen 25 companies listed, but only 23 of companies have remained in our analyze because 2 of them haven't published on their website the financial statements for year 2006. In addition, each company from our sample is relevant and representative for the sector in which it is operating, and financial data is available to the general public as proof that we were able to achieve their financial reports for years 2006 (before financial crisis), 2007 (the year when financial crises arise) and 2008 (the second year of financial crisis), by accessing their website.

After analyzing the information that entities provided on their website, regarding changes in accounting policies caused by the current crisis, we developed 2 hypotheses that we considered relevant to our investigation:

H1: Companies introduced new components on their accounting policies with the emergence of financial crisis.

In an accounting context, materiality refers to the relative importance or significance of an item to an informed decision maker. An item or event is material if it is probable that the judgment of a reasonable person, relying on that information, would have been changed or influenced by its omission or misstatement. Many decisions regarding materiality call for the careful application of the accountant's judgment. The application of materiality often depends on the size of the particular item in relation to the overall size of firm. Obviously, what is material to Smith's Shoe Store is not material to General Motors. (Flamholtz. E., Diamond M., Flamholtz D.). Taking this into consideration, our research do not intend to compare the number of components of

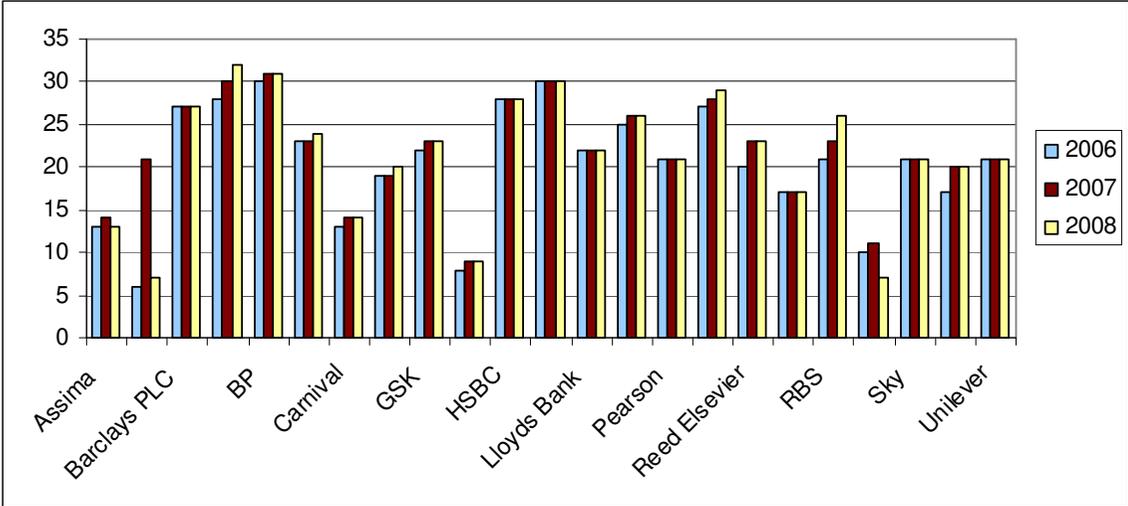
accounting policies from one company to another, it intends to compare the evolution of components of accounting policies for each company over 3 years.

H2: There is a trend of changes in accounting policies depending on the activity of a company.
 Astami E. concludes in her research that companies which belong to the same industry are directed towards the same direction when it comes to change their accounting policies.

6. RESULTS

We can state that all companies have been modified their accounting policies after the financial crash, 15 companies, out of 23, have been introduced new components on their accounting policies, which means that the managers considered the new economic environment a reason for introducing new elements in the financial statements.

FIGURE 1. COMPONENTS OF ACCOUNTING POLICIES CHANGES



Source: Compiled by author

Taking into consideration the above table we can not conclude that there is a trend of changes in accounting policies depending on the activity of a company and we believe that this occurs because our research have been done on a few number of companies.

TABLE 1. COMPONENTS OF ACCOUNTING POLICIES CHANGES TAKING INTO ACCOUNT THE ACTIVITY

Activity	2006	2007	2008
IT	13	14	13
Pharmaceutical	6	21	7
Financial services	27	27	27
Industry - natural resources	28	30	32
Industry - oil	30	31	31
Confectionery	23	23	24
Tourism	13	14	14
Drinks	19	19	20
Pharmaceutical	22	23	23
Construction	8	9	9
Financial services	28	28	28
Tourism, hotels	30	30	30
Financial services	22	22	22

Activity	2006	2007	2008
Industry - energy	25	26	26
Education	21	21	21
Insurance	27	28	29
Science and medical information	20	23	23
Industry - natural resources	17	17	17
Financial services	21	23	26
Construction	10	11	7
Media	21	21	21
Industry - automotive	17	20	20
Industry - food	21	21	21

Source: Compiled by author

7. CONCLUSION

The crisis, thus, challenges us to re-evaluate our research agendas – and perhaps also the institutional incentives and unexamined assumptions that drive them – so that accounting research can contribute to a broader social and political analysis of the financial crisis.

Financial reporting standards that are seen to adapt to the role of mitigating the risks of interpreting the increasingly complex global business environment and which find legitimacy on the grounds of both market imperatives and political and institutional alignment, will potentially achieve a sustained global presence in the future. If companies use a range of different accounting methods, stock market participants may have to devote considerably more resources to analyzing and comparing the companies' financial statements.

As a summary of our research we can state that for 23 listed companies from New York Stock Exchange only one hypothesis was accepted and this leads us to affirm that:

1. companies introduced new components on their accounting policies with the emergence of financial crisis; and
2. there isn't a trend of changes in accounting policies depending on the activity of a company.

With today's business environment of complex transactions and the recent crop of complicated accounting standards on derivatives, business combinations, stock-option compensation, postretirement benefits and income taxes, it is more difficult than ever to understand how underlying uncertainties affect the financial statements. New disclosures about accounting policies are supposed to meet this need. Thus, the paper adds both to the literatures on accounting policies changes of analysts' forecasts and to the international accounting literature.

Finally, it is important to recognize that accounting rules and changes in them are shaped by political processes (like any other regulation). The role of the political forces further complicates the analysis. For instance, it is possible that changing the accounting rules in a crisis as a result of political pressures leads to worse outcomes than sticking to a particular regime (e.g., [Brunnermeier et al., 2009](#)[Brunnermeier et al., 2009](#)). In this regard, the intense lobbying and political interference with the standard setting process during the current crisis provide a fertile ground for further study.

A useful direction for further research would be to increase the number of companies upon which we would do the research and also to introduce new variables that would quantify the reasons which determines the management to changes the accounting policies and if those changes are reliable for the company.

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THE ACCOUNTING REGULATION PROCESS IN THE FIELD OF FINANCIAL INSTRUMENTS

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Our paper develops an analysis on the accounting regulation process by considering the field of financial instruments as one of the most controversial areas of financial reporting. After a brief introduction, comprising aspects related to the accounting regulation process, we first stop upon the historical evolution of the two main accounting referential that currently collaborate through the convergence process. Our analysis focuses both on standards first issuance and on their amendment process. A special emphasize is given to the international accounting referential. The obtained results enhance the complexity of the approached field and indicate significant steps still needed to be taken.

Keywords: standard setting bodies, accounting regulations, financial instruments, regulation process

JEL Classification: M40, M41

Introduction

Approaching the accounting regulation process in the field of accounting can be done by using a large range of attitudes, starting with the vision of a free market and ending at the other extreme of excessive regulation that in our opinion can also be correlated with the typology of rule-based accounting systems. The fundamental assumption that lays at the basis of the “free market” approach when it comes to accounting regulations says that accounting information should be treated like any other economic goods. This implies that forces of demand and offer should be allowed to act towards that point that generates the optimal offer of information related to a certain entity (Deegan and Unerman, 2008, p. 57). In other words, those opinions militating for the reduction or even elimination of the regulatory process bring as an argument the fact that when someone wants to obtain a certain information regarding a certain entity he/she will also be prepared to pay for it, while the demand and offer would be the ones leading to the creation of the informational optimum. We will further develop a detailed analysis in the field of accounting for financial instruments as being one of the most controversial areas of financial reporting.

Research methodology

Our paper is based on analyzing accounting standards being issued by significant accounting standard setting bodies in the accounting arena. This involves on one hand closely considering the results of the accounting regulation process and on the other the development of the process itself. Once the particularities of the accounting regulation process were established, it also helped us organize our paper. Since the IASB work plan includes amending already existent standards, after presenting their first issuance, we needed to insist on corresponding amendments. This was not an issue for the American accounting referential issuing a new standard once an

amendment is needed. The developed analysis allowed the identification of the most problematic areas in reporting for financial instruments.

Historical evolution of two great accounting referential

Developments taking place within financial markets that become more and more sophisticated from one day to another, allowing entities to trade innovative contracts that significantly transform their risk profile, represent maybe the only factor within the business cycle that brings significant problems when it comes to traditional financial reporting practices (Bonham *et al.*, 2008, p. 1131). All these aspects started to make their presence obvious from some time now, IASB (International Accounting Standards Board), former IASC (International Accounting Standards Committee) commenting since back in 1996 on such aspects and emphasizing that:

At the root of the necessity of changing the accounting for financial instruments, we must place fundamental changes that appeared within international financial markets. An entity can significantly and instantly change its profile from the financial risk's perspective, therefore imposing careful and continuous supervision. Meanwhile, an entity can use derivatives as speculative tools in order to multiply the effects of changes taking place in interests, exchange rates, commodities' prices of securities, therefore multiplying their earnings if prices move in an advantageous direction or, similarly, multiplying their losses at a contrary evolution. Accounting for financial instruments did not keep pace with these informational necessities of market participants. Existent practices are grounded based on some principles that were developed when accounting's main preoccupation were production entities that combined different forms of inputs (materials, labour, machinery, etc) and transformed them into outputs (goods or services) with the purpose of selling them. Accounting for these processes generating incomes was first preoccupied by achieving a certain connectivity of expenses with revenues. A key element of this process is represented by the moment of revenues obtaining, representing that point when a company may consider that it has transformed its inputs into cash or rights on cash. These traditional concepts of valuation being based on realization and costs are not suitable for recognizing and measuring financial instruments. By recognizing this aspect, many countries have made a significant step towards acceptance of fair value accounting in the case of certain financial instruments (IASB, 1996).

Recognizing these issues more than a decade ago was actually clearly delimiting the challenges that were going to fully solicit accounting standard setting bodies for some time. More precisely, it was necessary to accept new approaches to financial reporting if wanted to keep pace with particular features of financial instruments. Moreover, identifying to what extent would this new approach also generate implications in other areas of the activities being developed by entities, therefore being necessary to abandon traditional accounting methods. Direction for actions to be taken that were chosen by the IASC and afterwards IASB indicate the fact that these issues were closely considered, developments within the field of financial instruments also affecting other areas. A particular attention was also paid to creating some models that were to be used in measuring fair values for some balance sheet elements such as those in the field of insurance contracts, agriculture and even recognition of revenues (Bonham *et al.*, 2008, p. 1132).

If we are to make reference to that point in time when accounting regulations in the field of financial instruments were initiated, we must take into consideration the American accounting referential whose development in the considered area was actually imposed through the level and complexity of transactions taking place within the American capital market. At least after World War II, USA occupied a leading position when it comes to financial innovation and corresponding regulation in this field (Veron, 2007, p. 22). The domination of American capital markets and unprecedented powers being concentrated in the Securities and Exchange Commission's (SEC) hands represents a clear proof of the fact that the American financial environment exerts a significant influence on a global level, regardless if we make reference to SEC's representatives or American members of the accounting profession.

A turning point in the history of accounting regulation was created once with Enron's bankruptcy back in 2001 and other financial scandals manifesting in 2002, but also the unforgettable '90s bubble. Previous to these events, there was also a series occasional criticism towards certain standards within the American accounting referential, but in generally it was still considered to be, in America and other areas of the world, as being the best available set of accounting standards (Veron, 2007, p. 23). We also mustn't forget the fact that US was the first to issue accounting standards (in 1930) and also the first (once with the establishment of the Financial Accounting Standards Board – FASB in 1973) to be based on an accounting regulatory body that claimed independence towards the accounting profession and towards direct political pressures. Although FASB was the one to initiate a series of projects in different problematic areas from an accounting perspective, Enron's collapse shook to the grounds all perceptions on what quality of accounting standards meant, bringing to surface a series of shortcomings of the American accounting referential.

It was therefore reached a totally different context, recent endorsement of the international accounting referential by UE favoring its acceptance as an alternative to the American one, now being more doubted than ever. In February 2002, president of IASB David Tweedie was explicitly criticizing the rule-based approach that was predominant within US GAAPs. In contrast, he was presenting the principle-based vision that IASB had approached. Shortly afterwards, the possibility of introducing a principle based system (such as the International Financial Reporting Standards - IFRS) within USA was being analyzed, the Sarbanes-Oxley Act (SOX) asking SEC to consider this issue (SEC, 2003).

Since 2000, FASB and IASB started to work on eliminating existent differences between US GAAP and IFRS. They decided to entitle this process as convergence, bearing in our opinion a particular character if we are to consider just the involved parties. The principle being incorporated within the Norwalk agreement in September 2002 (also known as Memorandum of Understanding - MoU) and renewed in February 2006 sustains that both parties should make significant efforts towards reciprocal closeness of the two accounting referential.

Analysis focusing on accounting for financial instruments

Starting with the grounding of other studies approaching this issue of great accounting referential (Hail *et al.*, 2009, Veron, 2007) we will also approach a presentation that focuses on the international accounting referential, but while also making numerous references and parallels with other accounting referential where their content or the considered moment impose it. A parallel approach of all aspects in accounting for financial instruments through the perspective of great accounting referential would generate an unjustified dimension of the presentation. We therefore chosen to particularize the manner in which information will be presented based on authors' professional judgment.

Considering the fact that each accounting referential has its own rules regarding the way the regulation process takes place, it would be rather difficult to achieve a parallel, but yet unitary presentation, of all preoccupations in the field of financial instruments. Our objective is to follow the main moments in time that were marked through an accounting regulation being issued, while considering three accounting referential. Choosing the three accounting referential was done with the aim of enhancing global representativeness. We therefore obviously chose the international accounting referential being issued by IASB, the American accounting referential issued by FASB, and also the Australian accounting referential issued by AASB (***Australian Accounting Standards Board***), which often proved some significant particularities. We must mention the fact that within the international accounting referential we now¹¹⁸⁹ find three distinctive standards whose objective is directly represented by financial instruments. These are IAS 32 *Financial instruments: Presentation*, IAS 39 *Financial instruments: Recognition and Measurement* and

¹¹⁸⁹ We only considered the three standards currently being effective. Furthermore, within its project of replacing IAS 39, IASB has already issued in 2009 a new standard, IFRS 9 having January 1, 2013 as effective date.

IFRS 7 *Financial instruments: Disclosures*. According to IASB's work procedure, these standards have often been amended and for this reason, we will first stop at pointing those moments when standards have first been issued and afterwards come back for a detailed analysis. The American accounting referential on the other hand issues a new standard each time it wishes to amend an already existent standard, and for this reason, it is necessary that we enumerate a significant number of distinctive standards (SFAS¹¹⁹⁰). Still, we must keep in mind that there are some situations when more of the mentioned standards approach the same aspects. In accordance to our methodology of presenting those moments when financial instruments standards have been issued we must distinctively present all of them. As previously mentioned, the corresponding attention will also be granted to those moments that brought standards' amendment, also within the international accounting referential, even if it did not represent new standards, implications still being significant. The Australian accounting referential involves a similar working procedure to that of IASB, therefore having some moments that involve distinctive standards being issued, while since January 1, 2005 the so-called Australian equivalent standards for IAS/IFRS became effective. The following figure 1 presents the manner in which the three considered accounting standard setting bodies acted in time in order to regulate the field of accounting for financial instruments. Figure 1 reflects each regulatory body's manner of working, but also its preoccupations in the field of financial instruments. A closer analysis on the significant moments in our figure demonstrates the fact that the American accounting referential seems to be taking the initiative most of the times, while representing a valuable source of inspiration for the international one. Creating accounting standards in this field is challenging for all regulatory bodies for some time now. As figure 1 proves it, a series of developments were initiated in US that also paid special attention to the requirements related to the use of fair value measurements of financial instruments. The purpose would be to better reflect both risks and rewards connected to those instruments. The Australian approach is also interesting, developing its own specific accounting standards that are tailored to suit their need, while also benefiting from the evolutions within the international accounting referential that they keep pace with.

Despite the fact that based on their methodology of amending existent standards, our figure seems to reflect a clear and easy approach of IASB on accounting for financial instruments, a content analysis proves the contrary. Difficulties constantly raised from practice have often determined the international accounting referential to move away from the declared principle based approach towards rules that made the standards extremely complex, difficult to apply and also controversial. In order to catch the dynamic of the approached field and the complexity of the corresponding accounting regulations, we will further graphically represent those moments that imposed significant amendments of the international accounting referential in time. Figure 2 mirrors IASB's reaction in time during the difficult task of establishing financial reporting standards for financial instruments.

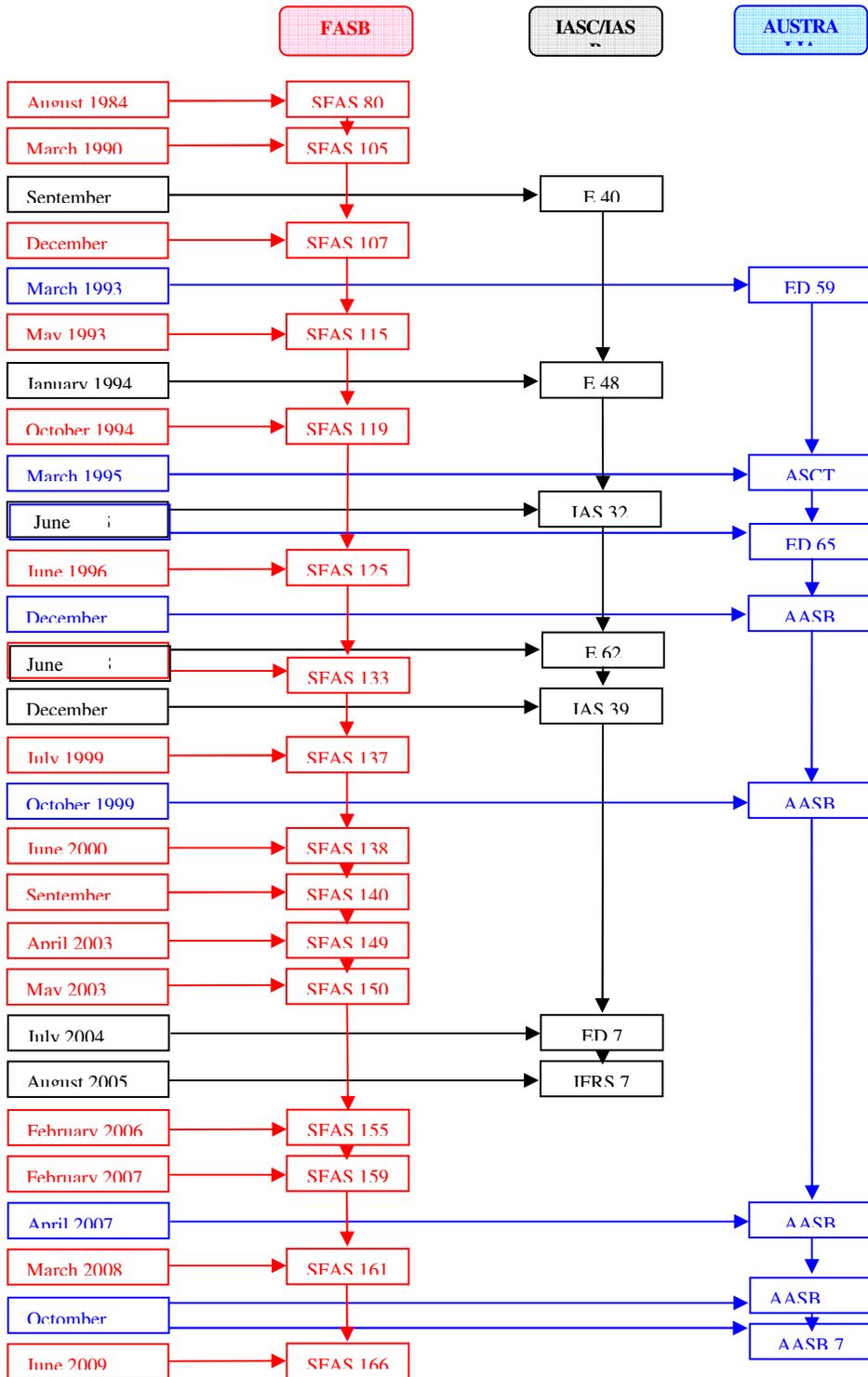
Conclusions and further developments

The below presented figures both reflect the complexity of the approached area and also the difficulty of developing the accounting regulation process in this field and reach the desired true and fair view. When closely analyzing the international accounting referential we notice that three standards were necessary and are still not sufficient. Figure 2 details their development in time, but also the correlations between them with regard to responsibilities each one should face. IASB's first efforts within the accounting regulation process in the field of financial instruments, or better said back then IASC, manifested starting September 1991 through Exposure Draft E 40 *Financial instruments*. This was afterwards modified in the shape of Exposure Draft E 48 *Financial instruments* that also generated the first version of IAS 32 *Financial instruments: Disclosure and Presentation*. Meanwhile,

¹¹⁹⁰ We have chosen to use the old FASB codification because we considered the new codification, having only been introduced since last year, is not yet very popular. The correspondence between the old classification and the new one is provided by the FASB on its official website.

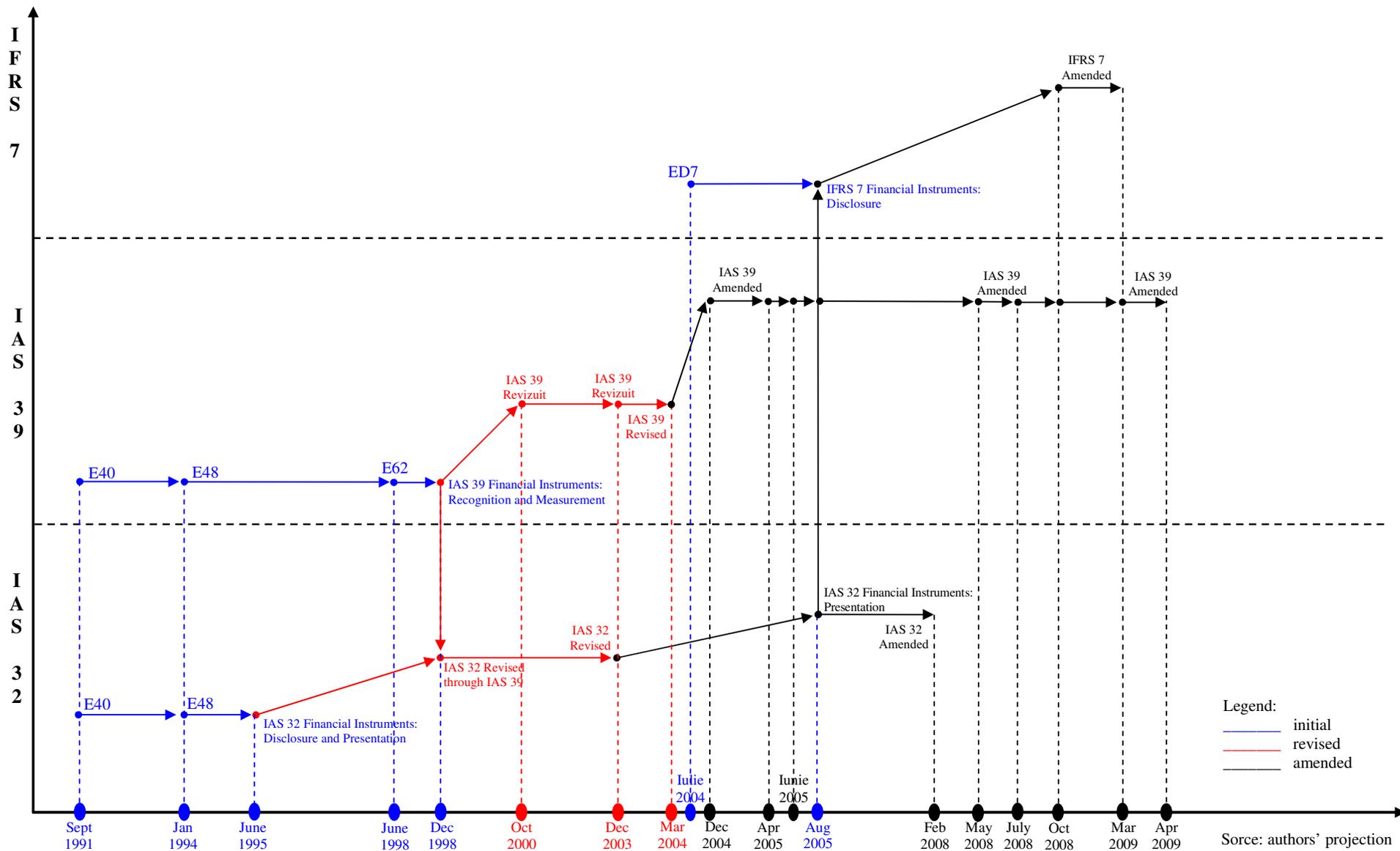
analysis within the field of accounting for financial instruments continued to be developed with regard to recognition and measurement issues. These researches also soon took the shape of an Exposure Draft, namely E 62 in 1998, shortly becoming IAS 39 *Financial instruments: Recognition and Measurement*. IAS 32 was also revised with this occasion.

Figure 1. Accounting regulations in the field of financial instruments



Source: authors' projection

Figure 2. Evolutions of the international accounting referential in the field of financial instruments



Source: authors' projection

It is now more than obvious that IAS 39 represents the most revised and amended standard being issued by IASB. This does not come as a surprise considering the controversial aspects this standard deals with. Recognition and measurement have always represented a difficult aspect of financial reporting, but the current financial crisis enhanced its importance. Therefore, IAS 39 was amended with regard to the reclassification of financial assets. Significant pressures were made due to the fact that classifying a financial asset within a certain category also dictated its valuation at fair value or amortized cost. Considering the resulting inactive financial markets due to crisis circumstances, entities required for the right to reclassify arguing that current circumstances have also determined them to change their intentions upon their financial assets. But on the other hand, allowing them to reclassify also offers the opportunity of avoiding fair value measurement with manipulation purposes. This decision of amending IAS 39 was very much criticized and brought damage to IASB's formal independence, especially since it was done very urgently and without respecting the complete due process. European banks were also among the first to put pressures on IASB. The problem of financial instrument's measurement remains open, the new IFRS 9 *Financial Instruments* seeking to replace IAS 39 and eliminate their classification determining the measurement attribute. The problem is even more difficult due to the context now surrounding fair value that took some of the finger pointing for the current financial crisis. While already being a sensitive topic, fair value measurement brought even more controversies due to the circumstances generated by the impact of the financial crisis on capital markets around the world.

We consider that the development in June 2004 of the exposure draft for a standard that was to be entirely dedicated to disclosure issues on financial instruments represented a clear proof of accepting a change in accounting paradigms. We refer here to the necessity of reorienting approaches when it comes to accounting for fictive capital. The emphasis now moves from recording data towards measurement, reporting and disclosing information, that is imperative for a good understanding of the implications of financial instruments being used by reporting entities. We conclude by saying that reporting for financial instruments represents a challenging area for all involved parties. Events surrounding European Union's endorsement of IFRS, with the well known carve out concerning IAS 39 and the fair value option, also represent a good example for the manner in which political forces can intervene within the standard setting process even when dealing with its international level. It is therefore an area imposing changes in accounting paradigms and continuous search for better solutions, while practice keeps facing us with a new riddle every day.

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In the current context, organizations are evaluated not only in terms of product quality. The modern organization is valued beyond its economic performance, quality management and communication policy, and by its contribution to the social life of the community it takes part of. The new social responsibilities that appear for the companies involve the increasement of information requests from both outside and inside for better management of the entity. Social responsibility accounting is a branch of accounting in the context of scientific knowledge that provides answers to social problems, the causes, manifestations and projections in a dynamic environment. This article aims to show what social responsibility is and how it works according to SA 8000:2008, what would be its implications and its main objectives, emphasizes the importance of publishing additional information on corporate social responsibility other than traditional financial situations.

Keywords: social responsibility, social responsibility accounting, SA 8000: 2008, key areas, quality

Jel code: M41 Accounting

1. Introduction. The concept of social responsibility

Social responsibility is the notion or concept which connotes the obligations of the companys to groups formed in the society, other than shareholders and also those prescribed by law and unions. The two sides of this definition are: firstly, the obligation must be voluntarily accepted (so the behavior influenced by enforcement forces of law or trade union is not voluntary), secondly, the obligation is something broader, meaning it extends beyond the traditional duty to the shareholders, to other groups in society such as consumers, employees, suppliers and neighboring communities. The essence of this conceptual issue is whether the organizations have obligations to other social groups than shareholders¹¹⁹¹.

Corporate social responsibility is a concept whereby companies integrate their social part and the environment in their own economic operations and interact with key players in their field of interest voluntarily¹¹⁹².

CSR is what the community expects from it in terms of environmental, economic, legal, ethical and philanthropic view point. The most developed and most widely accepted model of corporate social responsibility is the so-called „quadripartite model of corporate social responsibility", initially proposed by Archie Carroll in 1979 and then refined in a recent work, done in collaboration with AK Buchholtz¹¹⁹³.

Environmental responsibility. Environmental responsibility is a reflection of sustainable

¹¹⁹¹ **Ionescu Gh. Gh.** *Cultura Afacerilor- Modelul american*, Ed. Economică, București, 1997, 175

¹¹⁹² **Comisia Europeană**, *Cartea Verde: Promovarea unui cadru european pentru responsabilitatea socială a corporațiilor*, Bruxelles , 2001

¹¹⁹³ **Carroll, A. B., Buchholtz, A. K.:** *Business and Society: Ethics and Stakeholder Management*, 4th edition, Cincinnati, South- Western College, 2000

development issues including the ecological aspects considered by the literature¹¹⁹⁴ to be a core value of social responsibility.

Economic responsibility. Companies have shareholders who expect a reasonable profit for their investments. They have employees who want safe and well-paid jobs, they have customers who demand quality products at affordable prices, etc..

Legal Responsibility. Corporate legal responsibility calls for the business to comply with the normative documents in force.

Ethical responsibility. Ethical responsibilities require corporations to do what is just, fair and equitable, even if they are not forced to do so by the existing legal framework.

Philanthropic responsibility. The Greek word "philanthropy" literally means "love of people" and placing this within the context of business covers all those situations where the corporation is free to decide, without any external constraint, to engage in actions aimed at improving quality of life for employees, local communities and ultimately society as a whole.

2. Social Accountability 8000 standard

The Most relevant standards of social responsibility is the SA8000 developed by **CEPA (Council of Economic Priorities Accreditation Agency - USA)** now known as **Social Accountability International (SAI)**. The Social Accountability 8000 Standard (SA 8000), along with other types of certification standards and corporate codes of conduct, represents a new form of voluntary "self-governance" of working conditions in the private sector, initiated and implemented by companies, labor unions, and non-governmental activist groups cooperating together. There is an ongoing debate about whether this type of governance represents real and substantial progress or mere symbolism. Advocates promote SA 8000 and similar codes as a necessary tool to improve workplace conditions, especially in nations that lack robust enforcement of regulatory standards¹¹⁹⁵.

The **SA 8000** standard is an internationally auditable performance standard relying on International Labor Organization Conventions, on the Human Rights Declaration and the UNO Convention on child's rights. The management system of social accounting can be developed so as to integrate part of the other management systems: quality (ISO 9001:2000), environment (ISO 14001:2004), health and workforce security (OHSAS 18001:1999).

SA 8000: 2001 can apply in all and any organizations which wants to:

- Measure the companies' performance in eight key areas: child's work, forced work, occupational work and security, free association in collective associations, discrimination, disciplinary practices, working hours, remunerations;
- Investigate and solve the employees' or the parties' problems, as well as take some actions with a view to correct them;
- Elaborate a health and occupational security management system to eliminate or minimize the risks of employees or other parties who might be exposed to health and occupational security-related risks associated with their activities;
- Implement, maintain and improve, on a permanent basis, a social accountability management system;
- Make sure this system complies with the company's policy in terms of social accountability;
- Prove this compliance to others;
- Try to get certification/confirmation of its social accountability management system by an external organization.

¹¹⁹⁴ **Crane et al.:** Corporate Social Responsibility. Readings and causes in a global context. Routledge, 2008, 307

¹¹⁹⁵ **Hiscox et. al,** Evaluating the Impact of SA 8000 Certification, 2008, 2

Generally, CSR can positively influence competitiveness in the following ways¹¹⁹⁶:

- Improved products and/or production processes, resulting in a better customer satisfaction and loyalty;
- Higher motivation and loyalty of employees, resulting in a higher creativity and innovativeness;
- Better publicity due to the award of prizes and/or enhanced word-of-the-mouth;
- Better position at the labour market and better networking with business partners and authorities including better access to public funds due to a better company image;
- Cost savings and increased profitability due to a more efficient deployment of human and production resources;
- Increased turnover/sales due to a competitive advantage derived from the above.

The intent of SA8000 is to provide a standard based on international human rights norms and national labour laws that will protect and empower all personnel within a company's scope of control and influence, who produce products or provide services for that company, including personnel employed by the company itself, as well as by its suppliers/subcontractors, sub-suppliers, and home workers. SA8000 is verifiable through an evidenced-based process. Its requirements apply universally, regardless of a company's size, geographic location, or industry sector.

Complying with the requirements for social accountability of this standard will enable a company to:

- Develop, maintain, and enforce policies and procedures in order to manage those issues which it can control or influence;
- Credibly demonstrate to interested parties that existing company policies, procedures, and practices conform to the requirements of this standard.

SA 8000 is a consensual standard that specifies minimum requirements and include definitions in the following areas:

- Child Labor;
- Forced and compulsory labor;
- Health and Safety;
- Freedom of association and right to collective bargaining;
- Disciplinary Practices;
- Discrimination;
- Work Program;
- Remuneration;
- Management systems.

2.1. Child Labor

The company shall establish, document, maintain, and effectively communicate to personnel and other interested parties, policies and written procedures for remediation of children found to be working in situations which fit the definition of child labour above, and shall provide adequate financial and other support to enable such children to attend and remain in school until no longer a child as defined above.

The company shall not expose children or young workers to any situations – in or outside of the workplace – that are hazardous or unsafe to their physical and mental health and development.

2.2. Forced and compulsory labor

The company shall not engage in or support the use of forced or compulsory labour, nor shall personnel be required to pay 'deposits' or lodge identification papers with the company upon commencing employment. Neither the company nor any entity supplying labour to the company

¹¹⁹⁶ **European Commission**, Enterprise and Industry Directorate-General: Corporate Social Responsibility in SMEs, 2007, 3

shall withhold any part of any personnel's salary, benefits, property, or documents in order to force such personnel to continue working for the company.

Personnel shall have the right to leave the workplace premises after completing the standard workday, and be free to terminate their employment provided that they give reasonable notice to their employer.

Neither the company nor any entity supplying labour to the company shall engage in or support trafficking in human beings.

2.3. Health and Safety

The company shall provide a safe and healthy workplace environment and shall take effective steps to prevent potential accidents and injury to workers' health arising out of, associated with, or occurring in the course of work, by minimising, so far as is reasonably practicable, the causes of hazards inherent in the workplace environment, and bearing in mind the prevailing knowledge of the industry and of any specific hazards.

2.4. Freedom of association and right to collective bargaining

All personnel shall have the right to form, join, and organise trade unions of their choice and to bargain collectively on their behalf with the company. The company shall respect this right, and shall effectively inform personnel that they are free to join an organisation of their choosing and that their doing so will not result in any negative consequences to them, or retaliation, from the company. The company shall not in any way interfere with the establishment, functioning, or administration of such workers' organisations or collective bargaining.

2.5. Discrimination

The company shall not engage in or support discrimination in hiring, remuneration, access to training, promotion, termination, or retirement based on race, national or social origin, caste, birth, religion, disability, gender, sexual orientation, family responsibilities, marital status, union membership, political opinions, age, or any other condition that could give rise to discrimination.

2.6. Disciplinary Practices

The company shall treat all personnel with dignity and respect. The company shall not engage in or tolerate the use of corporal punishment, mental or physical coercion, or verbal abuse of personnel. No harsh or inhumane treatment is allowed.

2.7. Working hours

The company shall comply with applicable laws and industry standards on working hours and public holidays. The normal work week, not including overtime, shall be defined by law but shall not exceed 48 hours.

Personnel shall be provided with at least one day off following every six consecutive days of working. Exceptions to this rule apply only where both of the following conditions exist:

- National law allows work time exceeding this limit; and
- A freely negotiated collective bargaining agreement is in force that allows work time averaging, including adequate rest periods.

In cases where overtime work is needed in order to meet short-term business demand and the company is party to a collective bargaining agreement freely negotiated with worker organisations (as defined above) representing a significant portion of its workforce, the company may require such overtime work in accordance with such agreements. Any such agreement must comply with the requirements above.

2.8. Remuneration

The company shall respect the right of personnel to a living wage and ensure that wages paid for a normal work week shall always meet at least legal or industry minimum standards and shall be sufficient to meet the basic needs of personnel and to provide some discretionary income.

2.9. Management systems

Policy. Top management shall define in writing, in workers' own language, the company's policy for social accountability and labour conditions, and display this policy and the SA8000 standard in a prominent, easily viewable place on the company's premises, to inform personnel that it has

voluntarily chosen to comply with the requirements of the SA8000 standard. Such policy shall clearly include the following commitments:

- To conform to all requirements of this standard;
- To comply with national and other applicable laws and other requirements to which the company subscribes, and to respect the international instruments and their interpretation;
- To review its policy regularly in order to continually improve, taking into consideration changes in legislation, in its own code-of-conduct requirements, and any other company requirements;
- To see that its policy is effectively documented, implemented, maintained, communicated, and made accessible in a comprehensible form to all personnel, including directors, executives, management, supervisors, and staff, whether directly employed by, contracted with, or otherwise representing the company;
- To make its policy publicly available in an effective form and manner to interested parties, upon request.

Management Representative. The company shall appoint a senior management representative who, irrespective of other responsibilities, shall ensure that the requirements of this standard are met.

SA8000 Worker Representative. The company shall recognize that workplace dialogue is a key component of social accountability and ensure that all workers have the right to representation to facilitate communication with senior management in matters relating to SA8000. In unionised facilities, such representation shall be undertaken by recognized trade union(s). Elsewhere, workers may elect a SA8000 worker representative from among themselves for this purpose. In no circumstances, shall the SA8000 worker representative be seen as a substitute for trade union representation.

Management Review. Top management shall periodically review the adequacy, suitability, and continuing effectiveness of the company's policy, procedures, and performance results vis-à-vis the requirements of this standard and other requirements to which the company subscribes. Where appropriate, system amendments and improvements shall be implemented. The worker representative shall participate in this review.

Planning and Implementation. The company shall ensure that the requirements of this standard are understood and implemented at all levels of the organisation.

Control of Suppliers/Subcontractors and Sub-Suppliers. The company shall maintain appropriate records of suppliers/subcontractors' (and, where appropriate, sub-suppliers') commitments to social accountability.

Addressing Concerns and Taking Corrective Action. The company shall provide a confidential means for all personnel to report non-conformances with this standard to the company management, and the worker representative. The company shall investigate, address, and respond to the concerns of personnel and other interested parties with regard to conformance/non-conformance with the company's policies and/or the requirements of this standard. The company shall refrain from disciplining, dismissing, or otherwise discriminating against any personnel for providing information concerning observance of the standard.

Outside Communication and Stakeholder Engagement. The company shall establish and maintain procedures to communicate regularly to all interested parties data and other information regarding compliance with the requirements of this document, including, but not limited to, the results of management reviews and monitoring activities.

The company shall demonstrate its willingness to participate in dialogues with all interested stakeholders, including, but not limited to: workers, trade unions, suppliers, subcontractors, sub-suppliers, buyers, nongovernmental organizations, and local and national government officials, aimed at attaining sustainable compliance with this standard.

Access for Verification. In the case of announced and unannounced audits of the company for the purpose of certifying its compliance with the requirements of this standard, the company shall ensure access to its premises and to reasonable information required by the auditor.

Records. The company shall maintain appropriate records to demonstrate conformance to the requirements of this standard.

SA8000 is based on the principles of international human rights norms as described in International Labour Organisation conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. It measures the performance of companies in eight key areas: child labour, forced labour, health and safety, free association and collective bargaining, discrimination, disciplinary practices, working hours and compensation. SA8000 also provides for a social accountability management system to demonstrate ongoing conformance with the standard.

Conclusions

Economic globalization is a challenge for organizations worldwide. In this context, an important topic of Social Responsibility gets increasingly higher in present world, being not seldom a tie breaker criteria in auctions in which economic agents with similar activity profile are involved. Accounting, as informational means, must offer information to different users of accurate information. Amongst these users, we can think of the society, in general terms, which is directly interested in knowing the social repercussions of the organization's activities.

According to research carried out, the real problem lies in accounting interpretation of environmental and social concepts, and theoretical position is adopted to talk about them, since, for accounting purposes, it is important the externalization and internalization of social responsibility concept. The social responsibility accounting information are meant not only to meet the society's requirements but also to make their contribution to creation of value inside the organization showing the extent to which the company is socially responsible and contributing to creation of intangible assets. SA 8000 is a voluntary standard for organizations interested in auditing and certification of working practices applied to the premises, and in collaboration with suppliers or partners who demonstrate social responsibility.

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CONSOLIDATION POLICY: PAST, PRESENT AND FUTURE APPROACHES TO THE CONCEPT OF CONTROL

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Preparing consolidated financial statements has been a common practice for groups of companies around the world for a relatively long time, going back one century in the USA and tens of years in different European countries. A far-reaching issue regarding consolidation accounting policy is the concept of control, as it holds a crucial role in determining the basis of consolidation and the applicable method of consolidation and subsequently in influencing the content of the group financial statements. We focus in our article on the concept of exclusive control as it is approached by the relevant International, American and European standards, casting light also on possible future developments of this concept. The objective of our study is to acknowledge the differences and similarities between the approaches to the control concept, closing with the presentation of the influences of these approaches on the basis of consolidation.

Keywords: Group, Consolidation, Control, IFRS

JEL: M410

1. INTRODUCTION

Preparing consolidated financial statements has been a common practice for groups of companies around the world for a relatively long time, going back one century in the USA and tens of years in different European countries. Within the EU, groups of companies have to publish consolidated statements in accordance with the 7th European Directive. Moreover pursuant to EU Regulation 1606/2002, listed groups have to publish (in addition) a set of consolidated statements prepared in accordance with IFRS (Tiron-Tudor & Müller, 2007: p. 66). A far-reaching issue regarding consolidation accounting policy is the concept of control, as it holds a crucial role in determining the basis of consolidation and the applicable method of consolidation and subsequently in influencing the content of the group financial statements. In other words, the objective of identifying the situation in which a company has to include in its consolidated financial statements the assets, liabilities and income pertaining to another company gravitates to a major extent towards the concept of control. The accounting literature and practice encounters a large diversity of opinion regarding the issue of control of another company (Henry, 1999: p. 39). The objective of our study is to acknowledge the differences and similarities between the approaches to the control concept, closing with the presentation of the influences of these approaches on the basis of consolidation. We focus in our article on the concept of exclusive control as it is approached by the relevant International, American and European standards, casting light also on possible future developments of this concept. Thus we planed for our research to study the appropriate technical literature, the relevant legislation in the field of consolidations as well as the IASB's discussions chronology of its Project "Consolidations" and FASB's ED for the proposed Standard on Consolidated Financial Statements.

2. THEORETICAL SETTING OF THE CONCEPT OF CONTROL

Presently there is no standard definition of control. However there are common coordinates of the existing definitions, which focus basically on the ability to direct the financial and operating policy of a company and on the possibility to obtain benefits which originate from the respective company. A definition with a large international acceptance, which includes the two mentioned elements presents control as being the power to govern (direct) the financial and operational policy of an entity in such a manner as to receive benefits from its activities (Feleagă & Feleagă, 2007: p.24) This definition is based on the following two cumulative criteria for the existence of control: A) the power criterion and B) the benefits criterion.

A. The power to direct the financial and operating policies of an entity has the meaning of strategic power (IASB, 2006a: p. 5). The operating policies consist in the those policies which direct activities such as sales, acquisitions, marketing, production and human resources and the financial policies refer to those policies which direct the accounting policies: budget approval, credit policy, dividend policy, bond policy, cash management etc. (Ashwal, 2005: p. 7). The owner of this strategic power has the possibility to determine the way one entity's assets are used (either directly within its activities or indirectly by selling them), and has also the possibility to determine that entity to contract supplementary loans, to raise or pay its debts (IASB, 2006a: p. 5). An important issue in this context is whether this strategic power must necessarily have an exclusive character or not. We believe that this power cannot be shared or divided, in other words in our opinion only one entity can control another entity. Where directing the financial and operational policies of an entity can take place only together (in common) with other entities involved, control is not present.

B. Deriving benefits from the activities of a controlled entity are mainly (and in most cases) linked to the ownership of capital instruments issued by that entity. The holder of such instruments can benefit a) directly through any returns on the shares in the form of dividends and through changes in the value of the shares (especially if they are listed) that are a result of those shares absorbing the variability of the entity's assets and liabilities or b) indirectly from any proceeds from selling that capital instruments. The range of possible benefits can be extended, as these derive from being able to utilize or deal with the assets and liabilities of the controlled entity.

According to the definition of control presented above, the control concept has an exclusive character (Matiș, 2003: p. 313). This exclusive control can have two forms: legal control and effective control (Malciu & Feleagă, 2002: p.22).

3. ASSESSING THE EXISTENCE OF CONTROL AS THE BASIS OF CONSOLIDATION

3.1 The US GAAP Approach to Control as the Basis of Consolidation

The FASB consolidation policy project has for many years focused on developing new standards to determine which entities should be included in consolidated financial statements (Ashwal, 2005: p. 2). This project is aimed at reconsidering the consolidation principles included in Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51), which was issued in 1959. ARB 51 describes the purpose of group financial statements and the general rule of consolidation policy. According to ARB 51 consolidated financial statements are required when one of the companies in the group directly or indirectly has a controlling financial interest in the other entities. Within this context control is considered as having ownership of a majority voting interest (i.e., over 50% of the outstanding voting shares of another company). Accordingly, only the existence of legal control is considered as the basis of consolidation. SFAS 94 amended ARB 51 to eliminate all of the exceptions to consolidation, except when control is likely to be temporary or if it does not rest with the majority owner (e.g. if the subsidiary is in legal reorganization or in bankruptcy. However, SFAS 144 eliminated this exception.) Actually

neither ARB 51 nor SFAS 94 define control. The notion of control has always been in the American accounting literature but it was never defined (Henry, 1999: p. 39).

The declared purpose of group financial statements and the general rule of consolidation displayed in ARB 51 focus on companies that issue voting shares, which generally are business enterprises organized as for-profit corporations. Under these requirements consolidation is based on control, where control is generally measured as owning (directly or indirectly) more than 50% of an entity's outstanding voting shares of equity. However, during the years since ARB 51 has been issued, both business enterprises and not-for-profit organizations have continued to conduct a growing and diverse range of activities through increasingly complex organizational structures (Ashwal, 2005: p. 2). Therefore, FASB issued in 1995 an *Exposure Draft on Consolidated Financial Statements: Policy and Procedures*, where it arrived at a definition of control and outlined procedures for CPAs to use in preparing consolidated financial statements. Opposition to the ED was strong enough to cause FASB to vote it down (Henry, 1999: p. 41).

During 1999, the FASB issued a revised ED on consolidation policy, *Consolidated Financial Statements: Purpose and Policy*. The concept of control is defined as the ability to direct the policies and management that guide the ongoing activities of another entity so as to increase the benefits and limit the losses from those activities.

The FASB determined in 1999 that there was not sufficient Board member support to proceed with a final statement on the consolidation policy ED, although it believed that improved guidance in this area is desirable (Ashwal, 2005: p. 7). Six years later, the FASB issued an exposure draft, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*, which should replace ARB 51. The ED carries forward the 50% plus one – bright line rule of ARB 51. This indicates clearly that the US GAAP is continuing the rule based approach to the concept of control.

3.2 The IASB Approach to Control as the Basis of Consolidation

International accounting consolidation rules (including the application of the concept of control) are included in IAS 27 (issued in 1989 and last revised in 2007), *Consolidated and Separate Financial Statements* (IAS 27) and SIC 12, *Consolidation - Special Purpose Entities*, an interpretation relating to IAS 27, which provides further indicators of control over SPEs.

Among other things, IAS 27 prescribes the requirements for preparing and presenting consolidated financial statements for entities under the control of a parent. Under IAS 27 consolidated financial statements should include all subsidiaries, which are defined as entities controlled by another company (parent). IAS 27 defines control as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This definition involves the two cumulative criteria (power and benefits) presented in the beginning of this paper. It encompasses both the notion of governance (power) and the economic consequence of that governance (i.e., benefits and risks). Governance is related to the power to make decisions through the selection of financial and operating policies, which does not require active participation or ownership of equity instruments. Benefits may be related to present or future cash inflows either directed to the controlling entity or remaining in control of the controlling entity or may involve non-monetary increases in value to the controlling company. Risks may relate to present or future cash or non-monetary outflows either paid by the controlling entity or through assets controlled by the enterprise (Ashwal, 2005: p. 7).

Control is presumed to exist when an investor owns (directly or indirectly) more than 50% of voting interest in an entity. However, in particular cases it may be possible to demonstrate that such ownership does not mean control, especially when a significant minority interest exists or when another party has the ability to dominate the board of directors of the entity. The substance of the arrangement has to prevail, as it may provide evidence to rebut the presumption. In addition, control can exist even when an entity owns less than 50% of an entity's voting power when one or more of the conditions enumerated in IAS 27.13 exist.

It is obvious that the scope of control is broader than in the US GAAP world: IAS 27 covers both legal and effective control (including the statute control), whereas ARB 51 considered only legal control (based on the 50% threshold). In addition to the indicators in IAS 27.13 for the assessment of control, the potential voting rights identified in IAS 27.14 should also be considered in evaluating whether or not control exists.

3.3 The EU Approach to Control as the Basis of Consolidation

The EU accounting consolidation policy is laid down in the Seventh Council Directive, issued in 1983. This Regulation has been the main harmonization instrument in the field of consolidation policy on EU level. The Directive does not define the concept of control but displays (within Article 1) the following situations when a (subsidiary) undertaking (entity) has to be included in the consolidated financial statements of its parent:

- has a majority of the shareholders' or members' voting rights in another entity; or
- has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another entity and is at the same time a shareholder in or member of that entity; or
- has the right to exercise a dominant influence over an entity of which it is a shareholder or member, pursuant to a contract entered into with that entity or to a provision in its memorandum or articles of association; or
- is a shareholder in or member of an entity, and a majority of the members of the administrative, management or supervisory bodies of that entity have been appointed solely as a result of the exercise of its voting rights (this is not applicable if another entity has the rights referred to in the first three subparagraphs above with regard to that entity); or
- is a shareholder in or member of an entity and controls alone, pursuant to an agreement with other shareholders in or members of that entity, a majority of shareholders' or members' voting rights in that entity.

Furthermore, apart from these situations the Directive allows Member States to require an entity to be included in the consolidated financial statements if its parent: has the power to exercise, or actually exercises, dominant influence or control over that entity; or together with that entity are managed on a unified basis by the parent undertaking.

These situations are in fact indicators of the existence of control. The scope of control within the European Directive is very similar to that presented in IAS 27. It is clearly that the situations presented above encompass both legal and effective control. The contractual or statute control (as a form of the effective control) is also taken into consideration.

4. THE CONTROL BASED MODEL OF IASB'S AGENDA PROJECT "CONSOLIDATIONS"

In June 2003, the IASB added a project on Consolidation to its agenda, whose goal is to publish a single IFRS on consolidation to replace IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities such that the control criteria within a single IFRS should be developed for all entities (IASB, 2006a: p.1). This project forms part of the Memorandum of Understanding between the IASB and the FASB which sets out a Roadmap of Convergence between IFRSs and US GAAP 2006-2008. Most standard setters (including the IASB) have identified control as the appropriate basis for consolidation; however, there appear to be differences in the way control is interpreted in deciding whether consolidation is required. As a result, there may be differences in how a reporting entity is defined (Deloitte, 2007). Within this context, the IASB "Consolidations" project will provide more rigorous guidance around the concept of "control", which is the basis for consolidation under IAS 27.

4.1 Updating the Definition of Control

The Board has tentatively agreed to define control as the ability to direct the strategic financing and operating policies of an entity so as to access benefits flowing from the entity and increase, maintain or protect the amount of those benefits (IASB, 2006a: p.4). This definition contains three tests:

- 1) the ability to direct the strategic financing and operating policies of the entity (the ‘Power Criterion’);
- 2) the ability to access the benefits flowing from the entity (the ‘Benefits Criterion’); and
- 3) the ability to use its power so as to increase, maintain or protect the amount of those benefits (the ‘Link Criterion’).

The first two tests correspond to the cumulative conditions presented in the definition of control at the beginning of this paper. The third test is the new element. This condition should be usually met (if the first two conditions are complied with). However, situations might occur when a company (A) has the abilities to direct the strategic financing and operating policies of another entity (B) and to access the benefits flowing from that entity (thus fulfilling the Power and Benefits Criteria) but pursuant to a contract entered into with that entity or to a provision in its memorandum or articles of association is not able to increase, maintain or protect the amount of the benefits flowing from that entity. In our opinion such situations should be rather exceptional.

4.2 Shifting the Focus of Control to the Assets and Liability

The staff basically agreed with the definition the Board has tentatively approved upon, but wished to amend it in order to focus on the assets and liabilities of the entity rather than the entity per se. Thus the considered type of wording is An entity has a controlling interest in another entity when it has exclusive rights over that entity's assets and liabilities which give it access to the benefits of those assets and liabilities and the ability to increase, maintain or protect the amount of those benefits.

We consider this change as being suitable and agree with the IASB staff who argues that the use of the assets and liabilities of an entity are, ultimately, what power over the strategic financing and operating policies is intended to capture. According to the staff, this characterization of control also provides a stronger link with benefits. It also avoids implying that control over assets and liabilities can only be achieved by directing the strategic financing and operating policies of an entity—control might be achieved other than through strategic power (IASB, 2006a: p. 5).

4.3 Assessing the Existence of Control by Considering Indicators

In many situations establishing whether an entity controls another entity is easy, because the rights are clear. This is especially the case when an entity owns (directly or indirectly) more than 50% of voting interest in another entity. This fact is consistent with the property rights literature which notes that, apparently, as the power over assets increases the evidence of that power should also become more apparent, because the rights should become better defined (IASB, 2006b: p. 8). In these situations the identification of control is based on the existence of *presumptive indicators*.

Possibly the most obvious presumptive indicator is the right to cast a majority of the votes of an entity, giving the holder the right to appoint that other entity's board of directors. However even if a company holds less than a majority voting rights in another entity, other presumptive indicators of control may be applicable such as (IASB, 2006a: p.11):

- it has the dominant voting power at meetings of the entity's governing body, when the balance of voting interests is widely dispersed and disorganized;
- it has exclusive rights to exercise more than half of the entity's voting rights by virtue of an agreement with other investors;
- it has exclusive rights under a statute or an agreement to determine the entity's strategic operating and financing policies.

- it has exclusive rights to appoint or remove the majority of the members of the entity's board of directors or equivalent governing body and control of the entity is by that board or body.

In the absence of presumptive indicators assessing control might require more judgment. The IASB staff believes that in such circumstances control should be assessed by considering the indicators that evidence the nature of the relationship between the investor and the investee. They might indicate that the dominant investor (but holder of less than the majority of voting rights) is participating in the activities of that other entity. Such indicators (considered collectively) could be structured into the following three categories (IASB 2006b: p. 11):

- The ability to dominate the governing body, and therefore the strategic policy decision process;
- The ability to participate in the management of an entity;
- The ability to access the residual assets of an entity.

5. CONCLUSIONS

From an International (IFRS) and European perspective (7th Directive), the concept of control is much broader than under US GAAP. The US GAAP approach towards control is rule-based (50% bright line rule) and many analysts argue that this approach opens the door for creative accounting as it can be used to shape the basis of consolidation. For example, if companies need to get debt off their consolidated balance sheet, they get their equity ownership in a subsidiary under 50%. If the subsidiary prospers, they turn around and get that entity on the other side of the bright line (Henry, 1999: p. 40). The Enron debacle demonstrates best the need for a principle based approach of the concept of control: it did not consolidate hundreds of off-balance-sheet entities and failed for this reason to recognize the associated liabilities (Kivi, Smith & Wagner, 2004). However the convergence with IFRS will probably determine FASB to issue in the relatively near future a standard which will embrace the principle based approach to the concept of control, thus abandoning the 50% bright line rule and relying more on the accountant's judgment. The European perspective of the concept of control is somehow similar to the IFRS perspective. However the translation into Member States legislation of the options allowed by the 7th Directive regarding effective control (Article 1.2) can influence the basis of consolidation of groups pertaining to different EU Members, especially when the conditions explicitly stated in the Directive (Article 1b,c,d) are not present.

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FÜNF JAHREN MIT IFRS

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Companies are no longer making the balance according to the code of commercial law rules, but instead particularly according to the rules of the International Accounting Standards Board (IASB). For the fifth time the capital market orientated companies prepare their annual financial statement according to the international accounting regulations IFRS. There was never such a far-reaching standardization of the accounting over country limits. But for many practitioners is this system confusing. During crisis it has seemed even crisis emphasizing.

Stichwörter: International Financial Reporting Standards (IFRS), Internationalisierung, International Accounting Standards Board (IASB), Securities and Exchange Commission (SEC)

JEL Kode der Arbeit: M40

1. Internationalisierung der Rechnungslegung

Warum gibt es international unterschiedliche Rechnungslegungssysteme, die prinzipiell doch alle demselben Metazweck folgen? Die Rechnungslegungsregeln und -praktiken eines Landes lassen sich letztlich nur nachvollziehen, wenn Entstehungsgeschichte, Rahmenbedingungen sowie Einflussfaktoren der Rechnungslegung bekannt sind. So ist die Rechnungslegung insbesondere vom sozioökonomischen Umfeld abhängig, wozu z.B. die Geschichte, die Kultur, das Rechts- und Steuersystem und die Kapitalmarktverhältnisse eines Landes gehören.

Die Rechnungslegung ist in den kontinentaleuropäischen Ländern ein Risikokoordinationsinstrument für sämtliche Unternehmensbeteiligte und damit fester Bestandteil der gesetzlich kodifizierten Unternehmensverfassung. Folglich sind die Interessen möglichst vieler Vertragspartner des Unternehmens mit der Rechnungslegung abzudecken. Das Rechnungslegungssystem dient hier einerseits als Informations- und Kontrollinstrument für sämtliche Unternehmensbeteiligte. Andererseits werden aus ihm auch unmittelbare Rechtsfolgen abgeleitet. Entsprechend sind detaillierte Regulierungen zur Rechnungslegung zu finden. Um die Vermögensinteressen aller Unternehmensbeteiligten und hier insbesondere der Fremdkapitalgeber angemessen zu berücksichtigen, sind die Rechnungslegungsregeln tendenziell vom Vorsichtsprinzip geprägt.

Im angelsächsischen Rechtssystem des Common Law finden sich nur wenig detaillierte Rechnungslegungsvorschriften in den Gesetzen. Die Rechnungslegung ist hier ein möglicher Bestandteil der Vertragsgestaltung und insofern speziell auf die Bedürfnisse einzelner Vertragspartner zugeschnitten. Somit bleibt es den Vertragspartnern eines Unternehmens überlassen, wie der Abbau der asymmetrischen Informationsverteilung zwischen Rechnungslegern und Rechnungslegungsadressaten konkret zu erfolgen hat. Nur für bestimmte Unternehmen, insbesondere wenn sie einen organisierten Kapitalmarkt in Anspruch nehmen, existieren detaillierte Rechnungslegungsvorschriften, um die Funktionsfähigkeit dieser Märkte zu schützen. Meist werden diese Regeln von privaten Rechnungslegungsgremien, wie z.B. dem US-amerikanischen Financial Accounting Standards Board (FASB), entwickelt, Gesetze, z.B. im Bereich des Kapitalmarktrechts, geben hierfür nur einen weiten Rahmen vor.

Es ist deutlich, dass die Rechnungslegung in Funktion und Inhalt von rechtlichen Rahmenbedingungen abhängt. Wenn die Rechnungslegung, wie im kontinentaleuropäischen Rechtssystem üblich, in ein enges Geflecht von Standardverträgen auch im Sinne von Gesetzen eingebunden ist, werden die Funktionen der Rechnungslegung auf die mit diesen Verträgen verfolgten Zwecke hin ausgerichtet. Wenn hingegen wenige Verträge existieren, wird die Rechnungslegung lediglich zur Verringerung der Informationsasymmetrie betrieben, da eine weitere Spezifizierung ohne entsprechende Standardverträge nicht möglich und sinnvoll ist.

Die internationale Ausrichtung der Geschäftstätigkeit zieht meist auch einen erhöhten externen Finanzierungsbedarf nach sich. Um das erforderliche Finanzvolumen zu möglichst günstigen Konditionen beschaffen zu können, sind sämtliche potentiellen Finanzierungsquellen anzusprechen. Die Inanspruchnahme attraktiver ausländischer Kapitalmärkte. z.B. durch Kreditaufnahme bzw. Emission von Anleihen und Aktien, setzt voraus, dass die ausländischen Kapitalgeber über die Rendite-Risiko-Position ihres finanziellen Engagements im Unternehmen informiert werden. Als unternehmensbezogene Informationen bieten sich hierfür vor allem die Rechnungslegungsdaten an.

In vielen Ländern verlangen institutionelle Fremdkapitalanbieter von den kreditnehmenden Gesellschaften, dass sich diese im Rahmen der Kreditverträge z.B. zur Einhaltung bestimmter Jahresabschlussrelationen verpflichten. Damit muss ein ausländisches Tochterunternehmen, das in seinem Heimatland einen Kredit aufnehmen will, eine auf dem jeweiligen nationalen Rechnungslegungssystem aufbauende mittel- und langfristige Jahresabschlussplanung vornehmen. Um diese Plandaten mit der Konzernzentrale abstimmen zu können, müssen auch hier die Abbildungsregeln für die Rechnungslegung bekannt sein.

Neben der Vermittlung entscheidender Informationen sollen die Adressaten durch eine IFRS-Abschluss in die Lage versetzt werden, die in der Berichtsperiode vom Management des Unternehmens geleistete Arbeit beurteilen zu können. Die Informationsbedürfnisse der verschiedenen Jahresabschlussadressaten sind:

- *Investoren*: detaillierte Informationen über die künftige Entwicklung;
- *Kreditgeber*: Informationen über die Wahrscheinlichkeit von jetzigen und zukünftigen Liquiditätsproblemen;
- *Arbeitnehmer*: Informationen über die Stabilität und Ertragskraft;
- *Lieferanten und andere Gläubiger*: Informationen über die wirtschaftliche Lage;
- *Kunden*: Informationen über die wirtschaftliche Lage und die Fortführung;
- *Regierungen und sonstige Institutionen*: Informationen über ihre wirtschaftliche Lage;
- *Öffentlichkeit*: potentielle Adressaten von Abschlüssen.

Es ist festzuhalten, dass durch die zunehmende Internationalisierung der Unternehmenstätigkeit die kritische Auseinandersetzung mit ausländischen Rechnungslegungssystemen und den dahinter stehenden sozioökonomischen Rahmenbedingungen für absatz-, beschaffungs- und insbesondere für finanzierungspolitische Fragestellungen in den letzten Jahren stark an Bedeutung gewonnen hat. Für die Unternehmen und ihre Vertragspartner zeigt sich in dieser Entwicklung auch der Vorteil harmonisierter Rechnungslegungsregeln. Zumindest in der Tendenz dürfte gelten, dass diese Harmonisierung Transaktionskosten reduziert, die sich auf Seiten der Unternehmen auch in konkreten betriebswirtschaftlichen Kosten niederschlagen.

2. Institutioneller Rahmen der IFRS

Die Historie des International Accounting Standards Committee (IASC) und seiner Nachfolgeorganisation, des International Accounting Standards Board (IASB), lässt sich in vier Zeitabschnitte einteilen, in denen unterschiedliche Arbeitsschwerpunkte verfolgt wurden:

- *1973 bis 1988* - Entwicklung von Standards mit zahlreichen Wahlrechten
- *1989 bis 1993* - Ausarbeitung des Rahmenkonzepts und Reduzierung von Wahlrechten
- *1994 bis 2000* - Erfüllung der Anforderungen der International Organization of Securities Commissions (IOSCO) (sog. „Core Standards“)

- *seit 2001* - Gründung des IASB, Reduzierung der verbliebenen Wahlrechte, Konvergenz der internationalen Rechnungslegungssysteme

Das Erreichen einer Konvergenz der weltweit unterschiedlichen Rechnungslegungssysteme bildet einen Schwerpunkt in der Arbeit des IASB. Während die Vorgängerorganisation IASC eher den Kompromiss zwischen den unterschiedlichen nationalen Rechnungslegungskulturen suchte, was sich in den zahlreichen Wahlrechten der IAS niederschlug, verfolgt das IASB die Entwicklung einer wahlrechtsfreien und einheitlichen Rechnungslegung.

Da die Entwicklung neuer IFRS eine lange Vorlaufzeit benötigt, wurden im Rahmen dieses Projekts jene bereits existierenden Standards überarbeitet, bei denen eine Verbesserung kurzfristig international durchsetzbar erschien. Insbesondere die Zahl der noch bestehenden Wahlrechte sollte verringert werden, um eine Verbesserung der Vergleichbarkeit von Abschlüssen zu erreichen und am den Informationsgehalt von Abschlüssen zu erhöhen. Mit der Veröffentlichung von 13 überarbeiteten Standards und der Streichung von IAS 15 wurde das Improvements Project am 18.12.2003 durch das IASB abgeschlossen. Da diese Standards nicht grundlegend überarbeitet, sondern lediglich in zahlreichen Details geändert wurden, werden sie weiterhin als International Accounting Standards (IAS) bezeichnet.

Um eine weltweite Konvergenz der Rechnungslegungsnormen zu erreichen, arbeitet das IASB mit den nationalen Standardsettern eng zusammen, um eine international einheitliche Anwendung der IFRS zu erreichen. Dabei sollen auch bewährte Regelungen einzelner Ländern in die überarbeiteten Standards einfließen. Bevor die IFRS aber zum weltweit akzeptierten Rechnungslegungssystem werden können, benötigen sie insbesondere noch die offizielle Anerkennung der US-amerikanischen Börsenaufsichtsbehörde, der Securities and Exchange Commission (SEC).

IASB und FASB vereinbarten im September 2002 im Rahmen des sog. „Norwalk Agreement“ eine enge Zusammenarbeit mit der Zielsetzung, noch bestehende Unterschiede zwischen IFRS und US-GAAP bis zum Jahr 2005 weitgehend abzuschaffen. Unterschiede, die über diesen Zeitpunkt hinaus bestehen, sollen durch eine Koordination der zukünftigen Arbeitsprogramme der beiden Standardsetter beseitigt werden. Ziel ist dabei nicht die Eliminierung jeglicher Unterschiede zwischen den beiden Rechnungslegungssystemen, sondern die Anerkennung einer gleichrangigen Qualität der Bilanzierung. Die SEC hat im übrigen im November 2007 bestätigt, dass IFRS-Abschlüsse ausländischer Unternehmen, die an einer US-Börse gelistet sind, ab 2009 anerkannt werden.

Die vollständige Anerkennung der IFRS für US-amerikanische Unternehmen wird in den USA allerdings noch kontrovers diskutiert und hängt von vielen politischen Unwägbarkeiten ab. Auch bei einer erfolgreichen vollständigen Anerkennung der IFRS in den USA werden die US-GAAP weiterhin als Prototyp einer informations- und kapitalmarktorientierten Rechnungslegung eine Vorbildfunktion für die IFRS besitzen. In einer historischen Perspektive vermag diese Vorbildfunktion die Grundausrichtung, aber auch die Details der IFRS-Rechnungslegung zu erklären. Sie trägt darüber hinaus auch zum institutionellen Verständnis kapitalmarktorientierter Rechnungslegung bei.

Um die selbstgestellte Aufgabe des IASB, weltweit akzeptierte Rechnungslegungsstandards zu entwickeln, zu erfüllen, bedarf es eines mehrstufigen, mit Stellungnahmemöglichkeiten versehenen formellen Verfahrens. Zur Sicherstellung von Qualität und globaler Akzeptanz sollen die IFRS nicht nur das Ergebnis intensiver Entwicklungsbemühungen innerhalb des IASB darstellen, sondern auch die Standpunkte externer Rechnungslegungsexperten wie multinationaler Unternehmen und nationaler Rechnungslegungsgremien berücksichtigen. Der Ablauf des formellen Verfahrens verdeutlicht daher das Bestreben des IASB, möglichst alle an der Rechnungslegung interessierten Gruppen in den Entstehungsprozess der IFRS einzubinden.

Das IASB trägt die volle Verantwortung für die Entwicklung der IFRS. Es kann die jeweilige Vorgehensweise nach Effektivitäts- und Kostengesichtspunkten wählen und bestimmte Vorarbeiten an Advisory Committees oder auch an sonstige, externe Expertengruppen oder

nationale Rechnungslegungsgremien delegieren. Zudem sind öffentliche Anhörungen möglich oder auch die Durchführungen von Feldstudien, um die Zweckmäßigkeit eines Standards sicherzustellen.

Ein Kernproblem des IASC bzw. IASB war immer die fehlende rechtliche Verbindlichkeit der Standards. Einzelne Länder sahen (und einige tun dies nach wie vor) die IFRS lange Zeit nicht als gleichwertig mit ihren eigenen Bilanzierungsregeln an und verweigerten daher Abschlüssen nach IFRS die rechtliche Anerkennung.

Problematisch erscheint, dass das IASB keine staatliche Organisation in und die EU damit faktisch den Prozess der Entwicklung der Standards an eine private Organisation ausgelagert hat. Um weiterhin die legislative Kompetenz zu bewahren, behalten sich die EU-Instanzen daher das Recht vor, die IFRS vor der Umsetzung in europäisches Recht zu kontrollieren und erst bei Übereinstimmung mit den EG-Richtlinien und den europäischen Interessen zu verabschieden. Hierzu sieht die EU-Kommission ein Anerkennungsverfahren vor, das neu herausgegebene und überarbeitete IFRS zu durchlaufen haben, bevor sie auf EU-Ebene verbindlich werden.

3. Zusammenfassung und kritische Würdigung

Alle kapitalmarktorientierten Unternehmen in der Europäischen Union müssen den Konzernabschluss ab dem Jahr 2005 nach den International Financial Reporting Standards (IFRS) aufstellen. Nach nunmehr fünf Jahren IFRS-Anwendungspflicht haben sich die meisten Unternehmen - wenn auch nicht reibungslos - an das neue Bilanzierungssystem gewöhnt. Das International Accounting Standards Board (IASB) möchte mit den IFRS hochwertige globale Rechnungslegungsstandards erstellen, die den Bilanzadressaten transparente und vergleichbare Jahresabschlussdaten liefern. Insofern bilden die IFRS ein Rechnungslegungssystem, dessen vorrangiges Ziel die Bereitstellung entscheidungsnützlicher Informationen insbesondere für Eigen- und Fremdkapitalgeber ist. Die IFRS bilden damit eine wesentliche Säule der Corporate Governance und sollen zur Informationseffizienz der Kapitalmärkte beitragen.

Andere Staaten sind dem EU-Beispiel gefolgt, und so werden die IFRS inzwischen in mehr als 130 Ländern als Regelungsgrundlage für die Erstellung von Einzel- und Konzernabschlüssen verwendet. Hierunter fallen unter anderem Australien, China, Kanada und die Russische Föderation. Bedeutende Wirtschaftsnationen wie Indien und Japan wollen in den nächsten Jahren folgen. Damit hat sich das IASB mit den IFRS in den letzten fünf Jahren kontinuierlich zum global anerkannten Standardsetzer für die Rechnungslegung kapitalmarktorientierter Unternehmen entwickelt. Die internationale Durchsetzung wäre vollendet, wenn auch amerikanische Unternehmen die IFRS verwenden dürften, was von der Börsenaufsichtsbehörde SEC jüngst aus politischen Gründen jedoch auf frühestens 2015 verschoben wurde.

Trotz der vielfältigen Vorteile, die eine international einheitliche Bilanzierungssprache für die Kapitalmärkte mit sich bringt, mehren sich auf Seiten der Unternehmen, Rechnungslegungsadressaten und auf politischer Ebene kritische Stimmen. Erstere bemängeln insbesondere den erheblichen Erstellungsaufwand von Konzernabschlüssen als Folge der zunehmenden Komplexität der Abbildungsnormen und der häufigen Änderung von Bilanzierungsregeln. Für Rechnungslegungsadressaten, insbesondere für Privataktionäre, sind die IFRS-Konzernabschlüsse kaum noch verständlich. Vielen politischen Institutionen ist das IASB nicht geschmeidig genug, um schnell und möglichst widerstandslos ihrem Willen zu folgen. Hinzu kommt noch die „Glaubensfrage“ nach dem notwendigen Umfang der zum Fair Value zu bilanzierenden Vermögenswerte und Schulden.

Bei all dieser Kritik ist hervorzuheben, dass das IASB als privatrechtliche Organisation erst seit einigen Jahren arbeitet. Seine Verlautbarungen sind Ergebnis eines formellen Standardsetzungsverfahrens. Alle beteiligten Interessengruppen können sich über Kommentierungsschreiben zu den jeweiligen Diskussionspapieren und Standardentwürfen an der Erstellung der IFRS beteiligen. Hierdurch soll sichergestellt werden, dass die unterschiedlichsten Bilanzierungsinteressen im Entstehungsprozess eines IFRS berücksichtigt werden. Wie in jedem

politischen Prozess ist auch hier nicht gewährleistet, dass sich gute Argumente durchsetzen. Bilanzierungsregeln entstehen aus einem Geflecht von Argumenten und machtpolitischen Interessen. Dieser Prozess unterliegt keinem festen Ablaufplan. Allerdings kann sich ein derart interessenpluralistisches Standardsetzungsverfahren mit globalem Anwenderkreis schnell über einige Jahre hinziehen.

Andererseits reagierte das IASB im Rahmen der Finanzmarktkrise umgehend auf die Verwerfungen an den Kapitalmärkten. Es folgte dem Druck der EU-Staaten und änderte die Bilanzierung von Finanzinstrumenten, die auf eine Schonung des regulatorischen Eigenkapitals von Banken zielte, innerhalb von drei Tagen. Die Gradwanderung, einerseits eine hohe Qualität im Standardsetzungsprozess zu sichern und andererseits den kurzfristigen politischen Interessen der Regierungen, von deren Zustimmung das IASB als privatrechtliche Institution letztendlich abhängig ist, zu entsprechen, wurde jüngst mehr als deutlich. Auch die Abhängigkeit von großen, multinationalen Unternehmen und Wirtschaftsprüfern ist offenkundig, da das IASB 12,7 Millionen Pfund und damit etwa 65% seines Etats als Spenden von diesen Gruppen erhält.

Insgesamt hat das IASB in den vergangenen fünf Jahren mehr als 70 Verlautbarungen veröffentlicht. Damit hat die Regelungsdichte deutlich zugenommen, was auch ein stetiges Anwachsen der IFRS-Konzernabschlüsse zur Folge hatte. So ist die Seitenzahl der Konzernabschlüsse von den Dax-30-Gesellschaften in dieser Zeit um durchschnittlich mehr als ein Drittel gestiegen. Hinsichtlich der Beteiligung beim Standardsetzungsverfahren ist eine immer größer werdende Anzahl an kommentierenden Gruppen zu beobachten, so dass das IASB verstärkt auch unterschiedlichen politischen Zwängen unterliegt. Folglich dürfte es für das IASB schwerer werden, über alle unterschiedlichen Gruppen legitimierte Rechnungslegungsstandards zu verabschieden.

Derzeit bestehen - nicht nur bedingt durch die Finanzmarktkrise - noch viele Überarbeitungsprojekte am IFRS-Regelwerk. Neben der Neuformulierung wesentlicher Standards (Finanzinstrumente, Leasingbilanzierung, Umsatzrealisation) steht vor allem die Neukonzeption des sogenannten Rahmenkonzepts aus. Hier sind die grundsätzliche Zwecksetzung der IFRS-Rechnungslegung, die Formulierung der Adressatengruppen sowie die qualitativen Merkmale zu definieren. Solange dieses Rahmenkonzept fehlt, besteht die Gefahr, dass vielfältige Standards und Interpretationen nicht logisch aufeinander abgestimmt sind und damit Inkonsistenzen in der Bilanzierung auftreten.

Die steigende Regulierungsdichte der IFRS-Rechnungslegungsregeln erscheint naheliegend, da die Gesetzgeber durch den Bilanzeid des Vorstandes und mit nationalen Enforcementstellen viel unternommen haben, um das Vertrauen in eine regelkonforme Bilanzierung zu erhöhen. Daher haben sowohl die Abschlussersteller als auch die Wirtschaftsprüfer ein gestiegenes Interesse an detaillierten und eindeutigen Bilanzierungsregeln, bei deren Befolgung sie sicher vor Bilanzierungs- beziehungsweise Prüfungsfehlern und deren Haftungsfolgen sind. Das IASB wird daher der häufig in Kontinentaleuropa formulierten Forderung nach einer stärker prinzipienorientierten Bilanzierung kaum nachkommen. Im Gegenteil: Es ist davon auszugehen, dass die Regulierungsdichte noch weiter zunehmen wird.

Mit der zunehmenden internationalen Verbreitung besteht jedoch die Gefahr, dass sich das IASB bei der Suche nach einem politischen Kompromiss im Detail und in der Inkonsistenz verliert. Um dieser Gefahr zu begegnen, hat das IASB aus prozessualer Sicht verstärkt darauf zu achten, dass sich im Standardsetzungsprozess sämtliche Interessengruppen gleichberechtigt einbringen, Feld- und Machbarkeitsstudien vorab stattfinden, Entscheidungsprozesse transparenter werden und ein Feedbacksystem zur Verbesserung der Standards installiert ist. Dies gilt umso mehr, als das IASB auf eine eigentlich wenig wünschenswerte Monopolstellung in der Rechnungslegungsregulierung zusteuert.

Harmonisierte Bilanzansatz-, Bilanzbewertungs- und Konsolidierungsregeln entfalten erst dann den erwarteten Adressatennutzen, wenn die Regeln von den Unternehmen konsequent befolgt werden und dann aufgrund einheitlicher Präsentationsregeln zu vergleichbaren Abschlussdaten

führen. Wegen der weitgehend fehlenden IFRS-Gliederungs- und Ausweisstandardisierung wurde der Unternehmensvergleich in den letzten Jahren kaum verbessert. Auch der Zeitvergleich ist aufgrund der vielen Standardänderungen beeinträchtigt. Zwar gibt es externe Datenbankanbieter, die Bilanzdaten standardisiert aufbereiten, jedoch sind diese nicht immer aktuell und die Aufbereitungen nicht immer fehlerfrei. Eine Lösungsmöglichkeit für dieses wichtige Thema könnte die technische Plattform eXtensible Business Reporting Language (XBRL) bieten. Dabei handelt es sich um eine auf XML basierende Sprache, mit der elektronische Dokumente im Bereich der Finanzberichterstattung standardisiert erstellt werden können. Eine Standardisierung und damit eine Vereinheitlichung der Präsentation der IFRS-Rechenwerke könnte dann erreicht werden, wenn das IASB hierfür Mindestgliederungsregeln vorgäbe.

Das IASB hat mit den IFRS in den letzten fünf Jahren innerhalb der EU und inzwischen auch weit darüber hinaus die Rechnungslegung für kapitalmarktorientierte Unternehmen harmonisiert. Es hat einen wertvollen Beitrag geleistet, dass in einer einheitlichen und standardisierten Sprache über die wirtschaftliche Lage von Unternehmen berichtet wird. Aufgrund der Turbulenzen an den Kapitalmärkten, der zunehmenden internationalen Verbreitung der IFRS, aber auch wegen unglücklicher institutioneller Rahmenbedingungen und individueller Fehler hat das IASB noch einen steinigen Weg zu gehen. Es bleibt zu hoffen, dass die verantwortlichen politischen Institutionen dem IASB genügend Zeit geben, den eingeschlagenen Weg fortzusetzen. Die Alternative, ein Rückfall in wieder stärker national regulierte Rechnungslegungsstandards, wäre für das weitere Zusammenwachsen der Kapitalmärkte wenig förderlich.

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MATERIAL ACCOUNTING HARMONIZATION: AN OVERVIEW OF TRADE LITERATURE

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Our paper develops an overview of trade literature within the particular area of material accounting harmonization. The usefulness of this paper consists in offering an up to date image on what was written on this particular topic with significant practical implications. We first divide existent studies on stages that we consider can be grounded based on trade literature's evolution. Furthermore, a qualitative analysis is done for studies belonging to each period. Limitations of previous studies are also synthesized. The final point of our analysis gives shape to research perspectives that further needs to be exploited.

Keywords: material accounting harmonization, de facto harmonization, measurement instruments, trade literature, accounting harmonization process

JEL Classification: M40, M41

Introductory thoughts

When it comes to researches in the area of international accounting harmonization measurement, there is a difference between those studies focused on the regulations harmonization problematic (*de jure* harmonization) and those which have as main study target the implementation method of the international standards in the accounting practice (*de facto* harmonization). In this context, we can argue that material harmonization is defined through the concentration level present around an option for a certain accounting policy (Herrmann and Thomas, 1995, p. 254). Based on this reasoning, the harmonization level increases along with the company's number that opts for the same accounting policy. This material harmonization type (*de facto*) is measured based on the concentration index developed by van der Tas (1988).

If we wish to define the material harmonization we can state that it represents that process where the diminution of the alternatives level and accounting option is intended, what means an increase of the harmonization level of the accounting practices and implicitly of the comparability level. On the other hand, starting from the statement that the harmonization is a process that leads towards a harmony state which afterwards becomes a real state (Canibano and Mora, 2000, p. 351), then we sustain the idea that the material harmonization is actually the process of the compatibility level increase between regulations and practice and the harmony state is reached when the differences variation between the two elements is contestant.

For a better understanding of the material harmonization process, it is very important to be able to identify the impact the modifications of afferent policies and accounting options have over the comparability level of the practices not only at an intra-state level but also at an inter-state level (Archer *et al.*, 1995, p.80). Further, on we can consider that a particular importance is given to the influence that the inter-states situation has it over each national accounting system involved in an accounting harmonization process when it comes to practice.

A mandatory condition for the development of a common market at the European Union standard is an accounting-financial information flow as a result of the accounting harmonization process (Canibano and Mora, 2000, p.349). In this context, the accounting practices harmonization aims to become an important factor in reaching the common market desideratum (Herrmann and Thomas, 1995, p. 253) which could have important consequences especially on regional scale. If such a statement is real then we can estimate that the political element tends to become of high importance in the accomplishment of the accounting harmonization process.

Research methodology

In order to develop our paper we put into practice the steps of the exploratory literature review process. After establishing the approached topic area, we searched for papers belonging to this category and read them. After carefully analyzing the content of the selected paper, we outlined the subtopics being approached and summarized each one of them. After analyzing the evolution of studies being written in this area we established significant periods in time that helped us organize our study. Based on the previously developed summaries we discussed main subtopics within the selected papers. Limitations of the studies were also grouped and presented. Based on what was already done and the identified limitations we finally identified some future research guidelines that might help fill the existent gap in trade literature.

Stages within trade literature and typology

Taking into consideration all these aspects exposed through a brief approach that shows the importance and the role of the material accounting harmonization process we can estimate that if we take as analysis criteria the previous researches influence over the mentioned studies, we can separate the scientific steps from this research sphere in at least two categories: (1) the studies influenced by van der Tas' researches (1988, 1992a, 1992b), named – measurement systems based on the option concentration study and (2) studies that can be considered as new approaches in the material harmonization measurement sphere, named – measurement systems based on the similarity philosophy between the accounting practices.

The existing researches in the measurement sphere of the material harmonization level as well as in the sizing sphere of the international accounting regulations impact over the national accounting systems generated a series of results correlated on one hand to the IASC/IASB status, and on the other hand to the development of the standards issued by the international authority.

Due to this aspect, we started the descriptive analysis of the results from the material harmonization measurement sphere applied to four different categories of studies based on the IASB evolution and the standards issued by this authority. If we take into consideration the division into periods of the IASB evolution established in the previous chapter we can establish the systematization periods of the researches results in this analysis sphere, as follows: (1) The material harmonization level in the context of some flexible accounting standards, (2) The material harmonization in the context of the international standards comparability desideratum, (3) The material harmonization effects as a result of IOSCO agreement, (4) The material harmonization sizing in the financial reporting standards context.

Taking into consideration this delimitation in time, we can state that the *period prior to 1989* is characterized mostly by a high level of diversity and less through a medium level of the harmonization degree, situation present in the following periods.

If we bear in mind the existing studies *during 1989-1995* we can state that the defined material harmonization level is high in certain problems (for example: postponed taxes) and on the other hand is even absent when it comes to other elements (like: assets depreciation, goodwill, development and research expenses, etc.), and the international accounting harmonization process, can be characterized at most through a medium level.

Analyzing also the similar researches in the material harmonization sphere **for the 1995-2003 period**, we can state that the international accounting harmonization process, as a whole, can be

characterized through important evolutions of the reached harmonization level, not only for certain accounting systems but for certain accounting problems as well. A remarkable fact is that the efforts made for the material harmonization as well as the afferent researches of this problem intensified reaching a high level of complexity.

If we consider the research instruments used in these researches and if we anticipate the research methods during the studies from the next period we are entitled to state that in this period (1995-2003) a maximum level of the debates regarding the van der Tas' indexes was reached. The derived aspects, their complexity but also the usage methods almost tend to be out of print giving way to other approaches regarding the material harmonization measurement.

The central element of the results obtained by the existent studies *during 2003-present*, we can state that the international accounting harmonization process manifests liberally especially when it comes to the accounting practice. A remarkable aspect is that two out of the three studies are focused on the sizing problem of the material harmonization level on a regional scale, and all three researches study the IFRS implementation effects in the national accounting systems.

The following table synthesizes the above established periods within the international accounting harmonization process, the evolution of material accounting harmonization studies and their results on the state of material harmonization:

Table 1. Stages within trade literature

Period	State of documented material harmonization and the international accounting harmonization process
Prior to 1989	- high level of diversity - a medium level of the harmonization degree
1989-1995	- high material harmonization in certain problems (such as: postponed taxes) - absence of harmonization when it comes to other elements (such as: assets depreciation, goodwill, development and research expenses, etc.) - at most a medium level registered by the international accounting harmonization process
1995-2003	- important evolutions of the reached harmonization level for the international accounting process
2003 - present	- liberal manifestation of the international accounting harmonization process

Source: author's projection

Limitations and research perspectives

Studies done in the material harmonization sphere generated for the scientific knowledge a series of relevant results. However, at the same time a series of limits of the research and its perspectives were identified for the next periods.

Thus, in the technical literature (Aisbitt, 2001) were mostly identified a series of limits afferent to the research methodology. These can be classified in two important categories, as follows:

- problems afferent to the causal deduction, or in other words, problems typical to the professional reasoning of research;
- problems afferent to the indexes characteristics of the material harmonization level measurement (Aisbitt, 2001, p.60).

A series of suggestions for further researches were given beyond the existing studies limits. Starting with the examples mentioned in the studies, we are entitled to generalize these suggestions as follows (Aisbitt, 2001):

- avoid data loss and the optimum sizing of the accounting elements necessary for the analysis;
- in these studies where the number of accounting elements differs from one category of analyzed elements to another, the interpretations must be carefully analyzed, taking into consideration also the effect of such an approach over the calculated measurement indexes;
- all the necessary efforts have to be made so that the allotment and the analytical reasoning of the measured elements to be accomplished in order to sustain the validity of the research;
- to increase the relevance and the reliability of the studies it is recommended to use those pieces of information that can be obtained from the producers of the accounting-financial information and to recur to the restriction of the analysis performed in those companies that present the information clearly and unambiguous.

Considering all these aspects we can conclude that the role of the existing researches in the material harmonization sphere is very complex and of high importance. We appreciate that the studies for the material harmonization measurement are aim at the international accounting harmonization process.

Taking into consideration all these approaches of the material harmonization as well as the existing studies in this domain, we can still state that this problem represents the research object of a great number of published studies. Furthermore, efforts orientation regarding the material harmonization must be pointed towards the diversity level diminution in the international accounting sphere, thing that can represent an index of the harmony level increase (Emenyonu and Gray, 1996, p. 270) or, in other words, an index of the harmonization level increase between regulations and accounting practices.

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ALIGNING OBJECTIVES, TEACHING AND ASSESMENT – CREATING A COURSE DESIGN

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In this research paper we described the existing relation between the controllable components of the current learning context (CLC) which leads us to Biggs's aligned system of instruction. We tried to shape the CLC components in order to increase the CLC effectiveness. We succeed to do this through the curriculum we build, which was created based on Bloom's taxonomy and critical thinking approach of teaching. The importance of the research consists in offering our perspective on the alignment process between objectives, teaching and assessment through the course design we created.

Key words: curriculum, teaching, assessment, Bloom's taxonomy, critical thinking

JEL Classification: I21

1. Introduction

We started our research with 3Ps model: Presage, Process and Product developed by Briggs in 1995. This model presents the factors that affect the learning outcome of a learner: prior education experiences along with current learning context influence SAL which determines the learning outcome. The 3Ps model offers educators ways to stimulate higher level learning¹¹⁹⁷.

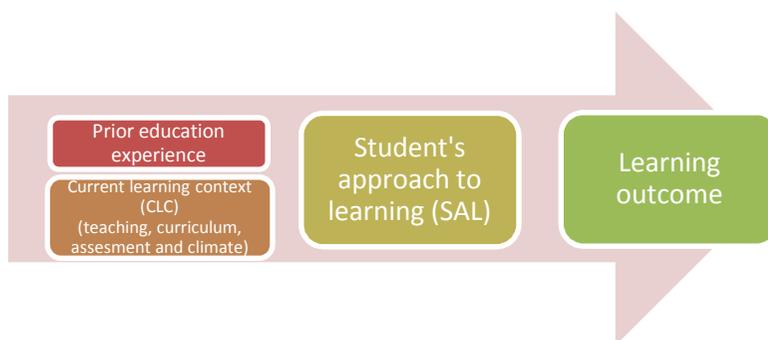


Fig. 1. 3Ps' Biggs's model

Observing the CLS components, we noticed that they can be divided in two major parts: controllable and uncontrollable by instructors. Teaching, curriculum and assessment are controllable elements by instructor but climate cannot be controllable in all cases, depending on which type of climate is: classroom or institutional. Besides the uncontrollable elements, the controllable ones influence student's approach to learning and the learning outcome.

¹¹⁹⁷ Duff A. and McKinstry S., *Student's Approaches to Learning*, Issues in Accounting Education, Vol. 22, No. 2, May 2007, p.186.

In this paper we focused our attention on controllable elements of the CLC and tried to shape them in order to increase the CLC effectiveness. This implies to align the controllable elements of CLC based on the course objectives. Our objective relies on the idea that instructors have to teach what really matter for students and evaluate the knowledge gained using the same matrix as they used in teaching. Scientific literature underlines that during teaching, a great majority of teachers focus their awareness on what they are doing, not on what they are teaching, or on what their students are learning¹¹⁹⁸.

The importance of the research consists in offering our perspective on the alignment process between objectives, teaching and assessment through the course design we created.

2. Defining the concepts and building the model

We defined the concepts used within this paper: teaching, curriculum, assessment and learning in order to have a clear understanding of their meaning. Many definitions were attributed to these terms, so we presented here only those we considered relevant. Then we grouped the terms in order to accent the interaction between them.

Teaching is defined as the interaction of a student and a teacher over a subject¹¹⁹⁹. As it is stated, this definition indicates the existence of a transmission process between two parties.

Since information is transmitted to the student, he/she will receive it through **learning**. So we reached the learning term, which is defined as the process of gaining competencies and knowledge, growth in attainment¹²⁰⁰. As we can see, teaching relies upon learning because without learning teaching is useless.

Another definition for teaching was given by Engel cited by Gardner and Jewler¹²⁰¹, according to which teaching consists of building a bridge from the subject taught to the student learning it. In our opinion, this definition is not proper for teaching since building a bridge (or a course) needs not only the construction process, which can be defined partially by teaching, but also “raw materials”, represented by knowledge, as defined further. Even so, we consider that Engel’s metaphoric idea of building a bridge is a brilliant one and we used it further.

Using Engel approach, the question is: what does instructor transfer? The core of the transmissions is **knowledge** transposed in textbooks, articles, case studies, videos, and many others. When the transfer process is finished, a question rise: was it efficient? The efficiency is measured by **assessment**, an evaluation process which helps instructors to identify how much knowledge were transferred and measures the completion stage of learning.

Another controllable element of the current learning context is **curriculum**. Curriculum is a term of considerable debated as to meaning. During time, several approaches of curriculum theory and practice were considered: curriculum as a body of knowledge to be transmitted, as a product, as process and as praxis¹²⁰². Within Biggs’ model, curriculum was perceived as a body of knowledge-content or by subjects.

We combined the CLC components and built the model below. The bridge construction (or course design) started with his left foot, where knowledge from all sources was gathered by

¹¹⁹⁸ Biggs J., *What the student does: teaching for enhanced learning*, Higher Education Research, & Development. Vol. 18, No. 1, 1999, p.63.

¹¹⁹⁹ Davis, J.R. *Better Teaching, More Learning*, Series on Higher Education, 1997, available at http://www.ntlf.com/html/lib/btml_xrpt.htm.

¹²⁰⁰ Smith, M. K., *Curriculum theory and practice' the encyclopedia of informal education*, 2000, available at www.infed.org/biblio/b-curric.htm.

¹²⁰¹ Gardner J.N., Jewler A.J., *The essential college experience*, 6th Edition, Thompson, 2006

¹²⁰² Smith, M. K., *Curriculum theory and practice' the encyclopedia of informal education*, 2000, available at www.infed.org/biblio/b-curric.htm.

instructor. The amount of knowledge and the type of it is normally based on the course objectives, defined in the projection phase of the course, by instructor.

When course starts, teaching starts: the knowledge is transferred from instructors to student through sequential processes. In our model, the arches represent the process of teaching and classroom activities. The information transmitted is absorbed by learning process, graphically represented by the small parabola near the right foot bridge. The parabola captures the information and transforms it into knowledge at learner level. After all these processes are done and the bridge construction is ready, the bridge has to be tested for endurance, which is done through the assessments.

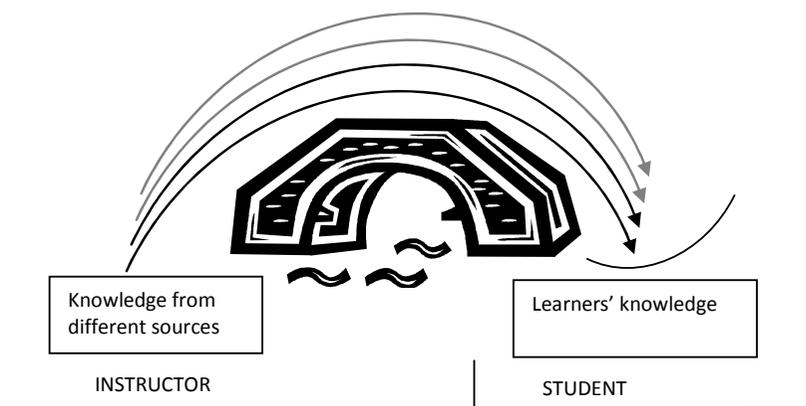


Fig. 2. CLC components combined

As we can see from the model, we defined the objectives of the course and based on them we teach and assess students.

We build this model based on a step-by-step approach and on CLC elements. It represents a system whose scope is to provide learning outcomes based on course objectives. In fact, this model represents the graphical approach of the **Biggs' aligned system of instruction**, defined as a fully-criterion referenced system, where the objectives define what we should teaching; how we should be teaching it; and how we could know how well students have learned it.¹²⁰³

3. Applying the model in practice

In order to apply the Biggs's model into practice, we gathered all the controllable elements of the CLC into the curriculum. Our approach regarding the curriculum is totally different from Biggs's approach, who considered, in his 3Ps' model, the curriculum as a syllabus. We followed the product approach of the curriculum, defined as a plan where objectives are met then applied and outcomes are measured. In order to emphasize the importance of the rationality and the need of simplification in elaborating a curriculum, Tyler developed four famous questions which are still relevant today¹²⁰⁴:

1. What educational purposes should the school seek to attain?
2. What educational experiences can be provided that are likely to attain these purposes?
3. How can these educational experiences be effectively organized?

¹²⁰³ Biggs J., *What the student does: teaching for enhanced learning*, Higher Education Research, & Development. Vol. 18, No. 1, 1999, p. 64.

¹²⁰⁴ Kizlik B., *Information about Curriculum, Curriculum Development, Issues and Planning*, 2009, available at <http://www.adprima.com/curricutility.htm>.

4. How can we determine whether these purposes are being attained?¹²⁰⁵

Relying on the model presented and using the above questions in order to structure our work, we tried to design the Managerial accounting curriculum. Managerial accounting is a mandatory discipline for accounting undergraduates in the Faculty of Economics and Business Administration, undertaken in the second year of study.

We structured the Managerial accounting Curriculum into six major parts: course description, course objectives, recommended readings, how to learn efficiently, how to communicate and evaluation system. The curriculum was written in a simple way and addressed directly to students.

The curriculum starts with a **general course description**, whose scope is to help students to become familiar with the main areas that are to be examined. The first part of the general course description is followed by a “proving” part where we did emphasize why discipline is important; to strengthen our message, we took real life examples.

The **course objectives** followed the course description, state the main goal of the course: to acquaint students with the fundamentals tools of Managerial accounting. **General course objectives** are presented further. At the end of this course students will:

- understand the core issues of Managerial accounting;
- be able to use properly the most important tools and to apply important management and accounting methods combined;
- be able to analyze methods in order to find the most suitable one for the given situation;
- be able to evaluate different situations based on facts or suppositions, and
- to build, formulate and write an opinion about the analyzed case.

General course objectives rely on two pillars: developing critical thinking and Bloom’s taxonomy. Critical thinking, social responsibility, reflective judgment, and evidence based reasoning...are the most enduring goals of a first-rate liberal education¹²⁰⁶. And Schneider continues by saying that in 2003 many college graduates are falling short in reaching these goals. According to Minnich¹²⁰⁷ if people think this mean that they are more likely to question than to assert, inclined to listen to many sides, capable of making sensitive distinctions that hold differences in play rather than dividing in order to exclude, and desirous of persuading others rather than reducing them to silence by refuting them. Critical thinking involves eight skills: 1). ask questions, 2). define the problem, 3). examine the evidence, 4). analyze assumption, 5). avoid emotional reasoning, 6). don’t oversimplify, 7). consider other interpretations and 8). tolerate uncertainty.¹²⁰⁸

Technical speaking, developing the critical thinking involves skills which are not possible to be achieved without understanding the context and further identifying the potential solutions and choosing the most appropriate solution. For solving these technical aspects, we designed the entire curriculum based on Bloom’s taxonomy. The new approach of Bloom’s taxonomy structures it on the following levels¹²⁰⁹:

Level 1 - Remembering: can the student recall or remember the information?

Level 2 - Understanding: can the student explain ideas or concepts?

Level 3 - Applying: can the student use the information in a new way?

¹²⁰⁵ Tyler, R. W., *Basic Principles of Curriculum and Instruction*, Chicago: University of Chicago Press, 1949.

¹²⁰⁶ Clayton, M., *Rethinking thinking*, The Christian Science Monitor, 2003, available at <http://www.csmonitor.com/2003/1014/p18s01-lehl.html>

¹²⁰⁷ Minnich E., *Teaching Thinking: moral and political considerations*, Change, sept/oct 2003, p.20, available at <http://www.elizabethminnich.com/change-think.pdf>

¹²⁰⁸ Lipps J.H., *Judging authority*, NeuroQuantology 2004, Issue 2, p. 116-121

¹²⁰⁹ Overbaugh R.C., Schultz, L., *Bloom’s taxonomy*, available at http://www.odu.edu/educ/roverbau/Bloom/blooms_taxonomy.htm

Level 4 - Analyzing: can the student distinguish between the different parts?

Level 5 - Evaluating: can the student justify a stand or decision?

Level 6 - Creating: can the student create new product or point of view?

Moreover, a significant importance should be pay to the order of these levels since each level have to be mastered before going to the next one and the difficulty of the levels are increasing from the first to the last level.

Based on the pillars mentioned before, we developed **specific course objectives** for each main topic of the discipline.

Recommended readings consist in a text book and Harvard Business School case studies. The curriculum offers detailed information regarding how to buy them and different forms of book available for sale: hardcopy, electronic version, or rights to access the book for a limited period of time. Besides these, students can access more resources like PowerPoint Presentations, Narrated Slides and Standard and Enhanced Quizzes from the book publisher's website for free.

The diversity of learning materials offered to students is motivated by the willingness to offer students appropriate types of materials which fit their learning style: visual, auditory or kinesthetic.

Course content part details the topics and chapters covered each week. Moreover, it specifies the chapters needed to be read, exercises, problems and HBS case study assigned for each week. Exercises, problems and case studies that are to be graded were specified separately in the curriculum, in order to eliminate any possible confusion.

Course set-up implies the way classes, tutorials, individual and group out-of-school activities of students are organized. Course is based on individual work and asks over for reading the chapter assigned, solving exercises and problems and case study analysis. Each week, a tutorial and a class are held. In tutorials, teaching assistant discuss with students exercises and problems assigned for the week and if needed, sensitive theoretical parts of the chapter assigned. Subsequent to tutorials are classes, where case studies are analyzed using Socratic method. Tutorials and classes are not compulsory for students to attend. Moreover, textbooks are not lectured.

How to learn efficiently is a part of the syllabus that we considered mandatory to present since our teaching approach is not very common in our faculty. Teaching case studies and effective lecturing are teaching methods our students are not familiar with. Moreover, since learning is a process that takes time, improving efficiency is needed in order to maximize student's learning outcome. That is why our suggestions regarding your learning process were referring to: how to read the textbook in order to understand the topic and how to analyze a case study.

The last part of the curriculum is dedicated to the **evaluation system**. The final grade comprises three parts:

- student's active participation in tutorials (30% of the final grade),
- student's active participation in classes (10% of the final grade),
- final exam (60% of the final grade).

Since our aim is to align the CLC controllable components, we had to connect the students' evaluation forms with the teaching method and the course objectives. At the end of this course our expectations are that students to be able to understand and apply specific management and accounting methods, analyze them, evaluate, create and be capable to convey these information in oral and writing communication. For doing this, we designed the final assessment based on Bloom taxonomy in order to evaluate the knowledge on each level of the taxonomy. For doing this, we identified the major parts of the discipline and for each of them we chose five questions in order to test students' knowledge starting with the first level and finishing with the fifth one.

Therefore, final evaluation comprises 15 questions / problems plus a case study analysis, whose main role was to test critical thinking.

4. Conclusions

Starting with Biggs's model, we built a model of CLC controllable components and we described the way these components interact. Our model represents in fact the curriculum, viewed from the product perspective. Based on this, we developed the Managerial Accounting Curriculum and we described the way we did it. We designed the curriculum in such way that allows us to maximize the CLC component. In alignment process of the CLC components we used two methods: problem-based learning and case studies analysis, which are considered successful methods in getting the alignment.

The curriculum we had designed represents a helpful tool for clarifying what we have to teach, how we teach and what we assess. It is a simple but organized plan of our activity with students and it helps both us and students to show, respectively, to know exactly our expected professional engagements.

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AN EXPLANATION OF THE CHANGE IN ACCOUNTANTS' ATTITUDE TOWARDS FLEXIBILITY USING THE THEORY OF REASONED ACTION

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ABSTRACT: In this paper we look at accountants as “consumers of accounting regulations”. We explain the change in the accountants’ attitude towards flexibility in the accounting regulation process, using a theory derived from social psychology: the Theory of Reasoned Action (TRA).

In 1999 and 2005 we tested the attitude towards flexibility of a number of Romanian accountants who aimed at becoming private practitioners. We observed that before the existence of an accounting conceptual framework (1999), the accountants surveyed preferred flexibility with respect to accounting choices. A few years later (2005), after the implementation of IASB’s conceptual framework (but before the regulator removed it), the preference of accountants changed to flexibility. We believe that these changes could be explained using TRA.

KEY WORDS: Romanian accounting regulation, Theory of Reasoned Action, accountants’ attitude, uniformity, flexibility

1. INTRODUCTION

Our research paper aims at explaining the change in the attitude of two groups of Romanian accountants who aimed at becoming private practitioners with respect to flexibility in accounting regulation. We use the Theory of Reasoned Action to explain this change in two key moments: 1999 and 2005. These dates are important for Romanian accounting because:

- in 1999 the Romanian accounting regulator introduced the first conceptual framework via the Ministerial Order 403/1999, having translated the Framework for the Preparation of Financial Statements (IASB, 1988).
- in 2005 Romanian, the same regulator removed this conceptual framework from Romanian accounting regulations (Ministry of Finance, 2001).

We notice that before the existence of an accounting conceptual framework (1999), the accountants surveyed preferred uniformity with respect to accounting choices. A few years later (2005), after the implementation of the conceptual framework (but before the regulator removed it), the preference of accountants changed: (they wished less uniformity and more choice).

2. ROMANIAN ACCOUNTING BACKGROUND

After the fall of communism in 1989, reforms were undertaken to modernise the country’s financial system. In our opinion, accounting reform comprised three phases, from the presence of IASB accounting framework in Romanian accounting regulation point of view. The first began in 1990 and lasted until 1999, the second began in 1999 and lasted until 2005, with the third beginning right after that.

Phase one: The initial French-influenced accounting reform is usually justified by the traditional cultural and legal ties and also by the economic similarities between the two countries (Feleagă and Ionaşcu, 1993).

Similarly to France, the bulk of regulations were to be found in the 1993 detailed Regulation for the Application of the Accounting Law (the Green Book) that included a National Chart of Accounts very similar to that of the French Plan Comptable Général 1982. For every account in the chart, corresponding accounts and explanations were listed for both debit and credit.

The strong link between accounting and taxation is revealed by the use of the same stock valuation and depreciation methods that were used for both financial statements and tax returns. The useful lives of fixed assets were not estimated by management, but were chosen from a Catalogue that contained the authorised useful lives of depreciable assets. Three depreciation methods were permitted: straight-line, declining balance with tax coefficients, and accelerated (meaning a 50% depreciation expense in the first year of use, followed by the straight-line method). Tax authorities were not generous with companies: in a period of rampant inflation, protection against its effects was not granted, as changes to accelerated depreciation or LIFO were difficult in practical terms¹²¹⁰. It was often the case that a change to an accelerated method was allowed only for the fixed assets purchased after a certain date, but not for an entire class of assets. In exchange, several government ordinances regulated the revaluation of tangible fixed assets and provided official revaluation indices. To counteract the loss of tax income because of higher depreciation charges following revaluations, the Ministry of Finance limited the amount that was recognised as depreciation expense linking it to the actual degree of productive use of fixed assets.

Although the regulations provided for the recognition of impairment losses and provisions, companies recognised only those that were tax deductible. For non-financial companies these were: allowances for doubtful debtors declared bankrupt and provisions for warranties (according to a tax calculation) and unrealised exchange losses.

Phase two: Effective 1999, this second phase of the accounting reform was evaluated as having “avoided some of the pitfalls experienced earlier in other transition economies and also shortened some of the development process by making changes in parallel rather than in sequence” (King et al., 2001). Large companies referred to the 1999 and 2001 Regulations harmonized the Fourth Directive of the European Communities and with International Accounting Standards (hereafter the Harmonisation Regulations). Small companies were regulated through the Simplified Regulations issued in 2002.

The Harmonisation Regulations attempted to reconcile the structure of the Fourth Directive, with IASB’s conceptual framework, British Companies Act and French Plan Comptable Général. A British-style vertical balance sheet coexists with a French by-nature profit and loss account. Cash flows and changes in equity statements, accounting policies and explanatory notes are mandatory. The presence of the Alternative Accounting Treatments is, at least in its form, a British influence¹²¹¹. A remarkable feature is Note 4 which shows a by-destination operating profit, thus reconciling macroeconomic interests with those of foreign investors. Following the enactment of the Harmonisation Regulations, the accounting regulator along with the professional accounting body, universities and accounting firms undertook extensive IAS/IFRS training programmes (Ionascu et al, 2007; Calu et al, 2009).

Phase three: In preparation for the country’s joining of the European Union, the Ministry of Public Finance decided in June 2005, to separate European Directives from IFRS and in November 2005 issued new Regulations conforming to European Directives (Fourth and Seventh

¹²¹⁰ Before changing a particular valuation method, an enterprise had to obtain the (written) agreement of tax authorities, based on the presentation of the influences on the patrimonial and financial situation as well as on the amount of income tax.

¹²¹¹ The Alternative Accounting Treatments allow the revaluation of fixed assets and inflation accounting.

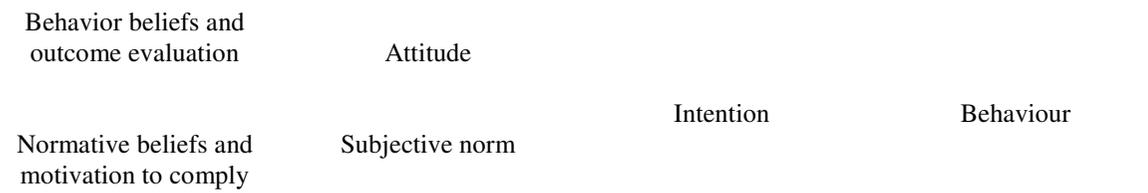
Directives as amended)¹²¹². All entities, formerly large and small should prepare financial statements in accordance to these new regulations. The implementation of the IAS Regulation restricted the use of IFRS to the consolidated accounts of listed companies.

3. RESEARCH FRAMEWORK

Our study evaluates the attitude toward flexibility of two samples of Bucharest accountants in order to predict their behaviour and the possibility to change it. Drawing on Hofstede (1981) and Gray (1988) we define flexibility as accountants’ preference to adapt accounting rules according to the different circumstances in which an enterprises functions as opposed to using the same accounting rules for all enterprises.

In order to explain the behaviour of accountants with respect to flexibility, we chose to use the Theory of Reasoned Action (Fishbein and Ajzen, 1975). TRA claims that a suggested behavior is more likely to be performed by an individual when a higher intention to perform it exists. This intention results of a positive evaluation of the behavior (attitude), and of the pressure exercised by relevant groups on the individual to perform the behavior (subjective norm).

Figure 1. The formation of behavior according to TRA

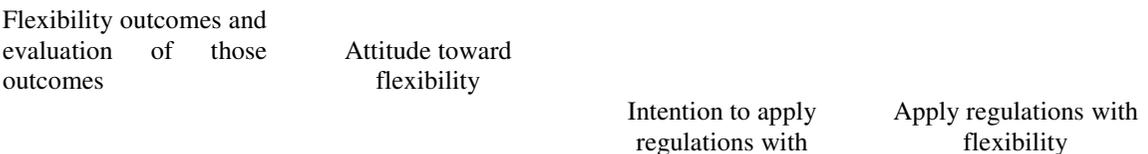


A person’s behavioral intention has therefore two ingredients: the attitude and the subjective norm. Following Fishbein, M., and Ajzen, I. (1975) we employ the term attitude to refer to an accountant’s general feeling of favorableness or unfavorableness toward flexibility. For example, as an accountant forms beliefs about revaluation, financial statement presentation or valuation of stocks, he “automatically and simultaneously” acquires an attitude toward them. Every belief relates an object to an attribute, e.g. *the reevaluation of fixed assets is a matter of choice*. The accountants’ attitude toward flexibility depends on his evaluation of this attribute (*a matter of choice*).

The subjective norm is formed by the perceived expectations of relevant groups relating to the behavior and by the person’s motivation to comply with these expectations. In our research we take the subjective norm to mean the demands perceived by the accountants from the regulating authorities and the professional body to comply with their policies.

An *intention* relates to the probability that a person will perform a certain behavior. With respect to the belief and the attitude regarding the reevaluation of fixed assets we can speak of the intention to undertake reevaluations of fixed assets on a voluntary basis.

Figure 2. TRA applied to accounting flexibility



1212 Order of the Minister of Public Finance no. 1752/17.11.2005 for the approval of accounting regulations conforming to European Directives, Official Journal 1080/30.11.2005.

Compliance with regulations and fiscal control

Perceived demands of regulating authorities

flexibility

4. RESEARCH METODOLOGY AND RESULTS

The attitude of accountants towards flexibility was tested in 1999 and 2005 using the questions in Appendix 1. The respondents were asked to range their choice on a five-point scale going from strong disagreement to strong agreement: to a very small extent, to a small extent, moderately, to a large extent, to a very large extent. We consider the middle answer as reflecting an undecided respondent. A number of 101 questionnaires were returned in 1999 and 56 questionnaires in 2005. The two samples are characterized in Tables 1. The testing was done at training courses organised by CECCAR to assist accountants in Bucharest wishing to qualify as public accountants and licensed accountants.

Table 1: Accounting experience and age of respondents

Descriptive statistics	1999		2005	
	Accounting experience	Age	Accounting experience	Age
Mean	10,79	38,63	9,88	37,27
Median	8	39	8	38
Mode	5	31	5	28
Standard deviation	7,92	8,88	6,86	8,56
Minimum	2	24	2	23
Maximum	34	63	30	53
Observations	98	96	52	49

The answers obtained for all three questions were added up under the following headings: High Uniformity, Uniformity, Middle, Flexibility and High Flexibility. We eliminated those questionnaires featuring incomplete answers to the four questions. We calculated a score by multiplying the sum of the answers in each category with coefficients ranging from -2 to 2 (i.e. -2 for High Unif, -1 for Unif, 0 for Middle, 1 for Flex and 2 for High Flex). The last column, labeled Scale, shows hypothetical scores that could be obtained if all the answers were of a single kind, i.e. if all answers were High Unif, the score would be $380*(-2)=-760$ or if all answers were High Flex, the score would be $380*2=760$. The score of each pair of values is interpreted by reference to such a scale.

The 1999 questionnaire results shows an attitude toward uniformity (score -64 in Table 2): the respondents favour the existence of only one method of presentation of the financial statements and of stock valuation (Q1 and Q3), possibly because of the additional amount of work involved in the opposite situation. The answers received to a questionnaire sent in 1997 to the finance directors of big taxpayers located in Bucharest, revealed that the additional workload was the main cause for the lack of popularity with the accountants of the inflation-adjusted tax balance sheet (Olimid, 1998). The same study showed that only in 4% of cases, companies used more than a method of stock valuation. The other question (Q2) upset the uniformity trend: whereas the preference for the companies' initiative regarding the revaluation of land and buildings may be again a reaction to the omnipresence of the Ministry of Finance in the Romanian accounting environment.

Table 2: Uniformity versus Flexibility. 1999 Score

Unif vs Flex	Q1	Q2	Q3	Total options	Coeff.	Score	Scale
High Unif	37	11	26	74	-2	-148	-564
Unif	19	9	22	50	-1	-50	-282
Middle	17	24	26	67	0	0	0
Flex	17	19	12	48	1	48	282
High Flex	4	31	8	43	2	86	564
Total questionnaires	94	94	94	282		-64	0

We present below the 2005 results for the attitude toward flexibility and then we compare the results of the 1999 and 2005 testing.

Table 3: Uniformity versus Flexibility. 2005 Score

Unif vs Flex	Q1	Q2	Q3	Total options	Coeff.	Score	Scale
High Unif	11	7	16	34	-2	-68	-312
Unif	8	2	12	22	-1	-22	-156
Middle	18	14	8	40	0	0	0
Flex	9	14	10	33	1	33	156
High Flex	6	15	6	27	2	54	312
Total questionnaires	52	52	52	156		-3	0
1999/2005 Scale ratio						1,81	
2005 Adjusted Score						- 5,42	

Table 4: Comparison of 2005 and 1999 scores

Question in set	1999 Score	2005 Score
First	-68	-16,27
Second	50	50,62
Third	-46	-39,77
Totals	-64	-5,42

The overall Uniformity score decreased significantly from the previous testing (from -64 to -5,42), most of the decrease being owed to the question that tested the attitude toward the choice of presentation of the financial statements. This could be explained by the introduction of two sets of accounting regulations for individual companies, plus another for groups of companies. Although still not crossing the boundary to full flexibility the overall attitude toward uniformity in this respect has decreased from the 1999 testing.

Conclusions

We evaluated the attitude toward flexibility at two points in time (1999 and 2005) and observed that, over time, accountants' attitude moved to less uniformity. The beliefs of accountants must have changed owing to extensive IAS/IFRS training programmes in IAS/IFRS that followed the enactment of the Harmonisation Regulations. The 1999 and 2001 Harmonisation Regulations were heavily influenced by IAS/IFRS and there is no better proof than the inclusion of IASC's conceptual framework in the text of these regulations. This inclusion signalled that the regulator was at least favourable to the exercise of professional judgment and flexibility in interpreting accounting regulations. It follows that the subjective norm changed from the strict uniformity imposed by the Ministry of Finance until 1999 to one which allowed choice, albeit small (e.g. the exclusion of certain line-items from the balance sheet when their amount is nil, the full introduction of the true and fair view requirement, substance over form etc). We therefore infer that the intention to apply regulations with flexibility.

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Appendix 1. The 1999 and 2005 Questions

1999 Uniformity versus flexibility (Unif vs. Flex):

- Q2.** To what extent do you agree to the existence of several presentations of the financial statements?
- Q10.** To what extent do you wish that the revaluation of land and buildings be a matter of enterprises' choice?
- Q14.** To what extent do you wish that a single stock valuation method should be mandatory for all companies?

2005 Uniformity versus flexibility (Unif vs. Flex):

- Q5.** To what extent do you agree to the existence of several presentations *of the components* of the financial statements (*e.g. balance sheet, profit and loss account etc.*)?
- Q7.** To what extent do you wish that the revaluation of land and buildings *be done by independent valuers*?
- Q8.** To what extent do you wish that a single stock valuation method be mandatory for all companies?

A MANAGERIAL AND COST ACCOUNTING APPROACH OF CUSTOMER PROFITABILITY ANALYSIS

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In the last years many organizations realized that market orientation is essential to their success. Satisfying the needs of customers, offering them products and services which meet their desires and demands, customer loyalty can increase profitability for long term.

After analyzing the existing journal literature in this field we would like to emphasize that managerial accounting, cost calculation methods and techniques, the analysis of costs provides relevant information when analyzing the customer's profitability. We pay special attention on cost systems. An activity based costing approach takes customer profitability to new levels of accuracy and usefulness, provides the basis for creating, communicating and delivering value to the customers.

Keywords: managerial accounting, ABC, customer relationship management, customer profitability analysis, organizational performance

JEL classification: M41- Accounting and Auditing

1. Introduction

The rapid growth of the internet and its associated technologies has greatly increased the opportunities for marketing and has transformed the way relationships between companies and their customers are managed (Bauer et al., 2002). Companies are focusing on delivering the highest value to customers through better communication, faster delivery and personalized products and services.

Many companies are racing to re-establish their connections to new as well as existing customers to boost long-term customer loyalty (Chen&Popovich, 2003). It seems like they realized that they can win the race through the implementation of customer oriented cost systems, relationship marketing principles and technology-based customer relationship management applications.

In a business-to-business environment customer relationship management (CRM) becomes the business process that provides the structure for how relationships with customers are developed and maintained (Lambert, 2010). Management firstly identifies key customers and customer groups to be targeted than the decision regarding who represents key customers includes evaluation of the profitability of each customer. Often it is assumed that the marketing function is responsible for these activities. However, in complex business relationships there is a need for other organizational functions to interact and collaborate. Marketing and sales, human resources, research and development, finance, managerial and cost accounting, IT and IS must join forces in order to create value for both the organization and customers.

2. Research methodology

Customer relationship management, customer profitability analysis and their relationship with managerial accounting and cost systems is an attractive area for research especially because of their novelty and exploding growth.

In order to create a good research in the field of managerial accounting and in order to generate good and relevant knowledge researchers must follow a set of qualitative criteria. According to

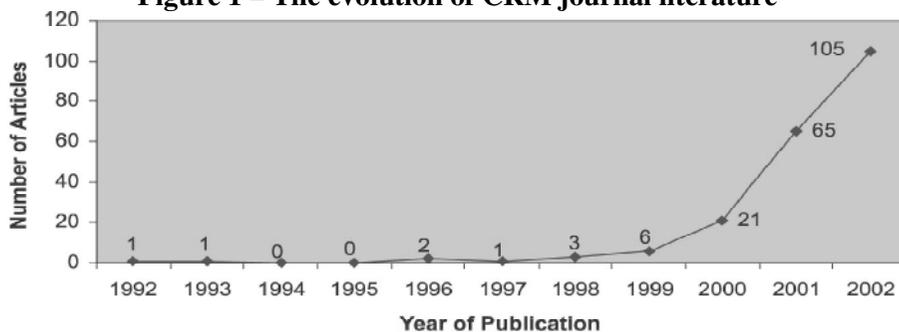
Lukka&Mouritsen (2002), when conducting a research, there is a need for theory, testing and rigour. In this article we are focusing more on theory and rigour and less on testing. Our intention is to lecture in the field of managerial accounting, management and marketing in order to understand the phenomenon of customer relationship management and to analyze the existing connections between managerial accounting, cost management and marketing.

The remainder of this paper is structured as follows. First the background is established by tracing the roots of the interest and researches made in the field of customer relationship management and customer profitability analysis. Second, our intention is to present the conceptual framework of customer relationship management, pointing out that a cross-functional and customer oriented system is needed to increase company profitability. Third, we would like to emphasize that managerial accounting and the cost management plays a vital role in the process of profitability analysis. New and complex cost systems, such as activity based costing (ABC), allow a stronger focus on the customer, investigate the relationship between costs and clients, analyses the way to attribute the relationship costs to customer segments. Finally, advantages and disadvantages of CRM and ABC implementation are discussed in order to establish further research objectives.

3. Literature review

Interest on customer relationship management (CRM) began to grow in 1990s (Ling&Yen, 2001; Ngai, 2005) when organizations and businesses realized that an enhanced relationship with their customers can lead to customer loyalty and retention and ultimately to profitability (Ngai, 2005). Over the last years CRM has attracted the attention and interest of both academics and practitioners. The significantly increasing number of articles, conference papers, doctoral dissertations or unpublished working papers emphasizes this interest.

Figure 1 – The evolution of CRM journal literature



Source: Ngai (2005)

We can observe that the output of CRM research increased significantly since 1999. If in the early and mid 1990s Ngai (2005) identified only 8 articles related to CRM, after 1999 he identified almost 200 articles. After 2002 the interest and debates of researchers and practitioners becomes more and more intense, especially because the recent changes in the business environment, globalization and the intense competition.

The majority of the published papers and articles are related to: (1) *general and managerial aspects and concepts, characteristics about CRM* (Leventhal, 2000; Abbott 2001; Chen&Popovich, 2003; Sin et al, 2005; Helgesen, 2007) especially because CRM is a relatively new phenomenon for many organizations; (2) *management, strategic cost management, planning, strategy and organizational performance* (Seybold, 2001; Crosby,2002; Baker, 2002; Van Raaij E.M., 2005; Cugini et al, 2007).

A significant part of the researchers considers that (1) *CRM works together with marketing and sales* and that (2) *CRM needs also service and support activities in order to maintain good relationships with customers* (LiBrizzi, 2001; Coner&Gungor, 2002; Anderson, 2002; Seddon, 2000; Bitner et al, 2002;

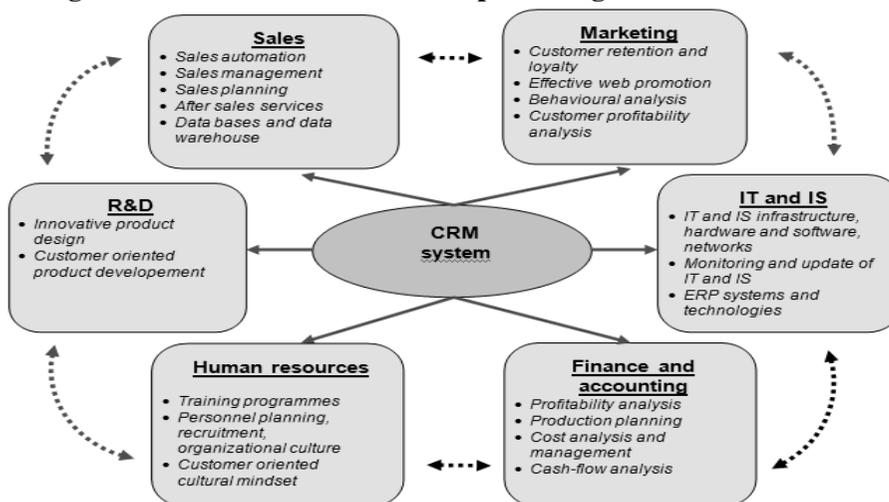
Chen&Popovich, 2003; Ang&Buttle, 2006; Helgesen, 2007). Over the years, the rapid growth of automation, information technology, internet and associated information systems has made that academics and practitioners focus on the analysis and development of these aspects. The *relationship between CRM, IT and IS; data, information and management; data mining; the development of software, tools and systems; internet, e-commerce and e-management* are just a few research topics intensely debated by researchers (Ferguson, 2000; Drew et al, 2001; Corner&Hinton, 2002; Shebab et al, 2004; Bih-Ru, 2007; Ngai et al, 2009).

We noticed that there seems to be a need for a market-oriented managerial accounting system whose objective would be to furnish updated and relevant information, reports, graphic representations about customer needs, customer accounts, and customer's profitability. Furthermore, many arguments and opinions consider that activity based costing (ABC) is the solution when establishing profitability figures of customers (van Raaij, 2003; Murphy, 2005; Helgesen, 2007).

4. Customer relationship management – the solution which leads to profitability

Customer relationship management (CRM) is a widely recognized business approach but there is no universally accepted definition of this concept. Academics consider that CRM is an enterprise approach to understanding and influencing customer behavior through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty, and customer profitability (Swift, 2001; Ngai, 2005); others consider that CRM is a strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer (Helgesen, 2007) or that when fully and successfully implemented CRM is not only a technology solution but a cross-functional, customer-driven, technology integrated business process management strategy that maximizes relationships and encompasses the entire organization (Chen&Popovich, 2003). A CRM system can help organizations to answer questions like: *What products or services are important to our customers?; How are we perceived by our customers?; How should we communicate with our customers?; How can we maintain good relationships with our customers?.* In order to answer to these questions a CRM system and technology must link front office and back office functions.

Figure 2 – CRM and its relationship with organizational functions



Being cross-functional, a CRM system involves fundamental changes in the ways companies are organized and business processes are conducted (figure 2). Of the six identified function information technology (IT) and information systems (IS) have the most difficult role. Their job is to establish a connection with the other functions, to create communication channels between them. To achieve this there is a need for IT equipment, hardware's and software's, "information-intensive strategies", computer technologies, computer aided design/manufacturing, flexible

manufacturing and cost systems, data warehouse, data mining (Sin et al, 2005). All and all, the effective communication and collaboration between these functions ensure the success and organizational performance.

5. Customer profitability analysis by using activity based costing (ABC)

We noticed earlier that CRM is a business approach and a strategy to improve customer satisfaction, customer loyalty and customer profitability. Furthermore, customer satisfaction and customer profitability are considered to be a milestone in the path towards company profitability (Cugini et al, 2007).

Customer cost information is essential for managerial decision making (Dalci et al, 2010). Understanding the true costs of serving specific customers is important for every organization. Those companies who understand which customers are more profitable and which are not are “armed with valuable information needed to make successful managerial decision to improve overall organizational profitability” (van Raaij, 2003; Dalci et al, 2010).

In the changing technological environment, when the internet and e-commerce gains the customers on their side, companies realized that traditional cost accounting systems do not provide accurate cost information, information used in the decision making process. As an answer to these changes, activity based costing (ABC) was designed and, in time, gained popularity, because it focuses on the activities associated with the costs and assigns activity costs to products, services or customers that consume resources. Because of these characteristics ABC (1) becomes a tool for determining true costs of bots sales, marketing activities and customers; (2) will help companies to make better decisions based on accurate costing information (Stapleton et al, 2004; van Raaij, 2005; Cugini et al, 2007; Dalci et al, 2010).

The mechanism of ABC requires going through several stages. First, ABC assumes that products, services or customers generate activities and activities consume resources. Second, product costing involves a two-step allocation process in which costs are first allocated to activities and then the activity costs are allocated to products or customers based on each product or customers demand for, or consumption of the activities (Stapleton et al, 2004).

While traditional cost systems rely on arbitrary allocation of overhead costs, ABC classifies cost pools according to the activities performed within the organization. Moreover, by understanding the hierarchical levels of the costs ABC enables managers to better understand cost causation and make better decision, it help managers to understand which customers are profitable and which ones are not and leads to increased profitability (Dalci et al, 2010).

Many specialists (Kaplan&Atkinson, 1998; Albu&Albu, 2005; Murphy et al, 2005) consider that ABC permits a customer profitability analysis by comparing the revenue streams with the service costs associated with specific customers or customer groups. This activity requires a combination of accounting and marketing skills but the result of this collaboration might be a diagram, useful to managerial decision.

Figure 3 – Customers profitability by using ABC

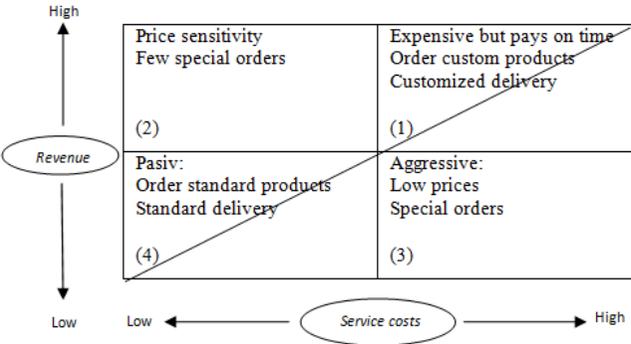
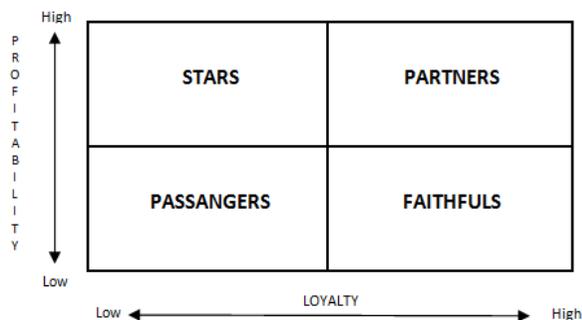


Figure 3 shows that there are several ways in which companies can have profitable customers. There are customers (category 4) who can easily be served but at low cost and low prices. Instead, expensive customers (category 1) can be profitable if the revenues obtained compensate the customer costs. The most vulnerable customers (category 2) are those who generate high revenues but have low servicing costs. Companies should pay special attention to those; they must give discounts and special services to keep them faithful and loyal. The fourth category (category 3) is represented by those customers who generates low revenues and involves high customer costs. In such cases companies must rethink their internal processes, improve manufacturing processes, and renegotiate with customers the process, the delivery terms and special orders.

As we said earlier, ABC allows managers to identify and separate the profitable customers from the unprofitable ones. Furthermore, it permits managers to identify customer profiles in terms of profitability and loyalty, presented in figure 4.

Figure 4 – Customers profiles in terms of profitability and loyalty



Source: Albu&Udroiu, 2009

Analyzing the figure above we can conclude that the PARTNERS are the best customers for every company because they generate high profitability and they are loyal also. Companies must pay special attention to STARS because they generate high profitability but their loyalty level is low. On the other hand, PASSANGERS and FAITHFULS are those customers who are loyal but the level of profitability is low. In such cases companies must reanalyze permanently the costs associated to serve this category.

All and all, customer profitability analysis can be a complicated process but can have a massive implication for the profitable growth of any organization. By examining customer needs and behavior, by implementing an ABC cost system, it becomes possible to: (1) establish customer revenues and customer costs; (2) identify customers' profile; and (3) develop a wider and more sustainable understanding of how to grow the business profitability.

6. Ending ideas

Usually, market oriented businesses must have to main objectives: (1) to satisfy the needs of customers by offering them products and services which meet their desires and requests, and (2) to satisfy the business unit's needs by implementing customer relationship management systems that will generate, on long term, profitability.

Customer satisfaction is hard to win and easy to lose. To be efficient, CRM must comprise the major functional areas in every organization. Every organization must focus on designing and developing profitable products with an acceptable cost structure. Then marketing and sales function interact directly with customers because of the strategies and techniques developed to

achieve goals. By using customer service and support activities organizations can improve and maintain good relationship with customers; they must fulfill the needs of everyone quickly and accurately. In supporting and maintaining these crucial functions information technology (IT) and information systems (IS) plays an important role. Adequate IT and IS can enable the collection of data to determine the economics of customer acquisitions, retention or to establish their profitability, on one hand. On the other hand IT and IS are necessary to an effective communication and collaboration between the functions mentioned above.

An important part of a CRM system is marketing and sales which leads inevitably to customer profitability analysis. CPA opens a door on a new way of thinking about business; it provides routes to a clear strategy for profitable growth. ABC is a necessary and efficient measurement tool for profitability analysis and this will result in better-informed managerial decision.

All and all, a CRM system, a CPA and an ABC cost system requires changes to organizational culture, more precisely, there is a need for customer oriented cultural mindset. The commitment of both top management and employees is an essential element for bringing value to the company and the customers; it requires full-time attention of the implementation project team with representatives from sales, marketing, and manufacturing and information technology.

Indeed, implementing a CRM system is a resource- and time-consuming activity; a labor-intensive operation; which has to be monitored and maintained permanently. But a system like CRM gives the possibility to increase managerial insights into how products, customers or supply channels works; how profitable they are; allows managers to make decisions with more accurate information and lower chances for error in those decisions.

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VOLUNTARY DISCLOSURE AND PERFORMANCE IN TIME OF ECONOMIC INSTABILITY. THE CASE STUDY OF TURISM FELIX COMPANY

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In the last few decades, the problem of voluntary disclosure of financial or non-financial information has been, in the attention of specialists, given the fact that information asymmetry, as explained by the agency theory, has become an important factor for the actors of financial markets. High quality financial reports consistent with the IAS/IFRS, issued at regular intervals, have the role of offering data for in-depth financial analysis that can be the basis for decisions regarding stock market investments. The performance of company, estimated by using the EVA, MVA, VA indicators, are directly linked with the average cost of capital, which in turn is sensitive to the evolutions of the stock market, measured both by the level of the asset attached to the entity and of the level of financial market. The impact of voluntary disclosure on company's performance in our paper has been studied on TUFEL company listed on the Bucharest Stock Exchange, confirming a refined degree of predictability.

Key words: voluntary disclosure, performance, cost of capital, EVA, TURISM FELIX

JEL codes: M41, M10, G14

1. Introduction

Through this study we hope to emphasize the fact that in any insecure economic period, a society that is marketable (on stock market) is interested in reporting data as frequent as possible. The voluntary reports offer credibility and predictability to the marketable entity, for the existing investors or for the potential ones in an economical and financial environment characterized by increased uncertainty.

All over the world there are strict rules regarding the shape and the content of synthesis documents and the moment of placing them in the public domain. Studies have shown that the nature and the number of information voluntarily disclosed correspond to the size of the company; the number of shareholder and the structure of shareholding; the status of marketable company; the company's performances; debt-to-equity ratio; recommendations from the Audit Report; company's internationalization ratio; company's original branch; the costs associated with information communication. Costs are considered a key factor that deeply influences the company's decisions regarding the communication policy. These costs are: cost of production information; disputation costs; political costs; competitive disadvantage cost.

The theory that explains *informational asymmetry* is *agency theory*¹²¹³. According to this theory there is an *agency connection* between managers and shareholders and is based on the bonus remuneration system. Gathering resources and maintaining at a positive level a number of economic indicators such as the *stock price* are elements that strongly motivate the managers into voluntarily sharing information. The models developed in the last years have used, as a signaling instrument, the *accountant information management*. Managers can transmit, through their

¹²¹³ Liliana Malciu , *Cererea & oferta de informații contabile*, Editura Economica ,București 1998, pag. 74

content and the moment of the publication of these models, signals of company's return rate perspectives. The signaling through the content of the information is done by choosing the accountant method, through informing certain sectors and through informational budget. There is a direct relation between the origin of information and its publishing date.

2. The cost of capital and the value creation

The investor is the one that wants the best return rate of its capital, therefore he will orient his interest towards the companies that create value. The accountant indexes consider the company as performing well when it turns out profit. But the result must not only be positive, but it has to compensate the cost of resources brought in by the shareholders¹²¹⁴. For the "capital" factor there is a minimum remuneration called the capital cost. If a company earns its capital cost, its objective is achieved and has satisfied its shareholders expected earnings. *The shareholders will not accept a remuneration that is below the risk free interest rate because any investment has a superior risk in comparison with risk free asset.* Any investment must offer a remuneration that contains a *risk bonus*.

3. A brief review of the literature on the topic

The financial market works as any other market, on the basis of demand and offer, having as a base of transaction, the capital. Research in the modern theory of the portfolio, contains a series of models of analysis and estimations of the central relation of portfolio management, that is the correlation risk-return rate. Markowitz's theory created an economic-mathematical model that follows the behavior of the financial market's subjects and has introduced the *practice of diversification of the title portfolio*, depending on the correlation risk-return rate. Sharpe has divided the risk that characterizes financial titles into two subclasses: the systematic risk and the specific risk. In a general formula, Shape has introduced into the equation of a title's return rate, the notion of volatility, that shows the connection between the evolution of a title's return rate and a macroeconomic factor's return rate, usually considered the *market's medium return rate*. Subsequently, Lintner and Shape use for the first time the hypothesis of introducing *the risk free asset* into the portfolio and thus the risk bonus appears as a result of investment demand in risky assets. The risk free asset offers certain remuneration without an existing risk taken. The equation $=r_f + \beta_i (r_p - r_f)$ called also CAPM (Capital Asset Pricing Model) emphasizes the connection between the risk asset, the risk free asset and volatility. Based on Markowitz and Shape's researches, Ross established a multi-factorial model, called APT (Arbitrage Pricing Theory), through which he accomplishes a connection between title's individual return rate and a series of macroeconomics factors.

Disclosures in excess of those required by laws, accounting standards or stock exchange listing requirements regulations, namely voluntary disclosures, have been an area of interest to researchers for many years. Companies continue to disclose voluntary information despite ever increasing mandatory requirements and so the motivation for such behaviour has been the focus of much attention (Watson *et al.*, 2002). It is often argued that companies might find it advantageous to provide additional pieces of information to investors and analysts through the annual report. This statement is based on the fact that information asymmetry between companies and potential investors, due to a low level of disclosure, increases cost of capital by introducing adverse selection between buyers and sellers of the company's shares. By disclosing more information companies are likely to reduce information asymmetry and hence attract liquidity in the company's shares, which lead to lower cost of capital. So, we have to underline that voluntary disclosures can take several forms: press releases, conversations with financial analysts, letters to shareholders and the provision of additional information in annual reports.

¹²¹⁴ Iulia Jianu , *Evaluarea, prezentarea și analiza performanței întreprinderii* , Editura CECCAR ,București , 2007 pag. 363

The practice of voluntary disclosure is usually explained by *two economics-based theories*: agency theory and signalling theory or information problem theory (Healy and Palepu 2001; Xiao *et. al.* 2004). Voluntary disclosure is focused to solve the *ex-ante* (information problem) and *ex-post* (agency problem) at once. Agency theory basically assumes that everyone is selfish, pursuing her self-interests. In the context of modern companies, there exists separation of ownership (principals) and control (agents). Since principals cannot perfectly monitor agents' behaviour and agents are selfish, agents have strong incentives to act for their own interests at the expense of principals'. Agency theory is *ex-post* since it exists after the formation of companies. Dumontier and Raffournier (2002) classified the accounting choices into two broad categories: the way the company evaluates its transactions (choices concerning accounting valuation) and the way the company presents its accounting information (choices concerning financial statement format). The authors have shown that companies listed on foreign markets are more inclined to adopt international standards voluntarily.

Agency theory is commonly used in the literature to analyze the determinants of accounting choices. As Jensen and Meckling (1976) observed agency theory argues that there is an avoidable monitoring cost for shareholders, paid to prevent expected expropriations by management. Since companies are competing against each other in the capital market to raise funds at the lower possible cost, there is a high incentive for these companies to help investors reduce their monitoring cost, by offering them clearer and therefore more reliable information. Financial statements, in opinion of Prabowo and Angkoso (2006), are one main device to reduce the agency problem, although there are other mechanisms such as efficient market for corporate control, governmental regulation, efficient job market for managers and managerial stock ownership program. By forcing managers to prepare standardized financial statements, shareholders can monitor and control managers' action with the proxy of company's financial performance. As Healy and Palepu (2001) considered it is expected that by disclosing additional, not mandated information, managers and owners can actually reduce agency costs.

Signalling theory exists before investors put their money into certain companies. Therefore it is called *ex-ante* problem. Information problem exists because investors have no or limited information to assess the quality of companies, forcing them to value all the companies at average level. The main problem with information asymmetry is that it impairs the efficient allocation of capital and entails higher cost of capital. Akerlof (1970) sees information asymmetry as a „lemons” problem that arises when a person wants to buy a used car. The signalling theory may be relevant to analyze the determinants of accounting choices. More specifically, accounting policy choices has signalling properties. The most commonly investigated information asymmetry is between the company and the investors although such kind of asymmetry can appear between other parties too (e.g. the company and the underwriter). Previous studies have demonstrated that increased disclosure decreases information asymmetry. Botosan and Plumlee¹²¹⁵ (2001) have a research plan in which they analysed the cost of capital through the dividend discount rate. This research was based on S. Ross's classical formula, Arbitrage Pricing Theory (APT). Since in the original model, the number and nature of macroeconomic risk factors aren't defined, the researchers chose a set of six indicators: the volatility ratio defined by CAPM; financial leverage; the size of the company, the share's account value, the rate of long term profit rise; the actual market value of the stock. These set the expected nature of the correlation between them and the cost of capital. The research was carried out on a sample of 23,765 companies between 1979 – 1993.

¹²¹⁵ Botosan, Christine A. and Plumlee, Marlene A., Estimating Expected Cost Of Equity Capital: A Theory-Based Approach (July 2001). University of Utah Working Paper. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=279309

Ionaşcu *et al.* (2009) conducts an ongoing research during the 2009 – 2011 period¹²¹⁶, with the title „*The benefits of adopting IFRS standards: a research exploring the impact of internantionalizing Romania’s accounting on capital cost reduction*”. The objective of their study is to identify the possible economic benefits of Romania adopting the IFRS. They start with the idea that applying IFRS, considered a high quality standards, must lead to *an increase in financial information transparency, a reduction of information assimetry and risk*, and, as a consequence, to *a decrease in the capital cost*.¹²¹⁷ On the sample of 37 marketable companies that adopted IFRS beginning with the year 2000, they evaluated capital cost in two different moments: **t** (in 1999, before the IFRS reporting) and **t+τ** (in 2003, after the adoption of IFRS). The research used a quantitative type methodology, by testing the model proposed by Botosan și Plumlee(2005). Results show that, indeed, after adopting IFRS, capital cost decreased from 0,8 (before the implementation) to 0,07 (after the implementation). IFRS offered the advantage of lower capital cost for Romanian companies listed at the Bucharest Stock Market (BVB).

4. Research Methodology

In the process of drafting this paper, we have followed the next steps:

Choosing the subject of the research and establishing the significance of the problem

The current paper wishes to argue that accounting information being credible, standardised and available in real-time is the basis of the decisions that an investor makes in an uncertain economical environment. These decisions are measured through an indicator of our choosing, cost of capital. The influence of this indicator on the company’s performance are measured through the concept of value creation.

Documentation, by resorting to the international and national literature in this domain

The international literature used is mainly about the theoretical contributions of researchers like, Sharp, Lintner, Botosan and Plumlee, but also about empirical testing done by numerous researchers such as Botosan (2006), Ionaşcu (2009).

Defining the research questions:

Our research was based on the following the research questions:

Q1: *AV – actual value, MVA –market value added and EVA –economic value added represent measures of performance and are directly correlated with average capital cost;*

Q2: *voluntary disclosure of financial information help to better estimate capital cost by investors;*

Q3: *a society that operates in a sector where stock have a volatility of less than 1, the average capital cost is relatively stable.*

Possible errors may arise from the data collecting methodology or from the stated research questions.

Chosing the data collecting methods and techniques

The chosen society satisfied the following criteria: to be marketable on BVB; to publish interim rapots in standard form, as set out by IAS 34. These public reports are disclosed through the own society’s web page.

Data analysis and the validation or rejection of research questions

The validation or rejection of our research questions shall be made by applied quantitative analysis on the gathered data. ACC – average capital cost, AV – actual value, MVA –market value added and EVA –economic value added are calculated in 5 different moments in the 2008 – 2009 period, using the aforementioned conceptual framework and the financial information from the anual and interim reports. By analysing the results, we shall determine the validity of the presumption that: *voluntarily disclosed financial information in a standardised format decreases*

¹²¹⁶ webpage of the research project <http://cig.ase.ro/didactice/default.aspx?idutilizator=31>

¹²¹⁷ Ion Ionaşcu , Stere Mihai , Mihaela Ionaşcu ,*Implementarea IFRS și reducerea costului capitalului pentru companiile românești cotate* , Revista Audit financiar , Nr 1/2010

capital cost and alters the created value in such a way that informed investors will have access to decision criteria during the year 2009.

Data interpretation

After obtaining the results, we analyse both the absolute values from a quantitative point of view, as well as their evolutions in time. By comparing amounts and evolutions we shall have a qualitative analysis of the results.

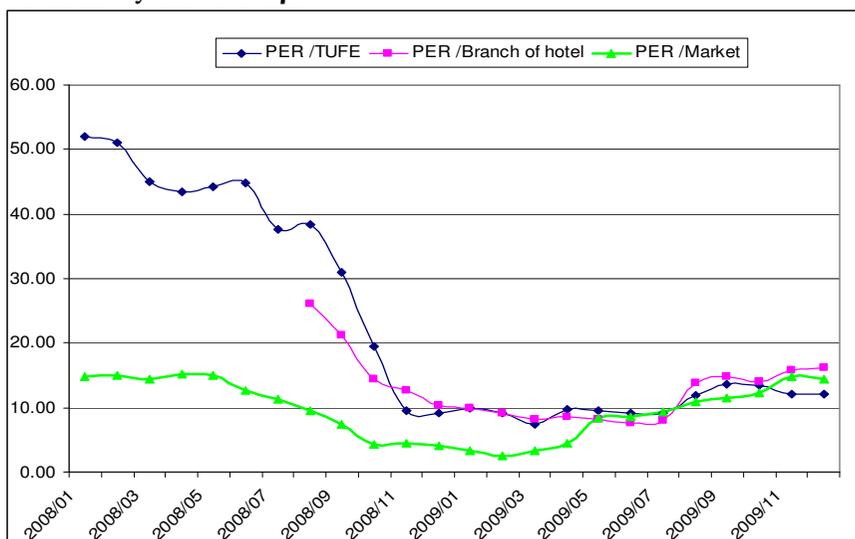
5. Results of the performed analysis on TURISM FELIX SA

The case study focuses on the *average capital cost*, in the conditions of voluntary disclosure of financial information, on a trimestrial basis, and the accuracy of the risk evaluation as compared with the annual mandatory reporting, as well as a performance estimation by calculating the **MVA**, the **EVA** and the **AV**. The analysed company is TURISM FELIX SA, a stock company from the Bihor county, with a social capital of 49.614.945,60 lei, marketed, in the Category II section, with the symbol TUFÉ, at the Bucharest Stock Market (BVB) since March 21, 2007. Currently 496.149.456 stocks of the company are being transacted.

In order to determine β (the sensitivity coefficient, which measures the stock's sensitivity to market fluctuations and which determines the specific risk) using the least square method, the monthly PER stock market indicator was used, both for the TUFÉ stocks and the market as a whole. The values of β for December 31, 2008, March 31, June 31, September 31 and December 31, 2009, were determined using the information from the Monthly Buletins issued by the BVB in the last 24 months. For the calculations, additional information was used from the financial reports of the 2008, 2009 fiscal years, as well as data from interim trimestrial reports from 2009. The following values are known from the macroeconomic environment:

- the flat income tax of 16%, according to Law 571 of 2003 – Fiscal Code;
- risk-free interest rate is 7,4%¹²¹⁸ ;
- we assume an expected return rate on these stocks by investors of 27,4% ;

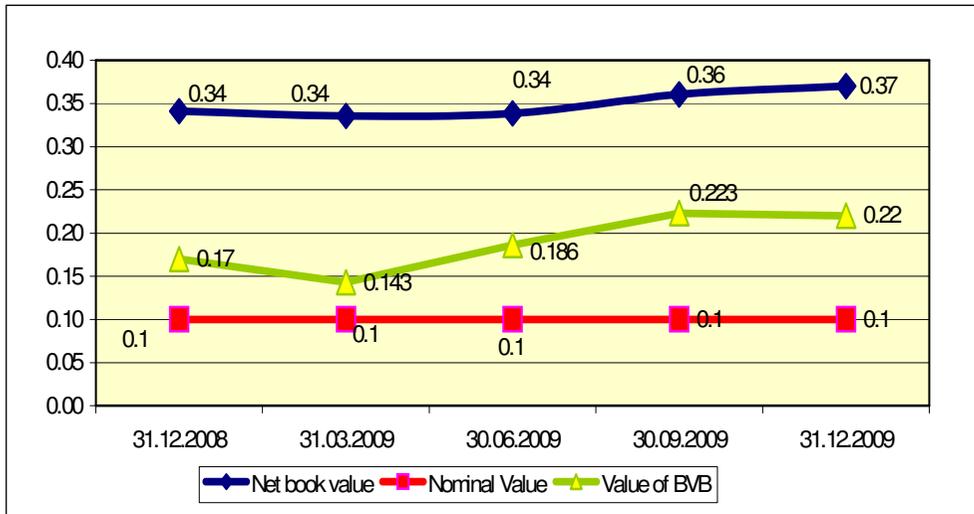
The TUFÉ stock's PER indicator, the market and the hotel industry figures are at the basis of calculating the volatility coefficient β .



Graph No.1. Evolution of the PER index

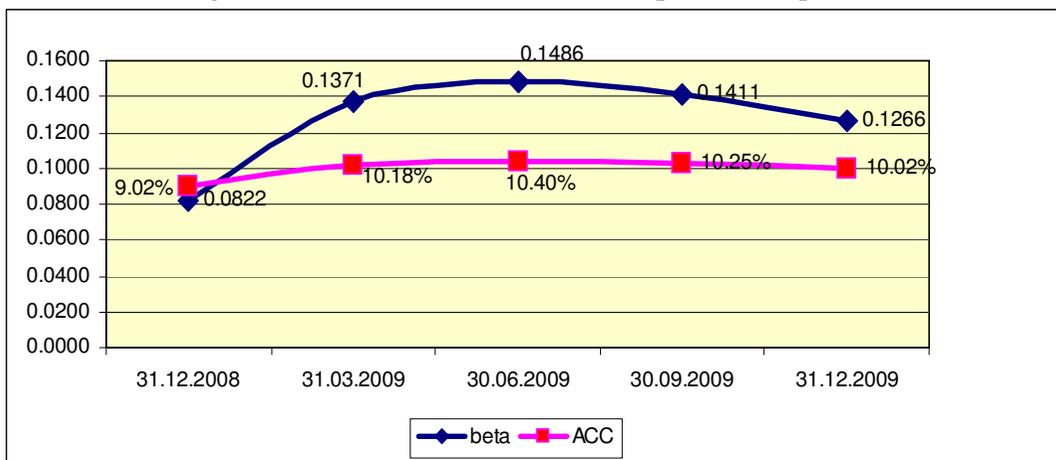
¹²¹⁸ medium interest on Treasury bonds issued by the Romanian National Bank (BNR) in 2005 for a period of 15 years, according to the Monthly Bulletin of the BNR

During the study, the company kept its nominal share value at 0.1lei/stock. The AGA decision during 2009 allocated the whole profit of 2008 on reserves.



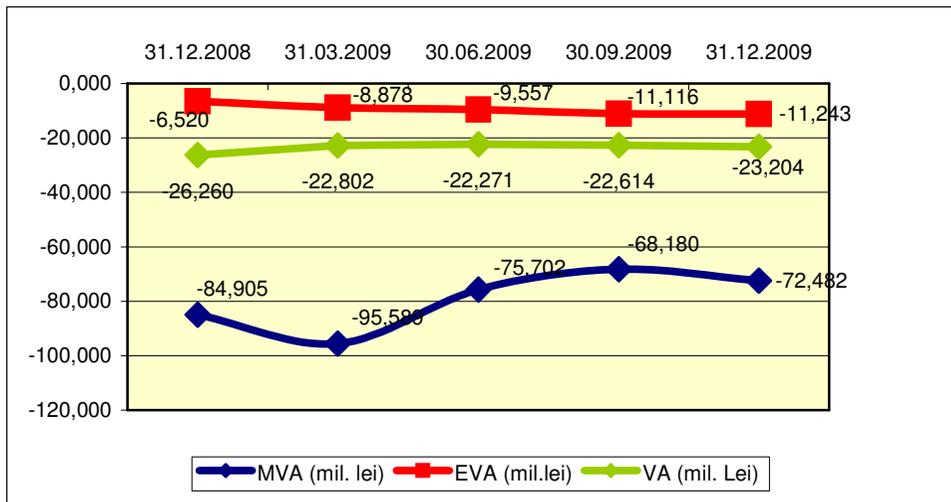
Graph No.2. Evolution in time of the market, accounting nominal values of TUFÉ stocks.

The evolution of β in paralel with the evolution of ACC shows to what degree the estimated ACC responds to the degree of volatility of TUFÉ stocks. The average capital cost shows a paralele evolution to β , but with a much more moderate amplitude (Graph No.3)



Graph No.3. Evolution of the sensitivity coefficient β and of the average capital cost ACC

Using average capital cost and market value of the stock, one can calculate the company's capacity to create value through its three approaches: MVA, EVA and AV. Calculating AV, by updating the total available treasury stream using as an update rate the ACC, was done with the following things in mind: keeping the total available flow at the level of December 31, 2008, estimating a time frame (of 4 years), operating with the average capital cost pertaining to every moment in time. Through this method, AV's obtained values show the way these evolved correlating with the average capital cost.



Graph No.4. The evolution of MVA, EVA and VA during the Dec. 31, 2008 - Dec. 31, 2009 period

Market Value Added (MVA) is calculated as the difference between the market value and the accounting value representing the *created external value*. EVA is an instrument used to measure the created value of the company through its shareholders, calculated as the difference between the net exploitation result and the invested capital cost, being also an indicator of internal performance.

6. Conclusions

The only available data, between two annual reports, on which estimates are made, are the ones from the last report, which are basically historical data and, as they get older, they become more unreliable and outdated. Through the interim report, the risk and uncertainty conditions are updated, and one can test whether the tradeable stock behaves according to the evolution of economy, or according to speculative fluctuations. The increase in the stock price during the period between January 1st and December 31, 2009, by 30% is supported by the rise of the AV by 11,5%, of the MVA by 15%. The evolution of β is presented in Graph. No. 4, in which one may notice that during a period of major turbulence on the capital market, β had significant fluctuations (+80%), and towards the end of the year reached a value of 0.126, an increase of 50% compared to the value from the beginning of the year (0.0822). The average capital cost (ACC) shows a similar fluctuation as β , but a maximum β amplitude of 80% corresponds to a maximum ACC amplitude of 15%. We can safely say that this verifies the hypothesis from the literature of this field: *if a company operates in a sector in which the stock presents a volatility that is less than 1, the average capital cost is relatively stable*. The average capital cost has risen by 13% during the year 2009, from a value of 9.02% to 10.02%.

We consider that evolution of PER stock indicator already includes the decision of investors to buy, therefore they probably acted either with full knowledge that their investments would be profitable on long run, or they acted in a speculative manner. By comparing the stock price with accounting value of stock, investors can make the natural decision of buying, given that the price of the stock is around 50% lower than its account value. This study upholds the idea that interim reports, done correctly, are welcome, and almost mandatory for companies listed on the stock exchange, especially given the socio-economic context, one of a less than stable period. It may be argued that the benefits for the reporting company vastly outweigh the effort put into the drafting of these interim reports. The benefits are measurable in time, through the stock market indicators attached to the stock, and through the trust given by existing and future investors.

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21. *** *Ghidul investitorului la bursă*.

ACCOUNTING AND TAX ON ASSETS DEPRECIATION

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Although limited fiscally, provisions and adjustments for depreciation must be registered by the entity in order to transmit the real image and to provide to users, an useful and current information. The entity’s accounting policy relating to adjustments for depreciation has an impact on the outcome of the fiscal year and in consequence on the income tax by the impact of the depreciation of reversible value considered as an expense of the period as long as it is tax deductible. Although in an accrual accounting, the accounting principles and standards accept the registration of the depreciation of assets totally, thereby leading to an accurate picture of the financial situation, however taxation imposes restrictive rules for deductibility of provisions and adjustments for depreciation.

Keywords: value adjustments, loss of value, tax deductible adjustments, tax non deductible adjustments, profit.

JE code: M4, M 41.

1. Introduction

The usual terminology of our country in accordance with accounting regulations and approaches from literature refers to two types of depreciation:

- Irreversible depreciations are specific to tangible and intangible assets and they are due to physical or moral wear as well as to other causes. Depreciation is found by comparing the value of entrance of the fixed assets with the inventory value at the end of the financial year;
- Reversible depreciation consist of the possibility the in following period, the fix assets (intangible, tangible, ongoing and financial) as well as the mobile assets to register a decrease in market value (possible cost recovery may be lower). Such depreciation is estimated at the end of the fiscal year during inventory, so that through calculation a real assessment of the asset to be made, in the balance sheet.

As a result, the depreciation is not definitive and therefore provisional adjustments are made for them, and the assets, as described above, are maintained at the entrance value. According to O.M.F.P. 3055/2009, *“value adjustments comprise all adjustments intended to take account of reductions in value of individual assets, established at the balance sheet date, whether that reduction is final or not. Value adjustments include: permanent adjustments, hereinafter referred to as depreciation, and / or temporary adjustments, referred to as adjustments for depreciation or loss of value, depending on whether the adjustment of assets is permanent or temporary”*.

Both depreciations and adjustments play the part of reserves similar to sources, but which generate certain expenses related to assets and which ultimately affects negatively the financial outcome of the exercise or of the respective management period. The two distinct types of costs are: expenses for asset depreciation specific only to fixed assets falling under the scope of physical and / or moral wear and expenses of adjustments for value depreciation that can be seen in all asset categories.

According to International Accounting Standards amortization is not considered depreciation and depreciation of assets is treated as a value adjustment. The value depreciation is treated differently. It is a loss of value occurred during the useful life period of the asset, due to specific factors, which determine that the net selling price or the replacement cost is lower than the net accounting value. The size of the depreciation is given by the difference between the net accounting value and the inventory value. The inventory value gets different shades depending on the category of assets: recoverable value for tangible and intangible assets, net realizable value

for stock, probable value receivable for debts, stock market value for short-term financial investments. The reflection in accounting of value loss according to IAS36 is made throughout the expenses for the assets' depreciation and the crediting of the account of the impaired asset, in order to highlight the direct influence of the loss of value. Assets will appear to the new value both in the balance sheet and in the primary records. By what has been presented, we can conclude that there are differences between the depreciation of assets as it is perceived in the Romanian theory and practice and depreciation of value in terms of International Accounting Standards.

2. Tax treatment of adjustments for the value depreciation

From the point of view of taxation, in order to protect the taxable income adjustments for depreciation are not binding. For this reason, the fiscal rule requires formal and substantive conditions for the deductibility or not of depreciation expenses. Through the content, structure, method of formation and implications on the result of the year, the provisions and adjustments for depreciation are the most eloquent example of the imperative role of taxation on accounting.

In terms of tax, value adjustments fall into two categories:

- ***tax deductible adjustments***, which involve the right to deduct from the result of the year the expenses due to their creation. In this case, the entities receive a deferral of the income tax because it is calculated and paid only at the time of the transition to revenues. If the adjustments are tax deductible, entities decrease from their result the adjustment's value and, as such, the tax obligations to the budget are reduced. At the time of the reduction or cancellation of the value adjustment by registering it as revenue, the result of the activity increases, but the financial effect of deferred income tax is more beneficial for the body, because all this time it has been made a temporary self-financing, through the retention of amounts available to the entity, whose chargeability is being delayed;

- ***tax non deductible adjustments***, which require the transfer of costs for their creation in the category of non deductible expenses when calculating the income for that year. This situation is apparently not at all encouraging, because the entity must pay an additional tax for the value of adjustments. But considering that revenues from the reduction or cancellation of adjustments are free of tax, as there cannot be a double taxation, deductions for their creation are not justified. Tax demarcation, generally, is at the basis of the attractiveness of recording adjustments by the entity, but it should not constitute a decisive criterion, as the achievement of the fair image objective that the bookkeeping must offer requires the compliance with all accounting principles and hence registration of all value losses of assets, whether or not deductible. Thus, the annual financial statements will give priority to the accounting rules and the determining of the taxable income will take into account the tax rules. This deductibility may be different or identical in different countries, depending on their respective fiscal policy. Fiscal policy is essential in supporting economic growth and the tax system is a key element in attracting foreign investors and, thus, a country's economic development.

3. Adjustments for depreciation and financial and fiscal implications. Case Study

If amortization is allowed as deductible fiscally, adjustments for depreciation are not accepted in any way by deductibility, except for receivables – doubtful customers in the case of their bankruptcy on the basis of a court decision testifying it. Thus, there is a disparity between the financial statements presented by the establishment, between the financial statements and the profit and loss account, this leading to distortion of accounting information, which is no longer genuine and credible. In countries where accounting is linked to taxation the entities by the creation of adjustments for depreciation aim only at getting tax benefits and not at meeting the requirements for reflecting a true image. By analyzing the adjustments for depreciation only in terms of fiscal rule, they being non deductible, entities which are dropping the mechanism of adjustments will get a deformed fixed assets capital, different from the accounting truth. In order to

highlight the financial and tax implications concerning the establishing of adjustments for depreciation we assume a hypothetical situation, taking into account the formation of deductible provisions and also of non deductible provisions.

CC "A" SC and CC "B" SC have the same activity – public catering. At the end of year N-1, respectively at the beginning of financial year N, the two entities have the same financial structure and the same achievements. Therefore the balance sheet of the two entities at the beginning of year N has the following structure:

Balance sheet at the beginning of year N of the CC "A" SC and CC "B" SC

Asset	Amounts	Debts + capital and reserves	Amounts
0	1	2	3
Fix assets	40.000	Debts – total	44.000
Raw materials	14.000	Commercial debts	14.000
Finished products	18.000	Payment dividends	25.200
Clients	16.000	Tax income (16%)	4.800
Bank accounts in lei	32.000	Equity - total	80.000
Cash – in lei	4.000	Paid subscribed capital	60.000
		Reserves	20.000
		Result of the year	30.000
		Allocation of profit	30.000
Total	124.000		124.000

The loss and profit account at the beginning of the financial year N at CC "A" SC and at CC "B" SC

Elements	Amounts
Sales income	60.000
Stored production income	14.000
Operating expenses – total	50.000
Operating result	24.000
Financial result	6.000
Extraordinary result	-
Result of the year	30.000
Income tax (16%)	4.800
Net result	25.200

During year N the following economic transactions were made:

Finished goods are obtained – worth 60.000 m.u., cost of production, sales of 50.000 m.u. production cost in the year end inventory for sold finished goods, selling price for sold finished goods 80.000 m.u., of which only 40.000 m.u. is received, the difference of 20.000 m.u. representing receivables. The client CC “C” SC is declared bankrupt, his receivable is 8.000 m.u. Total operating expenses 60.000 m.u., of which 58.000 m.u. have been paid, the rest of 2.000 u.m. representing debts, incomes from cashed in debts 4.000 m.u., dividends are paid during the year in amount of 25.200 m.u. and the income tax 4.800 m.u., the amount of 25.200 m.u., representing payable dividends for the year N, the net profit obtained at the end of the year is totally allocated for dividends payment.

CC “A” SC will constitute provisions for client depreciation of contested debts, in amount of 8.000 m.u., the entity foreseeing very small chances of recovering the debts, through the letters of confirmation of balance sent at the end of the financial year at the occasion of debts inventory. CC “B” SC does not create provisions for debt depreciation.

In the accounting of company “A” the accounting records for the establishment of the provision is as follows:

$$\begin{array}{rcl}
 8.000 & 6814 & = & 491 & 8.000 \\
 \text{Operating expenses concerning the} & & & \text{Adjustments for debt} & \\
 \text{adjustments for the depreciation of} & & & \text{depreciation- clients} & \\
 \text{mobile assets} & & & &
 \end{array}$$

Therefore during the year N, the two entities had the same records, the only difference is the provision for depreciation of customers receivables, created only by the entity “A” at the end of the year. At the end of the financial and fiscal year N the profit and loss account, respectively the balance sheet of the two companies having the following structure:

The profit and loss account at the end of year N at CC “A” SC end CC “B” SC

Elements	AMOUNTS	
	CC „A” SC	CC „B” SC
Sales income	80.000	80.000
Stored production income	10.000	10.000
Total operating expenses from which - provision expenses	68.000 8.000	60.000
Operating result	22.000	30.000
Financial result	4.000	4.000
Extraordinary result	-	-
Result of the year	26.000	34.000
Income tax (16%)	4.160	5.440
Net result	21.840	28.560

The amount have been obtained by analyzing the initial situation and the transactions that took place during the financial and fiscal year N, with the help of the synthetic and the analytic accounting.

Balance sheet at the end of the year N for CC "A" SC and CC "B" SC

Assets	Amounts CC "A" SC	Amounts CC "B" SC	Debts + equity	Amounts CC "A" SC	Amounts CC "B" SC
0	1	2	3	4	5
Fix assets	40.000	40.000	Debts - Total	42.000	50.000
Raw materials	14.000	14.000	Commercial debts	16.000	16.000
Finished products	28.000	28.000	Tax income	4.160	5.440
Clients debts	28.000*	36.000	Payment dividends	21.840	28.560
Bank accounts in lei	8.000	8.000	Equity	80.000	80.000
			Capital	60.000	60.00
Cash in lei	4.000	4.000	reserves	20.000	20.000
			Result of the year	21.840	28.560
			From which contested debts	8.000	8.000
			Income allocation	21.840	28.560
Total	122.000	130.000	Total	122.000	130.000

* 28.000 represents the net value of customers debts, (36.000 nominal value - 8.000 adjustments for depreciation)

The financial and fiscal implications of the creation of provisions by CC "A" SC are as follows:
 - the profit of CC "A" SC, which created the adjustment for the depreciation of contested client debts, has recorded a decrease compared to CC "B" SC, respectively a decrease of 8.000 m.u. This can be explained by the increase of expenses for the adjustments which are tax deductible. As a consequence the profit is diminished which will have as an effect a reduction of the income tax. Thus a delay of payment of an income tax will occur concerning the period N, from creation to its annulment:

- for CC "A" SC this delay of tax payment, as well as the temporary keeping at the company's disposal of a certain volume of the net profit, respectively 8.000 u.m., it represents a direct advantage.

- after the liquidation of CC "C" SC and the valorization of its assets and the payment of debts the following situations can occur affecting both companies:

- if the debt are recovered, the company which registered a provision will cancel it, on the expense of the income accounts, this payments that were supposed to be paid in the past (tax and dividends) will be made in the present, which lead to the company obtaining of sources of free

financing, this compensating in some sort, the delay of cashing in. for the company that did not register provisions, the ulterior cashing in of debts had no influence what so ever.

- if debts are not recovered, both companies register losses for the uncollected receivables.
- for the company that registered the provision, by its annulment on the expense of revenues cancels the effect of the loss from the financial records.
- for the company that did not register a provision for depreciation the effect is felt solely in the year in which the non collection takes place, through the inclusion in the profit and loss account of the expense for losses from uncollected receivables.

After the litigation is solved, favorably or not, the provision created is annulled:

8.000	491	=	7814	8.000
Adjustments for depreciation of customer receivables			Revenues from adjustments for the depreciation of mobile assets	

In conclusion, the company will have 8.000 m.u. more to pay, either as taxes dues to the state budget, or as payment dividends to the shareholders. In this case, CC “B” SC practically will not register any supplementary expense but in comparison with CC “A” SC, it will not have at its disposal the amount of 8.000 m.u., amount that CC “A” SC was practically credited for a period of two years with zero interest.

For the state budget the creation of provisions by company “A” does not represent a direct advantage as it generates a delay in payment of a tax, thus a delay of cashing in revenues for the state budget. On a long term however, the state budget will profit also due to the fact that company “A” will use the amounts temporary at its disposal, will become more viable financially, will be able to increase its activity, the results will be better and thus it will feed the state budget with a greater volume of taxes. These advantages become real only if the provisions created are tax deductible. The other provisions created but not included in the fiscal laws are not deductible from the taxable income; therefore they will be added to the taxable income to which the income tax is applied. This is why companies refrain from creating provisions non deductible fiscally, even if they prove to be useful. Their creation appears however as a necessity, with the purpose of reflecting a true image of the companies’ financial situation.

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NEW CHALLENGES FACED BY EUROPEAN COMPANIES AND THEIR STAKEHOLDERS

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The European Union is currently affected by the financial crisis that spread internationally. The member states face difficulties such as price volatility, uncertainties, liquidity issues, cases of bankruptcy, increased unemployment rate, and decreasing GDP. The present paper analyses the challenges faced under these new circumstances by the European companies and their stakeholders. By taking into consideration the threats and weaknesses faced by firms and other interested parties, we emphasize the importance that transparency and communication among companies and their stakeholder have in overcoming financial difficulties.

Keywords: economic turmoil, stakeholders, communication, challenges, corporate governance

JEL Classification: G30

Introduction

The present paper covers aspects related to the current situation of the European Union and the causes of the economic crisis that affected the member states. The authors analyzed not only the effects, but also the chain of events that lead to the current crisis. The break-out of the world economic crisis, initially started with a financial crisis, caused by unprecedented increases in credits that were stimulated by a long period of moderate financial and economic conditions. As a consequence, this crisis is opening the road to changes affecting European companies, stakeholders and the relationships between them, as well as to changes at the level of the whole society. What are these changes and what possible directions of actions should be adopted are the main questions this paper tries to answer. As a result of their analysis, the authors emphasize the role and importance of communication in times of financial crisis, as main survival factor and even exit from the crisis.

1. Current Economic Situation of the European Union and Causes of the Financial Crisis

The fifth anniversary of the largest recent enlargement of the European Union is marked by financial difficulties faced by the member states. Risk adversity, reduced liquidity, price volatility, uncertainty regarding the future of financial institutions, doubts related to the quality of the structured credit products and uncertainty about the macroeconomic prospective now characterize the EU economic environment.

The current turmoil was preceded by a period of benign financial and economic conditions, with low real interest rates and no liquidity problems. The consequence was an exceptional growth of credit, since investors and intermediaries were willing to take on higher risks. In conjunction with this, a sophisticated and apparently stable system was established, which consisted in originating extremely complex financial instruments that allowed banks to offload risks (especially in the

United States of America). These financial instruments were then distributed and bought – mostly in Europe, without paying proper attention to the underlying assets and the real economic fundament of these instruments¹²¹⁹. This excessive distribution of credit, the use of complex financial instruments, the underestimation of risks and even the lack of economic cooperation between major countries within the European Union and globally have led to the current financial crisis.

However, the report of the Economic and Financial Affairs Council (ECOFIN) called “Five years of an enlarged EU: Economic achievements and challenges” states in an optimistic tone that “the recent EU enlargement was not only a historic step in unifying a long-divided Europe but also a success from an economic point of view resulting in a win-win situation for the whole EU”¹²²⁰. The objective of the European Union structures currently refers to using the created synergies in order to diminish the negative effects of the financial crisis in the member states. The European Council in 2008 agreed on a European Economic Recovery Plan, based on a proposal of the Commission. Moreover, the Council of the European Union has recently drafted country-specific recommendations that have in view the particular economic situation in each member state¹²²¹.

2. Corporate Governance. The Impact of the Current Financial Crisis on the Main Stakeholders and Accounting Professionals

In theory it is considered that the concept of enterprise refers to a single entity which operates harmoniously and whose main goal is to maximize value and shareholder wealth. Due to the appearance of new elements and complex needs, other views on the enterprise have been developed. Thus, the definition of the enterprise could be based on the concept of social interest, with the purpose of generating wealth as a result of the participant’s collaboration in the company’s life (shareholders, managers, creditors, employees, customers, suppliers, public power). Thus, the objectives of a company are of social nature, but also relate to maximizing profits¹²²². The definition developed under the first theory leads to financial information directed towards investors, while the second definition is oriented to satisfy the financial needs of all users¹²²³.

One of the key factors that influence the efficient use of resources, the increase of the confidence shareholders have in the enterprise managers, the success in achieving the company’s objectives and the economic efficiency is the corporate governance system by which a company is controlled. This system promotes fairness and transparency at company level, and consists in a set of rules of conduct that aims the welfare of the society as a whole, but mostly the welfare of the shareholders and other stakeholders: managers, creditors, employees, customers, suppliers, public power, etc.¹²²⁴

Across the European Union, there are several corporate governance models which have distinct characteristics: the Anglo-Saxon corporate governance system (specific for Great Britain) and the German system (specific for Germany and for Continental Europe countries). The Anglo-Saxon model has a “shareholder orientation, with the expectation that other stakeholders will indirectly benefit from the active pursuit of shareholder interests”. The German system “is more orientated

¹²¹⁹ Report on the Financial Crisis 2008, drafted by René Ricol, p. 3.

¹²²⁰ Council Conclusions on Five Years after European Union Enlargement 2009, p.1.

¹²²¹ Council Recommendation on the 2009 up-date of the Broad Guidelines for the Economic Policies of the Member States and the Community and on the Implementation of Member States' Employment Policies 2009, p.3.

¹²²² Feleagă N. 2006, Criza financiară la cumpăna dintre secolele XX și XXI și guvernarea întreprinderii, *Economie teoretică și aplicată* nr. 9, p. 69.

⁵ Feleagă N. 2006, Criza financiară la cumpăna dintre secolele XX și XXI și guvernarea întreprinderii, *Economie teoretică și aplicată* nr. 9, p. 69.

¹²²⁴ The Business Environment and Corporate Governance 1998, World Bank 1998.

towards a stakeholder approach, in the sense that employees are also included in the internal governance process”¹²²⁵. Although, the corporate governance systems may differ, the managers, investors and other stakeholders have different behaviors in relation to changes of the economic environment that recently stroked over Europe.

2.1. Managers, Investors and Auditors

There are several challenges that European managers, investors and auditors face under the current financial crisis, which highlighted certain weaknesses in the related management, investment and auditing processes. It is a known fact that managers and investors have contrasting interests and different views on the success of a company. Whereas for investors, who took financial risks, success means, in most of the cases, financial performance, namely profit, managers are often tempted to follow their own interest, at the expense of the investors. However, under the current economic situation, it may happen that the objectives of the managers and those of the investors are the same, since both are interested in survival and exit from the crisis. Therefore, a challenge for investors and managers would be to cooperate better towards improving their risk management systems and bringing their company financial success.

Since investors do not always have the benefit of direct contact to the responsible managers, the ones that act instead of them and protect their interests are the financial auditors. Their interest is to obtain a reasonable insurance that the financial statements provide a true and fair view. Under financial crisis, the role of the external auditors has an increased importance, and banks and supervisors rely more and more on the expertise and judgment of external auditors as independent and upright experts¹²²⁶. Auditors in the European Union also face new challenges, since political, social and economic pressures on them are now higher than ever. Currently, two widely used sets of auditing standards exist side by side, i.e. International Standards on Auditing (ISAs) and the US standards adopted by the Public Company Accounting Oversight Board (PCAOB). Europe should adopt ISA’s as soon as possible to reduce uncertainty and promote convergence, and should call for convergence between ISA’s and PCAOB standards¹²²⁷. Moreover, the quality of the audit work is more and more important, and independence rules are essential in this matter. However, countries currently apply different independence rules, particularly those on scope of services restrictions. Europe should seek to adopt or converge to the independence standards of the International Federation of Accountants (IFAC) as soon as possible¹²²⁸.

2.2. Creditors

The current financial crisis has underlined some major weakness of European and international financial institutions. In fact, the now intensively publicized world’s economic crisis started with a boom on the market of credits and financial instruments. The long period of moderate economic conditions in the European member states and the positive evolution of new member states stimulated this credit expansion and the failure in correctly assessing investment risks. Other factors for the credit boom at international level and for lowering the underwriting standards were: increased competitiveness among financial institutions, low interest rates, rising house prices, and weak government oversight.

¹²²⁵ Rossouw G.J. 2009, *The Ethics of Corporate Governance – Global Convergence or Divergence?*, p. 44.

¹²²⁶ *External Audit Quality and Banking Supervision 2008*, Basel Committee on Banking Supervision, p. 2.

¹²²⁷ *Report on the Financial Crisis 2008*, drafted by René Ricol, p.57.

¹²²⁸ *Report on the Financial Crisis 2008*, drafted by René Ricol, p.58.

As a natural reaction, in times of financial crisis, the attention of bank creditors grows significantly. While in normal conditions, prudence should be a fundamental principle, during financial crisis, lenders focus on excessive prudence, on business continuity of companies, on their ability to maintain profits, on the degree of liquidity, but also on the human factor, especially on managers, on their behavior, the measures taken to survive, and also to exit the crisis. The refusal of bank creditors to fund a company can lead to a liquidity crisis. The permanent communication between creditors and managers, the fair description of the company's situation, the flexibility, the transparency and the fairness are key factors for establishing a viable relationship between creditors and companies. In crisis conditions, survival is the main objective of the companies and funds are primary. However, if loans are not efficiently used, it can lead to bankruptcy.

2.3. Other stakeholders – employees, customers, suppliers

2.3.1. Employees

Survival remains the biggest challenge in times of financial crisis. However, survival is understood in different ways by the managers and the employees of a company. If managers believe that survival means reducing the number of staff, for sure, the employees will think exactly the opposite, because the disposal would affect their welfare, as the unemployment period may be longer than normal. On the other hand, accepting a number of employees too large in comparison with the necessities of survival or continuation of activity can lead to inefficiency and even bankruptcy. In crisis conditions, the employees are interested not to lose their job, and to maintain the same financial and other benefits. Therefore, the permanent communication with their managers, the active participation in the business of the company, or on the contrary, the more or less violent confrontations between managers and employees are some of the possible effects related to the reaction of employees during these difficult conditions.

2.3.2. Customers and suppliers

Trading partners demonstrate more prudence when there are going concern issues. Customers are mainly interested in the company's going concern assumption, but they also have in mind the possibility of negotiating prices easier. On the other hand, the suppliers are interested and analyze more strictly the profitability of the companies and their ability to pay the financial liabilities. However, the monitoring of debits and deadlines is the main objective of suppliers in times of financial crisis. The improvement of the relationships between the trading partners and the companies can be achieved through communication and informational transparency. The financial crisis leads to significant changes in the behavior of stakeholders. The reactions differ depending on the role of the participants in the company's life. To avoid bankruptcy and conflicts of interest, managers should adopt a flexible attitude, adapt to the demands of the stakeholders involved and not at last, insure permanent communication between company and interested parties.

3. Importance of communication under economic crisis

Most economic crisis lead to rumors, to distorted perceptions regarding the economic environment, to stress, to lack of control, to panic, to disorientation, to uncertainty, to lack of security and even to major lack of balance in the whole society. The first affected by the above mentioned facts are companies, their owners and managers, but also other stakeholders and parties directly involved in the life of a company. They may have reactions such as denial, avoidance of responsibility, disclaimer of culpability, justification. Finally, the reactions are transformed into positive ones: acceptance, remediation, corrective actions, optimism and confidence. One of the factors that make the transition from a negative attitude on the crisis to a survival-oriented behavior, if not to optimism, is the communication between the company and stakeholders and between the company and the economic environment as a whole.

Individuals react differently to a given situation. Their personality, temperament, and the environment in which they have developed and worked, the psychological, social, economic, political factors and the factors of other nature have led to different, complex, sometimes opposed reactions. Social context involves individual's interaction, which can be achieved mainly through communication. The role of communication is important because it can lead to sustainable and productive relationships between individuals or to the opposite reactions of rejection, conflict, and indifference. Human relationships influence the creation, the existence and the development of the enterprises, and of the economic environment. Companies cannot exist without individuals, whereas a powerful connection is created: individuals depend on the existence and the proper functioning of companies, while companies cannot exist in the absence of individuals.

In times of financial crisis, communication takes magnitude, since individuals need accurate information on the facts (in order to eliminate rumors and distorted perceptions of the economic environment). On the other hand, using communication and tools offered by psychology, individuals can recover their balance (by eliminating stress, lack of control, panic and disorientation). Last but not least, the uncertainty, and the lack of security and balance can be controlled and removed only when panic and disorientation in the society are reduced. Thus, individuals can make correct and rational decisions related to the crisis situation, can identify the causes, clear them off and restore the social and economic balance.

Conclusions

The current economic conditions in the European Union launch new challenges for companies and their stakeholders. The uncertainty, the increasing number of cases of bankruptcy, the risk adversity of investors, the reduced liquidity, the stricter credit conditions, the price volatility are some aspects that require changes that may be catalyzed through communication, as an essential instrument of survival and exit from the crisis. The responsibility of managers will be to develop survival strategies and powerful instruments of risk management, whereas investors will be more prudent and conservative. Creditors will tighten their underwriting procedures and auditors will face stricter internal controls in order to avoid audit failures. Confronted with the threat of losing their jobs, employees will become directly interested in the success or failure of the company where they work. In our opinion, the main catalyst of all these changes will be communication.

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CONTROVERSIAL ASPECTS REGARDING THE ACCOUNTING HARMONIZATION PROCESS IN ROMANIA. HARMONIZATION, CONVERGENCE OR CONFORMITY?

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The new configuration of the international economic relations which are in a general globalization process determined by the international capital circulation requires the compatibility and comparison of the information provided by the financial statements. The investors and the entrepreneurs wish to understand and to be able to compare the entities' financial situation and performances, no matter the juridical and accounting system which are subdued to by their localization. The differences between the important variety of the accounting systems were identified long time ago and since then there have been efforts made in order to conceive a economic financial reporting structure, accessible to the entire accounting world. Therefore, there is the need of normalization, harmonization, and convergence in accounting. Our intention in the current paper is to bring again into discussion the problem of accounting harmonization, emphasizing a few aspects which in the Romanian context we consider to be controversial and which require some clarifications. This paper represents a brief review of the evolution of the accounting harmonization in Romania, analyzing the difficult moments and mainly it is focused on the conceptual understanding of the concepts of harmonization, convergence, and conformity in the Romanian accounting. Our approach is not an exhaustive one, but it has as objective to reflect on the importance of the stages of accounting modernization in Romania. In the last part of this paper, the conclusions that we reached after study, are presented synthetically, as well as the continuation of the approach initiated in other papers. Keywords: accounting harmonization, normalization and standardization, convergence JEL Classification M41

Conceptual approaches of the accounting normalization, harmonization, and convergence processes

The first preoccupations regarding the accounting normalization and standardization process were in Great Britain (the beginning of the 19th century) and the United States of America (after the 1929-1933 crisis), but in Germany in 1919 Professor E.Schmalenbach designed the first unitary chart of accounts starting from the Dewey decimal system. Yet the process of normalization is accelerated after the Second World War due to the state's need to get homogeneous and unitary financial accounting information which should allow it to exercise the economic and fiscal control. A second objective of the normalization indicated by Bernard Colasse¹²²⁹ is the need to use accounting information by the external users from time and space comparisons among enterprises. Romanian authors Niculae Feleagă and Ion Ionașcu¹²³⁰ added to

¹²²⁹ Colasse B, Contabilitate generală, Editura Moldova, 1995, apg 38-39;

¹²³⁰ Feleagă N, Ionascu I, Tratat de contabilitate financiară vol I, Editura Economica, București 1998, pag 263-364;

these objectives also the contribution of this process to a better re-allocation of financial resources at the country level. The highest part of those interested in defining the process of normalization has convened on the same type of this process approaches:

- A regulated approach which is actually one of political type within which there the state intervention. This can be considered as a forced normalization, but its absence could lead to the appearance of the market cartels and monopolies;
- The pragmatic professional approach within which the central part is played by the accounting profession. In this case, the normalization is voluntary;
- And another of a mix type which is actually a combination of the two mentioned above, for the accounting norms worded out by professional bodies are validated by public institutions or they require an active participation of the accounting profession, of the trades and employer associations when design accounting norms¹²³¹.

Regarding the object of accounting normalization, it has been agreed that in accordance with the public or private nature of the normalization, it refers to the determination of a unitary terminology and some generally accepted accounting principles, to the design of unitary financial statements in what their format is concerned, the structure, definition, familiarity and evaluation of the financial statements items and the design of the general account charts.

The need for accounting normalization is required by the differences between the accounting solutions adopted, a phenomenon generating a series of problems. The most frequent problems mentioned are:

- *problems for which the companies having to draw up the financial reports* according to different national norms or standards, a fact generating more work and sometimes difficulties in choosing the rules when it is not clear which set of norms is the most suitable;
- *problems for the users*, those who have to read and interpret the financial statements and who scarce or very vague accounting knowledge, and not to mention international accounting knowledge;
- *a general problem referring to the "unfair conditions"*, for accounting has economic consequences not only indirectly, through investment decisions, but also directly because accounting is the basis for making decision regarding the negotiation of wages, prices, setting up the dividends and in some countries it is the basis for the decisions made by taxation, and by the state in its efforts to redirect and stimulate the businesses.¹²³²

Normalization as a process drawing up rules, norms to present the synthesis documents and defining the methods and the accounting terminology, totally or partially applicable to a group of countries or enterprises, has as objectives¹²³³:

- to ensure the regulation of the accounting practices and therefore to determine the bettering of the accounting;
- to allow the accounting information users to make rational decisions, based on the accounting information;
- to create a trustful environment between the capital holders and the business managers;

¹²³¹ Cristea Șt. M. Armonizare contabilă internațională și practicile contabile naționale. Studiu de caz pentru România și Italia, Editura Accent, Cluj Napoca, 2007, p.45;

¹²³² Bogdan V, Armonizare contabilă internațională, Editura Economică, Bucuresti 2004, p. 85;

¹²³³ Feleagă N., Îmblânzirea junglei contabilității, Editura Economică, București, 1996

- to act as a referee between different parties participating to the economic life, and especially, between the accounting information producers and the accounting auditors certifying the quality of the information, thus ensuring the social credibility of the accounting information;
- to give a certain protection to the accounting auditor by confining his responsibilities;
- to allow the consolidation of the accounting information at the groups of firms level;
- to allow the drawing up of national statistics.

The normalization effort is capitalised in the enunciation and definition of accounting postulates, principles and standards (norms). If the accounting postulates and principles refer to very general elements, produced by the normalization act for a long period of time, the accounting norms can be applied to particular cases.

A postulate represents a sentence whose acceptance is required in order to make a demonstration. The accounting postulates are based on the observations made on: the economic environment by identifying the users of the financial information and the objectives of the financial information process. The observations considered useful to a formulation of accounting principles and norms are catalogued as accounting postulates.

The accounting principles are conceptual elements guiding the normalization makers in drawing up accounting norms, starting from the accounting postulates. Also, they are support elements for the financial information producers in order to correctly acknowledge in the financial statements the transactions and other events, as well as to faithfully represent the financial position, the performances and the evolution of the financial position through these synthesis documents. Finally, the accounting principles are guides for the auditors in their activity to certify the accounts. They have a lesser degree of generality than the postulates, but a higher degree than the accounting norms.

No matter they are called accounting postulates or accounting principles, they can be defined as accounting statements based on the direct acknowledgment and which are considered true, without necessarily being obvious.¹²³⁴

The accounting standards (norms) are precise rules to acknowledge, evaluate, classify, and present the accounting information. It results that, often, the accounting normalization consists in defining the norms and then in applying them.¹²³⁵

The normalization efforts made in the attempt to reduce the number of accounting alternatives, treatments internationally, was not on the profession's agenda until 1973, the year when by creating IASB the efforts made for the accounting harmonization were intensified. The pressure for the accounting harmonization to become the means to do the comparability is increasing.

The international normalization is meant to facilitate to a considerable extent the international economic and industrial exchanges. The international harmonization is more and more gaining ground and lately we have felt a progressive evolution of passing from the European harmonization to the international harmonization.

The normalization and the harmonization are two indispensable processes and sometimes complementary. The former has in view the setting up of norms and the latter the comparability between different norms.

To harmonize means to put in a perfect agreement the elements of a whole¹²³⁶, which sometimes means to prescribe changes, changes from which some win and some lose.

¹²³⁴ Todea N. Teorie contabilă și raportare financiară, Editura Aeternitas, Alba Iulia 2009, p. 32

¹²³⁵ Feleagă L. Feleagă N. Convergențe contabile internaționale prin prisma aderării la Uniunea Europeană, Revista Economie teoretică și aplicată, pp. 37-44

¹²³⁶ DEX

The international accounting harmonization is the process through which the national rules or norms, different from one country to another, are improved in order to become comparable and to give the same interpretations to transactions and events.

Taking place internationally as a result of more and more pronounced globalization and financialization and deriving from the accounting normalization which has as objectives: the determination of an accounting terminology and principles generally accepted, the acknowledgment and evaluation of the items making the financial statements, the manner to present the financial statements and the adoption of the most suitable accounting norm instrument, **the accounting harmonization means “the complete match of the elements of a whole”, but in the context of a “good understanding between groups of people”¹²³⁷ in order to satisfy the requirements of the financial and accounting information users.** In this view, the elements of the whole are considered to be represented by the national accounting rules and practices, different from one country to another, sometimes divergent, which in order to be “*completely matched*” are improved to be made comparable.

The harmonization process is trying a way to conciliate the different points of view, the homogeneous presentation of information not being necessary anymore, but the assurance of a unitary meaning even for those who use different standards. If the normalization means total homogeneity, the harmonization means flexibility in total diversity, that is the harmonization establishes the limits’ within which the accounting practices can vary, taking into account, to a higher extent, the national differences.

Mainly supported by the international accounting community, *the accounting harmonization movement*, globally, whose essence leads, on long term, to a certain homogeneity of the national norms and practices, deals with a variety of the objectives attributed to the financial statements, but especially, with the economic, social and cultural environment of different accounting systems, culminating with manifestations to state the national sovereignty and identity.

The Commission for Stock Exchange Operations emphasises **the necessity to assure the international harmonization** in the following terms: “The increasing internationalization of the financial markets means that a better compatibility should be more and more ensured of the firms’ accounts in different countries. Actually, the divergences between the financial statements set up according to the international norms by each country, the lacunas revealed in the accounting information put forth by some of them and, sometimes, the variations of a national norm from one year to another, make the comparisons impossible: for example, the comparison of the average productivity of the personnel between the groups of a country and the ones from another country when actually the firms in these countries are not even constrained to indicate in their annual reports the number of employees or the costs involved by them?”¹²³⁸

The international accounting harmonization is required also by the *privatization tendency* of some enterprises. The transfer of some more and more firms from the state property to the private sector is requests new needs in terms of private capitals, which, usually, are too big in order to be fulfilled by the capital markets of a single country. In these conditions, the wish of such enterprises to create and apply some homogeneous accounting norms is justified.

Regarding the harmonization process, it is subject to a staging process, therefore we can speak about different degrees of achievement of the international accounting harmonization. Thus, if the normalization has allowed the unitary drawing up of the financial accounting information in order to rigorously capitalize the decisions by the users, the harmonization should determine similar decisions of the users in similar conditions, no matter the geographical positioning of the entity.

¹²³⁷ Dictionarul explicativ al limbii române, 1975, p. 52

¹²³⁸ Farcane N., Cotleț D., Reforma în sistemul contabil românesc, Editura Orizonturi Universitare, Timișoara, 1999, p. 117

In this point the concept of convergence appears on the international accounting “stage”. The accounting convergence has in view the identification of some objectives that the enterprises and the accounting professionals all over the world follow as a final aim in the presentation of the annual financial statements, without imposing the application treatments, rules and procedures and being useful to the users.

No matter that we talk about normalization, harmonization, or convergence, the essence of these processes is information. The problem of information is vital for the organization, for a system, for a process. Information represents knowledge intelligibly presented to a person. The information is that entity totally or partially removing the state of non-determination called entropy, based on a message addressed to a receiver. To be useful, the information must have some fundamental characteristics: to be consistent, relevant, exact, desirable, accessible, complete, and concise.¹²³⁹

The triggering of the convergence process took place in October 2002 when the Financial Accounting Standard Board and the International Accounting Standard Board announced the signing of an agreement memorandum which was updated on 27th February 2006 with perspective until 2008.

The convergence process takes place on three levels:

- on the first level, there is the convergence between the IASB and FASB norms;
- on the second level, there is the convergence between the regional norms and IAS (the EU case);
- on the third level, there is the convergence between the national and regional standards, as in the case of the accounting systems of the EU member states.

The situation in evolution of the normalization, harmonization, convergence, and standardization process in Romania. whether Romania?

For the beginning, it is fair to mention that we cannot talk about a purely Romanian accounting system for almost always the accounting system practised in our country, no matter it was the result of a historical fracture or not, was and still is an imported product. As the indefatigable researcher of the accounting meanings, N. Feleagă, stated, the Romanian accounting system is of French inspiration, *“aligned to the requirements of the European and international norms, in which the Romanian norm makers hallmarked some Romanian characteristics, partially acceptable, partially arguable.”*¹²⁴⁰

The national accounting normalization is characterised by three specific aspects:

- it is of public authority for the accounting norms are issued by the state institutions, in compliance with the accounting policies of the Ministry of Public Finances and is based on laws and other normative acts consecrated to accounting and which are compulsorily to be complied with by all the enterprises;
- the main piece of normalization in Romania is represented by the general account chart, still in force, structured according to the French model, into patrimonial accounts, balance sheet accounts (classes 1-5), economic processes accounts (classes 6-7), off-balance sheet accounts (class 8) and accounts for the management accounting (class 9);
- it is based on a theoretical frame of accounting with both continental and Anglo-Saxon influences.

The Romanian theoretical frame contains regulations and norms issued by the institutions authorised and it is characterised by the fact that the current system of Romanian accounting norms is comparable with the accounting law of the European Union by integrating in the

¹²³⁹ Briciu S. et al, Managementul prin costuri, Editura Risoprint, Cluj Napoca, 2003, pp.27-31

¹²⁴⁰ Bogdan V. Armonizare contabila internațională, Editura Economică, Bucuresti 2004, p. 337

Romanian accounting law of the provisions of the 4th European Directive (1978) on the annual accounts of companies, of the provisions of the 7th Directive (1983) on the consolidated accounts and of the 8th Directive on the auditing norms of financial statements.

The process of Europeanization and internationalization of the Romanian accounting system is passing also through the process of assimilating the results of the convergence between the two global accounting referential promoted by IASB and FASB. More than 1,000 Romanian enterprises started once with the issuing of the Order no 94 of Ministry of Public Finances of February 2001, the adventure of knowing and implementing the international accounting standards (IAS).

The start of the international accounting harmonization and convergence has determined the Romanian law maker to review the strategy of action within the Romanian accounting reform by reconsidering the adaptability of IAS/IFRS to the Romanian business environment. In the same time, the adoption of Directive 51/2003 by the European Commission in order to modernize the 4th and 7th Directives has determined the Ministry of Finances to change the legislative frame which stipulated a partial harmonization both with IAS and with the modernized European standards. At the present, Romania has chosen to eliminate the concept of harmonized regulations, preferring the term of corresponding accounting.

The regulations of a new order (no. 1752), applicable in Romania starting with 1 January 2006 require being in accordance with the European Directives on accounting. When Order 1752/2005 came into force, both Order 94/2001 on the sanctioning of the Accounting Regulations harmonized with the 4th Directive of the European Economic Community and with the International Accounting Standards and Order 306/2002 on the sanctioning of simplified Accounting Regulations harmonized with the European Directives are abrogated. As it results from the title of these Regulations, they want to be not only *harmonized* with the European Directives but also *in accordance with* them, meaning similar with them. This change has led to the split of opinion among professionals: some consider this moment as being a step back, a waste of the efforts made by the companies to adopt and use the standards, and others say that this moment has been the natural consequence of the evolution of the international accounting. Certainly, when the decision was made, there was the problem of the cost-efficiency-benefit ratio afferent to the further application of the IFRS stipulations. Maybe this question was the result of an empirical study presented at the Accounting Association European Congress in 2006 by Ion Ionascu, a study which discloses the fact that at the level of the companies quoted on the Bucharest Stock Exchange, the cost of IAS/IFRS implementation was approximately 30,000 Euro per entity, an amount which represented for the authors only 0.035% costs average of these particular companies in 2004.

Conclusions

In conclusion, we can emphasise that in what the segment of small and middle sized enterprises and of the other entities which do not frame within the category of enterprises applying the IAS/IFRS norms is concerned, the accounting harmonization is being translated in the conformity with the provisions of the 4th and 7th European Accounting Directive, this thing being done through the accounting regulations sanctioned by the Ministry of Public Finances.

Regarding the segment of public interest entities, under the incidence of the IAS/IFRS provisions, the harmonization can be understood as the convergence existing between the OMFP 1126/2006 provisions and the requirements of the international referential.

The novelties in the field of accounting regulation are brought by OMFP 3055/2009 applicable from 01.01.2010, according to which the corporate bodies which at the date of the balance sheet exceed the limits of two of the following 3 criteria, further called size criteria:

- total assets: 3,650,000 euro;
- net turnover: 7,300,000 euro;

-average number of employees during the financial year: 50 draw up financial statements in compliance with the provisions of the 4th and 7th Directives of the European Economic Community.

A new challenge for the Romanian entities is represented by the design and development of own accounting policies. They contain the accounting treatments established based on Order 3055/2009 for each of the operations performed and must be approved by the managers.

In the process of accounting reform in Romania, a supplementary effort is necessary for the accounting professional to impose himself in the relation with other decision makers, this imposition being possible by instituting the public private partnership in the field of accounting, which would have as result the appearance of a robust and modern accounting system.

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PREVENTION AND DETECTION OF FRAUDULENT FINANCIAL REPORTING IN THE CONTEXT OF THE FINANCIAL CRISIS

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Prevention and earlier detection of fraudulent financial reporting must start with the entity that prepares financial reports. Thus the first focus of the Sarbanes-Oxley Act's recommendations is the public company. These recommendations, taken together, will improve a company's overall financial reporting process and increase the likelihood of preventing fraudulent financial reporting and detecting it earlier when it occurs. For some companies, implementing these recommendations will require little or even no change from current practices; for other companies, it will mean adding or improving a recommended practice. Whether it means adding or improving a practice, the benefits justify the costs. The Sarbanes-Oxley Act is a direct response to the recent scandals in the US corporate world. Governance, compliance, risks and internal controls are mounting concerns for almost all organizations. As the numbers of rules, regulations and contractual obligations steadily rise, management is growing more and more concerned about their exposure on day-to-day operational decisions!

Key words: fraud, internal control, COSO, risks

Cod jel : M11, M41

Haw can defined the internal control?

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), is a [U.S.](#) private-sector initiative, formed in [1985](#). Its major objective is to identify the factors that cause fraudulent financial reporting and to make recommendations to reduce its incidence. COSO has established a common definition of internal controls, standards, and criteria against which companies and organizations can assess their control systems. COSO is sponsored and funded by 5 main professional accounting associations and institutes; [American Institute of Certified Public Accountants](#) (AICPA), [American Accounting Association](#) (AAA), [Financial Executives Institute](#) (FEI), [The Institute of Internal Auditors](#) (IIA) and [The Institute of Management Accountants](#) (IMA).

Internal controls are put in place to keep the company on course toward profitability goals and achievement of its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations.

Internal control means different things to different people. This causes confusion among businesspeople, legislators, regulators and others. Resulting miscommunication and different expectations cause problems within an enterprise. Problems are compounded when the term, if not clearly defined, is written into law, regulation or rule. This report deals with the needs and expectations of management and others. It defines and describes internal control to:

The COSO framework involves several key concepts. [Internal control](#) is a *process*. It is a means to an end, not an end in itself. Internal control is affected by *people*. It's not merely policy manuals and forms, but people at every level of an organization. Internal control can be expected to provide only *reasonable assurance*, not absolute assurance, to an entity's management and board. Internal control is geared to the achievement of *objectives* in one or more separate but overlapping categories.

Establish a common definition serving the needs of different parties. Provide a standard against which business and other entities large or small, in the public or private sector, for profit or not can assess their control systems and determine how to improve them. *Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations.*

The first category addresses an entity's basic business objectives, including performance and profitability goals and safeguarding of resources. The second relates to the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs.

Internal control systems operate at different levels of effectiveness. Internal control can be judged effective in each of the three categories, respectively, if the board of directors and management have reasonable assurance that they understand the extent to which the entity's operations objectives are being achieved, published financial statements are being prepared reliably, applicable laws and regulations are being complied with.

While internal control is a process, its effectiveness is a state or condition of the process at one or more points in time. Internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Although the components apply to all entities, small and mid-size companies may implement them differently than large ones. Its controls may be less formal and less structured, yet a small company can still have effective internal control.

The components of the internal control

The components are: *Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.*

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to *risk assessment* is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all

functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Pertinent information must be identified, captured *and communicated* in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

Internal control systems need *to be monitored* a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

The internal control system is intertwined with the entity's operating activities and exists for fundamental business reasons. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the essence of the enterprise. "Built in" controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

There is a direct relationship between the three categories of objectives, which are what an entity strives to achieve, and components, which represent what is needed to achieve the objectives. All components are relevant to each objectives category. When looking at any one category the effectiveness and efficiency of operations, for instance all five components must be present and functioning effectively to conclude that internal control over operations is effective.

Internal control can help an entity achieve its performance and profitability targets, and prevent loss of resources. It can help ensure reliable financial reporting. And it can help ensure that the enterprise complies with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it can help an entity get to where it wants to go, and avoid pitfalls and surprises along the way.

An internal control system, no matter how well conceived and operated, can provide only reasonable not absolute assurance to management and the board regarding achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the system. Another limiting factor is that the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Who has responsibility for internal control ?

Everyone in an organization has responsibility for internal control. The chief executive officer is ultimately responsible and should assume "ownership" of the system. More than any other individual, the chief executive sets the "tone at the top" that affects integrity and ethics and other

factors of a positive control environment. In a large company, the chief executive fulfills this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a smaller entity, the influence of the chief executive, often an owner-manager, is usually more direct. In any event, in a cascading responsibility, a manager is effectively a chief executive of his or her sphere of responsibility. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an enterprise.

Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have a knowledge of the entity's activities and environment, and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem.

Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role.

Internal control is, to some degree, the responsibility of everyone in an organization and therefore should be an explicit or implicit part of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions.

A number of external parties often contribute to achievement of an entity's objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing information useful to management and the board in carrying out their responsibilities. Others providing information to the entity useful in effecting internal control are legislators and regulators, customers and others transacting business with the enterprise, financial analysts, bond raters and the news media. External parties, however, are not responsible for, nor are they a part of, the entity's internal control system.

Actions that might be taken as a result of this report depend on the position and role of the parties involved: Senior Management, Board Members, Other Personnel, Legislators and Regulators

Most senior executives who contributed to this study believe they are basically "in control" of their organizations. Many said, however, that there are areas of their company a division, a department or a control component that cuts across activities where controls are in early stages of development or otherwise need to be strengthened. They do not like surprises. This study suggests that the chief executive initiate a self-assessment of the control system. Using this framework, a CEO, together with key operating and financial executives, can focus attention where needed.

Under one approach, the chief executive could proceed by bringing together business unit heads and key functional staff to discuss an initial assessment of control. Directives would be provided for those individuals to discuss this report's concepts with their lead personnel, provide oversight of the initial assessment process in their areas of responsibility and report back findings. Another approach might involve an initial review of corporate and business unit policies and internal audit programs. Whatever its form, an initial self-assessment should determine whether there is a need for, and how to proceed with, a broader, more in-depth evaluation. It should also ensure that ongoing monitoring processes are in place. Time spent in evaluating internal control represents an investment, but one with a high return.

Members of the board of directors should discuss with senior management the state of the entity's internal control system and provide oversight as needed. They should seek input from the internal and external auditors.

Managers and other personnel should consider how their control responsibilities are being conducted in light of this framework, and discuss with more senior personnel ideas for strengthening control. Internal auditors should consider the breadth of their focus on the internal control system, and may wish to compare their evaluation materials to the evaluation tools.

Government officials who write or enforce laws recognize that there can be misconceptions and different expectations about virtually any issue. Expectations for internal control vary widely in two respects. First, they differ regarding what control systems can accomplish. As noted, some observers believe internal control systems will, or should, prevent economic loss, or at least prevent companies from going out of business. Second, even when there is agreement about what internal control systems can and can't do, and about the validity of the "reasonable assurance" concept, there can be disparate views of what that concept means and how it will be applied.

Corporate executives have expressed concern regarding how regulators might construe public reports asserting "reasonable assurance" in hindsight after an alleged control failure has occurred. Before legislation or regulation dealing with management reporting on internal control is acted upon, there should be agreement on a common internal control framework, including limitations of internal control. This framework should be helpful in reaching such agreement.

Rule-making and other professional organizations providing guidance on financial management, auditing and related topics should consider their standards and guidance in light of this framework. To the extent diversity in concept and terminology is eliminated, all parties will benefit.

Conclusions

This framework should be the subject of academic research and analysis, to see where future enhancements can be made. With the presumption that this report becomes accepted as a common ground for understanding, its concepts and terms should find their way into university curricula. We believe this report offers a number of benefits. With this foundation for mutual understanding, all parties will be able to speak a common language and communicate more effectively. Business executives will be positioned to assess control systems against a standard, and strengthen the systems and move their enterprises toward established goals. Future research can be leveraged off an established base. Legislators and regulators will be able to gain an increased understanding of internal control, its benefits and limitations.

Internal auditors play an important role in evaluating the effectiveness of control systems. As an independent function reporting to the top management, [internal audit](#) is able to assess the internal control systems implemented by the organization and contribute to ongoing effectiveness. As such internal audit often plays a significant *monitoring* role. In order to preserve its independence of judgment Internal Audit should not take any direct responsibility in designing, establishing, or maintaining the controls it is supposed to evaluate. It may only advise on potential improvement to be made COSO publications are available through the American Institute of Certified Public Accountants.

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THE BACKGROUND OF PROFESSIONAL JUDGMENT OF MATERIALITY IN STATUTORY AUDIT BASED ON QUALITATIVE FACTORS ANALYSIS

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The assessment of a significant ascertainment made by the auditor is particularly sensitive which shapes the quality of a mission as a whole. Materiality plays a primary role in determining the relevance of information provided by the users of financial statements. This material highlights the role of qualitative factors in determining materiality, as far as many practitioners are accustomed to consider this item only in terms of quantitative factors. Although legislation does not set precise rules in determining materiality, the issue is necessary because decisions of the auditors and users of audited information hang on this item.

Keywords: materiality, qualitative factors, professional judgment, financial statements.

JEL: M42

Introduction

Materiality is used in the audit process in all the three phases of the mission, which gives it great importance. Materiality is used in the planning phase, in the deployment phase and in the review phase.

ISA (*International Standards of Audit*) 320 defines materiality as that size over which the economic decisions or judgment on the accounts are likely to be affected. Materiality depends on the size of the item or error, judged in particular circumstances of omissions or distortion. In other words, materiality provides rather a limit (quantitative data), than a qualitative attribute on which information should be based in order to be useful. In recent years, IFAC and other professional bodies have expressed a great concern about the misapplication of materiality in auditing, with serious consequences on the information provided to the users. Major financial scandals, at the end of the last decade and in recent years (Enron, Parmalat etc), has revealed weaknesses, including in the audit missions. Specifically, the nature or the extension of the audit procedures have been incorrectly determined or were wrongly assessed the effects of distortions. Both statements are consequences of the insufficient background of materiality.

Previous studies in the literature

As a starting point of our analysis, we have a number of previous researches, which occupies a fairly broad area of literature. Qualitative factors in determining materiality began to represent the subject of researches since the early '70s. We draw attention to the arguments made in 1998 by Arthur Levitt, SEC chairman, who made a speech called "The game of numbers". This speech had an impressive impact in the accounting profession worldwide. Levitt, points out in an abusive manner, that materiality is a tool that shapes the auditors „flexibility” in the financial reporting.

He argues against the use of materiality as a mean to hide or ignore „deliberate misstatements of performance”.

Another view is brought through the provisions of *SAB 99 (Staff Accounting Bulletin)* claiming that materiality can not be „reduced only to a numerical formula”. SAB has the merit of suggesting professionals to take into account the qualitative factors in determining materiality.

The determination of materiality-factors of influence

IFAC has long concerned about the approach of both types of criteria in determining materiality, both the quantitative and the qualitative factors.

a) Quantitative criteria refers to those elements that are easily quantified and expressed in value. The expression in currency is required in order to make comparisons with the amounts recorded in the financial statements. In practice, the calculus indicator for materiality can be represented by *total assets, equity or gross profit*. When choosing one of these indicators it must be considered the information needs of the users.

b) The qualitative criteria are related to the customer entity’s environment and are interpreted differently by the auditors and by the users of the information provided in the financial statements. Thus, omissions or errors of equal value may have different impact both on auditors and on the users of the financial information. Some of the most important qualitative factors that form the background of the auditor's judgment are:

- The size of the audited company;
- The sector of activity in which the audited company operates;
- The size of the audit company;
- The characteristics of the calculus indicator of materiality.

Next, we will make several arguments that support each of these factors:

1) The size of the firm. Depending on their attitude, there are three categories of auditors: permissive auditors, moderate auditors and severe auditors (*Montoya del Corte, Franciso Martinez, 2008*). Related to the size of the audited firm, auditors are more permissive with large sized entities, at least for the following reasons:

- *Increased quality of the internal control.* Big sized firms are considered to be mature enough, to have a significant market share and not to want it’s growth. Now, their goal is focused on maintaining the level of their business, so that they can manage the situation of the internal control in order to reach a quality as higher as possible. On the opposite side, the small and medium-sized firms, pursuing market expansion, tend to overlook the quality of their internal control. The auditor will determine materiality taking into consideration the quality of the provided information of the internal control.

- *The size of the auditors’ fees.* The big entities which have a wider activity need to be audited by applying multiple tests and procedures. That means that the audit team has to be bigger and has to work for a longer period of time, so that the audit mission becomes more expensive. The fear of losing the customer can determine auditors to be more liberal with the entity. Moreover, a large company is much more likely to receive an qualified opinion, because of a high risk of litigation and a higher exposure to regulatory controls by the authorities in the field.

2) The sector of the entity client. Qualitative factors that define this criteria are:

- *The economic situation.* The sector of activity of the customer entity can be expanding or declining. Expansion, as shown, can lead to the overlook of the internal control quality, which involves setting a lower materiality. The decline may cause the intention to embellish the financial statements (the financial position and performance).

- *The profile of the industry.* If the client entity belongs to the financial sector, the level of materiality will be lower, influenced by the high risk of their assets diversion. (*Iskandar and Iselin, 2000*).

- *The financing of the listed companies.* For these companies the auditors show an additional responsibility, because they consider that the investors give a greater importance to them. The major financial scandals of the last two decades, involving the large firms, determined the

auditors to pay more attention, in particular, when establishing materiality for the large entities whose potential problems might have an important social and economical impact.

3) *The size of the audit firm.* The studies conducted till now have examined the influence of certain characteristics of the audit firms in determining materiality. They show that the larger audit firms, especially multinationals (*Blokdiik et al, 2003*) determine a lower level of materiality, as may use more extensive and multiple procedure that provides a higher quality of the samples obtained.

4) *The characteristics of the calculus indicator of materiality.* The determination of materiality is achieved by comparing the effect of inaccuracy to the calculus indicator. But the calculus indicator is not always consistent. For example, the indicator Total assets will lead to an allocation of materiality and tolerable errors, for each group of assets, proportional with their share in total assets, but also by adjusting them with an adjustment coefficient (k). Professional judgment in determining this coefficient is influenced by many qualitative factors such as: differential liquidity of assets, the number of operations of the asset categories, the quality of the internal control.

Next, we would like to illustrate the determination of the materiality in the review phase, taking as an example a company that has registered the following indicators (*according to Minimum Auditing Norms*).

	Financial year 2008	Financial year 2009
Total assets	<u>19.501.977</u>	<u>25.810.074</u>
- 1%	195.020	258.101
- 2%	390.040	516.202
Turnover	<u>56.486.101</u>	<u>73.511.225</u>
- 0,5%	282.430,5	367.556
- 1,0%	564.861	735.112
Gross profit	<u>2.479.107</u>	<u>1.448.048</u>
- 5%	123.955	72.402
- 10%	247.910	144.805

Each element, in balance, can be determined as follows:

Elements in balance	Final balance 31.12.2009	Overall share %	Unadjusted tollerable errors	Adjustment coefficient k	Adjusted tollerable errors
1	2	3	4	5	6=4x5
<u>I. Noncurrent assets – total</u>	<u>10.941.494</u>	<u>42,4</u>	<u>218.870</u>	<u>0,66</u>	<u>144.454</u>
1 – Intangible asstes	363.055	1,40	7.227	0,66	4.767
2 – Tangible assets	10.398.020	40,28	207.926	0,66	137.231
3 – Financial assets	180.419	0,72	3.717	0,66	2.453
<u>II. Current assets-total</u>	<u>13.902.658</u>	<u>53,9</u>	<u>278.233</u>	<u>1,017</u>	<u>282.963</u>
2 – Receivables	3.349.476	13,0	67.106	1,017	68.247
3 – Short term investments	0	0	0	1,017	0
4 – Petty cash and bank accounts	-16.448.758	-66,9	-345.339	1,017	-351.210
III. Prepayments	<u>965.922</u>	3,7	19.009	1,00	19.009
TOTAL ASSETS (I+II+III)	<u>25.810.074</u>	<u>100</u>	<u>516.202</u>	<u>1,00</u>	<u>516.202</u>
IV. Debts – total	14.547.783	56,4	291.138	1,00	291.138
V. Accrued income	0	0	0	1,00	0
VI. Equity	11.262.290	43,6	225.064	1,00	225.064
TOTAL LIABILITIES		<u>100</u>	<u>516.202</u>	<u>1,00</u>	<u>516.202</u>

Considering the professional judgment of the auditor, the adjustment coefficients (k) were determined as follows:

- for noncurrent assets have been set lower adjustment coefficients (0,66), because these accounts can be fully audited with lower costs and in these accounts the auditors do not expect to discover significant misrepresentations;
- for current assets the coefficients are higher (1,017) because their volume changes faster, therefore, the samples taken in the survey will be larger. In this situation the costs of the audit mission will be higher, even in conditions of a high materiality level.
- for the other balance sheet items the size of materiality has not been adjusted.

Conclusions

This work represents a new perspective, which aims to highlight the need of achieving complementarity between quantitative factors and qualitative factors in determining materiality. We start from the quantitative limits, already a rule in practice, to increase the relevance of materiality by examining qualitative factors that define the client company and the professionals who conduct the audit mission.

Avoiding such issues as the environment in which the audited company operates and its characteristics, but also the position of the company involved in carrying out the audit may result in avoiding detection of distortions, which then may have repercussions on decisions taken by the users of the information provided through audited financial statements. Ensure a high relevance of the information provided through financial statements, accurate determination of the performance and financial position of companies audited are necessary conditions that can be satisfied only by using a materiality threshold as relevant as possible. This can be done successfully by determining this element both in the light of quantitative factors and the qualitative ones. The increase of the audit quality and the whole economic process of information among users can be achieved by applying a combination of qualitative factors with quantitative factors in determining materiality.

To strengthen this hypothesis, we propose for the next materials, using some empirical studies, to demonstrate how to determine the adjustment coefficient of the tolerable errors in the balance, in particular assets. The notion of professional judgment is pretty much discussed by practitioners auditors, so we believe that an econometric model could resolve the differences encountered in practice in the determination of materiality.

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MONITORING IN CREDIT INSTITUTIONS – COMPARATIVE APPROACH ON INTERNAL CONTROL SYSTEMS – THE CASE OF ROMANIA VS. INTERNATIONAL MODELS OF CONTROL

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Starting from the stipulations of the two well-known internal control system models – COSO and CoCo - the purpose of this paper is to focus on the Romanian framework for credit institutions – trying to identify on which international model) is our national one most appropriate to. The research methodology is based on an empirical analysis between Romanian regulation and the models already mentioned. To reach to a conclusion we tried to identify several key issues closely related to information and communication, and to determine the degree of similarities and dissimilarities between the three selected frameworks, by using statistical indicators. The paper has some limitations, too, because it only approaches formal harmonization. So, those issues analyzed through the regulations’ perspectives need to be closely quantified in matters of their actual implementation, which offer us outlooks of future research.

Keywords: Monitoring, COSO model, CoCo model, Romanian framework

Cod JEL: G21, M42

1. INTRODUCTION

Effective internal controls have always been the goal of every bank’s management in which achievement it typically has the following five objectives: to maintain reliable systems, to ensure timely preparation of reliable information, to safeguard assets, to optimize the use of resources, to prevent and detect error and fraud¹²⁴¹.

Along time, there have been designed different models of internal control, the most well-known being the COSO and CoCo models, which have also been the subject of various research papers¹²⁴².

As internal control frameworks, most authors¹²⁴³ reached to the conclusion that the two models (COSO and CoCo) complement each other. All these authors see internal control as a process

¹²⁴¹ Alvin A, Lemon W.M and Loebbecke J., *Auditing: An Integrated Approach*, Scarborough, ON: Prentice Hall Canada Inc., 5th Edition, 1993; FMCBC, Enhancing Management Involvement with Internal Control, Financial Management Capacity Building Committee, 2005, pg. 2.

¹²⁴² Gramling A., *Internal Control Systems, Encyclopedia of Business*, 2nd Edition, 1990, http://findarticles.com/p/articles/mi_gx5209/is_1999/ai_n19125759; Callaghan J.H., Savage A. and Mintz S., *Assessing the Control Environment Using a Balanced Scorecard Approach*, The CPA Journal Online, March 2007; Rezaee Z., *What the COSO report means for internal auditors*, Managerial Auditing Journal, vol. 10, no. 6, 1995, pg. 5-9

¹²⁴³ Rittenberg E. L, Martens F. and Landes C.E, *Internal control guidance – not just a small matter*, Journal of accountancy, March 2007; Hirth R.B.Jr., *Better internal audit leads to better controls*, Financial Executive, November 2008, www.financial_executives.org; Kinney W.R.Jr., *Research Opportunities in Internal Control Quality and Quality Assurance*, Auditing - A Journal of Practice & Theory, Vol. 19, Supplement, 2000, pg. 84

designed to facilitate and support the achievement of business objectives, which covers consideration of significant risks in operations, compliance and financial reporting, and which are mainly focused on the same objects, such as improving business effectiveness.

Romanian internal control system framework is a newer one, dated from 2003, when the our National Bank settled the regulation regarding internal control system and audit in banking field, emphasizing their importance in managing significant risks. Even if this framework is an implementation of the Basle Committee on banking Supervision's settlement, it designs an internal control system, so there has to be a more or less similarity between it and the two international well-known models, which is going to be the aim of our research.

2. AIM OF THE STUDY AND RESEARCH METHODOLOGY

Our empirical study is aimed to identify on which of the international internal control models (COSO or CoCo) is based the Romanian internal control system framework for credit institutions, as regards *monitoring*. In order to reach to a conclusion, we made an analysis with character of comparison between the two international models, as well as our national regulation and each of them. In this study, we focused our attention on aspects related to monitoring, one of the most important components on any internal control system.

Our empirical analysis was performed by testing the similarities and dissimilarities between the three sets of regulations regarding monitoring – the internal control system's component analyzed, taken two at a time in order to reach to a conclusion about the comparability degree existent between them.

The source of information for our research was the three regulations mentioned above which were codified and assayed by using a statistical method, which is being detailed in the chapter dealing with the comparative approach of the national framework by reference to the two international internal control models.

The findings of our study, which come from analyzing formal harmonization in the area of internal control system, are correlated to the literature review, but as every other research, our paper has some limitations, too, which offer us outlooks of future research. We should not forget that our study is only about a formal harmonization, which needs to be broadened to the current development stage of the national banking system, focusing on the degree in witch the regulation is put into practice and its purpose is being achieved.

3. LITERATURE REVIEW

Internal control has different meanings to different parties. That is why, it is very difficult to give an only-one definition of the internal control system, because it can be seen from different angles. In the followings we are going to focus our attention on two of the most important international models of control.

The first one is **COSO's** model¹²⁴⁴, which tries to establish a common definition. Under COSO's report, *internal control* in its broader sense is defined as a process affected by an organization's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of *objectives* in the following categories: (a) effectiveness and efficiency of operations; (b) reliability of reporting and (c) compliance with applicable rules, laws and regulations.

The second model of *internal control* is the **CoCo's** one, which is focused on behavioral values rather than control structure procedures as the fundamental basis for internal control in a company¹²⁴⁵. According to this, *internal control*¹²⁴⁶ is put into the context with how a task is

¹²⁴⁴ COSO, *Internal Control – Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission, 1992, www.aicpa.org / www.coso.org

¹²⁴⁵ Protiviti Independent Risk Consulting, *An Overview of the COSO Internal Control – Integrated Framework*, 2004, www.knowledgeleader.com

performed, defining it as those elements of an organization (including its *resources, systems, processes, culture, structure and tasks*) that, taken together, support people in the achievement of the *objectives*.

If COSO divided internal control into five main components, CoCo uses four essential elements as groupings within which it articulates 20 criteria of control. These criteria create the basis for understanding control in an organisation and for making judgements about the effectiveness of it, a characteristic, which was from the very old time the subject of many studies¹²⁴⁷.

Starting from these differences identified between the two international models of control, it is appreciated that neither COSO, nor CoCo is a perfect model. According to some authors¹²⁴⁸, COSO framework is the standard for internal control guidance, which is why it was often used as a teaching tool in the university environment¹²⁴⁹. A recent survey¹²⁵⁰ of members of the Institute of Management Accountants and the Institute of Internal Auditors reports that approximately 90 percent of respondents rely on the COSO framework (to at least some extent) to evaluate controls.

As regards monitoring – the last component of the internal control system – which is the subject of our research, it is considered that unmonitored controls tend to deteriorate over time. So, monitoring, as defined in the COSO Framework¹²⁵¹ is implemented to help ensure “that internal control continues to operate effectively.” According to some authors¹²⁵² “it is not enough to put good controls in place. You must monitor them regularly.” This is the conclusion at which the authors reached after fictitious transactions remained undetected in a supposedly highly sophisticated internal control regime (the case of Societe Generale – 2008). They identified the following possible internal control weaknesses that may have led to the losses subsequently incurred: circumvention of control, inadequate security over the IT, poor password protection, lack of adequate confirmation / reconciliation, lack of review for canceled transactions / changes of transactions, inadequate monitoring employee behavior.

Another very interesting research¹²⁵³ aimed to determine whether compliance to Standards for the Professional Practice of Internal Auditors affected the quality of the internal control system reached to the following conclusion regarding the element of the internal control system analyzed by us: “*monitoring* is significantly influenced by management of internal audit department, professional proficiency, objectivity and review”.

¹²⁴⁶ CICA, *Guidance on control*, Criteria of Control Board, The Canadian Institute of Chartered Accountants, 1995, www.cica.ca

¹²⁴⁷ Turnbull Report, *Internal Control Guidance for Directors on the Combined Code*, 1999, www.ecgi.org; Tongren J.D., *CoActive control*, Internal Auditor, 1995, pg. 42-44; Gibbs J. and Keating P. *Reengineering Controls*, Internal Auditor, 1995, pg. 46-49

¹²⁴⁸ Campbell, D., Campbell M. and Adams G., *Adding significant value with internal controls*, The CPA Journal, vol.76 (6), 2006, pg. 20–25

¹²⁴⁹ Savage A., Norman C.S. and Lancaster K., *Using a movie to study the COSO internal control framework: an instructional case*, Managerial Auditing Journal, vol. 22 (1), 2008, pg. 63-76; Stewart, I., *Teaching accounting ethics: The power of narrative*, Accounting Education: A Journal of Theory, Practice and Research no. 2, 1997, pg. 173–184; Herremans, I.M., *Integrating internal control in MBA programmers using the COSO and CoCo models*, Managerial Auditing Journal, vol. 12(2), 1997, pg. 60-66

¹²⁵⁰ Gupta P., and J. Thomson, J., *Use of COSO in management reporting on internal controls*, Strategic Finance, vol.. 88 (3), 2006, pg. 26–33

¹²⁵¹ COSO, *Guidance on Monitoring Internal Control Systems*, Committee of Sponsoring Organizations of the Treadway Commission, 2009, www.coso.org

¹²⁵² O’Learly C. and Gibson S., *Société Générale: The Importance of Monitoring Compliance with Internal Controls*, Accountancy Ireland, December, vol. 40 (6), 2008, pg. 20

¹²⁵³ Fadzil F.H., Haron H. and Jantan M., *Internal auditing practices and internal control system*, Managerial Auditing Journal, vol. 20(8), 2005, pg. 844-866

4. EMPIRICAL COMPARATIVE APPROACH REGARDING INFORMATION AND COMMUNICATION BETWEEN ROMANIA, AMERICA AND CANADA

In order to achieve our aim - to identify on which of the international internal control models (COSO or CoCo) is based the Romanian framework for establishing the most efficient monitoring in credit institutions, we conducted an empirical study based on an analysis with character of comparison between the three sets of regulations (the two international models and the Romanian one).

We have started from the main principles for control activities required by COSO and the criteria of control also related to this aspect, as these are defined by CoCo, trying to establish the link between them. Thus, we have identified a series of issues regarding monitoring, which we organized within three main topics as follows: (1) *ongoing monitoring*, (2) *separate evaluations* and (3) *reporting deficiencies*.

Starting from these topics, we proceeded to compare aspects related to monitoring, one of the most important component of internal control system, as it appears within the three frameworks. Thus, we have allocated the 1 or 0 values for each possible and/or existent requirement within at least one of the considered regulation, where the 1 value shows that the requirement exists within that framework, and 0 value is given for the situation when the requirement is not found within the considered framework.

Table I. Exemplification of the analysis method used for the considered topics

Monitoring - Analyzed elements	The character of the requirement		
	COSO	COCO	Romania
Separate Evaluations			
- <i>the role of the responsible personnel</i>	0	0	1
- <i>the role of the internal audit</i>	1	0	1
- <i>the role of the external audit</i>	1	0	0
- <i>evaluations' frequency</i>	0	1	1
- <i>assumptions</i>	0	1	0

In the above table (Table I.) there are presented the 1 and 0 values that have been allocated to each requirement of one of the topic analyzed – *separate evaluation*.

In order to achieve the proposed comparison, we have considered that the best analysis, in case of this type of approach, is represented by the nonparametric correlation and the association degree between two or more than two considered variables. Thus, we have used for our research the Jaccards' association coefficients, which have been used before in studies focused on comparisons between different sets of regulations. On the other hand, the two Jaccard's coefficients offer the possibility of quantifying both the association degree and the dissimilarity degree between different sets of requirements regarding monitoring, taken into consideration for analysis.

So, in order to dimension the compatibility degree or, in other words, the association between two or more internal control systems, the calculation formula for the Jaccards' coefficient shows as follows:

$$S_{ij} = a / (a + b + c) \quad \text{and} \quad D_{ij} = (b + c) / (a + b + c)$$

where:

- S_{ij} represents the similarity degree between the two sets of analyzed frameworks;
- D_{ij} represents the degree of dissimilitude or diversity between the two sets of analyzed frameworks;
- a represents the number of elements which take the 1 value for both sets of frameworks;
- b represents the number of elements which take the 1 value within the j set of frameworks and the 0 value for the i set of frameworks;

- c represents the number of elements which take the 0 value within the j set of frameworks and the 1 value for the i set of frameworks.

Elements related to monitoring that have been analyzed in this empirical study are therefore given the 1 value for containing a certain requirement and the 0 value for non-containing that considered requirement.

As a result of the effective measurement of the comparability degree between the Romanian framework and the international models COSO and CoCo, based on Jaccard's coefficients, we have reached to the conclusion that our national regulation is much more similar to COSO's model of control rather than to the CoCo's one, as presented in the following table (table II.).

Table II. Comparison analysis based on Jaccards' coefficients

Monitoring	Romania vs. COSO		Romania vs. COCO		COSO vs COCO	
	S_{ij}	D_{ij}	S_{ij}	D_{ij}	S_{ij}	D_{ij}
<i>Ongoing Monitoring</i>	1,000	0,000	0,333	0,667	0,333	0,667
<i>Separate Evaluations</i>	0,250	0,750	0,250	0,750	0,000	1,000
<i>Reporting Deficiencies</i>	0,800	0,200	0,333	0,667	0,400	0,600
TOTAL	0,683	0,317	0,305	0,695	0,244	0,756

5. FINDINGS AND CONCLUSIONS

The results of our analysis show the level of similarities between the national framework and the two international regulations. As it can be seen, the Romanian stipulations regarding monitoring, issued by our National Bank is closer to COSO model rather than to the CoCo's one. Also, the values of the statistical coefficient used in our study demonstrate that there is also a high degree of dissimilarity between COSO and CoCo models, higher than the one between Romanian regulation and CoCo's model as it is also shown in the table above. This, we can conclude that the Romanian framework is a complex one, including a various types of characteristics and requirements needed for ensuring an effective monitoring in banking sector. But, we should not have to forget about the following breakdown: even if it has a permanent character and considers both internal and external sides, our framework does not stipulates anything about follow-up procedures, which should be established and performed to ensure appropriate change or actions occur, thus enabling control to remain effective.

According to the literature review regarding the two international models of internal control system, there isn't any kind of assessment on which of these models is better, or which of these is good and which is bad. Starting from this argument, we could reach to the conclusion that Romanian banking system is well settled as regards monitoring, in accordance to very well known international models and, also, to the international supervising authority that we should not forget - the Basle Committee on Banking Supervision.

In the end we need to mention the limitations of our study. First of all, we should not forget that that our empirical research only approaches formal harmonization in the area of internal control systems, more exactly regarding *monitoring* – the analyzed issue. In order to diagnose not only the existence of a "monitoring system", but also the functionality of it we need to go deeper and to continue our research. Only an empirical analysis on insights of the banks internal controls, based on the information provided by credit institutions, would show the degree to which the foresights of the international models of control, which seem to have been assumed by the national regulation, are actually put into practice and respect their purpose. These would show the level of material harmonization which should be analyzed in correlation to the formal one, which was the subject of this study. So, all these offer us outlooks of future research.

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THE “CREDIBILITY CRISIS” OF AUDITING PROFESSION: AN EMPIRICAL STUDY IN ROMANIA

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For decades the accountancy profession has responded to the “credibility crisis” by coining, reciting and hiding behind the phrase “audit expectation gap” — a phrase which denotes the differences between the public’s and Auditors’ perceptions of the role of an audit function. This paper reports the findings of a questionnaire survey on the audit expectation gap conducted in Romania. The aims of the study are to examine whether an expectation gap exists in Romania among the auditors, auditees and audit beneficiaries in relation to the auditors’ duties. The results proved the existence of an audit expectation gap in Romania. The study shows that the auditees and audit beneficiaries placed much higher expectations on the auditors’ duties when compared with what auditors have perceived their duties to be. The analysis of the expectation gap indicated the existence of unreasonable expectations of the part of users.

Key words: audit, audit expectation gap

JEL code: M42, G30

1. Introduction

External auditing plays a critical role in the business environment as modern industrial economies are based on capitalism, a system of economy designed to allocate resources using market mechanisms (Watts & Zimmerman 1983). To ensure efficient allocation of resources in a capitalist economy, credible information about the companies’ operation should be made available for decision making processes (Koo & Sim 1999). Such information can be obtained through financial statements.

The spate of corporate failures (for example Enron and WorldCom in USA), financial scandals and audit failures has led to a significant increase in criticism of and litigation against the auditing profession (Maccarrone 1993). According to Godsell (1992), this phenomenon may be due to common beliefs that the stakeholders of the company should be able to rely on its audited accounts as a guarantee of its solvency, propriety and business viability. Hence it is shown that the nature and objectives of auditing have been perceived differently by the users and these misperceptions are known as the “audit expectation gap”.

Despite the importance of the audit expectation gap to the auditing profession, there has been a significant lack of scientific study conducted on how to address this issue in Romania. The substantial research findings on the audit expectation gap (Chowdhury et al 2005; Epstein & Geiger 1994; Humphrey et al 1993; Leung & Chau 2001; Lin & Chin 2004; Dixon et al 2006) may not be applicable in Romania because the findings are influenced and possibly distorted by economic, social or legal factors unique to those countries in which the studies took place.

The purpose of this article consists in identifying the perceptions of the financial reports users regarding the responsibilities of statutory auditors in Romania, in order to ascertain to what extent we can speak of the existence of a certain differences in expectations on the work of statutory auditors in Romania.

2. Literature review

2.1. The concept of audit expectation gap

The definition of the expectations gap varies among researchers. The term “audit expectation gap” was first introduced to audit literature by Liggio (1974). He defined the audit expectation gap as the difference between the levels of expected performance as envisioned by both the user of a financial statement and the independent accountant. The Cohen Commission (1978) in the USA extended Liggio’s (1974) definition by taking into account whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish. Porter (1993) claims that the definition of audit expectation gap provided by Liggio (1974) and the Cohen Commission (1978) is too narrow as they fail to recognize that auditors may not accomplish “expected performance” (Liggio 1974) or what they “can and reasonably should” (Cohen Commission 1978). Porter (1993) argues that the recent increase in criticism of and litigation against auditors is due to the failure of auditors to meet society’s expectations, whose failure in turn undermines confidence in the audit function. Limperg (1932 cited in Porter *et al* 2005 p.119) points out that the “audit function is rooted in the confidence that society places in the effectiveness of the audit and in the opinion of the accountant...if the confidence is betrayed, the function, too, is destroyed, since it becomes useless”. Hence, to narrow the audit expectation gap, it is necessary to ascertain: i) the duties society expects auditors to perform; ii) the duties that are reasonable to expect auditors to performance; and iii) the extent to which society’s reasonable expectations are satisfied (or, more pertinently, not satisfied) by auditors (Porter *et al* 2005). Porter’s (1993) structure of the audit expectation-performance gap has two major components, namely:

- 1 Reasonable gap - the difference between "what the public expects auditors to achieve and what they can reasonably be expected to accomplish"; and

- 2 Performance gap - the difference between "what the public can reasonably expect auditors to accomplish and what auditors are perceived to achieve".

The performance gap is further subdivided into:

- 2.1 Deficient standards - the gap between “what can reasonably be expected of auditors and auditors' existing duties as defined by the law and professional promulgation.”

- 2.2 Deficient performance – the gap between “the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by the public.”

3. Research methodology

We used the questionnaire technique for collecting the primary data, as it is an efficient means of collecting answers from a large sample size. The questionnaire is adapted according to the one used by Alleyne and Howard (2005). The questionnaire was designed in order to enable us to extract the necessary accurate information from the respondents’ answers, and to make sure that collected information is adequate for achieving the objectives of this study. The questionnaire is divided in two sections, Section I and Section II. Section I consists of 8 questions related to

respondents' demographics. Section II consists 11 questions that targeted 11 duties of auditors in the following areas: i) the duties of auditors under the International Standards on Auditing (ISA), adopted by the Board of Financial Auditors in Romania, ii) a part of the inexistent duties of auditors advanced by Porter's study (1993), which focused on the following areas: i) auditors as guarantors of a company's financial statements accuracy and solvency, ii) auditors give an early warn of the company's failure, iii) the auditors detect fraud and report to the shareholders and iv) they discover illegal activities.

The questionnaire contains Likert-like questions, on a five-point scale, and respondents had to chose from a scale ranging from „strongly agree” to „strongly disagree”. The questions were designed based on a detailed review of the features of prior studies (Alleyne & Howard, 2005; Gay et al., 1997; Innes et al., 1997; Gay et al., 1998; Frank et al., 2001; Best et al., 2001) and subsequent to an in-depth review of audit standards disclosing auditors' responsibilities. Furthermore, the questions are arranged in an order corresponding to the order provided by the Approved Auditing Standards in Romania. The survey is applied at „national” level, as we aim to obtain representative results for entire Romania. The participants in this survey can be divided into four groups, namely: auditors, managers, bankers and financial analysts. Data were collected throughout Romania to avoid territorial subjectivity. On-line questionnaires were sent to all participants.

The auditors' group includes all auditors who may exercise this profession throughout Romania; the auditors are officially recognised by the Chamber of Financial Auditors of Romania, and therefore, they are included in the „Romanian Public Register of Auditors. In terms of the managers' group, the persons were selected from companies listed on the primary and secondary markets of Bucharest Stock Exchange, as these companies have to audit their annual financial statements. In terms of bankers' group, these persons were selected among employees in the credit departments of the major banking institutions in Romania. The fourth category consists of respondents in the category of financial analysts and investment analysts. The category includes all those persons or institutions that could use the information provided by the auditor in his report, for the substantiation of investment decisions, either on their own or on behalf of third parties as a profession.

The responses cover most of the development areas in the country, thus removing subjectivity. In our opinion, the technique adopted for data collection resulted in a very good yield of 38.3% response rate. A detailed disclosure on each category of respondents is presented in table 1.

Table 1 Situation of responses by category of respondents

Interviewed groups	Sample	Successfully sent	Returned	Answers received	% response rate / successfully sent
Auditors	978	889	89	319	35.88%
Managers	651	575	76	221	38.43%
Bankers	121	89	32	43	48.31%
Financial analysts	178	131	47	62	47.33%
TOTAL	1928	1684	244	645	38.3%

In terms of percentage, the most representative group is the one of the financial auditors, with 30.2%, followed by the group of managers, with 27.3%, and the one of bankers, with 21.2%.

The analysis of the general answers related to respondents (first section) enabled us to observe that most of the respondents have accounting qualifications and audit experience. Furthermore, more than 90% of the respondents claimed that they were aware of what auditors do. The high level of awareness, combined with their accounting qualifications and audit experience, should add credibility to the findings of the study.

After the responses were received, a model developed by Cronbach was applied (meaning the extent to which respondents gave correlated answers). Thus, after applying "reliability analysis", we obtained the following results:

- § For the first group of questions on the "function" of the auditor, we obtained a value " $\alpha = 0.867$."
- § In the second part, comprising questions about "understanding" the report issued by the auditor, we obtained a value " $\alpha = 0.5287$ ".

4. Findings and discussions

As formerly asserted, the second section was designed to enable us to verify the existence of some discrepancies between expectations and reality in audit activity in Romania. To determine whether in Romania there is a gap of expectations in audit, about the responsibilities of auditors, we first performed the tests of "normality" of distributions that different study groups represent for each variable. To this end, we applied the test of "Kolmogorov-Smirnov" depending on the hypothesis we wanted to oppose. After applying this test separately for each group of respondents, we ascertained that virtually none of the cases is the condition of normality. The next step was to oppose the hypothesis, using the non-parametric test of "Kruskal-Wallis", used in the case of more than 2 independent samples. For this study we used an importance level of 0.05. Respondents' answers are presented in Table 2.

Table 2. Kruskal-Wallis test for the interviewed groups of respondents (first case)

Questions proposed	Mean values of groups of respondents				Chi square	Asymp. Sig.
	A	M	BA	FA		
1. The responsibility of the auditor is:						
1.1. The development of the audited company's financial statements	1,32	3,4	2,59	2,5	113.597	0.000*
1.2. Ensuring the full uprightness of the audited financial statements	2,47	3,63	3,61	3,64	87.583	0.003*
1.3. Checking all accounting transactions	2,76	3,76	3,66	3,85	111.990	0.000*
1.4. Detection of all fraud and error in the financial statements	2,25	3,72	3,64	3,78	159.594	0.000*
1.5. Prevention of all fraud and error within the company	2,25	3,72	3,64	3,78	159.594	0.000*
1.6. Plan accounting and internal control systems	2,1	3,14	2,73	2,64	47.583	0.003*
1.7. Analyzing and presenting the audit report information on the efficiency and effectiveness of internal control of the auditee	2,76	3,76	3,66	3,85	111.990	0.000*
1.8. Confidential reporting to a legislative authority, if the auditors discovered a fraud committed by an employee of the entity that has a leading position	2,77	2,86	3,08	3,15	8.672	0.034 ^{ns}
1.9. Presentation in the audit report of illegal activities committed by the entity's management, which are discovered	3,77	4,11	3,66	3,48	19.097	0.000*

during the audit and have a direct impact on the audited financial statements						
2. The auditor is the one expressing whether the financial statements reflect the company's financial and economic situation	4,83	4,88	4,96	4,88	4.459	0.216 ^{ns}
3. In his report, the auditor only expresses opinions on the annual financial statements	4,69	4,26	4,36	4,33	42.813	0.000*
4. To ensure that accounting standards are met	4,72	4,77	4,86	4,82	9.710	0.021**
5. To audit the semestrial financial statements	3,84	3,95	3,73	4,06	3.621	0.305 ^{ns}

* Statistically significant at 1%, ** statistically significant at 5%, NS = statistical insignificant

The average values measured correspond to a scale from 1 - totally disagree to 5 agree.

Where: A - Auditors, M - Manager, BA-bankers, BR - brokers

There is a total of 13 statements and for each statement in part we calculated the mean and deviations of the responses. Responses to an average of less than 3 indicate that users have lower expectations from the auditors on those tasks, whereas responses with a high average value (over 3) indicate that users understand the duties and responsibilities of auditors. The study results indicate that statistically, there are significant differences between the four groups in terms of perceptions on the responsibilities of the statutory auditor, which means that there is an expectations gap between auditors and other groups of respondents related to 10 of the 13 responsibilities.

Moreover the result (claim 1.2 to 5) indicates that users have higher expectations regarding the duties and responsibilities of auditors. Although statistically the differences between the categories of respondents are related to the first statement, it should be noted that the results for each category of respondents in part , the threshold stands below 3, with the exception of the manager, meaning that other categories of users outside managers do not consider preparing financial statements to be the responsibility of auditors. This result is consistent with the results recorded by other researchers (Gay et al., 1998 and Best et al., 2001). Users agreed that the auditors are responsible for preventing and detecting fraud and error (statement 1.4, 1.5). This result is showing the existence of a discrepancy between expectations and reality on the auditor's responsibilities concerning the prevention and detection of fraud.

A discrepancy exists here because the audit standard ISA 240 „Fraud and error” in its revised form which enter into force on December 15, 2009, clearly states „that management is responsible for preventing and detecting fraud and error, and the main responsibility of auditors is to detect fraud and errors with significant impact on the financial statements. It is interesting to note responses to statements 1.2. and 1.3, which from our standing-point, highlight some unreasonable expectations (medium levels of response except the auditors’, ranks above the average of 3) in so far as it is practically impossible to verify all transactions in an audit mission. This means that by resorting to samples, there is an inherent risk involved, which is why it is impossible for the auditors to ensure full accuracy of the information in the financial statements. Users seem not to understand how an auditor shall perform the tasks of the audit, and that usually sampling is resorted to.

We introduced within the questionnaire questions covering responsibilities that are not reviewed by the auditing standards applicable in Romania but which we found in other studies (Porter,

1993). They regard liabilities related to the reporting and presentation of illegal activities discovered during an audit. The answers to these two claims (claim 1.7, 1.9) should be considered in the context of the requirements of auditing standards applicable in Romania, which do not require the auditor to submit these aspects in his report, but advise the auditor to seek legal aid to initiate proceedings usual in this case.

The results presented lead to the idea of "rejection" of the hypothesis, regarding equal perceptions between groups, in terms of function of the statutory auditors.

5. Conclusions

This study explores the perceptions that different categories of users of audit reports have on the responsibilities of statutory auditors and to the way they understand the information in the auditor's report. Analysis of these perceptions actually seeks to identify differences in expectations on statutory audit work in Romania.

The study highlights that there are significant differences between different categories of respondents in the survey on both responsibilities of auditors and the manner in which they understand the information in the audit report. Thus we should note that some components of this concept that we talked about in the literature analysis are valid in the environment in Romania. Thus we have identified some exaggerated expectations (irrational) such as those related to verification of all transactions or fully guarantee the correctness of the financial statements. From our standing-point, we believe we can also talk about poor standards and we have in mind here the problems caused by understanding the concept of the materiality, whose level would be beneficial if it were stated by the auditors in the audit report in this way each user having the possibility to make decisions advisedly. Thus, users of the audit report would have the possibility of appreciating the suitability of the materiality threshold size from case to case.

In our view, this situation may be improved through different strategies, of which most likely to succeed being: i) educating the users on the role and actual duties of auditors; ii) by expanding the scope of the audit to meet market expectations. Education may help in solving the misconception problem. Expanding the scope of an audit may help to improve the expectation gap. It is hoped that by implementing both approaches, the public expectations and the auditors' duties will be better attuned.

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EMPIRICAL EVIDENCE ON THE EFFECTS OF SOCIAL WELFARE AND TAXATION ON INSURANCE

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In this paper is realized an empirical analysis of the influence of social welfare and taxation on insurance. The analysis is performed on a sample of 36 countries and a horizon of 3 years (2005, 2007 and 2008), being tested 4 linear regression models (life premium subscribed, non-life premiums subscribed, number of companies and number of employees in the insurance sector). The results of study confirm a relationship between the development level of countries and insurance, but exclude the existence of the relationship between taxation and insurance.

Keywords: insurance, premiums, taxation, economic development

JEL codes: G22, H24, H25

1. Introduction

In today's financial crisis emphasized by high unemployment, fulminate bankruptcy of many firms and impossibility of quantification of negative economic and social consequences, the taxation of insurance represents an important issue both for insurers and the European or/and national supervisory body of insurance market, and also for individuals or/and legal entities.

In addition, the CEA – the European Insurance and Reinsurance Federation – draws attention frequently to the negative effects of the tax deduction of certain premiums for the European budget proposal. Closely following the G20 process, the CEA tries to insure that consistent measures are taken across the globe, to avoid regulatory fragmentation and reduce market distortions. In some European countries the fiscal treatment granted to the insurance products subscribed under the 2nd and the 3rd pillar of Solvency II is not generally different from the one that is usually foreseen for a normal investment product. This is why EU attempts to harmonize first the national legislations regarding the taxation and then those relating to insurance (as specified in the quantitative impact studies QIS 1-5), aiming to ensure: (1) adequate financial resources and system of governance, supervisory review process, public disclosure and regulated reporting requirements (according to Solvency II); and (2) certain level of own funds to limit the risk of insolvency.

This action encountered serious difficulties arising from the existing differences between regulations, terms of economic and social life, traditions and culture, lack of information regarding the usefulness of insurance and their political group interests. Taking in consideration the significance of fiscal considerations in the decision to subscribe insurances contracts, different European countries, including Romania, have tried and managed through its fiscal laws to apply different ways for fiscal deductibility of insurance expenses. In fact, after 1990, in the majority states worldwide, this form of fiscal relaxation through deductibility stimulated growth of gross premiums subscribed per capita.

In this article we continue our investigation on the fiscal and economic effects on insurance on global level. Our first study (Sucala *et al.*, 2009) focused on years 2005 and 2007 using a sample

of 36 countries. Here we add year 2008 and use the same 36 countries for consistency in the results and their explanation.

2. Fundamental concepts in the taxation of insurance activities

The taxation of insurance should be regarded and analyzed both from the perspective of gross premiums subscribed and received by insurance companies and services from the insurer. Regarding the taxation of insurance, it can be tackled by technical and socio-professional perspectives.

Technical approach to taxation of life and non-life insurance can be achieved through taxation of insurance premiums and/or insurance indemnities. The taxation of insurance premiums summarized either on their deductibility/non-deductibility, either to reduce tax.

The deductibility/non-deductibility of premiums is capped and capping may operate individually or globally in insurance products, in fixed amount (per person, couple, husband and family member) or percentage of total taxable income and in the form of limiting on bonus, income, premiums and income. Tax reduction instead is always limited, and operate in absolute size, in the percentage share of tax or part of income, in the amount determined by the law.

Tax benefits of the insurer may be achieved through the analysis of rents in the form of payments through periodic sums insured. Periodic payments for operating are different from one country to another, and its taxation may be total, partial differential or exempted. In case of insured sum we find taxation or non-taxation of the amount insured by the insurance policy (known as capital) and/or non-taxation or taxation differences between the amounts paid by the insurer and the total insurance premiums paid by the insured person.

Socio-professional approach concerns taxation of insurance premiums through the different socio-professional categories (natural persons, legal persons, authorized persons) and the pensions insurance.

Insurers' benefits may take various forms (daily allowances, sums insured in case of life or death, rents, amounts provided for single-premium policy, those with capitalization) depending on the policy and concluded the nature of risk covered. Taxation of these benefits are achieved with the principles and logic of tax (a tax on insurance premiums or benefits), but depends on the binding and/or voluntary policy.

Today, the CEA works on the review of existing legislation of VAT invoicing. The introduction of mandatory VAT invoicing requirements for insurance services would create delicate problems and material difficulties for the economic operators.

3. Literature review

Boyer (2002) presents an interesting case in USA where the taxation of insurance benefits is preferable to the taxation of premiums. When insurance fraud is present - in the form of ex post moral hazard - a tax on insurance premiums increases the number of fraudulent claims in the economy, whereas a tax on insurance benefits may reduce fraud. More importantly, however, policyholders are made better off with a benefit tax than with a premium tax.

Altenburger *et al.* (2008) develop a common solution for the separation problem in accounting and in taxation which is innovative, theoretically correct and practically applicable. The principal design innovation is the way of distinction of different deposit components and their classification into different types. Dividing them into 'implicit' and 'explicit' deposit components delivers the theoretically correct results for unbundling of insurance contracts both for accounting and tax purposes.

Tzeng and Huang (2004) examine in their paper the impact of tax deductions on optimal insurance contracts. Their results show that the implementation of tax deductions increases the deductible but may or may not decrease the coinsurance.

Grace *et al.* (2008) using a state-level panel data set from 1992-2004 for the property-casualty insurance industry, find in their paper that the insurance premium tax has a negative but modest effect on employment in the insurance industry.

In the recent Romanian literature there is an increasing interest in the field of insurance.

According to Mateoc *et al.* (2008) the evolution of insurance in the Romanian context can be separated into three consecutive periods: (1) the years 1871-1948 in which the insurance activity emerged, the first company being called “Dacia”; (2) the period between 1949-1990 in which the insurance activity continued under state institutions and the State Insurance Administration was founded; and (3) the reform period of 1990-2010, in which this sector regained its true importance in the economy.

Stoicescu and Teodorescu (2003) published a research regarding the national insurance market in the context of accession to the European Union, paper which draws a comparison between the insurance system in Romania and other European countries in 2002, where they highlight the low level of insurance premiums subscribed by the population reported, and the low value of the insurance premiums subscribed per capita.

Once with the introduction of the optional insurance premiums (the 3rd pillar of the pension system), the interest for debate over insurance taxation has increased. Various studies have addressed the level of deductibility of voluntary health insurance premiums from the date of introduction of these premiums and concluded that their interest for signing them was well below the level at which employers might be tempted to purchase such policies for their employees (Mosoianu, 2007). After the study was published, the value of deductibility of health insurance premiums was changed, meaning the increase of them.

Insurance in our country is characterized by an incipient state of development compared to the developed countries where insurance is part of tradition and education. Factors leading to the limitation in the interest about insurance in Romania concern at least the following courses of action: misunderstanding the role of insurance and thus ignoring the benefits that arise from the signing of an insurance policy, lack of interest in insurance, low proportion of middle class correlated with the financial factor, the existence of unfair competition practices, too little inspired management and focused on immediate advantages, problems related to inflation, unemployment, low income citizens. (Cristea *et al.* 2008).

Countries that have a culture in insurance activities have implemented certain tax advantages for insured persons, one of which is the deductibility of insurance premiums. By comparison, Romania is situated very low as the deductibility of insurance premiums is concerned and our legal approach tends to develop insurance premiums at a level considered satisfactory compared to the average states of the European Union. Thus, in March 2008 PRIMM magazine published a comparative study of the evolution of insurance in Romania between 1997-2007 (Ghetu and Doreonceanu, 2008) which shows that the evolution of insurance premiums subscribed were growing, but in terms of the degree of penetration in GDP and insurance density per capita, which had a tendency to increase during the period under study, are well below the average of the European Union countries.

According to Ionescu (2008) the degree of insurance penetration and the level of insurance density has increased in the least five years (the period under analysis is 2003-2007). This is further confirmed by a longitudinal study on the economic significance of insurance market (on 11 years), in which Cristea *et al.* (2009) found that insurance is connected to economic growth.

4. Hypotheses, variables and data sources

Based on the general economic literature we can suppose that the level of life of the society is linked to the capability of the people to spend for security purposes. This can explain the lack of interest in insurance in Romania, as discussed by Cristea *et al.*, 2008 and 2009; Ionescu (2008). Therefore we issue the following hypothesis:

H1: The level of life is positively associated with insurance activity.

On the basis of the previously presented literature (Boyer, 2002; Grace *et al.*, 2008; Stoicescu and Teodorescu, 2003; Mosoianu, 2007) we conjecture a negative relationship between taxation and insurance activities, i.e. as the level of taxation decreases this favors and stimulates the insurance sector. Our next hypothesis is therefore:

H2: Taxation is negatively associated with insurance activity.

Since we are interested on the effect of several factors on insurance activity, we developed the following variables:

- Proxies for insurance activity: *premiums subscribed* (life and non-life premiums, mil. USD), *number of companies* and *number of employees* in the insurance sector;
- Proxy for level of life: *GDP per capita* (USD/inhabitant);
- Proxy for taxation: *premium tax* (life and non-life, mil. USD).

The underlying econometric model is:

$$\text{Insurance activity} = \alpha_0 + \alpha_1 \text{Level of life} + \alpha_2 \text{Taxation} + \varepsilon$$

Our sample comprises 36 countries worldwide. Since these countries are followed by most of the (international) regulators and institutions, we consider them as the most relevant, securing the representativeness of our sample on international level. To enhance the robustness of the research we collected data for 3 years (2005, 2007 and 2008) as specified below:

Table 1. Sources of data

Variable	Data source
Year 2008	
GDP, population, premiums	http://www.iii.org/international/toc/
No. of companies, employees	http://www.cea.eu/uploads/DocumentsLibrary/documents/1224519688_eif.pdf www.nsi.bg
Premium taxation	http://www.pwc.com/sg/en/international-comparison-of-insurance-taxation-2009/index.jhtml http://www.mabisz.hu/english/publication/yearbook/index.html
Year 2007	
GDP, population, premiums	http://www.iii.org/international/toc/
No. of companies, employees	http://stats.oecd.org/wbos/index.aspx?r=341031 http://www.cea.eu/uploads/DocumentsLibrary/documents/1224519688_eif.pdf www.nsi.bg www.csa-isc.ro
Premium taxation	http://www.pwc.com/extweb/pwcpublishations.nsf/docid/f5e7616e79072bfcca256fc0000a3ad0 http://www.mabisz.hu/english/publication/yearbook/index.html
Year 2005	
GDP, population, premiums	http://server.iii.org/yy_obj_data/binary/772943_1_0/international_fact_book_2006-2007.pdf http://server.iii.org/yy_obj_data/binary/789034_1_0/international_fact_book_2007-2008.pdf
No. of companies, employees	http://stats.oecd.org/wbos/index.aspx?r=341031 http://www.cea.eu/uploads/DocumentsLibrary/documents/1224519688_eif.pdf www.nsi.bg www.csa-isc.ro
Premium taxation	http://www.pwc.com/extweb/pwcpublishations.nsf/docid/d0f9b818a9d597f9ca25730f0012f17e http://www.mabisz.hu/english/publication/yearbook/index.html

5. Data Analysis and Discussion of Results

For the analysis of our data we used SPSS 17.0 software. Since we lack the necessary space here to discuss the technical issues related to the analysis (please see Table 2 for these details), we explain the steps as we generated the findings.

Three years have been analyzed as we found fiscal data only for these years (Table 1, taxation). For each year we ran four models, testing all the proxies for “insurance activity”, such as: life

premiums subscribed, non-life premiums subscribed, number of companies and number of employees in the insurance sector and the corresponding dependent variables (see model specifications in Table 2).

According to our findings, GDP per capita is positively associated with the insurance activity proxies on acceptable significance levels (t-values are positive and the computed significance is between 5% and 10%), as is shown by models 1, 2 and 3 in all 3 years, which confirm that the level of life has a significant impact on insurance.

Model 4 behaves differently, where the number of employees is used as proxy for the insurance activity. We believe this is for data management reasons, since the status of 'employment' is defined differently in the countries worldwide (some count only full time contracts while others include also collaborators), thus the data being heterogeneous.

We therefore accept the first hypothesis, according to which the level of life is positively associated with insurance activity.

Table 2. Results generated

Panel A. Year 2008				
<i>Model 1: Life premiums = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	1.981	0.057	0.064
Life premium taxation	-	-0.148	0.883	
<i>Model 2: Non-life premiums = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Non-life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	1.951	0.060	0.057
Non-life premium taxation	-	-0.399	0.693	
<i>Model 3: Companies = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Non-life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	0.734	0.475	0.115
Number of companies	-	1.311	0.211	
Panel B. Year 2007				
<i>Model 1: Life premiums = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	2.182	0.037	0.087
Life premium taxation	-	-0.203	0.841	
<i>Model 2: Non-life premiums = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Non-life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	2.062	0.048	0.071
Non-life premium taxation	-	-0.499	0.622	
<i>Model 3: Companies = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Non-life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	2.196	0.039	0.121
Number of companies	-	-1.393	0.178	
<i>Model 4: Employees = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Non-life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	1.240	0.232	0.013
Number of employees	-	-0.970	0.346	
Panel C. Year 2005				
<i>Model 1: Life premiums = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	2.639	0.013	0.139
Life premium taxation	-	-0.060	0.953	
<i>Model 2: Non-life premiums = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Non-life premium taxation + ϵ</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	2.471	0.019	0.120
Non-life premium taxation	-	-0.717	0.479	

<i>Model 3: Companies = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Non-life premium taxation + ε</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	2.655	0.015	0.183
Number of companies	-	-1.235	0.231	

<i>Model 4: Employees = $\alpha_0 + \alpha_1$ GDP per capita + α_2 Non-life premium taxation + ε</i>				
	Sign	t	Signif.	Adj. R ²
GDP per capita	+	1.580	0.132	0.031
Number of employees	-	-1.078	0.295	

As the connection between taxation and insurance is concerned, our empirical findings do not support the hypothesis we developed (H2), since the t-values of the taxation variable are not significant in neither of the models on an acceptable level (5% and 10%). One can observe, however, that the predicted negative sign is always verified (we have negative t-values for the taxation variable). This situation can be explained as a result of many specific rules in legislation that exist from one country to other. We must therefore reject the second hypothesis, according to which the level of taxation is negatively associated with the insurance activity.

6. Conclusions

Growing interest of companies for insurance is due to global economic evolution in recent years, and especially the economic crisis. This interest is manifested as a result of the company's desire to ensure against risks to which they are subjected, and to ensure their employees in this respect, companies benefiting from the various fiscal facilities offered by any countries.

On the other hand, regarding the interest for insurance is manifested by IASB (there are concerns regarding insurance taxation dealt with through the Exposure Draft of IAS 12 Income Taxes conducted in 2009). At the European level through European Directives is attempting to achieve and strengthen the solvency of insurance companies, job insecurity and financial difficulties of firms create negative economic repercussions on the insurance.

A form of fiscal loosening in this field would be very welcome, so that the interest for insurance to be able to record an increase, and we mention the experience of the Central and East European countries, where, especially after 1990, the volume of insurance premiums distributed per capita has increased substantially due to favorable tax deductibility of insurance premiums.

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DISCLOSURE PRACTICES CONCERNING CONSOLIDATED FINANCIAL STATEMENTS OF ROMANIANS GROUPS OF ENTITES

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The main object of this paper is to examine accounting harmonization in a sample of companies with regard to the presentation of consolidated financial statements. The results of the study indicate that listed firms tend to comply with IFRS requirements

Keywords: disclosure, consolidated financial statements, IFRS

JEL: M41

Motivation and objectives

From the beginning of 2005 companies from the European Union have to comply with the International Financial Reporting Standards (IFRS) when reporting their consolidated financial statements, as publicly listed companies subject to Regulation 1606/2002 of the European Union. European Union (EU) Regulation 1606/2002 was a watershed (Cairns, 2003). EU Regulation 1606 states that "member states are required to take appropriate measures to ensure compliance with international accounting standards" (EC,2002). It requires all listed companies of member states to prepare consolidated financial statements based on IFRS beginning 1 January 2005 (Brown and Tarca, 2005). The announced aim of IFRS adoption in the EU was to improve the quality of companies' financial reporting by increasing its comparability and transparency, and to promote the development of a single capital market in Europe (Federation des Experts Comptables Européens, 1999).

This change affected Romania also, because even if the country gained membership only in 2007, therefore it had to be prepared and implement IFRS in the domestic accounting regulation. This problem was solved by changing the national accounting regulations.

The objective of this study is to analyze if the Romanian groups respect or not the requirements concerning the disclosure of consolidated financial statements. In our sample were included just financial and non-financial companies listed at BVB, first category.

Romania has now only one stock exchange: the Bucharest Stock Exchange (BVB). BVB has a total of 2,078 listed securities, 59 on the main market (BVB) and 2,019 on the unregulated market (previously known as RASDAQ). Most of the securities listed on the RASDAQ are not traded at all and are the result of the early privatization of state owned enterprises.

For the purpose of our paper, information from annual reports of the Romanian companies in the sample has been collected for the period 2006-2008 with a special focus on the consolidated financial statements. This data allowed us to observe the evolution of harmonization process concerning the disclosure of consolidated financial statements, and for each year the degree of material disclosure harmonization.

Our objective was to calculate the material disclosure harmonization for consolidated financial statements, which tests the extent of the information disclosed through the consolidated financial statements. So, we analyzed if the consolidated financial statements of the selected groups disclose certain information.

The paper is organized as follows. In the next two chapters we present a short review of the Romanian accounting regulation concerning consolidated financial statements and growing literature which is important is setting the context of the study as well as the hypotheses. This is

followed by discussion of methodology of research. In the fifth part findings are critically evaluated and then the conclusions chapter closes the paper.

Legal framework concerning the disclosure of consolidated financial statements in Romania

Accounting rules are aligned with the Fourth and Seventh Company Law Directives, as well as with the Transparency Directive, the IAS Regulation (EU Regulation 1606/2002), and the Bank and Insurance Accounts Directives. Since 2007, listed companies have been required to use International Financial Reporting Standards *as endorsed* by the EU to prepare their consolidated financial statements. Financial statements are available at the trade registry, albeit not electronically.

CNVM Orders 75/2005 and 74/2005 transpose respectively the Fourth and Seventh Company Law Directives for companies that the CNVM regulates and supervises. Listed companies regulated by CNVM prepare their consolidated financial statements under *endorsed* IFRS.

The Accounting Law 82/1991 amended and republished sets the obligations to prepare consolidated financial statements for a parent company.

In 2005, The Ministry of Finance (MoF) Order 1752/2005 seeks to cover financial reporting requirements applicable to companies of all sizes in one piece of legislation, with differing levels of disclosure according to the size and public interest consideration. The MoF Order 1752/2005 has been effective from January 1, 2006 for reporting year ending December 31, 2006.

The following types of entities were required to comply with the applicable elements of IFRS: financial lending institutions, insurance and re-insurance companies, listed entities and entities with securities traded on a regulated market, state-owned entities and entities that benefit from state support or state guarantees.

The preparation of financial statements based on IFRS for the financial year ending in 2006 was required for 2007 IFRS compliance to enable comparatives to be available for 2007 reporting.

OMF 1752 provides for exemptions. Entities other than public-interest entities are exempt from preparing consolidated financial statements if, at balance sheet date, the entities to be consolidated do not together exceed the limits of two of the following three criteria: total assets of EUR 17,520,000; turnover of EUR 35,040,000; and average number of employees during the financial year of 250. A group (if not a listed entity) may be exempt from preparing consolidated financial statements if more than 90% of the parent company belongs to another group. Public-interest entities, other than banks and listed companies, prepare their consolidated financial statements in accordance with either *endorsed* IFRS or accounting standards compliant with the Seventh Company Law Directive.

The provision of OMF 907/2005 providing that banks have to prepare a set of consolidated financial statements in accordance with IFRS for the year ending 31 December 2006 has been confirmed by OMF 1121/2006 for subsequent periods (however in accordance with *endorsed* IFRS). MoF Order 1121/2006 provides some additional guidance on the application of IFRS commencing with the year ending December 31, 2007.

The Company Law obliges the Management Board of the parent company to publish the annual financial consolidated statements at the trade registry within 15 days from the date of their approval.

Literature review

Disclosure harmonization is concerned with the extent of information disclosure and measurement harmonization is concerned with the nature of the information disclosed. Van der Tas (1988)

Research in disclosure level and compliance with IAS/IFRS began around the year of 2000 and showed a great deal of non-compliance with IAS requirements in various fields (Street *et al.*, 1999). Later studies focus on cross-listed companies seeking to identify significant differences between US listed (and also filing in US) and non-US listed companies. Findings indicate that the

overall level of disclosure is greater for companies with US listings (Street and Bryant, 2000; Glaum and Street, 2003).

Unfortunately there is a total dearth of such studies and evidence in Central and Eastern European countries except for those that have been carried out using an international sample, such as Street and Gray (2002)³. Fekete et al (2008) develop a study about Hungarian data and contributes to understanding the level of compliance with IFRS disclosure requirements and its determinants.

Cooke (1989) measured the extent of the information disclosed by 90 Swedish companies (disclosure harmonization). The index was composed of 224 items which we considered should be included in the financial statements. Each item is considered a dichotomous variable; we assigned the value one if the information was provided and zero if not. Weightings were not used, so each item had the same importance. An improvement was done in 2003 by Sánchez (2003) by modifying the Cooke index, to avoid penalizing a company for those items that it need not disclose.

Methodology

1. Measurement tool

To evaluate the disclosure harmonization, in our study we used a disclosure index, as was described and used by Cooke (1989), because through a disclosure index we can provide by a single figure summary indicator the entire content of the report (e.g Ahmed and Courtis, 1999; Coy and Dixon, 2004).

2. Consolidated financial statements Disclosure Index

A major task was to establish which items were going to conform the index, in other words, we sought those aspects that in our opinion, ought to be included in the consolidated financial statements. Being the first study which analyze the disclosure harmony of BVB listed entities concerning the consolidated financial statements, we structured our study in two parts: the first, which is presented in this paper analyze the disclosure of the complete set elements and the second go deeply and analyze the content.

The index is composed by the elements of the complete set of consolidated financial statements and was complemented with an item about the audit report. The Items subchapter shows the 6 items selected, bringing the maximum score to 6. Disclosure index $(DI) = \sum_{i=1, \dots, n} X_i$ where $X = 1$ if the item X_i is disclosed and 0 if not. A set of 6 index score for period 2006-2008 was calculated for each group surveyed. The constructed index is going to allow us to reflect which groups disclose the information of their consolidated financial statements according to the content of the IAS/IFRS, and at the same time, to verify which groups disclose a greater amount of information.

3. Data sources

Data instruments or sources of data which can be used in de facto harmonization studies are mainly of five types: annual reports, accounting regulations, public databases, questionnaires and laboratory techniques. The choice of data source has important repercussions for the overall research design, since there are advantages and difficulties involved with using each of them. We will focus on the two data sources used in the studies shown in table 0, survey data and annual accounts.

The use of annual reports obviously has great advantages, but also difficulties. It does not have the disadvantages mentioned above, but the collection of data is tedious, companies sometimes do not send the financial information and the reports may not be available in a language the researcher can understand.

4. *The sample*

The Transparency Directive, requires for listed companies annually and semi-annually information for listed companies, so we analyzed the existence and the content of the six sets of consolidated financial statements prepared in accordance with *endorsed* IFRS for the period 2006-2008, in the case of first category listed entities on BVB.

The entities included in the study are those that were listed in the Bucharest Stock Exchange (BSE), the official stock exchange of Romania on the date of balance sheet for financial year 2006, 2007, 2008. We analyzed also individual financial statements and auditor report to see if the entity was obliged or not to prepare consolidated financial statements.

From the total of 21 entities, 7 were excluded from our sample because for them was not mandatory to elaborate consolidated financial statement. The structure of our sample is the follow:

Table 1. Sample description

<u>Number of entities (2006, 2007, 2008)</u>	<u>14</u>
Romanian listed companies :	
- Banks -	3
- Investment funds -	5
- Entities in non-financial sector	6

5. *Items*

For years 2006, 2007, 2008 we analyzed if the entities obligated to present consolidated financial statements, present the complete set of consolidated financial statements containing:

- consolidated balance,
- the consolidated profit and loss account,
- the consolidated statements of the treasury flows,
- the consolidated statements of the changes in shareholder's equity,
- the group's accounting policies and the explanatory notes.
- the audit report attached o consolidated financial statements

Dichotomy for each item was used. We have opted for conceding the same importance to all the items selected. Lapsley (1992) explains that there is a general agreement among researchers about who the users of the annual accounts are but there are major doubts about the information that satisfies their needs. Consequently, we have not considered any information more important because its depends on the user. In addition, we made no attempt to give additional weight for the quality or quantity of the disclosure.

And for the each element we considered the minimum information required by IFRS. The consolidated balance sheet must present at least the following information, extra to individual balance sheet: financial investments accounted for using the equity method, goodwill, minority interest, presented in the shareholder's equity, issued capital and the reserves allotted to the holders of shareholder's equity of the parent company, group result.

The minimum information that must be presented in the consolidated profit and loss account extra to individual profit and loss account refers to: quota-part in the result of associated enterprises and of associates in participation equated, group result.

The consolidated accounting policies and explanatory notes extra to individually content the follows elements: the consolidation methods, the treatment of the purchasing differences, the conversion methods and the date of account closure; the evaluation methods and rules used for the significant posts in the balance and the consolidated profit and loss account; the consolidation perimeter;

Results

For the period 2006-2008 there were 14 Romanian entities, from the first BVB category which should present annual and interim consolidated financial statements. Just a part of them full fill these requirements as we can see in the follow table:

Table 2. Evolution of CFS disclosure for our sample

Entities	2006		2007		2008	
	INTERM	FINAL	INTERM	FINAL	INTERM	FINAL
TOTAL	14	14	14	14	14	14
SFC	0	5	3	9	4	13
%	0%	35,7%	21,4%	64,3%	28,6%	93%

About the annual CFS there is positive evolution, for instance if we compare 2006 with 2008, in 2006 the number of CFS is limited at 5 but in 2008 the number increase at 13, so only one entity not present CFS. About the interim CFS, the situation is not the same as for annual CFS, due to the less importance gave to interim CFS, by the entities: in 2006 there were nu interim CFS, in 2007 there were 3 interim CFS an in 2008 there were an insignificant increase at a total of 4. The set of CFS and the audit report for CFS were analyzed, and the Disclosure indexes of CFS for our sample were presented in the follow table:

Table 3. Disclosure indexes of CFS for our sample

Entities	2006		2007		2008	
	INTERM	FINAL	INTERM	FINAL	INTERM	FINAL
A	0	1	1	1	1	1
B	0	0	0	1	0	1
C	0	1	0	0,833	0	0,833
D	0	1	0	1	0	1
E	0	1	0	1	0	1
F	0	0	0	1	0	1
G	0	0	1	1	1	1
H	0	1	1	1	1	1
I	0	0	0	0	1	1
J	0	0	0	0,833	0	0,833
K	0	0	0	0	0	0
L	0	0	0	0	0	0,667
M	0	0	0	0	0	1
N	0	0	0	0	0	0,833

In 2006 the 5 sets of annual CFS were complete, with all elements of CFS and also the audit report for them. In 2007 the number of CFS increase at 9 but the content is less qualitative because there are two entities who present only the consolidated balance sheet, profit and loss account, cash flow statement and own equity movement, without accounting policies and explanatory notes, but joined by the auditor report. In 2008 the evolution is in the same trend like in the previous year, so the number of annual CFS increases at 13 but the quality also decrease, there are 4 CFS which not receive the maximum disclosure index because there are missed parts of the complete set of CFS or are not audited.

Conclusion

There are two important aspects about the CFS disclosed by the Romanian entities from the first BVB category:

- concerning the number of entities which must present CFS, we can conclude that for the analyzed period the number was constant and in time the evolution was good taking into consideration that only after 2007, Romania became an EU member with all obligations concerning the disclosure of financial and nonfinancial information.
- concerning the presented CFS, no significant non-compliance issues were identified during the review of the consolidated financial statements for companies of the sample and none of the audit opinions was qualified. The auditor role is important as we consider that in the auditor report for

individual financial statements of previous years, before the presentation of CFS the auditor emphasis the matter about the mandatory CFS presentation.

Generally speaking, we consider that all entities quoted must realize, the adoption of IFRS is an effort to improve company credibility, in our case, the credibility of Romanian companies, particularly those listed on the Bucharest Stock Exchange (BVB).

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THE BUDGET, AN INSTRUMENT FOR PLANNING AND CONTROLLING THE COSTS

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The budget is a management instrument used by any entity, financially ensuring the dimension of the objectives, revenues, expenses and results at the management centers level and finally evaluating the economic efficiency through comparing the results with those budgeted for.

A major component of the managerial control, the effectiveness of the budgeting process is reflected in the fact that: requires the strategic planning and implementing the plans, offers a frame of reference for performance evaluation, contributes to personnel motivation, encourages the coordination and communication.

Keywords: budget, management centers, managerial control, strategic planning

Cod JEL lucrare: H61

The Budget and Budgetary Cycle Concepts

All throughout the activity, regardless of how perfect the unit's strategy is, controlling the predictions is necessary to track down the causes that lead to certain deviations, to assign responsibilities and to anticipate some corrective measures for them. This prediction control system that contributes to achieving the time-targeted objectives, of one year deadline usually, is called *budgeting*.

Budgeting represents the accounting instrument used by companies on a regular basis to plan and control their actions in order to satisfy their clients and secure their success on the market¹²⁵⁴.

The budget can be defined as a „financial plan that includes calculating the revenues and expenses of the state, a social or economic organization for a determined period of time”¹²⁵⁵.

The budget is the quantitative expression of the plan framed by the administration for a specified period and a support for the coordination of the necessary activities in implementing that plan. A budget may reflect both financial and non-financial issues concerning the plan and represents a „schedule” regarding the forthcoming period. A budget that includes financial aspects quantifies the administration's predictions regarding the profit, treasury's cash flows and financial statement of the entity. The financial statements for the forthcoming period can be drawn up the same way as those for the former periods. Non-financial budgets can be drawn up in addition to these financial budgets such as those regarding the number of products, the number of employees or the number of new products introduced on the market.

The budget may become an instrument for the amortization and optimization of the relation between revenues and expenses within an entity whereas the costs budgeting may become a systematic economical practice that demands carrying out a formal process by which financial resources are distributed in order to achieve the time-objectives for the forthcoming periods¹²⁵⁶.

¹²⁵⁴ Charles T Horngren, Srikant M. Datar, George Foster, *Costs accounting, a managerial perspective*, Arc Publishing, Craiova, 2006, p. 198;

¹²⁵⁵ Gheorghe D. Bistriceanu *Finances, banks and insurances thesaurus, Vol. I*, Economica Publishing, Bucharest, 2001, p. 234

¹²⁵⁶ Sorin Briciu, *Managerial accounting, theoretical and practical issues*, Economica Publishing, Bucharest, 2006, p. 248.

Practically, the budget can be viewed as a list, a document that includes the predictable revenues and expenses of an entity, regardless of its size, within a certain period of time. The budget represents the underlying activity of the economical agents.

The budget reflects the economical unit's revenues and expenses, financial results, proper funds including the employees' contribution to the profit, bank loans and their reimbursement, payments to the treasury and information regarding the main indicators of its activity.

The budget contributes to maintaining a permanent balance between receivables and payments and also ensures a continuous capacity of payment. The budget of an enterprise reflects the potential of achieving its revenues, the expenses' limit as well as its final results. The unit's financial balance must permanently reflect the match between the monetary resources and the actual needs, according to the requirements of a lucrative economical-financial activity.

In the context of economic competition, where the companies' activity must be lucrative, the budget contributes in increasing the profit and decreasing expenses, therefore the budget represents a leading instrument. The budget is an instrument used by any entity, financially ensuring the dimension of the objectives, revenues, expenses and results at the management level and finally evaluating the economic efficiency through comparing the results with those budgeted for.

The elaboration, monitoring and controlling the budgets is mandatory for the purpose of acknowledging the results and delivering private information necessary for the decision making. If the budget is designed to present all the predictable figures of the enterprise, it is questioned whether autonomous subsystems called expenses centers (places) aimed at optimizing the use of resources and making profit should be created within. The expenses center is a recognizable function or a part of the enterprise for which the expenses can be identified. In the case of the profit center, both the expenses and revenues can be identified.

The budget center represents a sector of an entity that can be controlled and budgeted. A budget center may be an expenses centre, an assembly of expenses centers or may coincide with a profit center. Depending on its size, a common profit center may consist of several budget centers which may independently consist of either a single expenses center or an assembly of interconnected expenses centers.

The budgeting process is characterized by the following features:

a) Planning and coordination

The budgeting process is based on some more general long-term objectives with the purpose of elaborating thorough operational plans for different sectors or executive links of the enterprise. Planning is the key to success in any business and it is encouraged by the allotment of budgetary resources.

Planning is reflected in the *master budget* that includes all the *secondary budgets*, a fact that determines the managers to consider the relation among the function of the budgets and the various departments of the enterprise and to analyze the way in which they contribute to achieving the objectives.

b) Authority and responsibility

The budgeting process assumes that the entity is organized in responsibility or budgetary centers and follows clear instructions regarding the responsibilities of each manager that has a budget as well. Adopting a budget includes the authorization of all its activity plans, allowing the exceptional management which means that a subordinate is given a specified role and also the authority and necessary resources to carry out the assigned part of the plan but if the activities do not follow the plan, the variations are reported to the superior authority.

c) Communication

The budgeting process involves all the managerial levels and constitutes an important means of communication between the superior and middle management regarding the targeted objectives and their achievement. When the budgeting process ends, the approved plans are communicated to the entire involved personnel.

d) Control

This element of budgeting is the least expected by employees. The process of comparing the current results with the planned or budgeted results and reporting the comparison's results, which is in fact the budgetary control, establishes a guideline for carrying out the plans within the set limits for the expenses.

e) Performance evaluation

The performance of the managers is partially evaluated according to their ability to implement the budgets. The data regarding the manager's budget and his ability to achieve the budget objectives is an important factor whenever a manager is evaluated to be promoted, to be given a raise or in any other kind of assessment. The budgets used as objectives may assist a manager in monitoring his own performance.

The budget objectives are:

- provide the basic information, the cost for elaborating the development plans;
- indicate the conditions under which the patrimonial unit must work to achieve the targeted objectives (e.g. the amount of sales that ensure the predicted profit until the end of the trimester);
- represents an instrument for coordinating the activity within the patrimonial unit encouraging the information circuit regarding the costs and increases the awareness among the individuals responsible for the expenses centers;
- increases the capacity to anticipate the consequences of the decision made or that are about to be made, since the budgets are a referential image directed by the decision makers.

The budgeting procedure can be divided into the following stages:

1. Setting of the company's objectives for the following year (operational plan) by the general administration and communicating them together with the information regarding the business environment to the management centers;
2. Elaboration of the provisional budgets (prebudgets) by each individual responsible for the designated centers within the enterprise and the selection of one desirable version;
3. The assessment of budgetary coherence according to which the provisional budgets of each responsibility center are regrouped at the level of general administration so that the coherence among the different components of the budget is evaluated. The management centers and the budget committee organize a debate on the objectives and resources allotted for their achievement, negotiating the objectives and assigned resources for each budget. The management controller has a very important role in this stage because he analyzes the credibility of the initial hypothesis and objectives, evaluates the sensitivity of the results in relation with the most uncertain variables and ensures the existence of a reserve fund at the level of general administration that can be used throughout budgets' execution in the case of an unfavorable turn of events or an unexpected management situation at the level of budgeted entities.
4. The elaboration of definitive budgets and their delivery to the responsibility centers;
5. Monitoring the budgets' execution and their update depending on the evolution of the business environment and the achievement of the objectives;

The advantages of the budgeting process are:

- the manager of the patrimonial unit has the possibility of coordinating all of its functions (supply, production, sale);
- indicates the conditions under which the patrimonial unit can achieve the targeted objectives;
- provide the necessary information for setting up future actions;
- allows the comparison of the targeted objectives with the performance of the patrimonial unit;
- allows the anticipation of certain difficulties that might be met and the solutions for their prompt counteraction.

The disadvantages of the budgeting process are:

- the risk of having the patrimonial unit's activity blocked on one single plan of action;
- the aversive reaction of the employees in the case of unrealistic objectives;

- the risk of losing control over the costs due to the misconceptions of the employees and chiefs of departments according to which smaller resources will be allotted for the next year if during the current year a smaller amount of resources than allotted are used.

Another important issue regarding budgets is the *budgetary management*. The budgetary management or the budgetary system represents the management process consisting of translating the numerical action plans called budgets, the decisions made by the administration with the participation of the responsible agents. The budgetary management includes preparing the budgets, analyzing the errors and correcting them.

The budgetary management is based on the following principles:

- *the integrity principle*, which entails that all the activities of a patrimonial unit should be characterized by a perfect coordination between the various functional and operational services;
- *the principle of superposition* of the budgetary system over the authority system from the patrimonial unit, which means that the budget must be identified with a responsible individual and its accounting authority description;
- *the principle of maintaining the solidarity among departments and the congruence with the strategic objectives of the patrimonial unit*;
- *the versatility principle*, which means adjusting the budgets to the changes in the economical variables;
- *the principle of personnel policy coupling* to determine the motivation and adhesion of the personnel to the targeted strategic objectives;
- the principle of updating the budgetary predictions.

The budgetary management has the following characteristics:

- is a result of the strategy and predictions;
- is an element of coordination among several levels of activity, since the budgets are inter-correlated;
- has some limitations such as being too theoretical, expensive and sometimes unusable.

The effectiveness of the budgetary management depends on the quality of predictions but also on the corrective measures taken.

The elaboration of an organization's budget is important to its success for three reasons. First of all, the elaboration of the budget requires the management to analyze the future activity and plan the objectives and events in the short run as well as in the long run. Second, the entire managerial team must collaborate in the setting and following these plans. Third, performance analysis on each managerial level is possible by comparing the budgets with the actual results.

The budgetary system of an entity is one of the most practical management control procedures, precisely organizing the tasks for enhancing the enterprise's performance and correcting the potential errors. It indicates the way in which profit is obtained, allowing the decision makers to understand the factors that generate profit and to operate upon the controllable variables that influence the achievement of foreground objectives. Moreover, the budgetary system directly contributes to the elaboration of provisional synthesis documents: provisional balance sheet, provisional income accounts, treasury and financing plans.

In order to achieve its objectives, the budgetary system must meet the following conditions:

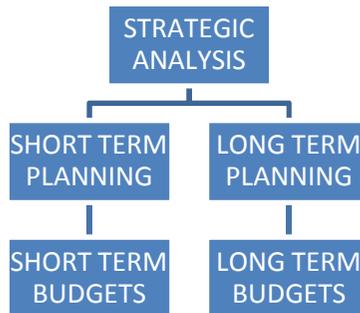
- implication and support from the top management;
- implication of all department managers in throughout all aspects of the budgeting procedure;
- clearly defining the long-term objectives;
- a realistic organizational structure, with clearly defined responsibilities;
- the accounting and informational system must be adequate;
- the regular revision of the budgets and the objectives;
- the administration of the budgets in the most flexible way¹²⁵⁷.

¹²⁵⁷ Briciu Sorin, *The Informational System regarding the management accounting and calculation of costs in industry*, Argus Publishing, Bucharest, 2000, p. 47.

A major component of the managerial control, the effectiveness of the budgeting process is reflected in the fact that: requires the strategic planning and implementing the plans, offers a frame of reference for performance evaluation, contributes to personnel motivation, encourages the coordination and communication.

1. Strategic planning and implementing the plans

Budgeting is effective if it is a part of a company's strategic analysis, which means that the long term planning is used in the elaboration of long term budgets whereas the short term planning is used in the elaboration of short term budgets.



2. The budget, a frame of reference for performance evaluation

A company's performance can be evaluated through its reference to the elaborated budgets for those plans, which contributes to the elimination of some difficulties concerning the use of past results in analyzing the current results such as:

- the past results include the activity's failures, the substandard performance within the previous period;
- the activity's conditions can differ in the future as compared to those in the past.

The evaluation of individual professional performance represents the set of processes and procedures implemented annually through the application of performance criteria for the degree of accomplishing the professional objectives based on the job description.

The individual objectives must meet the following requirements:

- the activities must be specific and in accordance to the requirements listed in the job description
- to be measurable, and have a concrete form of achievement;
- include deadlines;
- set realistic expectations that can be accomplished within the specified deadlines and with the allotted resources;
- are flexible in the sense that they can be revised depending on the encountered modifications and priorities.

The evaluation of individual professional performance is based on special legal regulations for each personnel group, requiring the different approach of these issues.

The score for achieving the objectives is obtained by calculating the arithmetic average of the grades given for the achievement of each objective, including the individual revised objectives in the case a revision was necessary during the evaluation period. The score for achieving the performance criteria is obtained by calculating the arithmetic average of the grades given for achieving each criterion. The final score of the annual evaluation is obtained by calculating the arithmetic average of the individual objectives and performance criteria grades.

The evaluation procedure consists of three stages as follows:

- drafting the evaluation report by the evaluator;

- the interview;
- registering the evaluation report.

3. The budget, a motivational factor for achieving the objectives

Research studies report that “bold” budgets contribute to improved results since the incapacity to accomplish the predicted levels budgeted for is perceived as a failure. The majority of the employees is motivated by the desire to avoid failure and succeed; as soon as they get closer to achieving an objective, they intensify their efforts to attain it. For these reasons, setting high but achievable objective is important.

Training is a difficult task of the management, entailing decisions that determine the personnel to participate in the process of targeting and achieving the objectives, taking into consideration the motivational factors.

Therefore, I estimate that the chief of departments should try to get to know each subordinate’s personality and more importantly their professional interests and their predispositions with regard to a certain working activity.

From the point of view of the instrumentality of personnel motivation, the manager of each organizational link may intervene in the following ways:

- through positive motivational factors, offering the subordinate employees the possibility to attain their professional goals, to publicly recognize their achievements, to facilitate their promotion, to facilitate their personal development;
- through diminishing the effects of negative motivational factors (hygiene factors), the supervision strategies, promoting interpersonal relations, ensuring an adequate working environment, organizational culture.

4. The budget, an instrument for promoting the coordination and communication among the institutional structures

Coordination represents the deployment and trimming of all production or service factors from all economical functions and departments in the most effective way to allow the company to achieve its objectives.¹²⁵⁸

Communication assumes that the personnel from all organizational subunits understands and accepts these objectives.

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¹²⁵⁸ Charles T. Horngren, Srikant M. Datar, George Foster, *Costs accounting, a managerial perspective*, Arc Publishing, Craiova, 2006, p. 201

HUMAN RESOURCES ACCOUNTING – ACCOUNTING FOR THE MOST VALUABLE ASSET OF AN ENTERPRISE

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Employees are the most important assets of an enterprise and its success or failure depends on their qualifications and performance. Human resources are not properly evaluated because the enterprises consider the wages, actually an investment in the qualification and improvement of the staff as expenditure and not as an investment in the most important asset of an enterprise – the human capital. The current accounting system is not able to provide the actual value of employee capabilities and knowledge. This indirectly affects future investments of a company, as each year the cost on human resource development and recruitment increases. Human resource accounting is a direct part of the social accounting and aims to provide information on the evaluation of one of the most important components of the organization, namely human capital. This article seeks to show the importance of human resources for an enterprise, what human resource accounting is, which would be its implications and what are its main objectives.

Keywords: Human Resources Accounting, human capital, knowledge, intangible assets, Lev & Schwartz model

Jel code: M41 Accounting

1. Introduction

In recent years, the economic, political and social environment underwent profound changes that caused a higher level of globalization and an increasingly greater competition. Corporations have become increasingly strong and rising the problem of responsibility assuming, the companies have started to give increasingly more importance to corporate social responsibility. Customer expectations increased regarding product quality and environmental protection by producers.

We are in an unbelievable economic crisis, but this will end, sooner or later. It is therefore very important to know what role investment in human capital plays in solving this dilemma. In an economy based on knowledge, people being knowledge-holders become the most valuable asset of an organization¹²⁵⁹.

In the economy of knowledge, there are the typical organizations developing, called knowledge or cognitive-intensive organizations. The term "knowledge-intensive" apply to organizations in which knowledge has more importance than other inputs and human capital predominates over other forms of capital¹²⁶⁰.

Specific to knowledge are two dimensions - human and economic. At company level, knowledge is reflected in the workforce (human capital), in the requirements and preferences of customers (customers as capital), in the products, processes, capabilities and its systems (structural capital). As a result, the value of knowledge assets can significantly exceed the value of tangible assets. Assessments of companies like Microsoft are telling in this regard.

¹²⁵⁹ Nicolescu O., Nicolescu L.: *Economia, firma și managementul bazate pe cunoștințe*, Editura Economică, București, 2005.

¹²⁶⁰ Starbuck W.: *Learning by knowledge-intensive firms*, Journal of Management Studies, No.3, 1992.

2. Human resources. Most valuable asset of an enterprise.

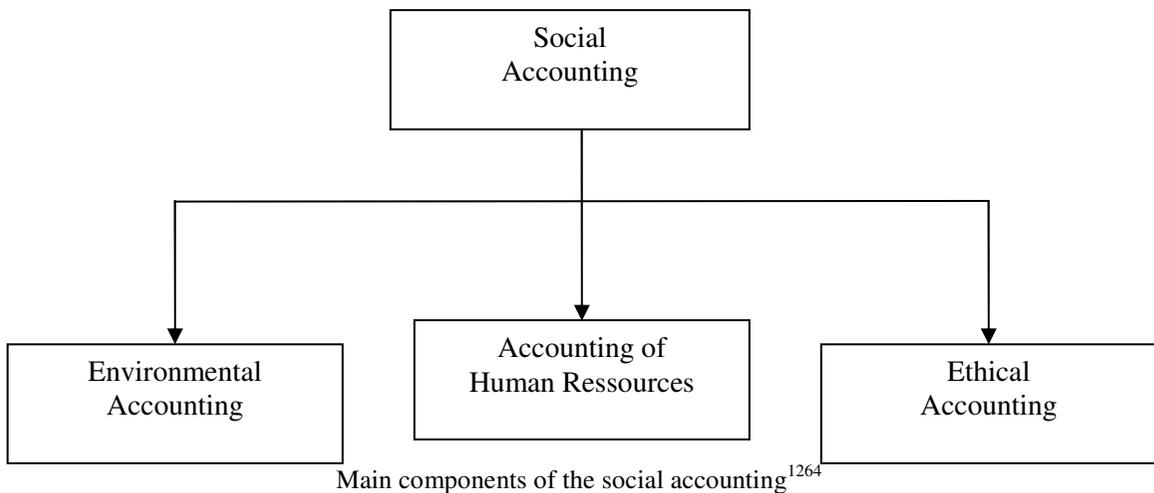
Resources are "all human, material, real and monetary elements that can be drawn and used in the production of economic goods to satisfy social needs"¹²⁶¹. With the advent of the new economy, knowledge-based economy it has been concluded that human resources becomes increasingly more important in determining the total value of an organization. Human capital refers to a set of knowledge and competence, skills and training, innovation and capabilities, attitudes and skills, learning ability and motivation of the people who form the organization.

Although the technical installations, equipment or financial capital are important, human resources, in particular, very important¹²⁶². Manolescu asserted that the traditional approach is to treat people as mere "expenditure" or in the accounting approach tendency as mere costs¹²⁶³.

Joint human resource paradigm is incomplete and limited. It takes your mind to a consumable resource type at a cost and therefore the administration in terms of minimizing costs. Actually it is about an essential strategic element in the company's future, it is about human capital. Human capital includes the combined knowledge, skill, creativity, resourcefulness and ability of each employee of a firm to conduct routine activities. It also includes the company's values, its culture and philosophy.

3. Accounting of Human Resources

Accounting of human resources forms direct part of the social accounting with the environmental and ethical accounting:



The American Accounting Association's Committee on Human Resource Accounting has defined Human Resources Accounting as the process of identifying and measuring data about human resources and communicating this information to interested parties. Human Resources Accounting, thus, not only involves measurement of all the costs/ investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organisation¹²⁶⁵. Flamholtz¹²⁶⁶ too has offered a similar

¹²⁶¹ Dobrota N. - coordinator: Dictionar de economie, Ed. Economica, Bucuresti, 1999, 159.

¹²⁶² Armstrong, M., " A Handbook of Human Resource Management, Kogan Page, London, 2001.

¹²⁶³ Manolescu, A., " Human Resources ", Economic Publishing House, Bucharest, 2003.

¹²⁶⁴ Giju George Ciprian. Social accounting to make the social results visible, 2007.

¹²⁶⁵ American Accounting Association Committee of Accounting for Human Resources, Report of the Committee on Human Resource Accounting, 1973.

¹²⁶⁶ Eric G. Flamholtz: *A Model for Human Resource Valuation : A Stochastic Process with Service Rewards*, 1971.

definition for Human Resources Accounting. They define Human Resources Accounting as “the measurement and reporting of the cost and value of people in organizational resources”. Looking at different proposals¹²⁶⁷, the resource theory considers human resources in a more explicit way. This theory considers that the competitive position of a firm depends on its specific and not duplicated assets. The most specific (and not duplicated) asset that an enterprise has is its personnel. It takes advantage of their interdependent knowledge. That would explain why some firms are more productive than others. With the same technology, a solid human resource team makes all the difference¹²⁶⁸

Characteristics of Human Resources Accounting:

- Its a system of accounting in which identification of human resources is made.
- Investment made in human resources is recorded.
- Measurement of costs and values are made.
- Changes occurring in human resources over a period of time are also recorded.
- Communicates information through financial statements to interested parties.

The main objectives of Human Resources Accounting are:

- Proper management of human resources
- Improvement of human resources.
- Depicting the true value of the organization.
- Provides quantitative information on human resources which helps the managers and investors in making decisions.
- Human Resources Accounting communicates the worth of human resources to the organization and to the public.

4. The treatment of Human Resources Accounting

According to Barcons et al¹²⁶⁹ Human Resources Accounting can be treated from two perspectives:

4.1. Treatment from a Financial Accounting Perspective

Romanian accounting records to be kept in harmony with accounts in Class 4 Third party accounts and Class 6 expense accounts, namely:

- Group 42 “Personnel and assimilated accounts” (in which find both the accounting function of active accounts, the economic content of debt and liability accounts with the accounting office, the economic content of debt);
- Group 43 "Social security, welfare and similar accounts" (accounts with the accounting function of liability, the economic content of debts except the account 4382 "Other social debt "which has the function of active accounts, the economic content of debt);
- Account 444 "Tax on income from wages" account according liability account, the economic content of debt
- Group 64 "Staff costs" accounting with asset accounts function, uses economic content.

Following the definitions already explained, as long as future benefits are expected to come from these training costs, they can be treated as assets. However, this does not hold true in reality. As Cea García¹²⁷⁰ states: "There is a clear absence of correspondence between the real assets in the present firms and those recognised in the balance sheet... In fact, assets are too related to its juridical conception (that is, owned by the firm...), in front of a pure economic approach where

¹²⁶⁷ Conner, K.: A Historical Comparison of Resource-Based Theory and Five Schools of Thought Within Industrial Organization Economics: Do We Have a New Theory of the Firm?," *Journal of Management*, 17, 1, 1991, 21-54.

¹²⁶⁸ Archel, P.: Activos intangibles: análisis de lagunas partidas polémicas, *Revista técnica del Instituto de Censores Jurados de Cuentas de España*, 7, 1995.

¹²⁶⁹ Barcons et al: Human Resource Accounting, *International Advances in Economic Research*, 1999, 386-394.

¹²⁷⁰ Cea García, J. L. "Las cuentas anuales y la imagen fiel," *Partida Doble*, 4, September 1990.

asset is every instrument or way that can be used in the production-distribution firm's process or, in general, every category of economic value which can be transformed into goods or service or any instrument at the service of the firm or that the firm uses, regardless [of] its juridical state...and also all those goods and rights that the firm does not own now but used to own or will own later on, by virtue of collateral contracts or agreements which may induce it."

So, a diagnosis is reached about the predominant asset concept. This situation can be explained by two important problems that are met when referring to intangibles: Identify the assets cost and estimate the period in which the asset should be amortized.

In international accounting, besides clearly recognizing some items as assets (cash, stock, machinery, and so on) there is great debate whether certain other items are considered capitalization. These are known as deferred charges in English accounting literature¹²⁷¹. It can be said then that not only are the limits unclear between intangible, fixed assets and deferred charges, but also which elements are considered assets and which elements are considered expenses.

4.2. Treatment from a Managerial Accounting Perspective

Personnel working for a determined enterprise is actually participating in a value-creation process. That is, any economic activity makes the firm incur costs. One traditional classification takes into account the cost categories of raw materials, industrial plants, and personnel. When adding income flow to an organization's market goods and services, if it is superior to the cost flow, it becomes added value. This value is a consequence of the interaction between material and human resources in production. Because it is difficult to know and measure value, accounting has used substituted measures such as acquisition cost, substitution cost, and even opportunity cost¹²⁷².

5. Methods/Models Of HUMAN RESOURCES ACCOUNTING

Many models have been created to value human capital. Some are based on historic costs while some are based on future earnings. But each has its own limitations and one model has proved to be more valid than other. In The following we will make a short description of the most important models of Human Resources Accounting:

Historical Cost Method. Actual cost incurred for recruiting, hiring, training and developing the human resources of the organization are capitalized and amortized over the expected useful life of the human resources.

Replacement Cost Method. This is the measure of the cost to replace a firm's existing human resources. This method has the advantages of adjusting the human value of price trends in the economy.

Opportunity Cost Method. In this method, the human resource of an organization has to be valued on the basis of the economist's concept of opportunity cost which is value of benefit foregone by putting it to present use.

Present Value Of Future Earnings Method. It recognizes an individual's expected economic value to the enterprise during his remaining service period. An estimate about the future earning is made, and these earnings relate to the period which extends to the date of retirement of the employees. Such earnings are discounted by an appropriate range to get the present value.

The Lev & Schwortz Model. The Lev and Schwartz model states that the human resource of a co is the summation of value of all the Net present value (NPV) of expenditure on employees. The human capital embodied in a person of age r is the present value of his earning from employment

Under this model, the following steps are adopted to determine HR Value.

¹²⁷¹ Hendriksen, E. S.; Van Breda, M. S. *Accounting Theory*, Homewood, IL: Richard D. Irwin, 1992

¹²⁷² Marqués, E. "Contabilidad y gestion de los recursos humanos," *Pirámide*, 1974

- Classification of the entire labour force into certain homogeneous groups like skilled, unskilled, semiskilled etc. and in accordance with different classes and age wise.eg. In Infosys the classification is based on software professionals & support staff etc.
- Construction of average earning stream for each group.eg. At Infosys Incremental earnings based on group/ age have been considered.
- Discounting the average earnings at a predetermined rate in order to get present value of human resource's of each group.
- Aggregation of the present value of different groups which represent the capitalized future earnings of the concern as a whole,

$$V_r = \frac{I(t)}{(1+r)^{t-r}}$$

Where, V_r = the value of an Individual r years old

$I(t)$ = the individual's annual earnings up to retirement

t = retirement age

r = a discount rate specific to the cost of capital to the company.

Critical appraisal of the Lev & Schwartz model:

- It is essentially an input measure .It ignores the output i.e. productivity of employees.
- Service state of each individual employee is not considered.
- The training expenses incurred by the company on its employees are not considered.
- The attrition rate in organization is also ignored.
- Factors responsible for higher earning potentiality of each individual employees like seniority, bargaining capacity, skill, experience etc. which may cause differential salary structure are also ignore.

Just like the environmental accounting, human resources accounting is necessary to get incorporated into the financial statements due to internal or management usefulness in taking decisions by potential users as well as externally for making decisions on staff by management. Accounting of Human Resources incorporates in the present financial statements of information on the assessment of one of the most important components of the organization, namely human capital.

In order not to conflict with International Accounting Rules we consider the easiest solution to be the legislation on the adoption of an annex to the annual financial statements that should include information about human capital, namely:

1. *Non-financial information:* leadership; motivation; ability of execution of delegated tasks; relation; number of employees; seniority in the company; stability in the company post; number of managers; number of women managers; percentage of managers with higher education; the average age of employees; the average length of training programs (hours/employee); IT knowledge.

2. *Financial information:* expenditure on advertisement for recruitment; cost of selection; training cost; on the job training cost; subsistence allowance; contribution to provident Fund; educational tour expenses; medical expenses; ex-gratia payments; employee's welfare fund.

As you can see all the individual capabilities, skills and experience of employees and management, creativity and spirit of innovation, investment in recruitment, selection, contracting, personnel qualification and improvement are included in the term of human capital. From the above discussions, it is felt that, Human resource accounting provides quantitative and qualitative information about the value of human asset, which helps the top management to take decisions regarding the adequacy of human resources. Hence, It is Concluded that, the Human Resources are an indispensable but often neglected element is thus to be foregrounded into the industrial area for the betterment of the economy.

Conclusions

The claims of the investors, the need for greater transparency and the free access to information, as well as the increasing of the value of intangible assets will make the financial report of companies have a much broader approach in the future. Thus, it could include the measurement of sustained effort, of corporate governance or human capital. The nature of the financial ratio will change in the future, as the importance of figures will not be the only aspect to consider. Thus, a financial report could measure human capital, the company's social responsibility or even carbon emissions.

Present accounting system ignores the importance of human resource value and Managers lack information about the effectiveness and efficiency of human resource investment. IASB treats most human capital related costs as expenses, instead of assets. The more the company invests in human capital, the less the current net income.

No model of human resources accounting is accepted by the accounting bodies all over the world. However, still we find some application of Lev & Schwartz model is most public sector units and IT based sectors. What is needed is measurement of abilities of all employees in a company, at every level, to produce value from their knowledge and capability. Human Resource Accounting (Human Resources Accounting) is basically an information system that tells management what changes are occurring over time to the human resources of the business. Human Resources Accounting also involves accounting for investment in people and their replacement costs, and also the economic value of people in an organisation

Recommendations:

- Use data and information on human resources costs to base internal decisions and their disclosure through an annual report of the organization;
- Treating investments in staff development at the same level with other investments;
- Treating costs like staff training and development as capital investment expenditures that increase the productive capacity of employees.

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OPERATIONAL ASSETS BOOKKEEPING IN CREDIT INSTITUTIONS

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Through this work I wanted to present the structure and the emphasis on the key accounts operations on operating assets, mentioning that only the most important accounts or those by which accounting operations may be more widespread have been given. Operational assets are those parts of balance with which the credit institution normally operates and by which, along with the operating liabilities, the basic credit institution activity is accomplished. Operational assets are revenue-generating operations in the credit institutions, with their help the bank resources are used in different interest-bearing assets to maximize the profit and to reduce the risk margin, mainly aimed at reducing losses. By both the theoretical approach and by describing the aspects of the operating assets, the survey presents with particular importance of these revenue-generating operations in the credit institutions, and identifies major issues to be taken into account by the credit institution in order to use various resources interest-bearing assets to optimize profit margins and to reduce risk, having as main objective to reduce losses.

Keywords: Operations assets, incomes, deposits, credits, securities accounts.

JEL code: M41

1. Introduction

The banking system, through its extensive involvement in both the economic and the social life, is a special structural element in the society, whose good organization and efficient working condition the whole economical life.

The activity of the commercial banks operations is divided in two distinct groups:

- *Active operations* – namely the operations that reflect the use of funds raised to obtain profit by the difference between the paid interest and the received one to attract resources, and
- *Passive operation* - namely, operations that reflect the own funds of a bank or the attracted ones that a bank possesses in order to deploy its activity.

The balance, as part of the financial statements, is the instrument through which the principle of the double reflection of the assets elements is done by its form and standard content, which all units must comply with is drawn, it reflects the equality between the assets and the economic liabilities¹²⁷³. The operational assets are those elements of the balance-sheet assets with which the credit institution usually operates, and through which (along with the operating liabilities) the business credit institution base is accomplished. They generate revenues which are correctly done and managed, being accounted for Class 7 accounts – „Incomes”.

The structure of the *operational assets* contains:

- The house and other values;
- The bank deposits, namely: the current account/credit institutions correspondent, sight deposits, term /colateral deposits;

¹²⁷³ D. Mătiș -,„Bazele contabilității - aspecte teoretice și practice”, Editura Alma Mater, Cluj - Napoca, 2005, pag.390.

- The loans to banks, namely: ordinary loans, loans to raise claims / simple repurchase transactions, overdraft;
- The loans to customers (including the customer accounts), namely: ordinary loans (cash loans, export credits, loans for equipment, real estate loans, other loans), loans to raise claims/simple repurchase transactions, financial customer credits, overdraft;
- Titles such as: securities trading, securities investment, securities investment¹²⁷⁴.

Pointing out both the operational assets and the incomes generated by them is done using synthetic grade accounts I, II, III, Class 1-„Cash transactions and interbank transactions”, Class 2-“Customer operations”, Class 3 -“Transactions in securities and various operations” and class 7 -“Incomes”.

2. Proposed objectives and research methodology

Approach focused on investigating the main emphasis in accounting operations on operating assets, by presenting the general framework of reference of the theme in both the literature and the specific national legislation. The structure of the operational assets has been studied initially, the need to use funds raised in different interest-bearing assets, trying to find out how credit institutions organize their core business to reduce the risk margin and to get the most profitable income. Arguments for the need to study this type of operation were essential. Once the need for studying the structure of operational assets presented, each structural element was presented separately, as well as its emphasis in accounting. Information on the theme analysis was conducted by studying the national literature in the field, analyzing legislation and direct documentation in order to seek practical phenomenon of determining the structure of operational assets, at the level of the credit institutions operating in Romania.

3. Cash operations accounting

The cash is the asset on which the credit institution takes the decision to abandon an investment gain, in order to insure a proper liquidity. The cash register and circulation in commercial banks cashes is based on explicit regulations of the National Bank of Romania and is accomplished through account 101-“Cash”- which is an active account to be debited with the collected amounts and it is credited with the amounts paid in cash. Cash transactions at ATMs are recorded through account 102 -“Cash in ATM and PTT. The main cash transactions are:

- Cash purchase from the National Bank of Romania

Between the time when the cash is bought and the moment it is paid from the current account opened at the National Bank of Romania (for lei) or from the NOSTRO accounts (for currency) an intermediary liabilities account is used, namely account 1621- „Other amounts due”.

- registering the bought cash in the Cash account

101- Cash	=	1621- Other amounts due
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- paying both the bought cash and its related commission

1621- Other amounts due	=	111- Current Account at BNR (lei)
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		121/122-Nostru/Loro (currency)
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6019 - Commissions	=	111- Current Account at BNR (lei)
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- Cash sell towards the National Bank of Romania

Between the time when the cash is sold and the moment the current account opened at the National Bank of Romania (for lei) is fueled or from the NOSTRO accounts (for currency) with

¹²⁷⁴ Iosif Heteres Gavra - „Organizarea și operațiunile bancare”, Editura Orizonturi Universitare, Timișoara 2003, pag.82.

the sold cash equivalent an intermediary liabilities account is used, namely account 1611- "Values to recover".

- *cash release*

1611 - Values to recover = 101 - Cash

- *cashing both the sold cash and its related commission*

111- Current Account at BNR (lei)

121/122 - Nostro/Loro(currency) = 161 - Values to recover

111- Current Account at BNR (lei) = 7019- Commissions

4. Deposits bookkeeping at banks

- *Current accounts/accounts* that are the accounts which contain the lei or the currency amounts of the credit institutions, and they can benefit of them at any time. The account name through which they are pointed out is "The current account at BNR" for the available assets in the National Bank of Romania, and the "Correspondent accounts with credit institutions"¹²⁷⁵ for the available assets in the other commercial banks. Entrances and exits of account money are held through these accounts. The cash, the available assets in lei are held only in the National Bank of Romania, while the currency can be held both by banks in the country and by those abroad, called correspondent banks.

Similarly to credit and bank loans, the bank deposits are a way to place availability, namely to attract resources from other banks. On the interbank market, these deposits are made on the short and very short run, as follows:

- *Sight deposits* are deposits in lei or in foreign currency that the credit institutions form other banks, and which are formed only for one working day. This deposit has three main stages: *the creation date*, that date of the deposit off-balance registration starting from the date it has been contracted until the date it has been placed, *the time of placement*, ie the date on which assets are available to the party with which the convention has been concluded and *the maturity date*, respectively the date both the capital and the interest return to the credit institution which carries out the placement. The cashed interests are recorded in account 70131 - "Interests from the sight deposits".

- *Term deposits* are deposits in lei or in foreign currency that the credit institutions form in other banks, and whose term is longer than a working day. Where there are differences in time between the date of contracting the money and the date it is placed, then a registration in off-balance accounts will take place. The recording accounts of these deposits and interests are:

1312 - "Term deposits at banks";

1313 - "Collateral deposits at banks";

70132 - "Interests from the term deposits";

70133 - "Interests from the collateral deposits".

These term deposits are not concluded on the basis of contracts, but on some ceilings that the management of the credit institution approves in relation to each credit institution, depending on the cooperation from the previous period, the profitability, the shareholders of the credit institution where the money will be placed.

5. Accounting the loans to banks

- *Ordinary loans* are loans placed at other credit institutions based on advantageous credit agreements concluded. These loans may be granted for a day or on terms (for more than one day).

Credit grant

¹²⁷⁵ Biblioteca digitală ASE București - Adrian Enciu, "Contabilitate bancară", Cap.2 - Operațiuni de trezorerie și interbancaară, pag.6.

1412 - Credits on terms / lei	=	111- Current account at BNR
1412 - Credits on terms /foreign currency	=	121- Nostro/foreign currency
<i>Lei due time</i>		
111 - Current account at BNR	=	1412 - Credits on terms / lei 70142 - Interests
<i>Foreign currency due time</i>		
121 - Nostro/foreign currency	=	1412-Credits on terms /foreign currency
121 - Nostro/foreign currency	=	3712 - Currency exchange position
3722 - Counter value exchange position	=	70142 - Interests

- *credits for debt factoring* are the credits that have trade effects as warranty (Bills of exchange, promissory notes), the ownership of these assets temporarily transferring to the bank that has granted the credit. These credits' bookkeeping is done using the account 151-“Stock repurchase”, and the interests are recorded in account 7015 - “Interests on securities repurchase”;

- *overdraft* is the loan granted to the credit institutions that have opened an available assets account in other credit institutions records. The overdraft is the debit balance of this liability available asset account, which normally has a credit balance.

For example, a credit institution has an available asset account of 100.000 euros, but must make a payment of 300.000 euros. An overdraft credit of 200.000 euro is granted to it in order to achieve its purpose.

6. Accounting of the credits to customers

The customer loans are, for any commercial bank, the most important *asset investment*, the highest yield, bringing revenues, the financial support of its existence. They include:

-*The ordinary credits* represent the most important compound of a credit institution assets. Their bookkeeping is done through accounts specific to the destination they have been granted for, namely:

- account 202 - Treasury credits;
- account 203 - Consumption credits and hire-purchase ;
- account 204 - Credits for financing the exterior trade operations;
- account 205 - Credits for financing the stocks and the equipment;
- account 206 - Credits for the real estate investments;
- account 209 - Other credits for the people.

All these accounts are debited the moment the credits are granted.

- *Debt factoring credits* are loans to non-customers based on bonds, certificates of deposit, treasury bills. These transactions are called repurchase transactions and they represent the transfer of assets, based on a contract under which an institution undertakes to take back and the transferee institution, to repay the same assets at a price and a date set by the repurchase agreement. The transferee, that credit institution granting the credit, bookkeeps the operation in account 2412 – “Stock repurchase”.

- *Loans to financial customers* are loans to leasing companies, factoring companies, investment companies, and investment companies. These loans may be granted within one day and are recorded in account 2311 - “Loans to financial customers for a day” or on terms and registered in account 2312 - “Term loans to financial customers”.

- *Overdrafts* are loans to customers who opened a current account in the credit institution record - 2511. The overdraft represents the debit balance of this bifunctional account, but which currently has a credit balance¹²⁷⁶.

¹²⁷⁶ Mădălina Antoaneta Rădoi – „*Gestiune bancară*”, Editura Economică, București, 2009, pag.102.

For example a customer has, in a bank, a credit balance of 100.000 lei, and wants to make a payment of 150.000 lei to another customer from the same bank. Following this payment execution, this customer was given an overdraft payment of 50.000 lei. The accounting article is:

2511 - Current Accounts = 111 Current account at BNR 50.000 lei

- *Loans granted based on the commercial effects* are loans in group 201, and refers to standard, discount and factoring credits.

7. Accounting transactions

Besides loans, transactions in securities are one of the most profitable activity, leading to maximizing the shareholder wealth, the basic requirement of an efficient financial decision. In this category we have:

- *Securities transactions* are the securities acquired to generate short term profit. The interest calculated for the period since the bond are recorded together with the purchase price of the instrument in account 3021- "Securities Transaction". These securities are valued at fair value;

- *Coherent securities* are securities that do not meet the criteria of being included in the securities category. These securities are revalued at the market value. For unfavourable differences provisions are established, and the favourable differences are not accounted for. Claims from interests calculated for the short period since their issuance until the time of purchase may be registered in both the corresponding attached securities accounts or claims accounts- account 3037;

- *Investment securities* are securities used in a sustainable manner in the credit institutions. They are treated as financial fixed assets since they are investments characterized by fixed or determinable parts and with predefined maturity that the credit institution is capable to hold until maturity. On entering the patrimony, these securities are recorded at their acquisition value, which consists of the purchase price that also includes the transaction costs directly attributable to the acquisition. The short-run interest may be recorded in the corresponding attached claims account or may be registered in securities accounts.

8. Conclusions

Studying the relevant literature in operational assets and national rules allowed us to identify both the structure and the way of highlighting the accounting of such operations. We also recognize the complexity of the credit institutions related to the use of the more efficient funds raised by them for profit margin and in order to reduce the risks to which they are continuously exposed. However, credit institutions are not content with making only a regular income, they seek where possible and prudent to obtain other profits too by banking assets and liabilities maturity structure. Before an institution acts to change assets to increase profit, it must ensure that it is able to maintain an adequate liquidity and to consider the quantification of risk factors and symptoms of risk. In this context, we consider appropriate the need for both the diversification opportunities and the placement of the operational assets.

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SECTION: MANAGEMENT AND MARKETING

SUB-SECTION: MANAGEMENT

HR TRAINING PROGRAMS – CASE STUDY: WHAT ARE THE PARTICIPANTS’ EXPECTATIONS?

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When conducting a training program, training providers should ask themselves this question: What are the participants’ expectations? Training providers must correlate their programs with the needs and expectations of participants in order to be successful.

Considering there is a need for the professionalization of human resources management activities, we focused our attention on three key occupations of HR: Human Resources Analyst, Human Resources Inspector and Human Resources Manager. To assess the effectiveness of these trainings we used the following research instruments: focus group, monitoring questionnaire and evaluation questionnaire. Our experience with the training programs organized within the Training and Excellence Centre in Human Resources Management has shown us that participants have a great need for knowledge and personal development.

Keywords: HR, occupation, training, efficiency, methodology, case study.

JEL Classification: M53

Even though it is now universally understood that the acquisition of knowledge is the foundation of the competitive advantage of individuals and organizations in today’s economy, the question of how much to invest in workforce education and training has remained an issue for companies. Employees’ knowledge and skills are as important as the companies’ financial and material resources. In Romania, training programs are still widely used only by multinational companies, and less by national companies or non-profit organizations.

1. Training programs: evolution and prognosis

Although, Romanian training market has been in an obvious development in the years before the crisis, it is still far from similar markets in the region. In 2008, our national training market has been estimated at around 30 million euro, 30 percent up from 2007. Comparatively, Hungary, having half the population of Romania, has a training market four times bigger than the Romanian one, with a turnover of more than 100 million euro in 2007.

Despite the growth of the last years, the training market recorded significant decline in 2009 due to the world economic crisis. Companies have frozen their professional development budgets and training market lost 40 to 50 percent in 2009¹²⁷⁷. However, the first three months of 2010 show an upward trend and experts are confident that training market will recover the loss from the past year.

¹²⁷⁷ Iloviceanu Robert, *Ascendis: Piața de training a scăzut cu 50% în 2009*, published on October 5, 2009, http://www.standard.money.ro/articol_107629/ascendis_piata_de_training_a_scazut_cu_50_in_2009.html, consulted on April 10, 2010.

In 2006 the Ministry of Labour Social Solidarity and Family has developed a monographic research of a sample of occupations in the occupational field of Romanian economy, which has sought to highlight the main changes in content and networking of a number of 105 occupations.¹²⁷⁸ Instrument used to conduct scientific monographs had a high complexity, combining semi-structured interview techniques and questionnaire. Respondents to the semi-structured interview or questionnaire (by case) were technologists, department heads / workshop / team, representatives of human resources, technical director, workers, or, generically naming them: key respondents able to provide relevant and comprehensive information about the occupations. One of the major findings of this study is the growing importance of activities in the field "communication", "social sciences" and "management" skills and mastery of languages (including English language emerges with the highest importance) and computer working skills and electronic equipment.

This year, the main interest of companies will be for the sales training sessions. At the same time, experts believe that the demand for employee evaluation programs will increase also, as many companies will access European funds for human resources development¹²⁷⁹.

Most of the training programs in Romania develop the skills needed for one of the occupations described in the Classification of Occupations in Romania (COR).

2. Classification of Occupations in Romania

The Romanian Classification of Occupations (COR) was first published in 1995, and currently includes 3852 occupations. COR is the identification, ranking and codification system of all occupations that exist in the economy, regardless of their type and place. Using COR codes is mandatory for all central public administration bodies and local businesses, business organizations, trade unions, professional and political foundations, associations, individuals and legal entities.¹²⁸⁰

The review and updating of COR is the responsibility of the Ministry of Labor, Family and Social Protection. However, labor market increasingly leaves behind the COR. Many of the 3852 occupations that currently exist in the COR have no correlation on the labor market, while others newly created to meet the ever changing needs of the market are not included in this list. Although they have the possibility to insert new occupations in the classification, private sector employers prefer to report to the Territorial Inspectorates of Work other functions for employees whose occupations are not included in the COR, in order to respect the law.

Related to Human Resources, there are currently over 40 occupations defined by the COR. These include the following: HR analyst, labor market analyst, employment agent, human resources inspector, HR reviewer, manpower and unemployment expert, labor consultant, HR specialist, human resources manager, professional skills assessor and others. However, HR professionals consider it necessary to update the Romanian Classification of Occupations by placing

¹²⁷⁸ Blaga, E., Occupation evolution in 2010 perspective. In F. Chipea, Cioară, I., Hatos, A., Mihai, M., Sas, C. (Ed.), *Culture, development, identity, current prospects. 10 years since the establishment of departments of psychology and sociology at the University of Oradea* (pp. 55-80), 2007, Bucharest: Expert.

¹²⁷⁹ Mihai, Cristina, *Ce training-uri se vor vinde anul acesta în România?*, published on January 22, 2010, <http://www.dailybusiness.ro/stiri-cariere/ce-training-uri-se-vor-vinde-anul-acesta-in-romania-37255>, consulted on April 10, 2010.

¹²⁸⁰ www.mmuncii.ro, consulted on April 10, 2010.

approximately 10 new occupations which, although long been practiced in our country, are not yet defined by the COR. These new occupations relate to niche and specialist positions, such as: specialists in recruitment, training, organizational development, compensation and benefits, and human resources consultants.¹²⁸¹

Each of the occupations listed in the COR must comply with an occupational standard. The Occupational Standard (SO) is the document that specifies the units of competence and quality outcomes associated with the activities contained in an occupation. Based on the occupational standard that is nationally acknowledged, training programs are developed.

3. HR training programs

Training programs ensure the acquisition of new skills or the development of skills already acquired, and they can be: start programs, qualification programs, requalification programs, and specialization training programs. The responsibility for organizing training programs rests with training providers. The training providers' authorization activity is coordinated by the National Council for Adult Training (CNFPA). Record of training providers is included in the National Register of Authorized Providers

In Bihor County there are over one hundred occupations for which training programs are conducted, of which only five are human resources occupations. These are:

- Human resources analyst;
- Safety inspector;
- Human resources inspector;
- Human resources manager;
- Health and work safety specialist.

For these five HR occupations there are 14 authorized training providers in Bihor County.

Considering there is a need for the professionalization of human resources management activities conducted at county and national level, we focused our attention on three key occupations of HR: Human Resources Analyst, Human Resources Inspector and Human Resources Manager.

For the Human Resources Analyst occupation there are currently two authorized training providers in Bihor, while national wide their number is 21. For the occupations of HR Inspector and HR Manager, in Bihor County they are 9 authorized training providers, 4 of them organize training programs for HR Manager occupation. Nationally, there are over 420 such suppliers, of which 112 are for Human Resources Manager.¹²⁸²

3.1. HR training programs – Case study

In order to induce an attitude and mindset change among employees involved in human resources activities, our institution has accessed European funding for the organization of three training courses for these three occupations.

The title of the project was *Training and Excellence Centre in Human Resources Management*, and it was implemented between December 2, 2008 and November 30, 2009. The project was financed through PHARE 2006 Economic and Social Cohesion - Human Resources Development, under the program *Promoting lifelong learning and retraining for employment qualification*, contract number PHARE 2006/018-147. 04.02.02.01.605.

The Human Resources Analyst, Human Resources Inspector and Human Resources Manager training courses were conducted during 2009 at the Training and Excellence Centre in Human Resources Management (CFP - MRU).

1281 Enache Ștefania, *Specialiștii în resurse umane cer o nouă clasificare a ocupațiilor*, Săptămâna Financiară,

http://www.sfin.ro/articol_18516/specialistii_in_resurse_umane_cer_o_noua_clasificare_a_ocupatiilor.htm
1, published on December 18, 2009, consulted on April 10, 2010.

¹²⁸² Registrul Național al Furnizorilor Autorizați, www.cnfpa.ro, consulted on April 11, 2010.

3.1.1. Case study - methodology

To assess the effectiveness of these trainings we used the following research instruments: *focus group, monitoring questionnaire and evaluation questionnaire*. All the 61 trainees attended the training evaluation process and the instruments were designed to determine participants' perception of training effectiveness.

Monitoring questionnaire was designed to identify the usability of the information and skills learned during these training. For this purpose a methodology was developed that took up two research tools: questionnaire and focus group. Questionnaires were applied three times for each training program, at different time intervals, in order to capture the evolution of behavior and changes in work activities; the focus group was organized at the end of each training program.

Evaluation questionnaires were applied to participants at the end of each training program and referred to the following aspects: satisfaction with the training assessment of issues related to the training elements, evaluation of each training lecturers. The last part of the questionnaire had three open questions: to point out three positive and three negative aspects related to the training, to point out three issues they would like to change in the organization of the training attended.

The questionnaires were input in a database and processed in SPSS program.

3.1.2. Case study results

Overall, satisfaction of participants in the three trainings is held high, students declaring themselves satisfied with the most valued aspects. Of the 61 participants, 27 representing 44% said they were very satisfied with the training attended, and 48% said they were satisfied. A 5% of participants said that they are neither satisfied nor dissatisfied with the training attended, while 2 participants, representing 3% of the total, said they were dissatisfied.



Exhibit 1. Participants' level of satisfaction

Some *conclusions* of our case study, based on the results of monitoring research are:

- These trainings were an opportunity for each student for personal development; improve knowledge and obtaining a diploma.
- They have appreciate unanimously the fact that people with extensive practical experience were involved as lecturers
- Students would like a greater involvement of practitioners in HR for all training topics, and several examples of HR practice and conducting workshops.

- Discussions were open, face to face that encouraged dialogue and exchange of experience. Participants appreciated this kind of interaction that encouraged discussion, claiming that they had learned from the example of others.
- Participants of the Human Resources Manager training, unlike participants in the training of human resources analyst and human resources inspector, had no objections with regard to the mixed groups A and B (A-for those who work in human resources departments and B-for those who are not working in human resources departments).
- For most indicators their value grew up, which means an increase of responsibilities of staff working in human resources involved in the human resources analyst, inspector and human resources manager.
- In most cases, consequent to enrollment in the trainings, our participants have increased the responsibilities and the frequency of activities related to HR at the workplace.
- Increase the percentage of those who during the training:
 - Have received responsibilities without changing the job description.



Exhibit 2. Have received more responsibilities without changing the job description.

- Have planned their specific activities of human resources area.
- Have used a database of personnel records using computer.
- Have prepared and managed the accounting documents of staff.
- Have prepared retirement documents.
- According to monitoring questionnaire responses decreases the number of those who: organized training program for personnel worked in interdisciplinary teams, represent human resources department. These decreases can be explained by the fact that those activities are activities that have a lower frequency within a year in the HR department.

4. Conclusions:

Although in recent years we have seen a growing training market, Romania still has a long way in order to reach other countries. The year 2009 represented a decrease in training market, but the first trimester of 2010 shows a slight recovery as companies take into account employee training as a solution for overcoming crisis.

The number of training providers and authorized training programs has grown in the last years, but so did the expectations of participants and companies. Training providers must

correlate their programs with the needs and expectations of participants in order to be successful. At the same time, they need to take into account the demands of companies. When conducting a training program, training providers should ask themselves this question: What are the participants' expectations? Our experience with the training programs organized within the Training and Excellence Centre in Human Resources Management has shown us that participants have a great need for knowledge and personal development. Participants want to learn practical things, as well as to understand how HRM systems and methods are operating.

At the same time, participants expressed their desire to know and understand the real problems that practitioners have experienced. The training programs organized revealed that participants believe that a hundred hours are not sufficient to understand HRM strategies; they would like if more hours were assigned for the courses. Participation in workshops, solving exercises and a greater emphasis on legislation are also among the requirements of training participants.

As for our purpose to induce an attitude and mindset change among employees involved in human resources activities, we believe that a shift in the mindset has been made, but efforts are needed still to inoculate in their thinking a non-discriminatory and ethical attitude.

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INTERCULTURAL WORK TEAMS, A CHALLENGE IN THE NEW CONTEXT OF ROMANIA'S EUROPEAN INTEGRATION

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In the context of globalization, organizations proceed to adapt to exploit new opportunities by creating intercultural work teams (IWT). Consequently, their management acquires new dimensions. To be successful, international companies should adapt to cultural norms of the host country, without neglecting their own organizational cultural values that have ensured their success. IWT are the main instrument used currently to achieve this fit. IWT are the basic unit for performance in any global organization. We analyze the situation of IWT in Siemens VDO Romania and Alcatel-Lucent Romania, as promoters of teamwork and intercultural knowledge transfer inside them.

Keywords: work teams, intercultural, globalization, management

JEL Classification codes: M 12

1. The Need and Opportunity of Work Teams

Globalization is a continuously growing phenomenon which requires organizations to consider more complex factors in an international framework, something that rarely occurs without teamwork.

A management approach in a country does not necessarily give the same results in another country. Performant managers must know how to overcome this cultural barrier, either be it national or organizational, which makes people react differently to the same challenges, transforming the opportunity offered by working in teams in a success. Performant management appears to be problematic in IWT, as individuals tend to bring widely different views on appropriate ways to reward, recognize, evaluate, train and develop the members of global teams. Teamwork and, management of work teams have been the subject of numerous researchers in several fields, thus denoting the difficulty of exercising this in practice. The more difficult appears to be managing a work team whose members are from different national and/or organizational cultures or whose manager comes from a different national and/or organizational culture, a management that is to be oriented towards achieving performance. We refer especially to the management of IWT, a new challenge for managers in the context of European integration. Forming teams is generated by the organizations' need to adapt to the external environment, ensuring their flexibility and competitiveness¹²⁸³ in the new context of globalization.

Changes in the structures of the company, enterprises, markets, transactions, call for a focus on teams, only them being able to assume continuity, flexibility, professionalism and long-lasting performance. Teams "with a variable geometry" and "distance" teams show this more than ever¹²⁸⁴.

Teams are the basic unit of performance in any organization. In any situation requiring a real-time combination of multiple knowledge, skills and judgment, teams inevitably get better results

¹²⁸³ Escriba-Moreno, M. Angels, Canet-Giner, M. Teresa, "The combined use of quality management programs and work teams. A comparative analysis of its impact in the organizational structure" www.emeraldinsight.com/1352-7592.htm *Team Performance Management* Vol. 12 No. 5/6, 2006. pp. 162-181.

¹²⁸⁴ Nifle, R., „Le management des équipes à distance, Une application du modèle de Management Communautaire Avancé”, <http://journal.coherences.com/article361.html> jeudi 10 août 2006.

than some people with restrictive roles and responsibilities. Teams are more flexible than a larger group, being more easily formed, developed, refocused and dismantled. Teams and performance are an unbeatable combination¹²⁸⁵.

If the work group means a sum of component parts, namely of individual work, by contrast, teamwork is more than that amount¹²⁸⁶, it is that “group of individuals with complementary skills which develop a distinctive identity, working together in a coordinated manner and being committed to achieving a common goal of whose achievement they are considered equally responsible.”¹²⁸⁷

Many definitions approach the team as a group of two or more persons. Can a working group composed of two people be considered a work team? Is the dyad a work team? We say no, because it does not hold all the “ingredients” that give it this quality. Who coordinates, who exercises control, who oversees the work?

2. Work teams' typology

In organizations specific to the new international configuration, teams are found in different forms.

According to the criteria of cultural diversity, we identify:

1. *Team culturally homogeneous.*

2. *Intercultural team* – characterized by diversity of the national, organizational, managerial, culture etc.

3. *International team* – people from at least two different national cultures working together in the same organization or the same project, who have at least one common objective, which is the project goal. So, they can work together, interrelate, cooperate under the same management¹²⁸⁸.

All these types of work teams are themselves found in the following forms:

A second criteria is department number:

1. *Improve departmental team* – consist of employees working in the same department, led by the manager of the department concerned. Are established to identify and solve department problems, being authorized to implement solutions with a small number of approvals from outside¹²⁸⁹.

2. *Interdepartmental team* (problem-solving teams, special teams) – are made of people from at least two departments, for finding alternative solutions to complex problems, members being elected according to experience in the field. They are limited decision-making teams, being dismantled after solving the problem. Members of these teams engage only partially, being mainly engaged in tasks of the departments they work in.

Another criteria is homogeneity of skills needed to perform of the team:

1. *Functional team*, or stand alone teams – operate with traditional organizational hierarchies, their members possessing similar skill sets and qualifications, with the same functional specialties.

2. *Interfunctional team* (of processes improving, policy-making organizational teams) – their members belong to several functional areas of the organization, who are focused on a specific objective. While other teams usually have a more focused mission to a particular task,

¹²⁸⁵ Katzenbach, J.R., Smith, D.K., *The Wisdom of teams-Creating High Performance Organization*, A Harperbusiness Book, 1994, p. 15.

¹²⁸⁶ Katzenbach, J.R., Smith, D.K., „Teams at the top”,
https://www.mckinseyquarterly.com/Teams_at_the_top_42.

¹²⁸⁷ Bibu, N.A., „Managementul organizațiilor într-o lume în schimbare. Cum să facem față globalizării și internetului?”, SIM 2002, Ed. Mirton, Timișoara, p.238.

¹²⁸⁸ Bibu, N.A., Brancu, Laura, „Convergences of the Romanian societal culture with European culture clusters in the process of European integration. The role of intercultural teams management in increasing European cohesion”, 2008, <http://mpr.ub.uni-muenchen.de/9476/>.

¹²⁸⁹ Harrington H. J., Harrington J. S., *Management total în firma secolului 21*, Ed. Teora, București, 2000, p. 213.

multifunctional teams focus on a specific process. The multifunctional team or the process improvement team identifies process issues that will be corrected by an operational team. While the process team works on, the operational team only meets until the reported process problem is solved¹²⁹⁰.

Fourth criteria is management:

1. *Managed team*.
2. *Semi-autonomous team* – are composed of interdependent members jointly responsible for achieving goals, being assisted by a coordinator who liaises with the organization.
3. *Self-managed team* (self-directed, self-determined, self-regulated, and autonomous) – are composed of individuals having an interfunctional training, which interact and have responsibility and authority to perform a series of specific activities. They operate in the context of minimum intervention from management. Self-managed teams are favored by today's business environment, being agreed by employees, who want a greater freedom of action at work. Self-managed teams require significant interaction and a greater cohesion among members. They are the proper environment in which its members conduct efficient work in reduced surveillance.
4. *Self-managed interfunctional team* – self-managed interfunctional teams¹²⁹¹ have a specific role in achieving continuous improvement in all activities within an organization. Facilitating communication, innovation, and increasing autonomy of decision, in a self-managed interfunctional team everyone is aware it must take first responsibility for the results. Within self-managed interfunctional teams, members show a basic training, plus several additional trainings, they being experts in their own field and able to work with specialists in other departments of the organization.

Fifth criteria is objective:

1. *Creative team* – focusing on discovering the new.
2. *Tactical team* – formed to carry out well-defined plans.
3. *Project team* – a team formed for a limited time in which members cooperate to achieve the unique objective of the project.
4. *Quality circle team* – identify, analyze and solve problems at work, recommend solutions to management.

Sixth criteria is territorial division:

1. *Traditional team* – characterized by the face to face communication style, working in a given space.
2. *Virtual team* (geographically dispersed or not, the members are not in the same physical location) – These are teams whose members primarily interact electronically and who meet face-to-face only occasionally, usually temporary. Examples of such virtual teams include work teams whose members are located in different geographic areas, characterized by cultural diversity, or project teams. Their effective leadership and management can be very different from that applied to traditional teams.

Last criteria is level objectives' achievement

1. *Ordinary team* – fulfill the objectives at the proposed level.
2. *Performant team* – achieve their objectives at a level higher than proposed.
3. *High performant team* – very high effectiveness and efficiency, due to a tremendous effort and productivity.

3. Intercultural work teams

We bring into discussion an new approach to describe project teams: according to the “Hollywood model”¹²⁹², they are groups of individuals from various corporations that come to work together to develop a project (a movie-metaphor of reality), then dissolve, coming perhaps back together at one point to accomplish another project. In our opinion it represents an intercultural project

¹²⁹⁰ Harrington-Mackin, Deborah, Cum se formează o echipă de succes, Ed. Teora, București, 2002, p.15.

¹²⁹¹ Petrișor I, Progresul organizațional, Schimbare, Transformare și Inovare organizațională, Ed. Mirton, Timișoara, 1999, pp. 169-173.

¹²⁹² Bennis, W., Powell, Sarah, “Great groups and leaders”, <http://www.emerald-library.com>, *Team Performance Management: An International Journal* Volume 6. Number 1/2. 2000. pp. 34-36.

team in terms of organizational culture, and not necessarily in terms of the national one. Therefore, an international team is always an IWT, reciprocity not being valid. We will further use the term of IWT referring to the diversity in terms of the national culture of its members.

Why is the use of an IWT so important?

The IWT is a more complex version of a national team. This is currently the best existing form of organization to make best use of new technologies and knowledge, expertise and creativity of people from different cultures. Teams are organized as support networks for the mission of the organization, its objectives and strategy by creating, acquiring and transferring knowledge. There are new types of forms of IWT, such as the intercultural project teams. Also, there is a shift from the traditional model of building IWT to the model of intercultural virtual teams, to improve the knowledge creation process. IWT are different and therefore their potential for creativity is greater than culturally homogeneous teams¹²⁹³.

Multinationals, in particular the network type, use IWT as:

- a mechanism for encouraging innovation, organizational learning and transfer of knowledge;
- a path of breaking national boundaries, encouraging development of information flows through horizontal communication;
- a means of encouraging the various inputs in decision making, problem solving and evaluation of strategies;
- a way to develop global perspective;
- a way of sharing values through social development, supported by an informal, normative control.

To a certain extent, for certain international tasks, teams are formed by sending employees in different locations of the organization. Expatriates develop relationships that persist even after the tasks are completed. These informal links can then be activated for work, providing the project team members. Not everyone wants to be an international operator. In order to have available potential operators, multinationals are aware that they must provide international experience at all managerial levels, regardless of nationality. The idea of having a team of employees able to work in different environments, having different duties and jobs is promoted¹²⁹⁴.

The individual will bring in the IWT besides thinking patterns, feelings and personal reactions also fundamental features of the original national culture, generating an additional source of conflict. The way this conflict will be resolved within the team will make it creative, or not, in achieving its objectives.

Some conditions for effective IWT, adapted by research¹²⁹⁵ which has found the factors contributing to the effectiveness of multifunctional teams, could be:

- composition – all relevant specialties are needed, the more the team is diverse, the greater its creative potential is;
- objectives have to be complex, their accomplishment can only be achieved through collaboration;
- physical closeness – it is preferable that team members are close each other to facilitate informal contacts; otherwise techniques to replace the spatial closeness have to be applied;
- autonomy – teams need a certain autonomy from the organization and functional specialists need a certain degree of authority in decision making;
- rules and procedures are necessary to prevent chaos;
- team leaders need technical expertise and skills to work with people.

¹²⁹³ Bibu, N.A., Brancu, Laura, „Convergences of the Romanian societal culture with European culture clusters in the process of European integration. The role of intercultural teams management in increasing European cohesion”, 2008, <http://mpira.ub.uni-muenchen.de/9476/>.

¹²⁹⁴ Dowling, P.J., Festing, M., Engle Sr, A.D., International human resource management-Managing people in a multinational context, South-Western Cengage Learning, USA, 2009, p. 151.

¹²⁹⁵ Johns G., Comportament organizațional, Ed. Economică, București, 1998, pp. 249-250.

At this point, the interpersonal relations between team members formed after meeting face to face still have a great importance. They are the basis for building trust. Teamwork largely depends on the ability of members to trust each other¹²⁹⁶. If we are to think about IWT dispersed geographically, this means that management methods must be applied to replace the lack of spatial closeness between team members, by using appropriate communication techniques by which members can communicate sensitive information. Also, an aspect that leaves room for discussion would be the system of motivating members of IWT. What would be best so it is also the most effective – the one of the national culture or the one of the organizational culture? Perhaps, that of the team culture.

Thus, IWT management becomes more complex, including aspects of national culture of various members and the most effective ways to supplement its characteristics and bring those skills in line with the needs of the team.

3.1. Interculturalism and work teams of Siemens AG

Siemens AG, the leader in manufacturing and services in the electronics and electrotechnics field, can be regarded as one of the pioneers in promoting diversity in Germany. In 2001, the company published “Principles for promoting and managing diversity”¹²⁹⁷, showing that in countries with many nationalities, cultures, ethnic groups, religions and different conceptions Siemens wants to attract people from all these groups, motivating them to develop their abilities, giving them equal opportunities in professional and personal development. Within Siemens VDO Automotive in Timișoara most of the activity takes place in IWT. Our study made on one of the project teams (formed in the division called “Quality Team”) has shown that an important role is played by the degree of fusion or assimilation of the cultures involved. The team has eight members and each of them is responsible for completing a number of projects. Often they overlap, meaning that two or even more members have to handle the same projects, discuss with the same customers, thus working as a team. The German organizational culture has asserted itself, Romanians assimilating it quite easily, even if the number of German managers, initially the majority, dropped; on the other hand, however, one can observe that Romanian culture makes its presence felt. The specific German order and discipline, correlated with the Romanian creativity and diligence, make up an ongoing objective that the team manager does not overlook. In this case, we cannot talk about assimilation, but rather about a mutual complementation of cultures.

3.2. Interculturalism and work teams in Alcatel-Lucent

Another company that focuses on intercultural skills development of employees is **Alcatel-Lucent**, the largest manufacturer and supplier of equipment, technology and integrated telecommunications solutions, with a presence in over 130 countries on all continents, with a representation over 100 nationalities. Alcatel-Lucent Romania Timișoara operates in department teams, intercultural project teams. A feature offered by the company to its employees worldwide is the access to international learning and/or online documentation tools, which include the “Culture Wizard” solution¹²⁹⁸, specific for intercultural training and information. When the financial-accounting department has introduced a new working model based on the concept of *shared service center*, and the team from Romania gradually took over projects from across Europe, both team leaders and employees have noticed that they started to encounter more difficulties in communicating with colleagues abroad. Moreover, working with 20 different countries on the European continent, employees began to be increasingly annoyed while for the same kind of demand they found that were receiving very different feedback and responses,

¹²⁹⁶ Benson-Armer, Richard și Tsun-Yan Hsieh, 1997, „Teamwork across time and space”,

https://www.mckinseyquarterly.com/ghost.aspx?ID=/Teamwork_across_time_and_space_246.

¹²⁹⁷ <http://www.siemens.com/responsibility/en/employees/diversity.htm>.

¹²⁹⁸ <http://rw-3.com/>.

without understanding why. It was actually a problem of intercultural misunderstanding. Thus arose the opportunity to merge traditional communication training with interculturality elements, having as support the tools Culture Wizard already existing in the organization.

The first group participating in the training was the team that took over the project “Nordic countries” – Denmark, Sweden and Norway. The interculturality section of the training aimed to clarify the following issues: definition and content of cultural dimensions, comparative description of cultural profile of Scandinavian countries compared to Romania, focusing on major differences, the impact of intercultural differences on interpersonal relationships. One aspect that has surprised the participants referred to the communication style, Nordic countries being characterized by a more direct way of communication than we are used with in Romania. Once this issue was clarified, training participants agreed that direct style approach practiced by their foreign colleagues is not an insult, and in no case has it any connotation of impoliteness. Romanian employees understood that they need to structure their messages in a more clear and concise manner to capture the attention of their northern partners. Again by the analysis and discussion of this dimension, Romanian employees have found that Latin style to interrupt, to speak all at once, creates an impression of an extreme lack of professionalism in front of their Danish, Swedish and Norwegian colleagues. As advancing in accumulating intercultural knowledge, problems that the team had in the beginning within the joint project began to resolve. Such modules can be developed so that they can have direct applicability to specific problems encountered by different types of teams.

4. Conclusions

We talked about companies whose professionals are brought in and sent all over the world to form teams almost like a puzzle. Globalization and IT technological progress make possible to conduct activities and collaborations with anyone anywhere. These are challenges that professional managers must face, beyond overcoming the intercultural implications of a possible status of expatriate manager.

The multinational companies that are present in Romania use ITW in order to develop their activity, to implement new technology, to realize research and innovation projects. These teams are enhanced due to diversity's potential. Our studies, performed on the two companies, show that Romanians are open and adaptable to work in intercultural teams; this has been proved by their team's performances. The Romanians know to adapt to defined rules, clear procedures, specific to another's cultural organizations, succeeding in transmitting their creative spirit to the team. The rules and procedures are German, Austrian, Swedish, Danish, the atmosphere and human relations have all the best out of Romanians spirit.

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THE IMPACT OF ORGANIZATION'S PERSONALITY ON MANAGERIAL BEHAVIOR

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Organizational climate and the conditions that determine the "personality" of an organization represent important factors in determining the managerial behavior. Climate and behaviors are strongly influenced by organizational culture. Managerial behavior is determined by the variety of ways of realizing functions and by their attitude to employees and subordinates. These features of the each manager' behavior is defined management style.

This study examined the relationship between individual's personality, organization's personality, the environmental factors and managerial behavior. Data were collected from thirty enterprises (micro, small and mediums) from Bihor County. The results obtained from these sources suggested that the size of the lead group has a great influence on managerial behavior.

Keywords: culture, organization, personality, managerial behavior

Cod JEL lucrare: M10

1. The influence that culture have on organization's personality

Organizational culture is a way of thinking, a specifically way to see problems and solve them and a sense of belonging to a team. This feeling exists because people have found that everything works fine within the organization. Taking into consideration Edgar Schein's view, organizational culture is formed primarily to resolve two problems that any organization faces with: adaptation to external environment and internal integration.

Personality is the key element behind any organization and what it stands for, and the story that its products tell to customers. Every business element, from interactions with customers to the product packaging is an element of organization personality, and these are the aspects that inspire customers' delight or indifference¹²⁹⁹.

Organizational culture has a number of economic and social effects on the organization as an open system, on its employees and on the management practices. For employees, knowing organizational culture provides the understanding of organization's history and the behavior that will better fit to the community they belong. Employees will adhere to the specific values, to the philosophy of the organization, strengthening their confidence that they achieve the objectives in which they strongly believe. The organizational culture provides numerous criteria by which managers can make a useful behavior control in order to stop unwanted events and to acquire those accepted in that organization. Many experts consider that organizations that have strong cultures also obtain remarkable results, although it is difficult to make a link between organization culture and its performance¹³⁰⁰.

The main organizational culture's functions can be¹³⁰¹:

- It defines the boundary between one organization and others.
- Conveys a sense of identity for its members.
- Facilitates the generation of commitment to something larger than self-interest.

¹²⁹⁹ Bhargava, Rohit, Personality not included, Why companies lose their authenticity and how great brands get it back, McGraw Hill Publishing, New York, 2008, p.5.

¹³⁰⁰ Burdus, Eugen, Management Treaty, Economic Publishing, Bucharest, 2005, p.261.

¹³⁰¹ <http://www.scribd.com/doc/23413135/Organizational-Culture>, accessed on 18.04.2010, at 15:55.

- Enhances the stability of the social system.
- Serves as a sense-making and control mechanism for fitting employees in the organization.

In certain organizations there is strong culture because managers and employees respond positively to the stimulus from the organization due to their alignment towards the organizational values. In organizations where people have minimal alignment towards organizational values we can talk about weak culture. In strong cultured organization people don't challenge organizational thinking in spite of the fact that they have different thoughts, psychology and ideas for it. The charismatic style of management, the friendly atmosphere among people or the evangelical belief in the organization's values can provide a strong organizational culture. The requirements of a good organizational culture can be considered the following¹³⁰²:

- There should be openness and humility in the nature and behavior of every person in the organization from top to bottom.
- The environment in the organization should induce accountability and personal responsibility.
- The employees should have freedom of taking risks with their new ideas but within their limits.
- Managers should encourage employees to experiment and convert the aspects that they consider negative into positives ones.
- The organizations should work only on the basis of clarity, transparency and reliability between the people and the organization.
- By integrating the people to put the effort collectively multiplies the organizational strength.
- Collaboration with organizational culture consultants whose theories can lead to business success.

Organizational culture's orientation towards results and performance can be done by achieving the sense of employee's satisfaction and by induction of loyalty feeling. For obtaining and maintaining a strong culture, employees must be treated with respect and encouraged to take initiative, be creative in everything they do and it is necessary for managers to set some reasonable clear standards, and to give them enough autonomy¹³⁰³.

2. Factors that determine the managerial behavior

Organizational climate determines factors or variables that influence members and groups' activities and attitudes in an organization: rules and regulations, organizational or environmental constraints, decision-making strategies and motivating people, means of transmission of information, etc. The main dimensions of organizational climate are¹³⁰⁴:

- The structure of tasks and the methods used for accomplishing the tasks are well controlled and organized.
- The relationship reward-punishment: additional rewards for promotion and increased salary are based on performance and merit, rather than other considerations, such as seniority, favoritism etc.
- The centralization or decentralization of making decisions.
- Increasing people's achievements or desire to do good work and contribute to company performance.
- Increase training and development and the degree to which the organization seeks to support training and development performance.
- Security and risk or the degree of pressure and employees' uncertainty feelings and anxiety.
- The general feeling that individuals have a good job.
- The employee's sureness that their work is approved and appreciated by supervisors.
- The organization knows that the objectives can be achieved in a flexible and innovative way.

¹³⁰² <http://www.scribd.com/doc/23288238/Organizational-Culture>, accessed on 18.04.2010, at 12:56.

¹³⁰³ Nica, Elvira, *Managerial Psychology*, Economic Publishing, Bucharest, 2008, p.23.

¹³⁰⁴ Prodan, Adriana, *Successful Management*, Polirom Publishing, Iasi, 1999, p. 91.

Managerial behavior cannot be independent of any of these components which form the organizational climate. For example, at the upper levels of the hierarchy there is a wider space of freedom on setting goals, decision making and motivational strategies, the monitoring arrangements, etc.

Behavioral scientists agreed that there isn't an ideal recipe that managers should follow in order to obtain success. Each manager organizes and leads in the way that he/she considers is better for the organization. Even if there are some rules concerning organizational management, each manager will interpret and adapt them according to his/her natural mode of being¹³⁰⁵.

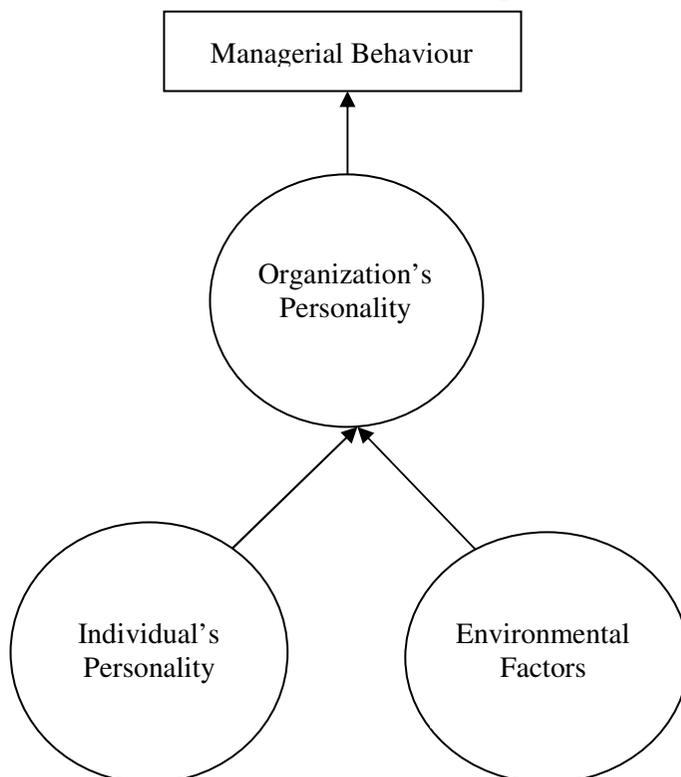
Often it is assessed the participatory management because of the involvement of all employees in problem solving and decision making hence, due to favorable effects on performance. But not always such a management style is positive when a change is to be made within organizations.

Between organization culture and managerial behavior within it there is a direct link. An organizational culture may lead to a positive behavior by promoting values. Also, managers in an organization, through their daily behavior by performing roles and performance management may foster an ethical behavior within the organization.

To maintain the organization culture and the managerial behavior at a high level, the following recommendations will be useful¹³⁰⁶:

- Realism in determining objectives and values support in accordance with the organization's possibilities.
- Encouraging all initiatives within the organization that contributes to maintenance of the culture accepted by managers and employees.
- Allow the expression of different opinions that belong to organization's employees.
- Development of training programs for managers and employees, which can contribute to the cultural values promoted by the organization.

Graphically, the relationship between environmental factors, individual's personality, organization's personality and managerial behavior can be represented like this:



¹³⁰⁵ Burciu, Aurel (coord.), Introduction in management, Economic Publishing, Bucharest, 2007, p.131.

¹³⁰⁶ Burdus, Eugen, Management Treaty, Economic Publishing, Bucharest, 2005, p.265.

Figure nr. 1 Factors that determine the managerial behavior

3. How does the size of the group influences the managerial behavior?

When talking about managerial behavior, we can identify eight roles managers play according to the size of the lead group¹³⁰⁷:

- *President* Controlling and coordinating team members, recognizing their talent and focusing more on what is feasible rather than imaginative and exciting.
- *Involved* Assumes all the needed actions instead of forming the employees' thoughts and decision-making abilities.
- *Innovator* Demonstrates a creative thinking.
- *Evaluative* The ability to analyze problems and make suggestions objectives.
- *Organization's employee* Role based on the implementation of ideas by taking those skills which transfer ideas and plans into practice.
- *Team's employee* Requires a good understanding of needs and support of employees.
- *Resources investigator* Searches for resources and ideas outside of the team and support team's efforts in achieving goals.
- *Implementer* Ensures that the objectives are achieved on time and at a high standard.

When trying to enhance managerial skills it is imperative for managers to understand that their behavior is interpreted differently according to a subordinate's personality. Indeed, the same message that a manager is communicating (even if the content is the same) could be interpreted in several different ways depending on the personalities of the subordinates¹³⁰⁸.

Managers tend, depending on the group he leads, to adopt a certain behavior. Although the ideal conditions are difficult to meet, managers choose their teams from the best people they have, encouraging their flexibility role. There is a need for managers to distinguish between the roles assumed by each team member. Knowing the expectations of colleagues, the manager may end the tension and avoid the group collapse earlier.

In order to give a real answer to the question presented in the subtitle 3, we made a research on a number of thirty organizations from Bihor county (ten of them were micro enterprises; ten were small and the last ones middle). The thirty managers had to note the following decisional situations from 1 to 10, taking into account the frequency of using them within their enterprise, (using 10 for the most frequent): manager makes decisions, manager "sells" decisions, manager presents and discuss decisions, manager presents the attempt of making decisions and manager defines the limits (the groups make the decisions). The table below represents the final values calculated by simple arithmetic average for each type of enterprise that we studied.

Type of enterprise	Decisional situations				
	manager makes decisions	manager "sells" decisions	manager presents and discuss decisions	manager presents the attempt of making decisions	manager defines the limits (the groups make the decisions)
micro enterprise	1	3	8,5	9,5	10
small	8	5,5	9	9	7,5

¹³⁰⁷ Prodan, Adriana, Successful Management, Polirom Publishing, Iasi, 1999, p. 96.

¹³⁰⁸ http://www.entrepreneur.com/tradejournals/article/136076050_3.html, accessed on 18.04.2010, at 20:00.

enterprise					
middle	9,5	9,8	4	1,5	1
enterprise					

Table nr. 1 Final value of decisional situations

Group size can influence the decision-making style. From the sample of firms that we surveyed, is seen that, when talking about groups of 1-9 employees, managers prefer to make decisions taking into account employees' proposals and establishing the limits, when group increases at 10-49 employees, managers prefer to make decisions, present and discuss them with the employees and when talking about groups larger than 49 employees, managers "sell" and make decisions without employee's participation.

The results of our research can be graphically presented in the following way:

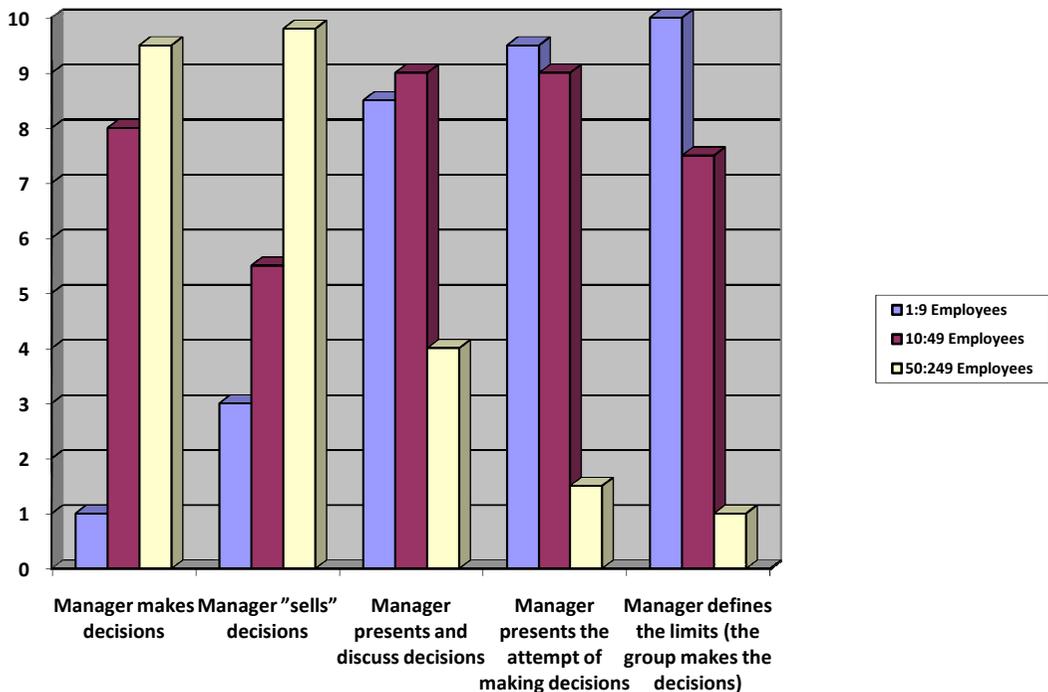


Figure nr. 2 The correlation between employees group and making decisions styles

4. Conclusions

Organizations are evolving, adaptive, strategic, and rule-based cultures which act on and respond to changing internal and external environments.

The cultural match between an individual and an organization is determined by the degree to which the individual's personal traits fit the organizational culture, or perhaps vice versa. A lower cultural match may indicate that the individual is drained of important resources by having to continuously adjust to the workplace environment. A higher cultural match suggests the potential for a more satisfying interaction for both the individual and the organization.

In order to increase the organization's performance, managers have to ensure that employees feel comfortable in the specific organizational environment, they feel motivated by this environment and they will be able to achieve organizational goals.

The success of any company depends in part on the match between individuals' personality, manager's personality and organization culture and personality. Organizational culture is the set of operating principles that determine how people behave within the context of the company. All

the different behaviours of people need to have the same base: beliefs, values, and assumptions that dictate individual's actions.

Managers need an accurate understanding of the organization's culture in order to direct activities in a productive way and to avoid the destructive influence of having employees who are not committed to the company's goals.

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CORPORATE SOCIAL RESPONSIBILITY OF ROMTELECOM

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In this paper we try to explain this concept, why it appeared and also make a study regarding the corporate social responsibility in Romania. As a research methodology we use empirical research collecting data from the firm and other statistical media. We chose to discuss about the projects of social responsibility in which Romtelecom is involved, in different fields such as: education, environment, social and human rights. Romtelecom supports Romanian society through art projects, sports, philanthropic, educational, social events, media and health. Some products are controversial and for those companies involving in corporate social responsibility programs is a must.

Keywords: CSR, Romtelecom, Romania, environment, children.

JEL Classification: M14

Introduction

Global CSR practices can be defined as “business decision-making linked to ethical values, compliance with legal requirements, and respect for people, communities, and the environment around the world.” (Aaronson and Reeves, 2001). Every multinational that respects its clients has adopted voluntary CSR initiatives, which can include codes of conduct, auditing and monitoring strategies, social and environmental labels, as well as philanthropy.

According to Werther and Chandler (2006), corporate social responsibility covers the relationships between large organizations and the societies with which they interact. CSR defines society in its widest sense and, on many levels, to include all stakeholder and constituent groups that maintain an ongoing interest in the organization’s operations.

A CSR agenda is likely to give the companies more power by placing greater control in their hands and enabling them to pursue their profit-motivated objectives without need to worry about potential external limits placed upon them (Boeger, Murray and Villiers, 2008).

Romtelecom is one of the largest telecommunications companies in Romania, 54.01% owned by OTE (Greece) and 45.99% of the Romanian state. Since 2003, the company has undergone a comprehensive transformation process. This transformation has meant loss of land by landline - the main services offered by Romtelecom - and development of Internet and data services and satellite television. In new areas of activity was recorded massive growth - over 300% - from one year to another. Also, Romtelecom has become and supplier of IT products, especially for clients-companies, with services that Cyber Host (hosting data center in Romania).

In 2007, the company created a department dedicated to customer-company relationship (both micro-businesses and multinational corporations). In 2007, as part of new business strategies, was established a call center dedicated to these clients, which ensures a fast response. For example, 99% of callers are answered by the center employees in less than 20 seconds. In late 2007, Romtelecom had about 3 million clients for fixed phones, over 360,000 broadband Internet

customers and almost 400,000 digital televisions. Romtelecom supports Romanian society through art projects, sports, philanthropic, educational, through social events, media and health.

Among the programs with the greatest impact Romtelecom office includes:

- Phone Child - a hotline where anyone can report cases that endanger the safety of children.
- Pink line - the program to prevent breast cancer.
- The environment to protect the largest ecosystem in Europe, the Danube Delta.

Phone Child

Romtelecom supports and hosts its headquarters phone Child. The service addresses of child victims of abuse, people who want to claim an abuse of a child and parents who need advice. In 2007, the phone Child recorded 1090 valid request. In Romania there are over 3.3 million copies. They depend totally on who gave them life. But statistics are staggering: in the first half of 2007, 52 minors were sexually abused, of which four, even parents. (www.romtelecom.ro). General Inspectorate of Romanian Police statistics show, in June 2007, 18 cases of children were victims of parents' anger. Four of them died. For solving such problems, Romtelecom has supported since 2001, foundation of a phone line that offers information and counseling for abused children and parents - Child phone.

Phone Child service is a free information and counseling, specializing in child protection. Established with the support of Romtelecom, it addressed the children-victims of abuse, people who want to claim an abuse of a child, young people will leave the state system of child welfare, parents and professionals working in child protection.

Among the services offered there are:

- Information and advice on promoting and respecting children's rights.
- Guidance to institutions able to provide necessary assistance to each case.

The service was established in 2001 under the name "Green Line for Child Protection", originally designed as a tool for monitoring the "House of Children's Home". Very large number of calls and of cases led to a permanent special telephone line.

In 2007, phone Child involved a lot of volunteers to provide advice to callers. For this purpose, there was drawn up a manual guide for those who train volunteers. There was made recruitment, and in June there were held three training sessions for volunteers recruited. During the training sessions there were discussed techniques and tools used in business telephone counseling. There were 33 trained volunteers who have joined the Child phone.

International Telecommunication Union has designated the day of May 17 - International Day of Children and Telecommunications. The Youth Park in Bucharest, phone Child and Romtelecom Association organized an event in which there were presented moments supported by Children: music, dance, ballet, folk music, theater, acrobatics, fashion show, face painting. It also held 3 contests: origami, computer games and drawings on the asphalt on "magic phone". To enable all children to participate, four editions were held for each competition, the winners received diplomas and gifts. All children attending the event received gifts and a CD with the story "Child phone". The event was attended by over 700 children.

Child phone activity is conducted in close liaison with the General Directorate for Social Assistance and Child Protection (DGASPC) occurring to address cases of abuse. In order to improve collaboration, representatives of phone Child visited the premises DGASPC. There were identified effective solutions to resolve existing cases. The visits have started with meetings in the DGASPC Buzau, Braila and Galati (May), Dolj (August), Arges, Brasov, Prahova (September), Vrancea, Bacau, Botosani, Suceava (November). (www.responsabilitatesociala.ro).

National champion for the Promotion of Child phone in schools, colleges and orphanages which ran from October 2006 - July 2007, resulted in significant increase in the number of phone calls to the Child. Along with initiating the campaign there was launched the site www.telefonulcopilului.ro and also an attached email. This email address is being protected from spam bots, you need JavaScript enabled to view it and forum for children. Counseling by

telephone has been extended by advice on the Internet as a means of communication used increasingly frequently by children.

Results of the project

In the year 2007, there were estimated 1090 cases and 574 valid feedbacks from callers. Most cases were related to reporting of child abuse (389 cases), followed by requests for legal advice (288).

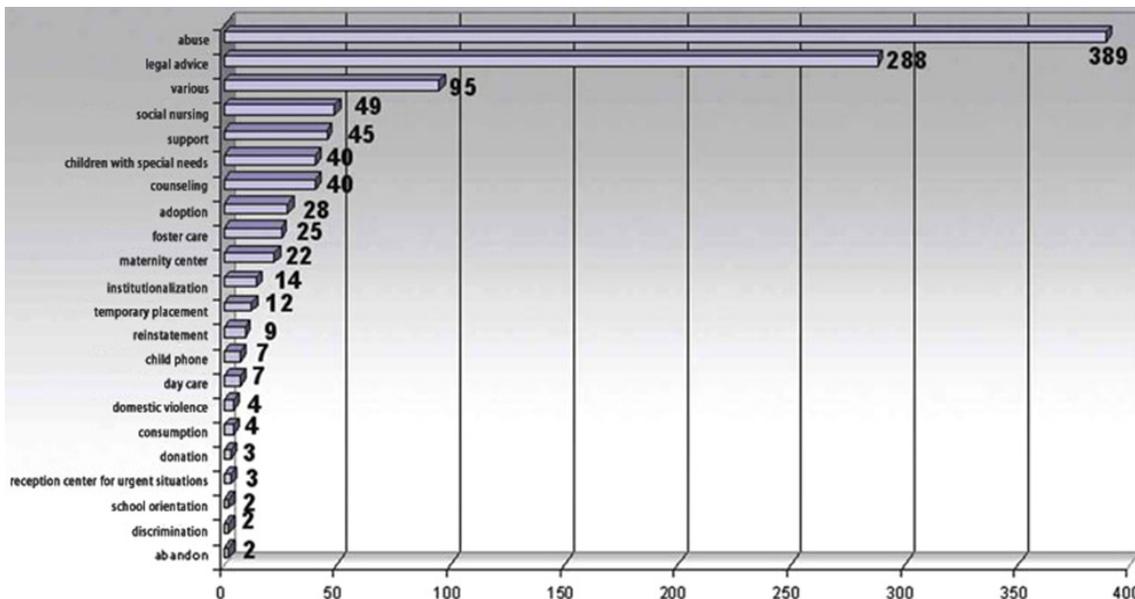


Fig.1 Statistics regarding abuses and phone child service

Source: www.responsabilitatesociala.ro

The most numerous cases of abuse reported were those related to physical molestation and emotional abuse, followed by cases of neglect, verbal violence, discrimination, child exploitation through work, sexual abuse, deprivation of freedom, trafficking in children.

Most children who have claimed such cases were boys and the adults have sounded particularly among women. Most cases were received from sector 5 of Bucharest, followed by sector 3 Bucharest, Prahova county, sector 2 Bucharest, Timis county and Varna.

The environment in which abuse occurred most frequently reported, is the family, followed by school, extended family, public space, the center of the family investment house.

Conclusions

CSR of companies serve the objectives of sustainable development, came the need for international standards to define what a "desirable corporate behavior. United Nations, European Union and the Organization for Economic Cooperation and Development are the three most important institutions that were involved in developing a CSR framework to define and establish indicators that can be evaluated in a transparent manner.

This framework was accompanied by recommendations and principles to guide states and local authorities in formulating public policies to promote, ensure transparency and to support initiatives of CSR.

The European Union is interested in CSR, which he sees as a means to achieve the goal set at the Lisbon European Council of 2000 to become "the most competitive and dynamic economic

system in the world capable of sustaining economic development through job more and better jobs and greater social cohesion".

Romtelecom is one of the Romanian companies that involved a lot in campaigns of CSR, applying social, cultural and educational programs and being helped by other national or international institutions. Child Phone is just an example of its social responsibility.

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PROS AND CONS FOR THE KNOWLEDGE ENTREPRENEURSHIP IN UNIVERSITIES

“It Is Always Knowledge to Some End”

Novac Carmen

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At the beginning of the 21st century the interest in the field of knowledge entrepreneurship increased among academic, economic, entrepreneurial and government representative institutions and, of course, upon social life all over the world. Many authors have dealt with ideas and opinions regarding the knowledge entrepreneurship but few of them agreed to apply it in a university. The original character of the university has to be protected against what it is seen as a business takeover. If a university becomes a business, then it is no longer a university, and still pros and cons upon this idea of knowledge entrepreneurship in universities have to be taken into account.

Keywords: entrepreneurship, knowledge, entrepreneurship education, research, innovation, funding

COD JEL: M10

The actual context of “knowledge entrepreneurship”

Much of the documentations and literature written upon this subject regarding improving the higher education in Romania promote entrepreneurship as an important solution in raising educational quality. But the Romanian higher educational system defies changes due to its rigidity and traditionalism.

The concept of “knowledge entrepreneurship” has to be discussed “in the context of different relationships such as alliances, joint ventures, partnerships, different agreements in which no one controls and no one commands”¹³⁰⁹ meaning that there is a common understanding of objectives, policies and strategies, in a word “teamwork”.

What is knowledge in the context of economy? How can knowledge influence performance?

The quest for an indisputable definition for this concept is still ongoing.

This concept was largely developed and a large variety of authors have dealt with topics related to knowledge but only a few of them really expressed the essence of it.

Knowledge is, in fact, an economic resource and a relevant scientific indicator strongly connected with the development in any domain of activity, especially now in the higher education evaluation. The main indicator of quality in the higher education system is basically knowledge because it influences performance at the highest degree.

Nonaka (1995), a well-known management specialist in Japan, in his major work “The knowledge creating company” speaks about the way in which Japanese companies created knowledge in the form of research and new innovative products. He states that “knowledge unlike information is about team-action, it is always knowledge to some end and knowledge, like information, is about meaning.”¹³¹⁰

¹³⁰⁹ Gurteen, D., *On the performance of the knowledge worker* quotations retrieved on the 31 of may 2006 from Peter Drucker – on the site www.gurteen.com/gurteen/gurteen.nsf/id/X00077286/ accessed on the 12 of April 2010

¹³¹⁰ Nonaka, I., Hirotaka Takeuchi, *The knowledge-creating company: how Japanese companies create the dynamics of innovation*, Oxford University Press, New York, 1995

What is entrepreneurship?

“Entrepreneurship is the process of creating an opportunity and pursuing it regardless of the resources currently controlled”¹³¹¹ as Timmons called it in 1994.

This concept strictly belongs to modern world of economy and it is understood as a special characteristic, an exceptional ability of special people. This term is only used with a positive sense, when a venture or partnership is successful.

The French economist Jean Baptist Say stated that “an entrepreneur is a person who shifts economic resources out of an area of lower and into an area of higher productivity a greater yield.”¹³¹²

Schumpeter described an entrepreneur as “one who destroys the existing economic order by introducing new products and services, by creating new forms of organization, or by exploiting new raw materials.”¹³¹³

Peter F. Drucker gives another definition in which he says that “the entrepreneur always searches for change, responds to it, and exploits it as an opportunity”¹³¹⁴

“Entrepreneurship is a process of exploiting opportunities that exist in the environment or that are created through innovation in an attempt to create value”¹³¹⁵

Entrepreneurship is considered an essential ingredient for strong innovation and economic growth, especially in a Knowledge Based society. An entrepreneur is one who organizes a new business venture in the hopes of making a profit.

Entrepreneurship is the process of being an entrepreneur, of gathering and allocating the resources - financial, creative, managerial, or technological - necessary for a new venture's success.

Knowledge entrepreneurship

Knowledge entrepreneurship is not a concept that regards the financial or the monetary profit. It focuses on realizing opportunities that are meant to improve the production through the help of knowledge. The term entrepreneurship applies both to individuals and to organizations and aims at realizing innovative knowledge practice or product.

Knowledge entrepreneurship cannot exist without: organizational learning, leadership, culture, project support, vision, strategy, and mainly without communication. Communication is the key factor that influences knowledge entrepreneurship as a dynamic complex human system in which all members are knowledge and innovative agents.

In order to transform knowledge in innovation, universities have to seize this opportunity. Such a capability of turning knowledge into research and innovation is called “knowledge entrepreneurship” or “the ability to recognize or create an opportunity and take action aimed at realizing the innovative knowledge practice or product.”¹³¹⁶

The Entrepreneurial University vs. the Intrapreneurial University

¹³¹¹ Timmons, J., *New Venture Creation: Entrepreneurship for the 21st Century*, 4th Edition, Ed. Irwin, Boston, MA, 1994

¹³¹² idem

¹³¹³ Schumpeter, J., *The Theory of Economic Development* (Translated by R. Opie.), Ed. Harvard University Press, Cambridge, MA, 1934

¹³¹⁴ Drucker, P., *Innovation and Entrepreneurship: practice and principles*, 1st Edition, Ed. Harper and Row, New York, 1985

¹³¹⁵ Brown, T., Uljin, J.M., *Innovation, entrepreneurship and culture: the interaction between technology, progress and economic growth*, Ed. Elgar Publishers, Cheltenham, UK, 2004

¹³¹⁶ Clark, B.R., *Sustaining change in universities. Continuities in case studies and concepts*, Ed. Open University Press, Oxford, 2004

Universities serve both as a provider of knowledge and human capital for all the other domains that form the human society. As organizations they are very special and that because they are neither part of the state nor are they part of the economy.

The Entrepreneurial University

Burton Clark first presented the concept of “entrepreneurial university”¹³¹⁷ in the late 1990’s but this theme was received by the specialists with a negative attitude, being a controversial issue. It was seen as a battle between the traditionalists and modernists in the educational field. It was said, at that time, that through his examples Clark was trying to sell out the academic and scientific values, practices and services, missions and goals to the economy or shortly that professors were to be turned into entrepreneurs.

A university was found out to have several important missions among which one can count: education for cultural and technological citizenship, research, economic development, politics, creating and recreating knowledge. The goals of a university concern the transfer of research results to the industry so they can transform them into innovative products and services, leading to the economic growth and wealth creation.

Also, in the case of the Romanian higher education institutions such as universities, the government agrees and helps this knowledge transfer through partially funding it (the basic funding of the university comes from the ministry) and facilitating legal and political help and conditions.

Both economists and academics had a strong reaction to Clark’s statements and they all said that if a university becomes business then it is no longer a university and its original character will be lost, and still universities tend to become more and more independent in front of the state due to the lack of funding. So, how can universities survive? The independence in front of the state will lead to dependence in front of other institutions or even persons that are willing to “pay”.

The competition between tradition and modernism has to stop in the favor of equilibrium between the two.

The pursuit of funding is like a double knife: It is a must for financing the social mission but a danger for the mission at the same time. Not for profit but not for loss.

The term “entrepreneurial” can be used in the academic context as long as the original mission of the university can be maintained. Due to the involvement of the term entrepreneurial many universities are perceived as business and the education as a market and this must be changed but in what terms? Which are the consequences?

One of the main consequences would be a huge gap between the mission of the university and its funding, mission and money. Prospective students ask for the expanding of the number of applicants while government demands that universities produce more research and innovative products.

Universities are supposed to be a not-for-profit domain and the connection with the entrepreneurial concept has apparently no sense.

For public universities the missions are neither measurable nor explicit, and still a university must educate students, carry out research and provide services to the community outside the university.

Significant additional revenues are needed in order for a university to survive and to maintain their original missions and still universities cannot become a business.

A university is, in fact, like any another not-for-profit organizations: it has a budget, it employs people who earn a salary and develop a career, it also has students who receive an education and participate to the educational, social and economic life of the academic community.

¹³¹⁷ Clark, B.R., *Sustaining change in universities. Continuities in case studies and concepts*, Ed. Open University Press, Oxford, 2004

Entrepreneurial university is the academic body or institution that produces knowledge as a form of development and innovation through knowledge. A discussion about the intellectual property and about sharing the knowledge should be largely debated. Higher performance in a university means higher performance in knowledge production, both in research and teaching as essential parts of the educational process.

Fuller describes the university as “an intrinsically entrepreneurial institution”¹³¹⁸. The university constantly creates and creatively destructs knowledge as a constant circulation. University creates knowledge through research. Then knowledge is de-constructed through its dissemination to the students and the industry. This process is immanently entrepreneurial because some of the students become further researchers, who then develop new knowledge through the creative destruction of the known. Fuller depicts a constant creation of human capital (through education) and knowledge capital (through research) which flows towards the third mission and is there invested for the fostering of business, governmental and social causes.

In Fuller’ vision a university has three special missions: education, research and dissemination of knowledge. The three missions of the university together with the business administration task represent the knowledge entrepreneurship.

The Intrapreneurial University

“Intrapreneurship is the art of working within an organization to effect change, by developing new ideas, procedures or products, by innovating practice and thereby enhancing the business.”

¹³¹⁹ Intrapreneurship appears within the already functioning organizations.

The premises that imposed the development of the intrapreneurial activities in the European Union and United States of America are mainly generated by:

- “The existence of a great number of companies of large or medium sizes that are hard to run, inflexible, even rigid, with different problems generated by their relation with an often unfavorable environment;
- The existence of subdivisions or many services or compartments within the organization;
- The existence inside the organization of a large number of important specialists even managers or leaders with a high intrapreneurial potential and with a strong initiative regarding intrapreneurship.”¹³²⁰

As far as a university is concerned the General Manager or the Administrative Manager who is supposed to be in charged with the budget of the university has to be the first intrapreneur. He has to have the initiative to implement innovative systems and practices in order to improve the economic performances of the university by using both its financial and human resources that were not previously used.

Given the fact that most universities in Romania still have a rigid economic system depending on the state they should reorganize on the basis of intrapreneurship principles and thus some of their subdivisions would offer performance and they should give an internal freedom to the human resources to express themselves in a progressive innovative way.

Conclusion

For the intrapreneurship to become a largely used tool for the Romanian companies, some conditions should be ensured, namely: a strong economical education by organizing post-university and academic programs to familiarize the students and potential intrapreneurs with the specific of intrapreneurship in general and especially in Romania, strong collaboration with companies of managerial consultancy that can supply solutions for the structural organization of

¹³¹⁸ Fuller, S., *What makes university unique? Updating the ideal for an entrepreneurial age.*, 2006

¹³¹⁹ Pinchot, G., *Intrapreneuring: why you don't have to leave the corporation to become an entrepreneur*, 1st Edition, Ed. Harper and Row, New York, 1985

¹³²⁰ Nicolescu, O., *Managementul întreprinderilor mici și mijlocii*, Editura Economică, București, 2001

an institution or company and can maintain the evidence of the changes within that company, and good training for specialists in the field of management.”¹³²¹

Universities have enormous potential for innovation and economic development, their role being also that of providing a theoretical understanding of the phenomenon of entrepreneurship. Mobilizing them for entrepreneurship, enhancing the student’s skills for entrepreneurial careers and providing support for business start-up are very important for the future.

¹³²¹ Istocescu, A., *Management intraprenorial Concepte. Studiu de caz*, <http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp?id=200&idb>, accessed on the 16 of April 2010

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PROSPECTIVE LEADERS' VIEW ON ROMANIAN SOCIETAL CULTURE

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This study deals with Romanian prospective leaders' perceptions and expectations concerning the societal culture. It is a part of a European research project, *GLOBE Students*, dealing with the interrelations between societal culture and leadership. The basic theoretical constructs and methodological framework of investigation are those developed by GLOBE international research project. In adapting our research to student population peculiarities, *GLOBE Beta* questionnaire was altered through adding new items (scales). The sample consists in 429 students in business/economics and engineering, belonging to three Romanian universities. The findings show that in student's opinion there are significant differences between societal culture practices and values (expectations) on all nine cultural dimensions in GLOBE model.

Keywords: cultural dimensions, cultural values, cultural practices

JEL classification: M19

Introduction

More than one million students are enrolled in Romanian universities and other tens of thousands abroad. Their number tripled in the last decade (Numarul studentilor din Romania a ajuns, în 2008, la un million, '2009). The students are a very important group of population, because from it will be selected the next generations of managers and leaders. And for many reasons, they will be different from the present managers and leaders. In this context, it is surprising how little knowledge is available about the students' values and the impact of these values on their perceptions on management. Same surprise is encountered on reverse case: students' weak knowledge about present leaders' cultural values. This is why we hope that the present study will contribute to a better understanding of the students' perceptions of present societal culture dimensions and their cultural expectations.

During the last edition of Romanian students in United Kingdom Conference (London, October 25, 2009), the Director of one of the biggest audit and consultancy companies in the world (British native), asserted that the fundamental difference between Romanians and British behaviour is that while Romanians focus on *practices* – *doing things as they are told to do*, the British focus on *values*, *doing things as they should do*. On the positive side, he acknowledged that Romanians are good communicators in foreign languages and are in the world top in IT. At the same time, among the drawbacks he mentioned excessive bureaucracy, lack of long term planning, "astounding" H.R.M., corruption and legal regulation fluidity (Boros, 2009). The mentioned advantages and drawbacks could get a rational explanation based upon a closer look at societal *cultural practices and values*. For this, the school should teach the pupils *how to learn, practice and develop* our cultural values, while the academic education should provide the students lectures on how to measure and compare different societal practices and how to build own cultural expectations.

The present study aims at answering the following questions: 1. How do the students perceive the societal cultural dimensions? 2. Which are the students' cultural expectations (values)? 3. What are (if any) the differences between the perceived cultural *practices* and expectations (*values*)? 4. Are the students' perceptions and expectations sensitive to their demographic variables?

Theoretical remarks

It is well known that there is no one generally accepted definition of societal culture. Probably this is why cultures differ one from another. Our study shares the definition used by GLOBE international research project: *Culture* (in general) is a set of shared motives, values, beliefs, identities and interpretations or meanings of significant events that result from common experiences of members of collectives and are transmitted across age generations (House et al. 2004:15).

How we measure the culture of different entities (groups) in order to compare them? The word “measure” is linked to some *measureable dimension*. So, if we want to measure cultures, than must accept that these cultures can be characterized by *sizes* (probably different) of the same dimension.

GLOBE research characterizes the culture through nine *discrete global dimensions: performance orientation, future orientation, assertiveness, power distance, humane orientation, institutional collectivism, in group collectivism, uncertainty avoidance, gender egalitarianism* (House et al, 2004). The definitions and their theoretical support are provided by GLOBE books (House et al, 2004; Chhokar et al. 2007). GLOBE compares these dimensions across 62 societal cultures, analysing *how* different or similar are those cultures and *why* are they different or similar. But the cultural dimensions of a group are *not static*. The culture is not only a given set of beliefs, norms, patterns, projections and institutions configuring the cultural aspirations of a given group. This is why, GLOBE model distinguishes between cultural *practices* (*how the culture it is*) and cultural *values* (*how the culture should be*). While practices describe the (actual) *cultural product* of analyzed community, the values describe the *desired cultural product*. In other words, practices display the socio-cultural *phenomenology*, while values concern the *targeted future* of that community in the field. Of course, the distinction between practices and values is a relative one. Philosophical speaking, a good practice is a *learned* value. Almost always the values are about something important. This is why they are followed by individuals and groups. This might explain why some authors consider that values express the effectiveness of most efficient individuals, such as leaders (House et al. 2004; Javidan et al. 2006a; 2006b), while practices express the average effectiveness of a society. Values distinguishing a culture from the others are *predictors* for cultural practices, as well as for leadership features and behaviours in that culture (House et al. 2002). The shared values become good future practices. Values distinguishing a culture from the others are *predictors* for cultural practices, as well as for leadership features and behaviours in that culture (House et al. 2002).

Based upon GLOBE model, studies from different societal cultures proved that there are significant differences between practices and values all over the world (House et al.2004; Chhokar et al. 2007), including Romania (Catana, Catana, 2010 in print). The mentioned findings are based on data collected from present middle managers. Or, our study pursues to discover the *cultural identity of future managers and leaders* in Romania. The findings about the students' perception on cultural practices and their expectations about societal culture are helpful in imagining the societal culture in its dynamics. Axiological speaking, the values the students aspire to, will probably be their future practices (as managers and leaders), their future behavioural patterns. From cultural perspective, a society oriented towards future leaders' values is a dynamic one. We expect to discover significant differences between practices and values due to the simple fact that the *values are more important than practices in the students' world*.

Research methodology

As shown above, in performing our study on Romanian students' opinion about societal culture *dimensions* we used the methodological framework created by the GLOBE project. Data about societal culture dimensions has been collected using GLOBE II Beta questionnaire. *Culture dimensions* have been measured using the scales in section 1 (*as it is*) and, respectively, section 3

(as should be). Scales in section 1 ask the students to value “the way our society is” (practices), while scales in section 3 ask the students opinion about “the way our society should be”. In order to test the *statistical significance* of the differences between societal practices (“as it is” variables) and societal values (“as it should be” variables) the paired-samples *t-test* was employed, using the 0.05 significance threshold. All the answers are assessed with seven points Likert scales (1=strongly agree; 7= strongly disagree, with some items reverse coded; see the GLOBE Culture and Leadership Scales Guidelines and Syntax for the GLOBE Leadership and Culture, 2006).

Data collection run between November 2008 and April 2009. The *sample* consists in 429 students attending business/economics and engineering in three Romanian universities. The basic assumption in choosing the sample was that most of future managers and leaders will be economists and engineers. The sample is structured based upon the following *criteria*: gender, age groups, field of study, level of study, interest in management career, and interest in founding a business venture (see *Table 1*). In testing *statistical significance* of differences between different groups of the sample, the *independent samples* test was employed, using the 0.05 significance threshold (equal variance assumed or not for Levene’s test).

Table 1 Sample demographics

	Gender		Age groups		
	Female	Male	18-22	23-27	≥ 28
<i>Field of study:</i>					
Business/Economics: 168 (39.16%)	128 (76.2%)	40 (23.8%)	81 (48.2%)	72 (42.8)	15 (9.00%)
Engineering:261 (60.84%)	111 (42.5%)	150 (57.5%)	187 (71.6%)	74 (28.4%)	-
<i>Level of study</i>					
Bachelor: 278 (64.8%)	140 (50.4%)	138 (49.6%)	246 (88.5%)	19 (6.8%)	13 (4.7%)
Master: 151 (35.2 %)	99 (65.6%)	52 (34.4%)	22 (14.6%)	127 (84.1%)	2 (1.3%)
<i>Interested in management career</i>					
Yes: 288 (67.13%)	174 (60.4%)	114 (39.6%)	174 (60.4%)	102 (35.4%)	12 (4.2%)
No: 141 (32.87%)	65 (46%)	76 (54%)	94 (66.6%)	44 (31.2%)	3 (2.2%)
<i>Interested in founding a business venture</i>					
Yes: 317 (73.9%)	178 (56.1%)	139 (43.9%)	199 (62.8%)	107 (33.7%)	11 (3.5%)
No: 112 (26.1%)	61 (54.5%)	51 (45.5%)	69 (61.6%)	39 (34.8%)	4 (3.6%)
TOTAL: 429	239 (55.7%)	190 (44.3%)	268 (62.5%)	148 (34.5%)	13 3.00%)

Findings

The preliminary findings of our research are presented following the succession of research questions. *Table 2* displays the mean values, ranks, significant differences and ratios between cultural practices and values in students’ opinion.

Practices perception: The way Romanian society it is

It seems the students make up a cultural community perceiving a high power distance (5.80) and a relatively high in group collectivism (5.13). They also feel Romanians have practices less future oriented (3.44) and enough uncertain (3.49). The other practices got lower scores than the scale midpoint (4), while gender egalitarianism is situated in the scale midpoint.

Cultural values (expectations): The way Romanian society should be

The students believe the cultural dimensions should change their hierarchy comparing with current perceived practices. They expect: performance (5.89), institutional collectivism (5.71), humanism (5.41), future orientation (5.24) and control of uncertainty (5.10). In their cultural

logic, these expectations could be attained if the power distance is significantly reduced (2.64). Gender egalitarianism (4.14) and assertiveness (4.00) are scored in the middle band of the scale.

Differences between practices and values

All the dimensions of societal culture record significant differences between practices and expectations (t-test values are high and sig-2tailed got 0.000 for all). The highest difference is recorded for power distance (t = 51.576; sig = 0.000). Very high difference is also recorded for performance orientation (t = -37.525; sig =0.000), uncertainty avoidance (t = -29.636; sig =0.000), humane orientation (t = -29.279; sig =0.000) and, respectively, future orientation (t = -26.878; sig =0.000). Even though the differences between the other pairs of cultural dimensions are statistically significant, they have a lower *differentiation potential* in students' mind. The differentiation potential is shown by the size of the ratio between practices and values in *Table 2*.

Table 2 Differences between perceived cultural practices and cultural expectations* (N = 429)

Cultural dimension ("as it is")	Rank	Mean	t-test (sig 2-tailed)	Mean	Cultural dimension ("as should be")	Rank	Practice/Values
<i>Uncertainty avoidance</i>	8	3.49	-29.636 (0.000)	5.10	<i>Uncertainty avoidance</i>	5	0.68
<i>Future orientation</i>	9	3.44	-26.878 (0.000)	5.24	<i>Future orientation</i>	4	0.65
<i>Power distance</i>	1	5.80	51.576 (0.000)	2.64	<i>Power distance</i>	9	2.19
<i>Collectivism 1</i>	5	3.78	-19.155 (0.000)	4.94	<i>Collectivism 1</i>	6	0.76
<i>Humane orientation</i>	4	3.84	-29.279 (0.000)	5.41	<i>Humane orientation</i>	3	0.70
<i>Performance orientation</i>	6	3.66	-37.525 (0.000)	5.89	<i>Performance orientation</i>	1	0.62
<i>Collectivism 2</i>	2	5.13	-11.474 (0.000)	5.71	<i>Collectivism 2</i>	2	0.89
<i>Gender egalitarianism</i>	3	3.99	-11.271 (0.000)	4.41	<i>Gender egalitarianism</i>	7	0.90
<i>Assertiveness</i>	7	3.51	- 8.717 (0.000)	4.00	<i>Assertiveness</i>	8	0.87

*paired samples, t-test

Sample demographics and differences in cultural dimensions

Table 3 shows that seven out of nine cultural dimensions are sensitive to the sample demographic variables. *Statistically significant* differences between societal practices and values were found in the following cases (based on *t* value):

Study level (bachelor or master) influences the students perception on *practices* concerning *gender egalitarianism* (t = 3.499; sig =0.001) and *performance orientation* (t =2.659; sig = 0.008). At the same time, the study level influences the students *expectations* concerning *uncertainty avoidance* (t = 2.727; sig = 0.007), *performance orientation* (t = -2.360; sig = 0.019) and *humane orientation* (t = 1.983; sig = 0.048).

Field of study (business/economics or engineering) influences the students perception on *practices* concerning *institutional collectivism* (t = 2.342; sig = 0.020), and their *expectations* about *performance orientation* (t =-2.841; sig =.005) and *gender egalitarianism* (t = -2.270; sig = 0.024). *Gender* (female vs. male) leads to differences in perception of *gender egalitarianism* in *practice* (t = -2.102; sig = 0.036) and *in group collectivism* (t = -2.653; sig = 0.008) and *assertiveness* (t = -2.188; sig = 0.029) at *expectations* level.

Students interest in following a management career (Yes vs. No) influences respondents perception on *practicing institutional collectivism* (t =2.170; sig = 0.036) and *gender egalitarianism* (t = -2.198; sig = 0.029).

Finally, the *interest for setting up own business venture* (Yes vs. No) is a factor differentiating the *expectations concerning institutional collectivism* ($t = 3.124$; $\text{sig} = 0.002$).

Table 3. Sample demographics and significant differences in cultural dimensions

Cultural dimension	Sample Mean (N=429)	St. dev	Mean (G1)	Mean (G2)	t-test (sig-2 tailed)
GENDER (G1=female; n=239; G2 = male; n=190)					
<i>Practices</i>					
a. Gender egalitarianism	3.99	0.674	3.92	4.06	-2.102 (0.036*)
<i>Values</i>					
a. Collectivism 1	4.94	0.751	4.85	5.04	-2.653 (0.008*)
b. <i>Assertiveness</i>	5.10	0.768	3.93	4.09	-2.188 (0.029*)
FIELD OF STUDY (G1=Business/Economics; n=168 ; G2=Engineering; n=261)					
<i>Practices</i>					
a. Collectivism 2	5.13	0.779	5.24	5.05	2.342 (0.020*)
<i>Values</i>					
a. <i>Performance orientation</i>	5.89	0.706	5.77	5.97	-2.841 (0.005*)
b. Gender egalitarianism	4.41	0.567	4.34	4.446	-2.270 (0.024*)
LEVEL OF STUDY (G1= Bachelor; n= 278; G2= Master; n=151)					
<i>Practices</i>					
a. <i>Performance orientation</i>	3.66	1.00	3.75	3.48	2.659 (0.008*)
b. Gender egalitarianism	3.99	0.674	4.07	3.82	3.499 (0.001*)
<i>Values</i>					
a. <i>Uncertainty avoidance</i>	5.10	0.768	5.18	4.96	2.727 (0.007*)
b. <i>Humane orientation</i>	5.41	0.769	5.46	5.31	1.983 (0.048*)
c. <i>Performance orientation</i>	5.89	0.706	5.83	6.00	-2.360 (0.019*)
INTEREST IN MANAGEMENT CAREER (G1 = Yes; n=288; G2=No; n=141)					
<i>Practices</i>					
a. Collectivism 2	5.13	0.779	5.18	5.01	2.107 (0.036*)
b. Gender egalitarianism	3.99	0.674	3.84	4.08	-2.198 (0.029*)
<i>Values : none</i>					
INTEREST IN FOUNDING A BUSINESS VENTURE (G1=Yes; n=317; G2=No; n=112)					
<i>Practices: none</i>					
<i>Values</i>					
a. Collectivism 2	5.71	0.902	5.79	5.48	3.124 (0.002)

Conclusions

The present study shows that next generation of Romanian managers and leaders (students in business/economics and engineering) looks like a cultural body with homogeneous perceptions on societal cultural practices and with well outlined cultural expectations. The main two characteristics of the Romanian students' cultural portray are perception of a significant *power surplus* in the hands of elites and, respectively, of a significant *deficit* in society performance orientation. Students' cultural dynamics is highlighted by (statistically) significant differences between current cultural practices and their expectations (values).

Our study has theoretical and practical relevancy. From theoretical point of view, it proves GLOBE theoretical model based on CLT and ILT. From practice perspective, our study has relevancy for employers, universities, government and students. The employers could get an image of the cultural profile of future managers and leaders, based on which can design development programs for present managers and leaders, according to the trend expressed by students' population. Universities and government could use our findings in designing the strategies aiming at preparing the students for the market of next elites in economy, for creating

and developing a leadership culture among young generations. Students themselves could take into account our findings in clarifying their options for own business or management positions. Our research is an ongoing, thus its findings and conclusions should be taken in this context. Certainly, they could be influenced by the sample size, structure and geographic location. At the same time, it is probably that certain perceptions and expectations had been influenced by the fact that the data collection took place in full economic crisis. Additionally, the students form a specific population, still in molding process. They are influenced by a lot of social factors which were left out of our attention. The methodological limits should be also, mentioned. Some of them might be diminished in future research, pursuing two major objectives: a) performing comparative studies based upon the data collected in GLOBE students research for other European countries and b) comparative studies based upon Romanian students population and middle managers (GLOBE II research).

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PROSPECTIVE ROMANIAN LEADERS' VIEW ON LEADERSHIP DIMENSIONS

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This study deals with Romanian prospective leaders' perspective on outstanding leadership dimensions (styles). It is a part of a European research project, GLOBE Students, dealing with the interrelations between societal culture and leadership. The basic theoretical constructs and methodological framework of investigation are those developed by GLOBE international research project. The sample consists in 429 students in business/economics and engineering, belonging to three Romanian universities. The findings show that the most preferred leadership styles are team oriented and charismatic (value based). Only a few leadership styles seem to have weak, but statistically significant correlations against a sig. = 0.50 probability threshold with important socialization agents for the students.

Keywords: leadership dimensions; Implicit Leadership Theory, Culturally endorsed Leadership Theory

JEL classification: M19

Introduction

In trying to explore and develop the leadership skills and abilities in the Romanian students, both teachers and students could use as starting point the findings of different *field inquiries*. Here there are some of them. A *Gallup* inquiry discovered that in 2009 one in four Romanian employees believed that his role in the company is of a “simple doer”. At the same time, the majority of managers do not know how to assume a strategic role (Mihai, 2009a). For the same year, *Hart Human Resource Consulting* showed that more than 67% from 100 executives in large local companies had a narcissistic and arrogant behaviour, 60% did not share the outcomes with their teams and 58% took excessive risky decisions (Mihai, 2009b). According to *Institute for Leadership & Management*, about one third of employees lost their confidence in organizational management and leadership and 46% would live the company along with the first offer from another organization (Mihai, 2009c). *Hay company* asserts that two third of Romanian managers constantly create a negative working climate, making the employees to feel frustrated and offended (Mihai, 2009d). When asked about “how are Romanian managers in power positions”, a foreign consultant of *Hermes Advisors*, answered: “You address to a boss with *long live* greeting. He is the one taking decisions and telling you when to stop talking. The boss does not develop people because this would threaten his position. Is authoritarian and acts being obsessed by power. Even though they are creative and determined, the Romanians choose too often to play the role of *boss* in the detriment of manager or leader role”. (Cum sunt romanii la putere, 2008).

With such a “helicopter view” on management and leadership practice, our study aims at answering the following questions: 1. Which are the leadership dimensions (styles) valued by Romanian students? 2. Which are (if any) the significant correlations between students' opinion on outstanding leadership dimensions and the socialization agents influencing their *cultural* beings? The answers to these questions will help us in imagining *quo Vadis* the next generation of Romanian leaders is oriented.

Theoretical remarks

The term *leadership* does not have a univalent understanding. Our study shares the meaning given to it by GLOBE research: “the ability of an individual to influence, motivate and enable others to contribute toward the effectiveness and success of the organizations of which they are members” (House et al.2004:15).

The leadership theories are fascinated by the cultural approach in the last two decades. Explicitly or not, their aim is to study the correlations between cultural dimensions (at societal and organizational levels) and effective leadership dimensions. It seems that the members of a given society or group possess in their minds a package of dimensions (features, styles) characterizing an effective leadership and assess successful leaders based upon these dimensions. In short, this is the core idea of *Implicit Leadership Theory* (ILT) (Lord, Maher, 1991). In other words, an individual cannot be an effective leader if the others do not *perceive* him as being such. This perception springs from the societal culture (Schein, 1992). GLOBE project extended ILT paradigm at the community culture level (society, organization, group), setting up the *Culturally Endorsed Leadership Theory* (CLT) (House et al.2004; Javidan et al. 2006). The central idea of CLT is that the cultural *expectations* of a given community can be predicted from *perceived* leadership dimensions (styles, attributes) in that community. A leadership style is a reflection of a certain societal culture (Kopelman et al, 1995), meaning that cultural values influence the leadership practices (Lombardo, 1983; Trice and Beyer, 1984; Schneider, 1987; Schein, 1992; Schneider et al. 1995) and both are found in the group perception about successful leadership (CLT). Leader acceptance by the followers depends on the interactions between *CLT* attributes and leader behaviours. Leadership effectiveness essentially depends on leader behaviour and *CLT* attributes. In other words, in group members’ perception, a leader is the most effective if applies *CLT* dimensions. This means that successful leadership dimensions are normative in group members’ perception, reflecting how should be a successful leader and not how he actually is.

On a solid theoretical basis and using 112 personality and behavioural descriptors, GLOBE research developed 21 first order, and then 6 second order universally accepted leadership dimensions: charismatic, team oriented, participative, humane, self protective (narcissistic) and autonomous. The definitions and theoretical basis of these dimensions are found in GLOBE books (House et al.2004; Chhokar et al. 2007).

The six dimensions are *universal* but always and anywhere *culturally dependent*. This means they have different *sizes* in different societal cultures. In fact, the differences concern the way in which they are applied by leaders. In the end, we deal with some theoretical constructs, useful ideals in modelling behaviours. They help us to understand the leadership success sources. But the universality of the six leadership dimensions should not be taken as meaning optimum leadership, as universal leadership pattern.

In developing students’ leadership abilities, some authors distinguish between *traditional leadership* and *shared leadership approach*. For instance, Glen Omatsu argues that in traditional leadership approach the leader is a rare, strong and powerful person, using his charisma when deciding, commanding others and communicating. In shared leadership approach, the leader is a part of the team, leadership is embedded in leader’s ability to work well with others to get things done, and it is based upon commitment to dignity, equality, democracy and transformation in human beings (Student leadership training booklet). It is our belief that shared leadership concerns a leadership style in convergence with students’ cultural values

Research methodology

In performing our study on Romanian students’ opinion about leadership dimensions we used the methodological framework created by the GLOBE project. Leadership dimensions were measured using the scales in sections 2 and 4 (leadership attributes and behaviours). These scales

ask the students to value if the attributes and behaviours stated in the items *inhibit or contribute* to outstanding leadership.

To adapt the study to the population of interest, in section 5 (importance of decisional criteria) seven new scales were added for measuring the influence of important reference groups (family, teachers, friends, managers, TV/radio stars, models from society and science) on students' value system and leadership expectations. All the answers are assessed with seven points Likert scales, where 1 = this behavior or characteristic greatly inhibits a person from being an outstanding leader and 7 = this behavior or characteristic contributes greatly to a person being an outstanding leader. Some items were reverse coded, following the GLOBE Culture and Leadership Scales Guidelines and Syntax for the GLOBE Leadership and Culture (2006).

Data collection run between November 2008 and April 2009. The sample consists in 429 students attending business/economics and engineering in three Romanian universities. The sample is structured based upon the following criteria: gender (55.7% female, 44.3% male), age groups (62.5% belong to the age group of 18-22 years, 34.5% to 23-27 years and 3% to 28 and over), field of study (39.2% is enrolled in business/economics and 60.8% in engineering), level of study (64.8% bachelor, 35.2% master), interest in management career (67.1% Yes), and interest in founding a business venture (73.9% Yes). The basic assumption in choosing the sample was that majority of the future managers and leaders will be economists and engineers.

Findings

Which are the leadership dimensions (styles) valued by Romanian students?

Table 1 displays the rank (mean values and standard deviations) of students' preferences in assessing the second order leadership dimensions (from GLOBE model).

Table 1. Second order leadership dimensions
(N=429)

Leadership dimensions	Minimum	Maximum	Mean	Std. Deviation
Team-Oriented	2.07	6.83	5.8940	.64304
Charismatic/ Value Based	1.16	6.91	5.7605	.67109
Humane orientation	1.75	6.88	4.7270	.83871
Participative	2.25	6.75	4.7264	.82644
Self-Protective	2.39	5.86	3.7159	.53216
Autonomous	1.00	6.75	3.6608	1.09483

Team oriented leadership (5.89) and charismatic leadership (5.76) are the most preferred leadership dimensions. The low standard deviations for these dimensions (0.643 and, respectively, 0.0671) show the relative high homogeneity of the answers. The third preferred styles are humane oriented (4.727) and participative leadership (4.726) with mean values situated on the middle band of the scale and higher standard deviations. Finally, the students do not prefer, but tolerate protective (3.71) and autonomous leadership (3.66). The answers are homogeneous in the case of protective leadership (standard deviation 0.532), but not homogeneous in the case of autonomous style (standard deviation 1.09).

Table 2 shows the students preferences for more detailed leadership attributes and behaviours (questionnaire items and first order leadership dimensions). This data is congruent with that displayed in Table 1, all of examples belonging to the first two preferred leadership styles.

Table 2. Selected leadership items (top 10)

Item	Mean	Belongs to	
		First order leadership dimension	Second order leadership dimension
Effective bargainer	6.38	Diplomatic	Team oriented
Diplomatic	6.34	Diplomatic	Team oriented
Intelligent	6.33	Malevolent (reversed)	Team oriented
Communicative	6.28	Team integrator	Team oriented
Administratively skilled	6.25	Admin. competent	Team oriented
Coordinator	6.19	Team integrator	Team oriented
Inspirational	6.19	Visionary	Charismatic
Motive arouser	6.18	Inspirational	Charismatic
Trustworthy	6.17	Integrity	Charismatic
Decisive	6.17	Decisive	Charismatic
Informed	6.15	Team integrator	Team oriented
Team builder	6.13	Team integrator	Team oriented
Dependable	6.13	Malevolent (reversed)	Team oriented

Correlations between leadership dimensions and socialization agents influencing the students' life

Data in Table 3 portray the correlations between leadership dimensions valued by student's community and the socialization agents influencing their value system.

The dominant note is the lack of significant correlations. In the cases the correlation is statistically significant against a sig. = 0.50 probability threshold, it is very weak. Self protective style has positive correlation with models from society, politics, economy and sports (Pearson coefficient = 0.095; sig. = 0.049) and negative correlation with the education got in family (Pearson coefficient = -0.102; sig. = 0.035). Participative leadership has negative correlation with models from society, politics, economy and sports (Pearson coefficient = -0.104; sig. = 0.031) and with examples from science and research (Pearson coefficient = -0.104; sig. = 0.031). Autonomous leadership is positively correlated with models from science and research (Pearson coefficient = 0.097; sig. = 0.044).

Conclusions and future research

Due to the fact that space constraints do not allow discussing the findings, we only focus on general conclusions and future research options.

The students' first two leadership preferences are *team oriented* leadership and *charismatic/value based* leadership. Some of leadership dimensions correlate with certain socialization agents which influence students' cultural and leadership expectations. Universities and government could use our findings in designing the strategies aiming at preparing the students for the market of next elites in economy, for creating and developing a leadership culture among young generations, for setting up national mentorship networks in educating and developing managers and leaders. Students themselves could take into account our findings in clarifying their options for own business or management positions.

The findings and conclusions should be taken in the context of an ongoing research. Certainly, they could be influenced by the sample size, structure and geographic location. At the same time, it is probably that certain perceptions and expectations had been influenced by the fact that the data collection took place in full economic crisis. Additional, the students form a specific population, still in molding process. They are influenced by a lot of social factors which were left out of our attention. The methodological limits should be also, mentioned. Some of them might be diminished in future research, pursuing two major objectives: a) performing comparative

studies based upon the data collected in GLOBE students research for other European countries and b) comparative studies based upon Romanian students population and middle managers (GLOBE II research).

Table 3 Correlations between second order leadership dimensions and agents of socialization

Second order Leadership dimensions	Pearson coefficients and significance level						
	Parents/ family	Teachers	Friends	Superiors	Radio/ TV stars	Examples from society	Examples from science
Charismatic/ Value Based	-0.004 (0.938)	0.054 (0.268)	-0.008 (0.866)	0.082 (0.090)	-0.053 (0.272)	0.072 (0.136)	0.036 (0.454)
Team-Oriented	0.012 (0.806)	0.037 (0.446)	-0.027 (0.578)	0.049 (0.307)	-0.062 (0.200)	0.030 (0.538)	0.001 (0.987)
Self-Protective	-0.102* (0.035)	-0.043 (0.370)	-0.007 (0.885)	-0.023 (0.642)	0.082 (0.090)	0.095* (0.049)	0.080 (0.099)
Participative	0.032 (0.507)	0.082 (0.088)	-0.083 (0.087)	0.035 (0.469)	-0.065 (0.181)	-0.104* (0.031)	-0.104* (0.031)
Humane oriented	-0.047 (0.335)	-0.002 (0.970)	-0.006 (0.907)	0.011 (0.826)	0.010 (0.836)	0.020 (0.676)	0.031 (0.526)
Autonomous	-0.013 (0.784)	-0.045 (0.354)	-0.024 (0.622)	-0.040 (0.412)	0.076 (0.114)	0.093 (0.054)	0.097* (0.044)

* Pearson Correlation is significant at .005 levels (two tailed)

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ROMANIAN SME'S MARKET: SOME FACTS

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SMEs are playing a critical role in the economic development of Romania. Under the current circumstances – economic crisis, high level of unemployment – their role became even more important. SMEs are the engines for economic growth, but many of them don't have the processes and structures that larger corporations employ to manage and grow their businesses. For them, the critical issue is market – the ring of survival or death for hundreds of thousands of companies.

Key words: market, customers, Romanian SMEs

JEL classification: D8, L2, M1

1. Introduction

The analysis of the markets where SMEs sell their products shows that 69.52% of the companies are active only in the local and national market, 39.22% of the companies only in the local market, 18.56% in the EU market, 6.28% sell their products/services in other European countries and 3.46% are also active in the markets of certain countries outside Europe. Almost 40% of the SMEs focus exclusively on the local markets, as their smaller size cannot give them the necessary economic power to enter other markets.

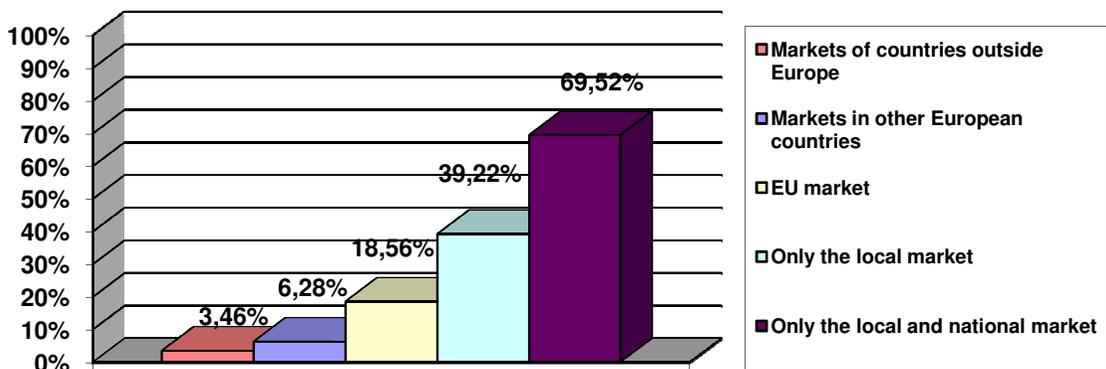


Figure 1 Distribution of SMEs on markets

The analysis of **SMEs depending on size** shows that:

- as SMEs grow in size, the proportion of companies active only in the local market or only in the local and national markets decreases (from 50.65% and 77.29% - microenterprises, to 18.90% and 49.61% - medium-sized enterprises);

- the percentage of SMEs producing for the EU market or for other European markets increases in direct proportion to the company size;
- the average share of the local market in the overall market of SMEs and the average share of the local and national market are in reverse proportion to the size of the companies.

Table 1 Destination of SME products by company size

No.	Destination of products	Size of the company		
		Microenterprises	Small enterprises	Medium-sized enterprises
1	Only local market	50.65%	26.94%	18.90%
2	Only local and national	77.29%	63.33%	49.61%
3	EU market	11.93%	23.33%	37.01%
4	Other European markets	3.43%	8.06%	14.96%
5	Markets outside Europe	2.12%	5.83%	3.15%

Table 2 Average share of local/local and national markets in the overall markets of SMEs by company size

No.	Index	Size of the company		
		Microenterprises	Small enterprises	Medium-sized enterprises
1.	Average share of local market in the overall market of the company	69.33	57.58	40.94
2.	Average share of local and national markets in the overall market of the company	86.93	81.38	72.58

If we consider the market of **companies by sectors of activity** the findings are:

- in the tourism sector, there is a smaller proportion of SMEs active only in the local and national market (20.00%), but a higher proportion of companies that sell their products/services only in the local market (48.00%), in the markets of other European countries (12.00%) and in the markets of certain countries outside the European Union (8.00%);
- in the construction sector, there is a higher percentage of companies that are active only in the local and national markets (35.40%) and the lowest proportion of SMEs active in the EU market (9.73%), as well as no companies active in countries outside Europe;
- industrial companies demonstrate a higher availability for the markets of other EU countries (29.39%) and a limited opening to the local market exclusively (24.12%);
- the average share of local markets in the overall markets of SMEs is higher in the trade sector (81.65%) and lower in industry (63.01%), while the average share of local and national markets is higher in the construction sector (96.71%) and lower in tourism (87.22%).

Table 3 Destination of SME production depending on the field of activity

No.	Destination of products	SMEs by fields of activity					
		Industry	Construction	Trade	Tourism	Transportation	Services
1.	Only local market	24.12%	42.48%	47.37%	48.00%	34.43%	34.45%
2.	Only local and national	28.51%	35.40%	21.05%	20.00%	24.59%	25.63%
3.	EU market	29.39%	9.73%	15.31%	24.00%	16.39%	18.91%
4	Other European markets	8.77%	3.54%	5.50%	12.00%	3.28%	7.14%
5.	Markets outside Europe	4.39%	0.00%	2.63%	8.00%	3.28%	5.46%

Table 4 Average share of local/local and national markets in the overall SME markets by sectors of activity

No.	Index	SMEs by fields of activity					
		Industry	Construction	Trade	Tourism	Transportation	Services
1.	Average share of local market in the overall market of the company	63.01	80.04	81.65	79.55	77.68	77.63
2.	Average share of local and national markets in the overall market of the company	90.31	96.71	91.34	87.22	91.59	92.34

2. Customers of the small and medium-sized enterprises

The analysis of SMEs in point of categories of customers shows that, of the companies surveyed, 70.15% sell their products to individual customers, 53.87% to wholesalers, 52.32% to companies in other sectors, 51.71% to industrial companies, 50.86% to retailers, 43.59% - to local governments, 37.94% to exporters and 36.12% to the central government. A surprising fact is that a considerable number of Romanian small and medium-sized companies have contracts with government entities. See Figure 2.

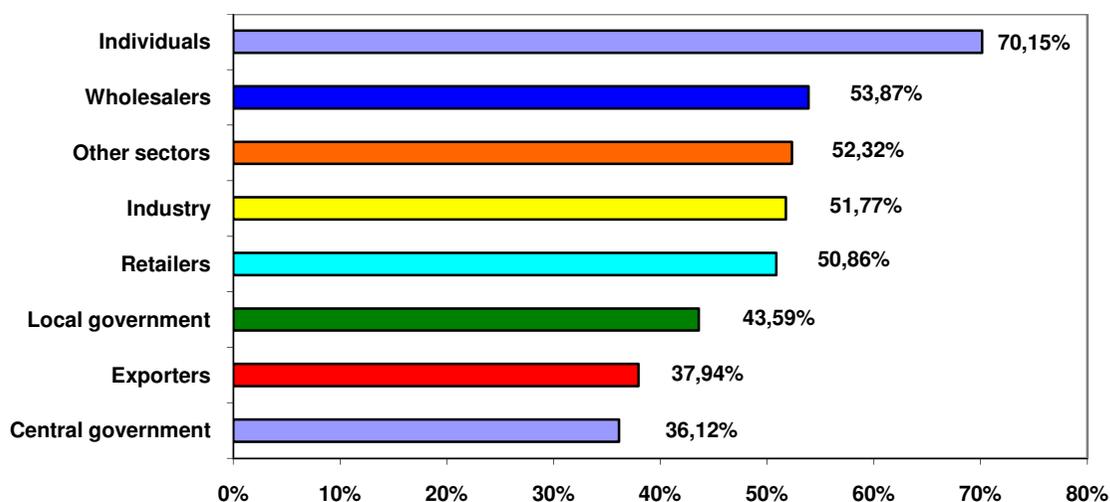


Figure 2 Structure of SMEs depending on the nature of their customers

The **proportions of various categories of SME customers**, as detailed above, show that:

- considering the percentages up to 30%, the most frequent customers are the central government (a customer mentioned by 79.60% of the companies), the local government (73.07%), exporters (68.59%) and retailers (62.43%);
- in the range of 30% to 60%, the most frequent are the customers from other sectors of activity (33.04%), followed by industrial companies (27.07%) and retailers (23.43%);
- for percentages above 60%, the most frequent customers are individuals (48.12%), industrial companies (17.93%), wholesalers (17.40%) and companies in other sectors (16.35%).

For additional information, see Table 5.

Table 5 Proportions of various categories of customers of SMEs

No.	Customers	SMEs by proportion of customers		
		0 - 30 %	30 - 60 %	60 - 100 %
1.	Wholesalers	61.99%	20.61%	17.40%
2.	Retailers	62.43%	23.43%	14.13%
3.	Industrial companies	55.01%	27.07%	17.93%
4.	Exporters	68.59%	20.62%	10.79%
5.	Companies in other sectors	50.61%	33.04%	16.35%
6.	Local government	73.07%	18.37%	8.56%
7.	Central government	79.60%	14.86%	5.54%
8.	Individuals	33.07%	18.81%	48.12%

The analysis **by size** (see Table 6) shows that:

- the percentages of SMEs having wholesale and retail customers vary in direct proportion to the size of the company;
- the proportion of companies selling their products to individuals decreases for larger companies, as companies usually diversify their customers and activities as they grow in size;
- small companies mostly sell their products to industrial companies (53.89%), exporters (40.28%), organizations in other sectors of activity (55%), local government (44.72%) and central government (39.17%);

Table 6 Structure of SMEs by size, depending on the nature of their customers

No.	Customers	Size of the company		
		Micro-enterprises	Small Enterprises	Medium-sized enterprises
1.	Wholesalers	49.35%	58.61%	62.20%
2.	Retailers	47.22%	52.50%	63.78%
3.	Industrial companies	50.65%	53.89%	51.18%
4.	Exporters	37.42%	40.28%	33.86%
5.	Companies in other sectors	51.47%	55.00%	48.82%
6.	Local government	43.30%	44.72%	41.73%
7.	Central government	35.46%	39.17%	30.71%
8.	Individuals	76.96%	64.17%	54.33%

Considering the **sectors in which SMEs are active** (Table 7):

- the customers of SMEs in the sector of services mostly include industrial organizations (56.30%), exporters (42.86%), companies in other sectors (62.61%) and central government (41.18%);
- the SMEs in the tourism sectors have less customers among the wholesalers (48.00%), retailers (36.00%), industrial companies (44.00%) and exporters (28.00%), but have the largest share of individual customers (92.00%);
- the small and medium-sized companies in industry have a great proportion of retailers as customers (56.58%) and the smallest proportion of companies whose portfolios include companies in other sectors (46.05%), individuals (59.21%) and entities of local government (36.84%)/central government (29.82%).

Table 7 Structure of SMEs by sectors of activity, depending on the nature of their customers

No.	Customers	SMEs by fields of activity					
		Industry	Construction	Trade	Tourism	Transportation	Services
1.	Wholesalers	54.82%	57.52%	55.02%	48.00%	52.46%	51.68%
2.	Retailers	56.58%	45.13%	50.48%	36.00%	47.54%	51.26%
3.	Industrial companies	50.00%	53.98%	50.48%	44.00%	55.74%	56.30%
4.	Exporters	35.53%	35.40%	37.56%	28.00%	42.62%	42.86%
5.	Companies in other sectors	46.05%	59.29%	48.80%	52.00%	52.46%	62.61%
6.	Local government	36.84%	48.67%	44.50%	44.00%	42.62%	47.48%
7.	Central government	29.82%	37.17%	36.36%	36.00%	39.34%	41.18%
8.	Individuals	59.21%	69.03%	73.21%	92.00%	72.13%	71.85%

3. Conclusions

- 69.52% of the companies are active only in the local and national market, 39.22% are active only in the local market, 18.56% of the companies are active in the EU market, 6.28% of the companies sell their products/services in other European countries and only 3.46% of the SMEs are active in countries outside Europe.

- the small and medium-sized companies have the following categories of customers in the specified proportions: 70.15% - individuals, 53.87% - wholesalers, 52.32% - organizations in other sectors of activity, 51.77% - industrial companies, 50.86% - retailers, 43.59% - local government, 37.94% - exporters, 36.12% - central government

- only 48.00% of the SMEs are aware of the notion of knowledge-based economy/company.

The concept of knowledge-based economy/company is more frequently known in organizations that have been active for 10 to 15 years (53.17%), based in the Central Region (63.,64%), medium-sized (58.47%), limited liability companies (48.42%), active in the sector of services (55.09%), companies managed by entrepreneurs with a university degree

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PERFORMANCE ASSESSMENT IN OPERATING DRY PORTS

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In this paper, an approach for recognizing and defining correct and operable performance will be presented with the purpose of evaluating the effectiveness and efficiency of processes in dry ports (inland intermodal hubs). The challenge in evaluating the possible improvements of the underlying processes lies in the special nature and the complex structure of dry ports. It is important to consider that all the processes are highly interconnected and that changes in parameters in one process also have an impact on parameters in other processes. Furthermore, the performance of dry ports, seen as the backbone of the system, has a significant impact on the overall performance of the whole transportation network.

Key words: dry ports, logistic performance indicator, container, freight, transportation, TRANS-TOOLS, ASYCUDA

JEL codes: A12, C53, C83, D78, D85, F14, L92, M13, O21, O47, Q55, R11, R4

Introduction

The first shipping container was invented and patented in 1956 by an American named Malcolm Mc Lean. From that moment on, the container shipping industry has improved its performance at an impressive pace, with containers production reaching high numbers, megacarrier container ships reaching 14000 TEU¹³²² (World Cargo News, 2006), and the seaports container terminals expanding the capacity already increased by the existing ones (McCalla, 1999). As container transport volume continues to grow, seaport inland access becomes a critical factor for the seaports' competitive advantage. Therefore, progress only in the maritime part of the transport chain and in seaport terminals, without improvements in seaport inland access, is not sufficient for the entire transportation chain to function successfully.

One of the issues, which has been neglected for many years or sporadically implemented on different continents, is the dry port concept, which represents the focus of this paper. The concept was recently reborn due to increased interest in environmental issues related to growing containerized maritime transport. Many studies and researches have been made for the concept to be integrated into world freight trade.

Methodology used in this paper is based on extended literature review, interviews and case studies, with external validation regarding dry ports implementation, and is primarily meant to highlight the main impediments which influence implementation of dry ports and the actors involved in containerized freight trade, after a proper definition or at least after defining the concept.

Definition and classification the concept of dry ports

The definition of the concept required investigation of previous names for inland intermodal terminals, as there are different names all over the world: Gueterverkehrszentren in Germany, Plateformes Multimodales Logistiques in France, Freight villages in UK or Interporti in Italy, Inland Port in US, Inland Container Depots in India and Asia, Estacao Aduaneira do Interior in South America, particularly in Brazil, meaning Interior Customs Station. They all provide transshipment from one mode to

¹³²² One freight container standard size = twenty equivalent unit, TEU

another as well as auxiliary services such as warehouses, customs, maintenance workshops, insurance offices and other (Roso, 2009). India introduced Inland Container Depots – ICDs, in 1983 and Indian Customs (2004) bases its definition of an ICD on the UN ECE definition below, but restricts it to containers. India also uses the term Container Freight Station - CFS, which differs from an ICD since containers are stuffed and stripped there. Hence, an ICD is a consolidation node for containers whereas a CFS aggregates individual consignments into containers. A CFS function might be added to an ICD. ICDs are normally located outside the port towns but there are no site restrictions regarding CFSs. In Europe there has been a focus on business areas offering a wide range of logistics services. In a survey (Cardebring and Warnecke, 1995), a definition was provided for an Intermodal Freight Centre as a concentration of economically independent companies working in freight transport and supplementing services on a designated area where a change of transport containers between traffic modes can take place. An Inland Freight Terminal is “any facility, other than a port or an airport, operated on a common-user basis, at which cargo in international trade is received or dispatched” (UN ECE, 1998). An Inland Port is located inland, generally far from seaport terminals; they supply regions with an intermodal terminal offering value added services or a merging point for different traffic modes involved in distributing merchandise coming from ports (Harrison et al, 2002). The term dry port is used synonymously. Finally, according to the Economic Commission for Europe (ECE, 2001), a dry port is simply “an inland terminal which is directly linked to a maritime port”. However, a dry port definition that corresponds to the definition of an Inland Clearance Depot - cited above - was used (Beresford and Dubey, 1990). Since the former definition on dry port is rather broad in its meaning, all above mentioned terminal facilities might use the notion of dry port due to their links to seaports. Another definition describes a dry port as “an inland intermodal terminal directly connected to seaport(s) by rail where customers can leave/pick up their units as if directly to a seaport” (Roso, 2009). Despite the fact that the frame of reference is ambiguous, we nevertheless get a general perspective from the above quoted definitions. Research done in 2007 (Roso, 2009) classifies dry ports as it follows: close dry ports, mid range dry ports and distant dry ports. This classification is based on the distance between the seaports that dry ports are servicing and the dry ports themselves. However, one such classification could not be sufficient in order to get a clear definition of the dry port concept. There is still a wide area for research regarding the concept and we will mention other criteria of classification as it follows:

- According to size (meaning how many TEU it can handle per year): small, medium, large and mega dry ports, which can be implemented in land-locked countries.
- According to means of access: depending on how many rail tracks and roads are in and out of facility.
- According to value added services: as stuffing / stripping of containers, maintenance of container, handling and storage of refrigerated / frozen and dangerous goods.

A summative definition, as observed from above, is that dry ports, having the word “dry” as a structural part of their name, are supposed to be viewed as different from inland intermodal terminals which have, in addition to standard dry port facilities, at least one inland waterway, by means of which goods can also be transferred also by water means: either by barges, tugs, or other navigational equipment; moreover, its handling equipment is at higher scale than that of dry ports.

There are still a lot of academic debates over dry ports definition and classification, as research field in container trade and inland logistics has been developing over recent years.

Assessing performance of dry ports

The underlying concept for assessing performance indicators to measure the process quality of inland terminals is a first approach towards a standardized process for collecting and evaluating data on the performance of dry ports. It is intended to show that inland terminals have to be considered complex systems that will need much more attention in the future. This will allow bearing in mind the big picture while not losing sight of operating details. There is one particular study (Gronalt, Posset and Benna, 2008) which focuses on a discrete event simulation which was developed in an earlier stage of our research. The simulation model is based on three standard processes (Gronalt, Benna, and Posset 2006). It takes consequently into account the delivery and pick-up process of train and truck, the storage of containers in the yard and the handling of empty containers. In this context the aim of the simulation model was to conduct experiments regarding causes and effects within the underlying process. The simulation model is used to quantify and evaluate performance indicators which are used as input for the evaluation of the dynamic cause and effects model by setting the following parameters:

- Throughput (ITU/Year)
- Rate of fast movers and non stackable ITU (%)
- Average storage time of fast movers (days)
- Average storage time of slow movers (days)

The better the operating efficiency of the dry port equipment and staff, the more customers the terminal can attract and the more customers will place handling orders. More handling orders result in an increase of the storage usage rate which also induces a greater order fulfill-rate. The higher the order fulfill rate, the higher the available capital of the terminal and the greater the resources budget. A greater resources budget allows the management for more staff training to increase equipment exploitation which again results in an increase of operating efficiency. An increase in the operating efficiency induces extra handling orders which generates more gains and further allow for more staff training and better equipment exploitation. As a result, an increase in the operating efficiency has a reinforcing impact on the customer's handling orders.

Performance indicators are assigned as a loop to emphasize the impact of an improvement or deterioration within the context of the system. Furthermore, it is possible to point out the corresponding causes to deduce necessary actions. In a study conducted in 2008, (Gronalt, Posset and Benna, 2008) expert interviews and field studies practitioners always pointed out that there is a need for a theoretical model to support the understanding of the underlying simulation model, but the results of simulation were still viewed as a black box for dry port operations. When thinking of actions and the expressiveness of performance it is important to formulate corresponding objectives to measure the impact or contribution of performance indicators. Still in the world economic crisis, the above scenario is expressed too optimistically. Despite this, we have at hand another two of the main tools for assessing a dry port performance: TRANS-TOOLS and ASYCUDA.

TRANS-TOOLS "TOOLS for Transport Forecasting and Scenario Testing" is a European transport network model that has been developed in collaborative projects funded by the European Commission Joint Research Centre's Institute for Prospective Technological Studies - IPTS and Directorate-General for Transport and Energy - DG TREN. It covers passengers and freight transportation, as well as intermodal transport. It combines advanced modeling techniques in transport generation and assignment, economic activity, trade, logistics, regional development and environmental impacts. It can be used both by public and private bodies, for prediction and forecast for traffic and evaluation on environmental impact. The main issue for the development of TRANS-TOOLS was the need to construct an IPR-free instrument, with open architecture in order to facilitate access by potential users and developers (EC JRC IPTS, 2008).

The implementation of the ASYCUDA - Automated System for Customs Data) software,

developed by UNCTAD, will be a future standard for the operation of dry ports. ASYCUDA is a computerized customs management system which covers most foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, and warehousing manifests, as well as suspense procedures. It generates detailed information about foreign trade transactions which can be used for economic analysis and planning. The system project is directed at reforming the customs clearance process. It aims at speeding up customs clearance through the introduction of computerization and simplification of procedures and thus at minimizing administrative costs to the business community and the economies of countries. It also aims at increasing customs revenue, which is often the major contributor to national budgets in most countries, by ensuring that all goods are declared, that duty/tax calculations are correct and that duty/exemptions, preference regimes, etc. are correctly applied and managed. Furthermore, it aims at producing reliable and timely trade and fiscal statistics to assist in the economic planning process as a by-product of the customs clearance process. An important objective of the ASYCUDA projects is to implement the systems as efficiently as possible with a full transfer of know-how to national customs administrations at the lowest possible cost for countries and donors (UNCTAD, 2009).

The other macroeconomic indicator which will include dry ports performance will be the LPI – Logistic Performance Index. It is a joint venture of the World Bank, logistics providers, and academic partners. The LPI is a comprehensive index created to help countries identify the challenges and opportunities they face in trade logistics performance. The World Bank conducts the LPI survey every two years. The LPI uses standard statistical techniques to aggregate the data into a single indicator. This approach makes it possible to conduct meaningful comparisons across countries, regions, and income groups, as well as to undertake country-specific diagnostic work. Because these vital aspects of logistics performance can best be assessed by operators on the ground, the LPI relies on a structured online survey of logistics professionals from the companies responsible for moving goods around the world: multinational freight forwarders and the main express carriers. Freight forwarders and express carriers are in the privileged position to assess how countries perform. It helps by directly affecting the choice of shipping routes and gateways and influencing firms' decisions about production location, choice of suppliers, and selection of target markets (Arvis et al., 2010). Implementing dry ports and increasing their performance will increase LPI of the country, which will bring a higher rating in the world freight trade.

Integrating and combining the above mentioned indicators will provide a better picture regarding the performance of a dry port, and to what extent this will constitute part of the solution for the future of transportation, climate change, regional sustainability, security and safety.

Conclusion

Dry port implementation is not a straightforward solution for the seaport terminal decongestion or for providing easier seaport inland access; it can, nevertheless be part of the solution. The implementation and operation of freight containers through dry ports would bring a series of advantages: environmentally, CO₂ emissions would decrease, by splitting and shifting a part of freight market share of road to electrified railway networks and application of the "last mile" principle; from the traffic and infrastructure point of view, decongestion of trucks queued at seaport terminals gates would become possible; regarding security and safety of trade, customs and government control would improve and the risk of road accidents would be reduced. On the other hand, durable regional sustainability would evolve, new jobs would be created and costs would be reduced by value-added services. On a different level, competitiveness of importers and exporters would be increased, with or without economic growth, chaotic movements of cargo in

hinterland would be eliminated, and finally, the issue of empty containers would be solved by reallocation. Although it is obvious that the relocation of containers from road to electrified rail would result in lower CO2 emissions, a dry port is not merely the equivalent of rail implementation – it is a set of efficient services such as transshipment, storage, depot and containers' maintenance, customs clearance, tracing and tracking. Anyhow, the dry port performance depends on the quality and quantity of ways of land access such as railway and road.

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SIX SIGMA: A METRIC, A METHODOLOGY AND A MANAGEMENT SYSTEM

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This article is a theoretical article regarding Six Sigma. Six Sigma has been interpreted over time within quality theory as a metric, methodology or a management system.

We explain Six Sigma using a logistics context: Delivery-On-Time (DOT) rate problem. It is a theoretical context useful both for academic users and practitioners.

At the beginning of the paper the DOT problem is generally described, while Sigma is presented according to statisticians view in the second part of the paper. Six Sigma is then presented as a metric for process' capability. The fourth part of this article contains details regarding Six Sigma usage as a methodology for improvement, while the fifth part of this article refers to Six Sigma as a management system which can be used at firms' level.

The last chapter is dedicated to conclusions regarding the possible use of Six Sigma in Romania.

Key words: Six Sigma, delivered-on-time, metric

The article's JEL code: M11

1. Introduction

Logistics – the movement of goods at global level has become an important subject on the agenda of economists, politicians and ecologists especially after 2000 and once more with the actual economic crisis. Logistics has been perceived as a cost once with the introduction from military field to business in 1950-1960 by Americans. At the present moment discussions suggest that 10 percent from the final price is paid for logistics by the high performing nations (Crişan et al., 2010). Logistics can be considered a part of operations. There are several managerial problems which are to be solved by logistics managers, from logistics network design and performance management (as strategic problems) to daily problems related to customer service.

As logistics insures the movement of goods to the customer, one of the measurements of logistics performance is the delivery-on-time (DOT) rate. It is a proportion between the number of orders delivered on time and total orders delivered. There are discussions that the number of delivered orders is not a relevant performance measure for delivery, but the value or volume delivered. We shall not insist further on this aspect, for this article DOT refers to the number of orders delivered on time.

DOT is a result, is a measure of logistics performance. According to a previous research we have performed in 2009 (Crişan, 2009), only 43,14% Romanian logistics managers use such a measure. Measurement is not a goal itself, but improving performance. The main goal of this article is to present Six Sigma as a metric, a methodology for problem solving or a management system using the DOT example.

The paper has six parts: introduction; Sigma presentation as a statistics' measure for central tendency; Six Sigma presentation as a metric for process capability; Six Sigma description as a methodology for improving the capability of a process; Six Sigma as a management system useful at firms' level. The sixth part contains conclusions regarding Six Sigma possible usage within Romanian business.

2. Sigma

Sigma (σ) is a Greek letter used by statisticians to denote the standard deviation for a set of data. Let's consider the variable X - the values of daily DOT for a given company A for 365 days. If variable X has the mean μ , then the variance of X is given by:

$$Var(X) = \frac{\sum_{i=1}^n (x_i - \mu)^2}{n},$$

where n represents the volume of the population (in this case 365), $i = \overline{1, n}$ denotes each value (day in our case) of the population.

The standard variation (σ) is the square root of variance.

3. Six Sigma as a metric

Six Sigma concept comes from statistics. A process which has a normal distribution¹³²³ is represented as a bell-shaped distribution, also called a Gaussian distribution (figure 1) (Breyfogle et al. 2001, p.38). The shape of this normal curve depends solely on the process, equipment, personnel, and so on, which can affect companies' A delivery activity. This normal curve represents the spread of DOT resulting from daily delivery, using current equipment, materials, workers, and so forth. The normal curve says nothing about the range of DOT acceptable to the customer. This curve is the empirical quantification for the variability that exists within the DOT delivery process.

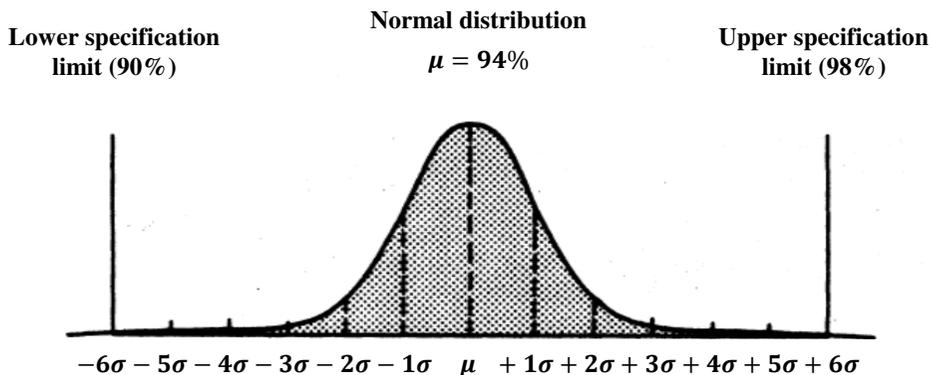


Figure 1: A capable process

The normal curve is represented by statisticians considering the value of σ regarding this variable and the average DOT value, which is shown as the middle of the curve on the x-axis. The standard deviation is expressed in percentages in this case. The total area under the normal curve is assumed to be equal to a proportion (decimal value) of one. This means that all possible DOT values range from - infinity to + infinity on the X-axis. Although this normal distribution theoretically allows for DOT to have 10% or 100% values, this is a practical impossibility and has such a low probability of occurring that it is irrelevant.

We do not have to deal with the infinite properties of the normal distribution. The normal distribution in science, engineering, and manufacturing is typically between $\pm 3\sigma$ about the target mean. $\pm 3\sigma$ represent 99.73 percent of the total area under the normal distribution (Breyfogle et al. 2001, p.39). The difference of 0.27% is the probability of our firm to obtain DOT values outside of the interval $\pm 3\sigma$. If a process is centered, for every 100 days, 99.73 of them, approximately 99,8 days, will have DOT values that fall within the interval $\pm 3\sigma$. Still this corresponds to 2,700 defective DOT per million DOT measured. Just imagine 2700 organs not delivered on time in 1

¹³²³ Not all processes are normal distributed, but most of them are. Specific statistical tests should be used to establish this aspect for specific processes.

million opportunities. For the interval $\pm 6\sigma$, the ppm (parts per million) value is 0.002. In Motorola Six Sigma quality program the number of errors expected is 3.4 ppm because they have considered a possible mean variation of $\pm 1,5\sigma$ (Brigham, 2005).

According to figure 1 each process can be considered a Six Sigma process. Any process normal distributed can be represented using a normal curve and has the values in 99.999998% of the cases within the interval $\pm 6\sigma$. The problem is weather the values -6σ and $+6\sigma$ from the mean are below or upper real needs.

Things are more specific in business: any process has to generate an output considering requirements. In order to understand the Six Sigma concept in business, we have to explain the term customer requirement. In quality management literature the goal of economic organizations is to satisfy customer needs. As customer needs are intangible, economists and engineers use measurable features for defining customer needs. These measurable features are called requirements and refer to products which firms manufacture in order to satisfy customer needs. Products are now described using sets of requirements – measurable features. Requirements are set for a product considering customer needs (the so-called VOC – voice of customer) regarding the product, but also other stakeholders' (for example the VOB – voice of business, which is the voice of the shareholders) requirements regarding the product but also the process. DOT is a service requirement generated from VOC. Considering VOC, the management establishes lower specification limit (LSL) for the DOT requirement (it could be 90%) and upper specification limit (USL) (98% - quality costs and performing better than 98% means that the company spends more than it has been planned for better deliveries). The value of DOTs without management's specification limits are defined as defects, failures, or nonconformities.

The mean for this interval is 94%. Figure 1 describes a process which has the DOTs values between 90% and 98% in 99.999998% cases.

It is a capable business process because LSL and USL are exactly -6σ and $+6\sigma$. A **capable process** is that one where customer requirements objectives (LSL and USL) are both within the interval $[\mu - 6\sigma, \mu + 6\sigma]$.

It is also a **centered process** because the mean of the requirements interval [LSL,USL] is the same as the mean of the population $[\mu - 6\sigma, \mu + 6\sigma]$. This means that DOT values are between -6σ and $+6\sigma$ and it also takes into account customers' specifications.

Six Sigma is now in business a metric of process capability. The capability of a process is related to the standard deviation of a process and it can be measured by the following expression:

$$C_p = \frac{USL - LSL}{12\sigma}$$

If C_p is higher than 1 and the process is centered, we deal with a capable process - it means that the difference between LSL and USL is bigger than 12σ , which, if the process is centered, means that the number of errors is below 0.002 ppm. In figure 1 C_p is exactly 1 because $LSL = \mu - 6\sigma$ and $USL = \mu + 6\sigma$.

If C_p is smaller than 1 and the process is centered, we deal with non-capable process - it means that the difference between LSL and USL is smaller than 12σ , which, if the process is centered, means that the number of errors is greater than 0.002 ppm. In figure 2 $LSL = \mu - 4\sigma$ and $USL = \mu + 4\sigma$. C_p is:

$$C_p = \frac{USL - LSL}{12\sigma} = \frac{(\mu + 4\sigma) - (\mu - 4\sigma)}{12\sigma} = \frac{8\sigma}{12\sigma} = 66.66$$

Normally, the process will have results within the interval $[\mu - 6\sigma, \mu + 6\sigma]$, while the customer asks for values within the interval $[\mu - 4\sigma, \mu + 4\sigma]$. Considering C_p value, our process is capable on 66.66% of the interval $[\mu - 6\sigma, \mu + 6\sigma]$. The probability of appearance for values without the interval $[\mu - 4\sigma, \mu + 4\sigma]$ is only 63 DPMO (Defects per Million Opportunities), or 0.63%.

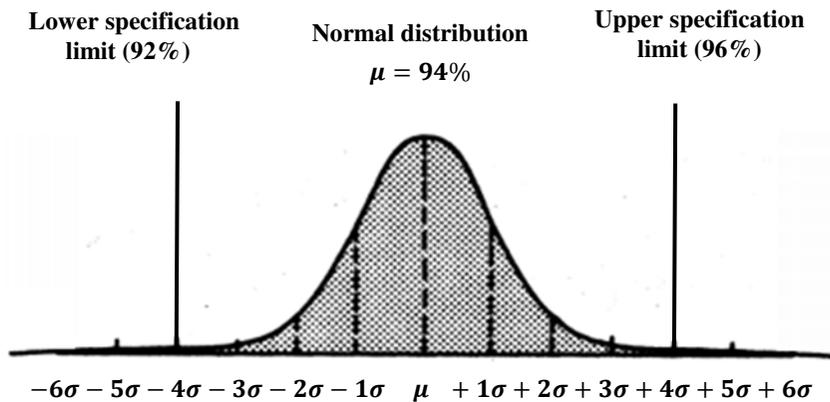


Figure 2: A non-capable process

In figure 2 we have a 4 σ capable process. The process capability measured in σ values can be interpreted according to the next table:

Sigma level	Percentage of the total area under the normal distribution	Defective ppm
1 σ	68,27	317.300,000
2 σ	95,45	45.500,000
3 σ	99,73	2.700,000
4 σ	99,9937	63,000
5 σ	99,999943	0,570
6 σ	99,9999998	0,002

Six Sigma has become in this way a metric for any process capabilities. It can refer to any requirement established by the management, considering only the value of sigma (measured in processes' units) and the values of LSL and USL, both measured in processes' units. It is relevant whether these units are liters, centimeters, percentages or anything else.

4. Six Sigma as a methodology

Measuring is not a goal itself, but improvement. Six Sigma practitioners use Six Sigma to measure the capability of a process, but they also used specific tools for improving the level of quality, usually for decreasing the variation within processes (diminishing sigma and bringing processes at capability levels). Six Sigma has its own steps for improving a process capability, which are denoted by the acronym DMAIC (Define, Measure, Analyze, Improve and Control), established at Motorola. DMAIC is recognized as a methodology to analyze processes in order to root out sources of unacceptable variation, and develop alternatives to eliminate or reduce errors and variation.

While processes not capable are identified, management and statisticians can work for improving the capability gaps using this methodology. In our case the process is delivery and figure 2 denotes that we have a problem with delivering on time. We further present the general goals of each step within DMAIC methodology, the main outputs and the main tools which can be used:

The goal of the **Define** step is to define the project's purpose (goal – DOT in our case) and scope (area where we shall focus - delivery) and obtain background information about the process and its customers.

The outputs of the Define step consist of the following:

- The team charter - a clear statement of the intended improvement and how you will measure it, containing also the scope, the goal and the team which is going to perform this action;
- A process map.

- A translation of the voice of VOC into critical to quality measures (DOT is transformed from CCR – Critical Customer Requirements or CBR – Critical to Business Requirements).

For performing this step several statistical and management tools can be used: affinity diagrams, team charters, communication plans, control charts, critical to quality trees, data collection, Kano model, Pareto charts, Run Charts, SIPOC diagrams, tollgate review questions (Brassard et al., 2002). In our case, the goal of define should be describing how this low level of DOT is perceived by customers and which is the process behind DOT level (DOT is only a result of delivery process).

The goal of the **Measure** step is to focus your improvement effort by measuring the current situation. The outputs of the Measure step include the following:

- Data that pinpoints the problem's location or rate of occurrence.
- Measure the actual capability (sigma) of the process considering the chosen performance metrics (DOT).
- An understanding of how the current process operates.
- A more focused problem statement.

For this step several tools can be used: control charts, data selection, flowcharts, histograms, Pareto charts, process sigma, run charts, Taguchi loss function, tollgate review questions.

The goal of the **Analyze** step is to identify root causes and measure them with data. The output of this step is a theory that you have tested and confirmed whether there is a relation between the great Y (in our case DOT value) and small steps within the process which influence delivery on time (documentation on time, order packaging, order manipulation).

The Analyze step pinpoints the specific cause(s) of the focused problem. Several tools can be used: brainstorming, cause-and-effect diagrams, design-of-experiments, histogram, hypotheses testing, scatter diagrams, tree diagrams, tollgate review questions.

The root cause(s) are addressed through solutions implementation in the Improve step. The goal of the **Improve** step is to develop, try out, and implement solutions that address root causes and to use data to evaluate the solutions as well as the plans you use to carry them out.

The outputs of the Improve step include the following:

- Planned, tested actions that eliminate or reduce the impact of the identified root cause(s) of a problem (such as changing delivery routes considering several alternatives).
- “Before” and “after” data analysis that shows how much of the initial gap was closed.
- A comparison of the plan to the actual implementation.

It is a data driven approach: DOT is influenced in different percentages by different causes. Eliminating these causes DOT level shall be improved.

Several tools can be used: Gantt charts, brainstorming, control charts, FMEA (Failure Mode and Effect Analysis), histograms, involvement matrix, Pareto charts, PDCA (Plan-Do-Check-Act) matrix, process sigma, run charts, tollgate review questions.

The goal of the **Control** step is to maintain the gains you have made by standardizing your work methods or processes, anticipating future improvements, and preserving the lessons you learn from this project.

The outputs of the Control step include the following:

- Documentation of the new method – changing the documentation regarding delivery process.
- Training of fellow employees in the new method – new routing methods, new ways for preparing documentation, order manipulation or delivery).
- A system for monitoring the consistent use of the new method and for checking the results (introducing new forms useful for capturing several performance measures regarding delivery process).

- Completed documentation and communication of the results, leanings, and recommendations.

The Six Sigma projects should be perceived by the whole organization, they shall become a part of firms' knowledge.

In this phase the tools which can be used are: communication plans, control charts, PDCA cycles, process management charts, run charts, Six Sigma storyboards and tollgate review questions. The DMAIC methodology has been built as a managerial and statistical tool for solving problems within business. The main advantage is that this new set of tools can be used for any problem at any level. The question is whether this methodology is to be used by companies at all levels and if this can become a management best practice.

5. Six sigma as a management system

Six Sigma comes from statistics, but it is now the best practice for problem solving within several companies: Motorola, General Electric, Allied Signal, Nokia or other big companies have adopted Six Sigma projects using this name or making specific “rebrandings”.

As a best practice, it is more than a set of metric-based problem solving and process improvement tools. Six Sigma offers the opportunity for management to make data driven decisions (Pyzdek and Keller, 2009, p.87).

Six Sigma has been implemented at firms’ level by projects with 4 to 6 months to be completed. The objectives of these projects were chosen considering key results related to stakeholders needs. The priorities are developed based on analysis of key stakeholder needs and wants, including the customer, shareholder, and employee groups. In this way, data-driven management provides a means of achieving organizational objectives by quantifying needs or wants of stakeholder groups relative to current level, and acting upon the data to reduce those critical gaps in performance. Methodologies for performance management, such as the Balanced Scorecard, Tableau de Bord and Benchmarking are now completed with this data driven methodology.

The main advantage of this management system is making aware steps to improvements. As such, the *Six Sigma Management System* encompasses both the Six Sigma metric and the Six Sigma methodology. It is when Six Sigma is implemented as a management system that organizations see the greatest impact (Breyfogle et al., 2001, p.45).

6. Conclusions

Though we have focused on this article more on the metric side of Six Sigma, Six Sigma is a powerful tool for problem solving within business. As we have discovered in previous researches, we believe that the problem for Romanian managers is not whether they use or not Six Sigma, but is whether they make general measurements of business performance. DOT value is measured by 43.14% logistics professionals. Six Sigma is a metric, methodology and management system which helps you to improve performance if you are aware by the poor level of performance. More awareness is what we need, more focus on numbers and on data driven improvements. Six Sigma can then become a best practice within Romanian companies.

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THE HUMAN FACTOR AND THE SUCCESS OF ORGANIZATIONAL CHANGE

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The topic chosen for this study regards the concept of change, associated nowadays with the notion of existence. Starting from statements according to which change involves the direct participation of the members of the organization, we have formulated the study hypothesis from the perspective of the symbolic-interpretative theories which sustain that social changes result from the interaction between organizations, their members and the social actors.

Using specialty literature, we have offered a pertinent sociological perspective on change processes. We have discussed different analysis perspectives and some models of change analysis. We have investigated, on the basis of a research launched in the Academy of Economic Studies, the willingness to change of some young students that will graduate soon and we have drawn conclusions useful for the educational process in the field of business management.

Key words: organizational change, models of change, dynamic models, willingness to change

JEL code: M12

1. Mechanisms of organizational change

Organizational change represents an almost obsessive concern in the sociology of the organizations, maybe because of the importance paid to the bureaucratic slowness and rigidity or to the concrete problems permanently faced by the organization managers and by those responsible with the administrative reforms. In order to understand the mechanisms of organizational change and innovation, we should take into account, as M. Crozier and E. Friedberg¹³²⁴ do, the created character of change. *Change is not natural: it is a problem that must be researched.* That is why we will discuss in the following the next aspects:

a) *change by crisis and adaptation:* Michel Crozier and Erhard Frierberg¹³²⁵ (op.cit.) state that an organizational system whose main characteristic is rigidity cannot adapt easily to change and consequently will tend to resist to any change. *Yet, the resistance to change, on which the organizational managers keep on insisting, is only an aspect of the bureaucratic problem, either public or private.* Their excessively centralized character makes change be considered a descendent trend, which should be applied uniformly and impersonally to the whole organization. Michel Crozier notices that from this fact results a crisis, often profound, which affects all the levels of the organization. The period of crisis is accompanied by unexpected behaviours: personal authority tends to replace the rules and the members are constraint to obey the arbitrary of some of them. The readjustments of the system of bureaucratic organization are operated by the means of such a crisis. Consequently, these involve not necessarily a transformation, but an adaptation meant to contribute to the continuity and development of the system of bureaucratic organization. It results that this system is formed not only from routine procedures, as we used to

¹³²⁴ Crozier M., Friedberg E., *L'acteur et le système*, Editions du Seuil, Paris, 1977.

¹³²⁵ Crozier M., Frierberg E. – op. cit.

think, but also from short periods of crisis that fuel, by the adjustments they facilitate, the long stability phases.

In the last chapter of the book *L'Administration en Miettes*, Francois Dupuy and Jean-Claude Thoenig¹³²⁶ develop a similar point of view, analyzing the existence of mechanisms of adaptation in the French administration. Thus, the negotiated arrangements or the successive adjustments that eventually prove a great flexibility of the administration are meant only to avoid some more profound changes: administration “adapts by not changing”.

b) change by collective learning: Crozier and Friedberg suggest that any type of change action is conditioned by the discovery and acquirement of some new collective capacities, new ways of thinking, new modalities of living together. Change means thus learning, especially learning a different way of cooperation - that is of inventing and establishing new “game” models. Imposing a model from outside or from above is replaced by involvement in a collective process, in which individuals and groups become actors of change.

Yet, this way to conceive change is confronted with a series of obstacles. The first of them consists of the previous structure of the concrete systems of action. The actors acquired abilities and competences related to this structure. This allows solving certain problems, but represents an obstacle for the collective learning, as it structures the participants’ experience, their ways of thinking and acting, conditioning thus their capacities to invent new “game” rules. However, do all the organizations succeed in favouring a collective change process?

The answer offered by Crozier and Friedberg can seem paradoxical at a first glance, as the most favorable changes prove to be the organized assemblies in which there are many vicious circles – these are the most diversified assemblies. Indeed, where there is a redundancy of the vicious circles, the rigidity is lower because each of them put a weaker pressure on the system on the whole. At its turn, the system is less dependent on each of the regulation mechanisms it established and is not profoundly affected if one or more of them are broken. The multiplicity of the vicious circles produces within the organization new intervention limits. Change is thus facilitated by the game of the integration mechanisms. For Crozier and Friedberg, both the solution and the difficulty of change consist in breaking the existent vicious circles and in establishing some new ones. On the contrary, the poor diversified organizations, such as army, maintain themselves by strict constraints: coercions, a simplistic ideology etc. These types of rigid organizations cannot afford the smallest change without risks: this would affect the whole assembly and would lead to a crisis.

Does this mean that, according to Crozier and Friedberg, change can be done without crisis? We could doubt it, as well as we could regard skeptically the criteria on the basis of which it can be established if we deal with a reproduction or a transformation of the system of action. Despite of these, such an analysis draws attention on the fact that change is an open process that remains contingent.

c) change as a form of development: The change analysis proposed by Renaud Sainsaulieu¹³²⁷ develops around the concept of development, largely used by economists interested in the future of the third world societies. Renaud Sainsaulieu transfers in the field of enterprises the concept according to which the development and the changes it involves can result only from certain local initiatives based on the progressive learning of other production and management practices. This conception on the change attributes an essential role to the cultural phenomena: they will determine the learning possibilities. Following Crozier and Friedberg, Renaud Sainsaulieu considers that the social development of an enterprise results not necessarily from an action change decided *ex nihilo*, but from a series of complex collective reactions to the pressures of the external environment and of the internal functioning. The common strategic „games” and the

¹³²⁶ Francois Dupuy and Jean-Claude Thoenig, *L'Administration en Miettes*, Paris, Fayard, 1985.

¹³²⁷ Renaud Sainsaulieu, *L'identité au travail, Presse de la Fondation Nationale des Sciences Politiques, Paris, 1985.*

cultural adjustments they favour can contain thus a dynamic of the learning and can bear creativity and renewal.

Understanding change as development seems to be from many points of view a variant of change as an effect of learning. Indeed, this last term is in the centre of the both approaches. Undoubtedly, Renaud Sainsaulieu's approach is interesting, as it pays special attention to the existent resources, to the processes on the verge to begin, to the already started transformations and to their chances to spread and generalize. A similar perspective oriented also the hypotheses of a research programme focused on the analysis of the innovations within the public services. This programme followed especially the identification of the local renewal resources, as well as of the modalities to generalize them.

Yet, this latter approach delimitates from the strategic analysis, understanding change not as a crisis, as adaptation or as development, but as manifestation of multiple shifts and inter-shifts of the actors, cognitive schemes and involved tools. Renewal can be thus done in different ways, according to the resources used by actors in those organizations. On the other hand, the notion of shift, inspired by Michel Callon¹³²⁸ and Bruno Latour¹³²⁹, offers a more flexible framework for understanding various innovations and changes, drawing attention on the way some of them are acquired and consequently modified.

d) change and modernization: The common feature of the above mentioned papers is that all of them consider change as a problem and propose a conceptualized interpretation for it. Things are different with the notion of modernization that gained field at the end of the '80s, as an attribute of some different change processes, initiated both in the private enterprises, and in the public administration.

The notion of modernization has multiple meanings. It covers a diversity of actions, whose compatibility is not necessarily self-understood: investments in sophisticated technical material, redefinition of the relations with the clients or with the users, labour reorganization, applying the quality circles and other important managerial techniques in Japan, communication campaigns aimed at modifying the internal and external enterprise image, etc. Moreover, it sends to different debates, as it is approached from the point of view of the public policies analysis and of the organizational sociology, or from the point of view of labour sociology and economy.

2. Models of change

The theories of the classical management and of the early modernism have always been focused on the idea of finding instruments of motivation, of knowing the organizations from the point of view of performance.

In these theories oriented towards stability, changes used to be seen as the result of the intention to do a good thing, more routine, more structure, and more rationality. A perspective focused on change gradually replaced the dominance of the views centered on stability, and all the three perspectives of the organizational theory embrace more now the dynamic ideas regarding the processes of the organization.

On the other hand, in the post industrial societies, the interest for change has become more spread. More theoreticians believed that economic and technical changes were meant to lead to new organizational forms, such as the global structures and networks, but this idea did not prove to be true.

Modernists explained the needs for the new organizational forms in the terms of environmental change, without taking into account the predictions of the permanent and fast changes in

¹³²⁸Michel Callon, Réseaux tehnico-économiques et irréversibilité, Les figures de l'irréversibilité en économie, Paris, Ed. De L'Ecole des Etudes en Sciences, 1991.

¹³²⁹Bruno Latour, *Organizational Studies, Critical Perspectives on Business and Management*, Edited by Warwick Organizational Behavior Staff, London, 2001.

products, markets, technology and society. In order to keep pace, the organizations had to be modeled for change and the organizational theories needed dynamic methods to be described and explained. As change has been more and more accelerated, theoreticians realized that the static models, although useful once, proved to be often inadequate.

All the symbolic-interpretative researches in the organizational theory are based on the dynamic methods because the processes of social construction regard aspects of the day-to-day life, which reproduce the existent structures and circumstances, or lead to their alteration. According to the symbolic-interpretative perspectives, organization is not a static entity, but rather a dynamic process in a permanent state of change. Similarly, the postmodernist view upon fragmentation and chaos rejects the vision of stability in the favour of a paradox of stability / change within the organizations. Thus, as the organizational theory continues to develop towards the directions defined by the symbolic-interpretative and postmodernist researches, the notion of organization is replaced by that of organizing, this change being called by Weick many years ago as the “theory of inaction”.

Anyway, it should not be believed that modernism is left away by the discourse regarding the organizational change. On the contrary, the evolutionist and development models, such as population ecology and the organizational theories of the life cycle have become more and more sensitive and dynamic to change. Moreover, the recent discoveries as regards the theory of systems introduce ideas about the own reproduction and the own reference system of the organizational theory, which contribute to creating a new metaphor – learning organization. This metaphor challenges the ex modernist models of organizational change that assumed that the organization adapts to external pressures. Instead of these ones, they suggest that the organization creates its own internal dynamics which is described as a process of the organizational learning.

In order to illustrate the evolution of the way of thinking as regards the organizational change we will start with a first model of planned organizational change – Kurt Lewin’s model: “unfreezing – change – freezing” – and we will continue with the “Big Tree” model that offers an example of the dynamic and evolutionist thinking about change from the perspective of the modernist trend.

a) *Lewin’s model*

Kurt Lewin¹³³⁰ developed a theory of social change that defines the social institutes as equilibrium of forces, some of them favouring change, and others restricting it. According to Lewin stability was not defined by the forces opposable to change, but it was rather a dead end between the pro and con forces. Lewin’s theory was more a theory of stability than of change because he defined change as an instability that interrupts a stable equilibrium. According to Lewin’s model, change involves three separate activities: *unfreezing* that melts the equilibrium sustaining the stability of the institutes; *change* that involves influencing the direction of movement in the system that was unbalanced by the unfreezing and *freezing* that takes place when the new behavioural patterns become stable or institutionalized.

b) *Change according to the Big-Tree model*

Kanter, Stein and Jick¹³³¹ called Lewin’s model “the model of the organization as an ice cube”, criticizing it as a static and linear concept that reduces an extraordinarily complex process to a childish formula. They state that change is ubiquitous and multidirectional and that is why Lewin’s model cannot reach the level of complexity necessary for analyzing the phenomenon of the organizational change.

¹³³⁰ Kurt Lewin, *Principles of Topological Psychology*, McGraw – Hill Book Company Inc., New York, 1936.

¹³³¹ Kanter, Stein and Jick, *The Challenge of organizational change: How companies experience it and leaders guide it*, Free Press, New York, 1992.

Kanter and his colleagues sustain that according to Lewin's model organizational change is seen only as an application of the efforts concentrated in a single direction, at a certain moment. Their theory considers change multidirectional and more or less continuous. What apparently has stability at the surface is an unfelt or unprovoked change.

Kanter and his colleagues had divergences as regards the concepts of organization that do not fit the conditions of apparent stability, considering necessary a new understanding of the organizations and management. For instance, rather than planning and directing change as in Lewin's model, the manager's duty within in a new organization is to react to, exploit and generate change. For the new organizations, Kanter and his colleagues presented their own Big-Tree model.

The Big-Tree model demonstrates as a variety of key concepts and theories produced by the theoreticians of the organization can be combined to form an integral explanation of the organizational change. In this regard, Kanter and his colleagues presented a theory of the relation between organization, environment, social structure, organizational culture and physical structure. What is intriguing at the Big-Tree model is the fact that it is built on evolutionist models, as a base for the theory of organizational change. In contrast with Lewin's model, there is not a single agent of change in the Big-Tree model. According to it, change is implemented during the process of organizing, which is sustained by a multitude of forces.

Kanter and his colleagues define organizations as a "bunch of activities" that are modified together with the change of the activities or when are included new unities and individuals. They sustain that this influence on the activity is restrained and the change takes place at the all three levels of analysis specified by the organizational theory – environment, organization and individual.

While Kanter and his colleagues present a theory of change considered more complex than Lewin's, it is not clear that their point of view is as dynamic as they state. Thus, they present only another picture of other combined theories and this picture is itself at level 1 (a non-dynamic system). Another reason can be the fact that the researches in this field are focused on the transmission of the patterns of organizational change, rather than on the change at the ordinary level of the day-to-day life in an organization. In other words, they incorporate the theories of the life cycle and of the ecologic population less dynamic than it happens in the symbolic-interpretative and post-modernist perspectives.

3. Research regarding the young people's willingness to change

The discussion upon the organizational change cannot avoid its relation with the organizational members. Under these circumstances, it is natural to know the effects produced by change and the modalities through which we can educate the individual's capabilities related to change.

Aiming to promote the psychological advantages at the workplace, J.M. Burns¹³³² draws attention on the fact that both the employees and the management should learn how to effectively face change. Burns offers a concept of change through which he recommends to know ourselves and to develop personal strategies, more efficient in conflict with the stress. He says that people generally prefer stability, but nowadays each of us should become more skillful to adapt to the fast change of the labour environment. The common stress factors at the workplace should be identified and where possible the stress sources should be reduced and eliminated.

According to Burns, the potential stress factors are: *problems of career development; lack of safety at the workplace; too many or too less responsibilities at the workplace; inability to adapt to the new work practices; boring or unchallenging work; weak management support; lack of the required qualities; inability to use the existent qualifications; inappropriate preparation*

¹³³² Burns J.M., Strategies and the Management of Organizational Change – a strategic alignment model, Journal of Information Technology, nr. 8, 1993, www.palgrave-journals.com.

/requalification; lack of involvement in the decision-making process; lack of socio-emotional support/counselling; rumors about future changes; uncertainty regarding future.

Each individual should face the stress challenge. Colleagues, friends, family and experts can help by offering information and emotional support. Burns draws attention on the necessity to practice a positive management, a positive self-coordination including the relaxation techniques, appropriate diet and sleep patterns, physical exercises, time planning. It is important to cultivate the self-confidence and to overcome the anxieties and fears by the means of increasing the capacity to give up the negative and self-destructive thoughts.

Education plays an important part in enhancing the individuals' chances to face the process of organizational change. In this regard, we have tried to investigate the willingness to change of some students of the Academy of Economic Studies by carrying out a survey that took into account the students of the Faculty of Business Management taught in foreign languages, where we delivered the course of Change Management.

We used the questionnaire proposed by Liz Clarke (Managementul schimbării - Ghid practic privind producerea, menținerea și controlul schimbării într-o firmă sau organizație), on a sample of 97 students. The questionnaire allowed us to frame the respondents in four categories: *heroes* – who distinguish themselves through real capacities of coordination and even leadership (14 %), *artisans* – who pay little interest to the routine tasks of the management activities as they dedicate most of their time to carrying out the product or the service (39%), *strategists* – having the most recommendable style for approaching change and developing the business (36%) and *pedants* – who are concerned with study, who spend time to solve problems, but who are also attracted by details, almost insignificant (11 %).

Conclusions

All the information provided by the past experiences creates the necessary and useful framework – even if it is not complete – to manage changes that will take place in our organizations. The success of our actions is decisively influenced by the capacity of the human resources to understand the specific of change, its nature and the actions to follow in each step. The development of the human resources starting from this request is a strategic axis that cannot be ignored without condemning us to economic, social and cultural stagnation with extremely harmful long-term consequences.

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THEORETICAL AND METHODOLOGICAL ASPECTS OF THE PROFESSIONAL PERFORMANCES EVALUATION

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Evaluating performances is an operation that is periodically completed within organizations, analyzing the work balance of the employees in order to discuss with the employees the recorded progresses and the required measures to be taken in the future. Within the Romanian organizations the evaluation process of the human resources has encountered a series of particularities determined by the existing conditions in which it is completed, by the pursued targets and by the selected methods.

Keywords: human resources, professional performance evaluation, organisations, employee, methods and technique of performances evaluation

JEL classification codes: O 15, M 12

1. Human Resources Performances Evaluation Process

In a time where the technological progress has dramatically increased, the velocity with which the goods and services are produced and delivered has facilitated the communication between organisations, the most valuable factor for a more efficient function of a business remaining the human performance level.

The employees working under a performing management system know their priorities, their current activities, their goals, as well as how should they contribute to their team or their organisation performance.

According to Anton Rotaru and Adriana Prodan “the professional performances evaluation represent the process of establishing the way and the measurement in which the employee fulfils its duties and responsibilities that come with the job description, in comparison with the established standards and transmission of the results to the employees”¹³³³.

As a result, the performance evaluation has a central role and constitutes an important element or a fundamental component of the performance management system, furthermore the means through which the organisational objectives develop into individual ones. From this point of view, the performance evaluation holds a significant number of the performance management system characteristics.

Evaluating performances is the fundamental activity of the human resources management developed in order to determine the degree in which the employees of an organisation efficiently fulfil the assigned tasks.

Evaluating performances is an efficient management process, in which the manager constantly performs a surveillance of the employees' performance and offers a feedback.

Non-formal assessment appears when a leader chooses to. The daily work relation between a leader/manager and his/her subordinates offers the opportunity to make assessments on the

¹³³³ Rotaru A., Prodan A., *Managementul Resurselor Umane*, Editura Sedcom Libris, Iași, 1998.

performances. These assessments are transmitted through non-formal means of communication or when examining some aspects of the work, within some operative debates or meetings.

Formal/systematic assessment is performed when the contact between the managers and subordinate is formalised and it has already been established a system of reference the employees' performance observations and assessments of their direct leaders/managers.

The responsibilities of evaluating performances belong to managers as well to the personnel department:

Managers:

- bring up to date the way in which the performances are evaluated;
- draw up formal reports concerning the performance evaluation;
- foresee/analyse the evaluations/assessments with the employees.

Personnel department staff:

- plan, maintain and bring up to date the formal system of performances evaluation;
- establish on time the report of the assessments of the employees performances;
- instruct and train the specialists who are in charge with evaluating performances.

Within Romanian organisations, the main objectives are achieved through employees' performance evaluation:

- to insure the agreement between the demands from the job description and the employee's qualities (professional, abilities, attitudes);
- to stimulate the employees in order to increase the individual professional performance;
- to choose the persons for which the results of the professional activity evaluation motivate an adjustment of the job position into a higher one and/or an adjustment of the salary according to the appropriate applicable normative legislation.

At the same time, the human resources performances evaluation provides:

- detection of the areas in which professional training actions of the employees are required;
- detection of the situations in which a reorientation of the employee is necessary, according to his/her capacity, abilities, attitude and behaviour in comparison with the job demands;
- detection of the required elements in order to select the staff to accomplish new, urgent or important projects/documents/programmes;
- presentation to each employee the way in which his/her activity was appreciated.

Professional performance evaluation is applied to all organisation employees, except the top manager in proportion with the requests from the job description, with the requests for the specific job position, as well as with the professional evaluation criteria according to the *Personnel Professional Performances Evaluation* operational procedure and established by the leader of the organisation.

It is important that the evaluation to be performed regularly, systematically (usually half-yearly or yearly) for good results. Such a systematically evaluation does not leave out some possible non-formal assessments when are considered required, for example at some organisation or employees' events.

Professional performance evaluation of the staff take place at a given time, which is fixed by the top manager of each organisation and it may take place as it follows:

- *usually once a year and has as its main goal to establish the general rank that characterises the activity of an employee;*
- *every time it is required – when by this action some useful information may be gathered in order to take a decision.*

During the year, at each adjustment of the job position or the salary of an employee a professional performance evaluation of that employee is performed, according to the same procedure.

Staff professional performance evaluation consists in the analysis of the performance criteria, according to the form Professional Activity Reference (if this particular form exists within the organisation), respectively Professional Activity Chart, that leads to the estimation of the employee activity results, the detection of the positive and negative qualities and to establish a plan to improve the future results.

Personnel professional performance evaluation is performed in conformity with the stipulations of the Collective Work Contract and with the Personnel Professional Performance Evaluation procedure, when referring to those organisations that have implemented a good quality management system.

The participation of the employees is mandatory in the evaluation of their professional activity. It has to be mentioned the fact that the assessment of the performances evaluation, of the human resources in an organisation may be realised in different ways, such as:

- *the superiors may assess their subordinates;*
- *the subordinates may assess their superiors;*
- *the employees of the same rank evaluate one another;*
- *self-evaluation;*
- *external sources of evaluation.*

The evaluation of the employees by their superiors is manifested by different assessments that the superior makes. This type of evaluation is based on the presumption that the manager is the most qualified to realistically, objectively and correctly evaluate the performances of each employee, and the “unity of command” principle underlines this approach. Within an evaluation system, the superiors’ assessments have to be objective and based on the present performances. To achieve this goal, the manager has to keep a strict record of what the employees did or did not performed, a record of individual performances, so not to forget certain achievements of the employees during the time. The assessment is an important part of the personal file of the employee. Managers and employees have different assessment elements when dealing with the system of evaluating performances. The manager appreciates the system according to the way in which it helps to establish and communicate the performances to the employees. The employees appreciate the system according to:

- the salaries and rewards are based on the evaluation;
- the evaluation are based on the present performances;
- the performance standards are consequently applied;
- it is assured the double communication between the manager and the subordinate.

The evaluation of the superiors by the subordinates is a frequent applied concept in some organisations from all over the world and newer in Romania. It is considered that there are two advantages of this type of evaluation. The first one is that, in case in which the relations superior-subordinate are critical, the subordinate’s evaluation may be useful to identify competent superiors. The second advantage is that a system like this determines the superiors to be responsible towards their subordinates. Nevertheless, this advantage might become a disadvantage when the superior – knowing that his subordinates evaluate him/her – tries to be “pleasant” and conciliating.

A major disadvantage is the negative reaction of many superiors to be evaluated by their subordinates. The fear of the subordinates of retaliation from their superiors may lead to unrealistic evaluation. The principles of the relation superior-subordinate may deteriorate or distorted by this type of evaluation. The problems and disadvantages connected with the evaluation of the superiors by the subordinate may be eluded by moderately use of this system in some special situations.

Self-evaluation may be used in some situations. In fact, self-evaluation is an instrument of self development that determines every employee to identify its strong points and weaknesses and to establish certain tasks to improve its proficiency and work results. Self assessment produces a

strong feedback and may be a way of increasing every employee trust in its ability to fulfil a certain given assignment.

External Evaluation is completed by groups of specialists, experts from a certain field of activity. The external experts are requested in special cases when higher rank persons are to be evaluated or to determine the potential of a person before a possible promotion. This way of evaluation has the disadvantage that the external experts do not know all the specific aspects of the organisation and furthermore is expensive and time consuming.

An external, clear and useful source is considered the group of the clients, suppliers and consumers of the organisation products and services, which on different ways may supply information that enlighten the way in which the employees fulfil their duties and may influence the organisational performances.

2. Methods and techniques of evaluating performances

The necessity of evaluating the personnel or evaluating the performances in work regardless of the field of work, finally lead to the necessity to develop various methods and techniques of personnel assessment or systems of performances evaluation.

The diversity of the evaluating methods, techniques and procedures is relatively vast, and the dynamics of the development has encountered an ascendant evolution. The personnel assessment quality or performance evaluation became higher and higher, due to the fact, as the literature in the field stipulates, that the quality of the information on performance greatly depends on the quality of the evaluating methods or systems.

The most well-known methods that may be used in performances evaluation are:

The Essay is a written report or a description on the quality and quantity of the work, assessments on the ability of team work, on ways of improvement the work tasks are emitted, some general recommendations for the field of activity are given. The method is useful for the individual feedback and for the development, but it doesn't allow the comparative evaluation of several employees. Being a free form of evaluation, the evaluator describes the performances of an employee, the essay does not require a complex printed form or a complete professional training for the evaluator.

Comparison/in pairs is a more systematic method, that consists in comparing the employees, two by two, until the best one is chosen. The method uses only one criteria of assessment and it is useful for a group evaluation, but it deficient in case of individual evaluations that is compulsory for development.

Forced distribution requires a comparison of every employee with the other ones, taking into consideration several assessment criteria, "forcing" the results to define into a curve; the given hypothesis is that the great majority of the subjects provide mediocre results and few provide weak or excellent results, the curve of the results has in the end the shape of Gauss bell curve. The advantage of the method is that one may be able to make an efficient assessment of the employee groups, as well shaped entities.

The checklist method helps to establish the assessment criteria, to which is attached an importance coefficient, encoded through percentage, the sum being 100%, and ordering the subjects, on a numeric scale, according to the obtained percentage. The ordinal level scale is Likert scale alike (from 1 to 5), assimilating grades such as "unsatisfactory" (score 1), "satisfactory" (scale 2), till "good" (scale 4) and "very well" (scale 5). The method is easy to use and offers a close connection between the job description analysis and the performance evaluation, that may be numerical expressed.

Critical Events start from identification of the behaviours that lead to weak or exceptional results, generated by the work environment; it constitutes an important feedback from the employer point of view, but it is a time consuming method.

Graphical scale method is, probably, the most exploited method, more rapid than the essays or critical events, the results may be quantified by quantity, more assessment criteria are taken into

consideration, a standardisation of the scales is performed, that allows afterwards comparing a greater number of subjects. The scales distinguishes by three characteristics: (1.)- qualifier that express an affirmative response from the evaluator (“fully agree”, “agree“, “neutral”, “disagree”, “absolutely disagree”); (2.)- degree of clarity of the interpretation of the answer by the evaluator; (3.)- the way of define the level of performance, from the evaluator point of view (unsatisfactory, satisfactory, well, very well). The only amendment to the efficiency of this evaluating method consists in the lack of clarity that appears sometimes at the scale reference.

Evaluation Centres are a specialised system of evaluation that contains an organised way of completion. The system evaluates a person for 3-5 days, using a complex of methods, in an institutionalised enviroment. The evaluation tests, alone or in groups is monitored by a specialist that completes the assessment with the observation results. The final characterisation is accompanied by recommendations that are useful in solving the problem.

Despite the inconveniences in evaluating the employee performances, the implementation of a human resource performance evaluation programme must be a priority. The managers should be greatly and constantly concerned to apply the most effective and judicious methods of assessment, taking into consideration their motivational character.

3. Conclusions

Top managers and middle managers form Romanian organisations are confronting with situations in which they have to evaluate to employee performances, a process that assesses the contribution of each employee, regardless its rank at a certain time. In other words, these managers should underline at the same time the negative aspects of the employee performance, and on the other hand to provide support through counselling to the employee, establishing which are the possible ways of improvement. Performances evaluation may lead to discover the weak points but at the same time the potential and the professional training requests.

The assessment process may be used by organisation and by the employees. The organisation may have an evaluation on the quality of its employees and their capacity to obtain the desired performances. However, sometimes, the performance evaluation may produce some tensions, especially if it is not performed objectively. As for the employee, he/she may get to know the way in which the evaluation performed by his/her superior corresponds to his/her self evaluation and if there is a correlation between the results of the work, the performances and the salary.

To improve to professional performances and abilities in the majority of Romanian organisations it is absolutely mandatory an efficient foresight of the future evolution of the work environment, the human resources activities, the motivation of the employees and the continuous professional development of the employees.

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ASSESSMENT OF THE ORGANIZATIONAL CULTURE OF THE COUNTY EMERGENCY HOSPITAL "DR. CONSTANTIN OPRIS", BAIJA MARE

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The study proposes assessing the organizational culture of the County Emergency Hospital "Dr. Constantine Opris" of Baia Mare, as a basis for developing a strategic plan to facilitate the successful implementation of organizational goals and objectives. As research instruments were used: OCAI (Organizational Culture Assessment Instrument) and the semi-structured interview. The identified organizational culture of the County Emergency Hospital "Dr. Constantin Opris" has characteristics of a weak culture with strong hierarchical accents. Regarding the preferred situation, is obvious the predilection for type clan culture values, based on participation, group cohesion and individual development. The results obtained from the application of the OCAI questionnaire reveals a mismatch between current organizational culture and preferred organizational culture, which requires adapting to contemporary society.

Keywords: *Baia Mare, hospital, organizational culture, OCAI, interview, hierarchic-type culture, clan-type culture*

The Assessment Method

Through culture, organizations show a certain image in the environment. The culture represents that "something" that renders the human dimension of the organization and allows a fresh perspective to reaffirm the role of behavior and experience about the method and rationality.

Based on these considerations, we propose assessing the organizational culture of the Emergency County Hospital "Dr. Constantin Opris" Baia Mare, as a prerequisite to develop a strategic plan for change this culture, so that to facilitate the successful implementation of organizational goals and objectives proposed by management.

The study included 50 subjects, hospital employees: 12 men (24% of the total sample) and 38 women (76% of the total sample). Sample analysis by gender showed a roughly similar proportion existing within the organization, the hospital having 2,037 employees, including 1,661 women and 376 men.

Of the total participants, 12 subjects (24%) are physicians heads of department, head nurses or coordinator nurses, 28 (56%) are doctors, nurses or nurses, and the remaining 10 subjects (20%) are employed by IT, Accounting, Audit and Welfare Departments.

The average age of the sample is 42.58 years, ranging between 25 and 63 years, and the average activity length within the organization is 16.34 years, ranging between 3 months and 36 years.

Regarding the training, 26% of subjects have postgraduate studies, 24% university studies and 50% post-secondary studies.

Sample selection was random, ensuring voluntary participation and anonymity.

Assumptions from which we started were:

H1: The Emergency County Hospital "Dr. Constantin Opris" Baia Mare has hierarchical / bureaucratic culture, old and deeply rooted.

H2: Organizational culture preferred by employees of the Emergency County Hospital "Dr. Constantine Opris" Baia Mare is different from the current organizational culture.

As research instruments were used: OCAI (Organizational Culture Assessment Instrument) and semi-structured interview.

The purpose of using semi-structured questionnaire was so complete data obtained by questionnaire and to identify issues not addressed by the questionnaire, but may have great importance for the organization.

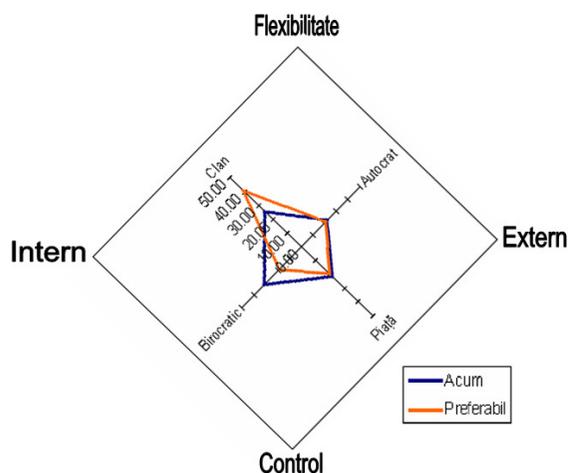
Data Interpretation

Table 1. OCAI statistical indicators for present and preferred situation

Type of culture	Media		Standard Dev.		Minim		Maxim	
	Present	Preferred	Present	Preferred	Present	Preferred	Present	Preferre
<i>Clan-type culture</i>	25.43	40.88	11.46	12.90	2	19.16	58.33	8
<i>Autocrat-type culture</i>	21.80	20.92	8.87	7.00	0	0	46.66	32.
<i>Market culture</i>	21.34	19.63	6.50	6.57	0	0	31.66	3
<i>Hierarchic culture</i>	30.98	18.18	13.67	7.75	10	6.66	74.16	47.

Statistical start indicators and the cultural profile of the organization obtained from the application of OCAI reveals for the present situation the dominance of hierarchic-type cultural values $m = 30.98$, but the differences obtained between this average and the averages for other types of cultural values are not significant, ie more than 10 points, so they do not support the existence of a strong hierarchic culture within the organization analyzed, but rather a weak culture, with strong hierarchic accents. Comparing the averages for the hierarchical cultural profile obtained for the current and the preferred situation reveals a significant difference (approximately 12 points), which indicates the willingness of employees to reduce the hierarchical culture values of the cultural profile of the organization they serve.

Hierarchical culture is characterized by emphasis on respect for authority, rational approach procedures and division of labor. The structure is hierarchical and power is based on formal authority (Pitariu & Budean, 2007), and communication is done through written arrangements from the top to bottom level.



Regarding the preferred situation, is obvious the predilection for clan-type culture values $m = 40.88$, but also the trend to reduce the hierarchical characteristics of the cultural profile of the organization, in favor of the characteristics of the clan-type culture.

Clan-type culture is based on participation, individuals, the social element, mutual trust, group cohesion and individual development. The communication system is primarily verbal and informal. Decisions are often based on informal contacts (Pitariu & Budean, 2007).

Next, we have analyzed the cultural profiles on each dimension, to observe their matching with the general cultural profile.

Table 2. Upper averages obtained on OCAI dimensions

Dimension	Current Situation			Preferred Situation		
	Average	St. Dev.	Type of Culture	Average	St. Dev.	Type of Culture
1. Dominant Characteristics	27.98	22.30	Hierarchical	40.90	22.55	Clan
2. Leadership	35.20	22.13	Hierarchical	36.90	19.13	Clan
3. HRM	34.20	23.02	Hierarchical	39.90	21.62	Clan
4. Organizational Binder	30.60	22.98	Hierarchical	39.70	19.23	Clan
5. Values	28.80	21.29	Hierarchical	41.50	21.52	Clan
6. Success Criteria	29.40	20.27	Clan	46.40	20.92	Clan

The global examination of the upper averages, resulting from the application of OCAI for each cultural dimension in part, reveal a high congruence of organizational culture within the County Emergency Hospital “Dr. Constantin Opris” Baia Mare, both for the present and for the preferred situation, but, according to Cameron and Ettington, corporate efficiency is better associated with the type of culture, than the power or congruence of culture.

Cultural profiles conducted separately for each cultural dimension reveal about the same issues as the overall cultural profile, indicating a shift to interiority and control for the present situation, and to flexibility and interiority for the preferred situation.

Data obtained through interviews, and results from the application of OCAI indicates an organization with strong bureaucratic accents, functioning as means of legitimizing power, of the need for stability and predictability, balance and consensus. Content analysis of interviews revealed some aspects that could not be identified through OCAI.

Reduced employee satisfaction regarding their work is largely due to shortcomings in the interpersonal relationships, organizational communication, or leadership style sometimes too directly, also to faulty design of health reforms. Reward system is perceived as unfair and demotivating.

Communication is done mainly from top to bottom in weekly reports, or through written arrangements. Healthcare teams form a pyramid structure, almost military, i.e. a type of organizational system that is closed. The power (decision making, the means to put the decision into effect and to control action) decreased as the employee is closer to the bottom. In general, cooperation and open communication are missing, and support for developing other skills beyond those strictly monitored by the institution, are not a priority. A cold and formal atmosphere is

prevailing. Rituals, although frequent, were more intended to show the hierarchy of power than to create an environment for creative thinking.

Top management is focused on control and accomplishment of tasks, with reduced interactions with employees. There is also a low interest for the personal development of the employees and ensuring complementarity between the goals of the organization and employee needs.

Conclusion

Questionnaire items allow the classification of the organization in a specific culture, but the interviews seem more appropriate to identify deep aspects of organizational culture.

The results obtained from the application of the OCAI questionnaire reveals a mismatch between the organization's current culture and the organizational culture preferred by employees, which will require the need to change its orientation. Bureaucracy proved to be an appropriate organizational form under a stable environment, and following purely economic purposes, but in the conditions of the present society, characterized by rapid change and a deeply unstable environment, are necessary organizational forms able to respond adequately to these challenges.

Identified organizational culture County Emergency Hospital "Dr. Constantin Opris" has the characteristics of a weak culture with strong hierarchical accents. The lack of market orientation, the discouragement of the initiative, the lack of motivation, and communication difficulties dominate. Renewal spirit and innovativeness face obstacles because of inability to understand market mechanisms, but also because of attitudes, disinterest, blocking in the routine, and, sometimes, use of an inappropriate management style.

A worrying aspect is the static nature of the knowledge in the Emergency County Hospital "Dr. Constantin Opris", mainly due to the division into "occupational castes", but also to issues related to internal competition, which were taken up and internalized by members of this organization.

Practice shows that a person's expertise, however high, shall not ensure by itself a higher productive behavior. Moreover, the organization central unit is not the individual, but the relationship between behaviors that constitutes the collective mind (Chirică, 2003). Of course, without the necessary instruction, people cannot get superior results, but the continuum of training and service quality is an important value. They act as an informal control system more powerful than any other control system, because it provides purpose and meaning for what must be done to obtain performance results.

What we know for sure is that, currently, there is not a set of shared values, in order to connect members of organization. What unites them is an engagement into a deep and inefficient routine whose outcome is most often dissatisfaction.

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INTERACTIVE AND GRAPHICAL MANAGEMENT SYSTEM AT THE MARAMUREȘ COUNTY COUNCIL

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The Maramures County Council (Romania) implements a computerized graphic system for assisted public management. A performing public administration is a key issue for the present local and regional development. Having an interactive graphic interface based on the county geographical map, the SIGMA2 system act as a scoreboard for the management of the County Council, as well as an integrator of different software modules that consolidate local administration data. Among its results are the automatization of different financial operations and the provision of informational support for managerial analyses and decision making.

Keywords: assisted management, scoreboard, computer system, county council, Maramureș

Introduction

The concept „Interactive and Graphical Management System at the Maramureș County Council” (SIGMA2) aims to assist the management in public administration in the analysis and decision-making regarding resource management, expenditure, and relations with partners and citizens. SIGMA2 has in center an interactive interface based on graphical representation of the district composed of elements of interest (roads, settlements, investment objectives, elements of road safety, etc.). Connections are based on Web services (XML) functional in Intranet and Internet.

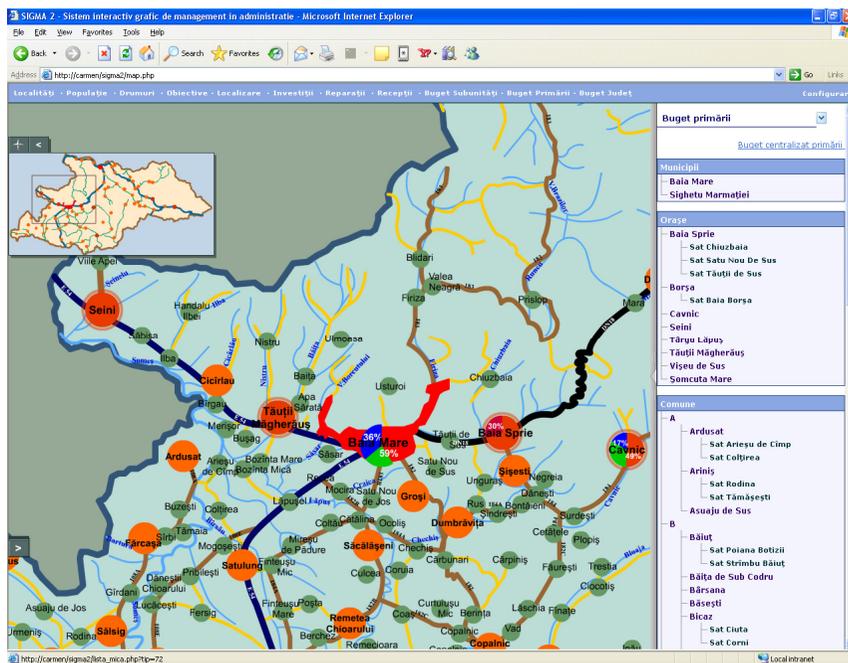


Fig. 1 The main window of the SIGMA system

The system is designed in a flexible and scalable architecture and structures a solid framework for computerization of activities of management and tracking specific to County Councils. SIGMA2 is also a scoreboard for the Maramures County Council management and an integration solution for specialized software modules and of consolidation at the county level of data managed by local authorities.

Research Methods

1. The specialized modules on which SIGMA2 is based are:

1.1. eCUB Complete integrated accounting system for budgetary units

1.2. INVEST records of investment and maintenance and rehabilitation works that involves public funds.

1.3. SPASGEN tracking and management of social benefits (complementary and single-parent family allowance, minimum guaranteed income, local transport, canteen).

2. SIGMA2 - central panel

2.1. Login

Access to system facilities is allowed only after the authentication based on user-password.

Granting of access rights is done by a system administrator. It has provided a module that allows management:

a. Users

b. User groups

c. users belonging to groups

d. relations between groups (inheritance rights)

e. rights of interaction with data: view, add / change, delete

Menu options vary depending on the rights granted to the user.

2.2. Map

It is the core element of the system and is composed of interactive graphical objects that facilitate access to information.

The system allows navigation on the map using the active areas at the edge of the window or arrows on the keyboard, i.e. increasing - decreasing scale (zoom) by buttons on the toolbar of the map or the + / - on the keyboard. Positioning visible area of the map can be tracked / specified on the miniature representation of the map.

Hiding / showing the map is done with the gray vertical bar marked with an arrow.

Active elements of the map are:

a. road - allow selecting a road (European, national, county) for which further information will be provided:

→ locations list, ordered by location on the road (at km.);

→ road investments - work positioning, cost and security;

→ road signs, indicators - positioning, type;

→ objectives of economic, social and cultural interest;

b. locality - used for displaying its data:

→ budget, budget execution (income and expenditure);

→ population;

→ objectives of economic, social and cultural interest;

c. other objectives - completely configurable at system implementation or after.

Road structure and spatial position of the localities are fixed based on county map digitizing, other graphics (objectives, institutions, road signs and works) may be positioned dynamically from SIGMA.

2.3. Main Menu

Is displayed at the top of the window and allows entry into areas of system configuration, consultation - detailed data update, visualization of advanced statistics.

Access to menu options is limited by the rights granted to the user, depending on the competences of the user's group. Connections to restricted functional areas will not be shown to simplify the interface.

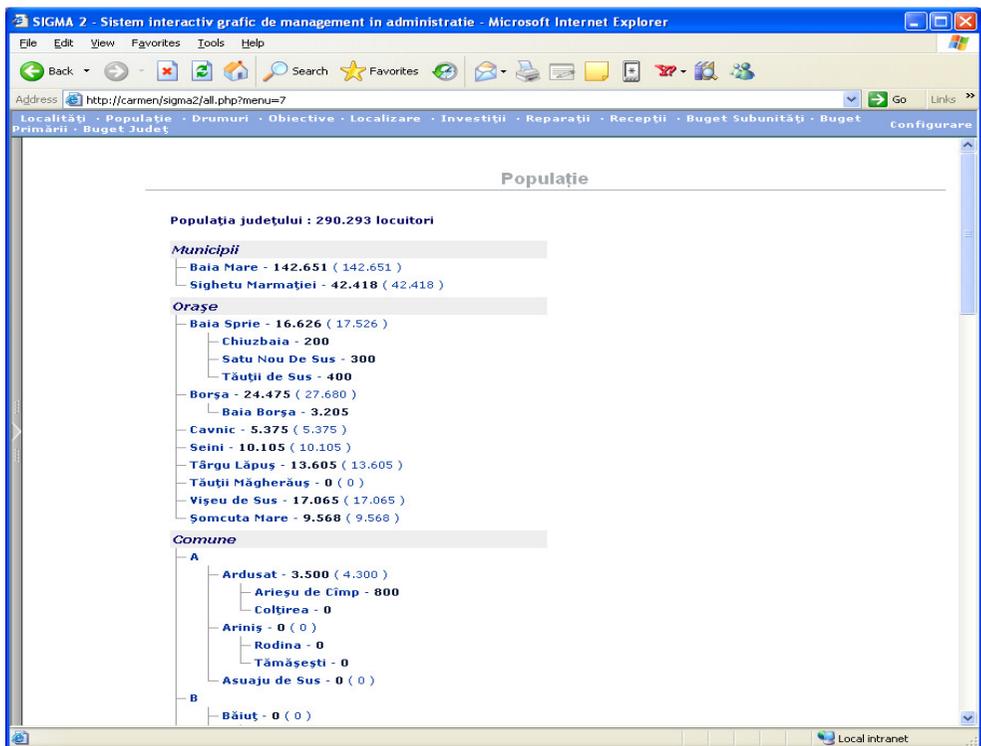


Fig. 2 Main Menu

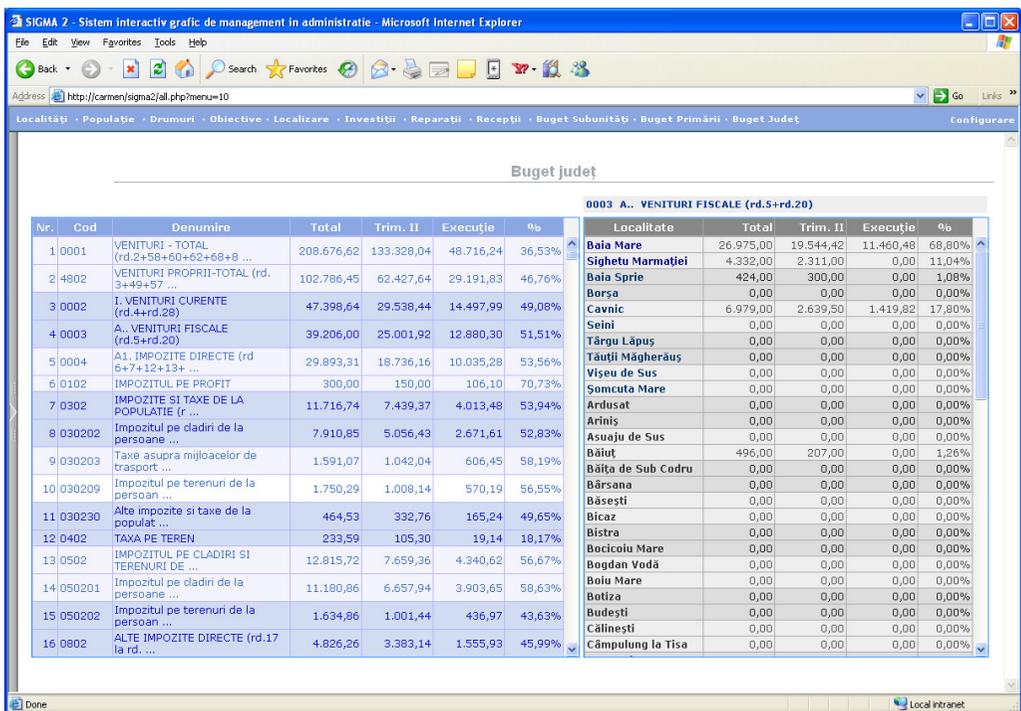


Fig. 3 Budgets

2.4. Implementation of requirements of systems, hardware and software applications or modules, specific to un-computerized departments

For the results of implementation of integrated computer system to be conclusive, it is necessary that all activities in a county council to register the relevant data electronically.

The current project will cover areas:

- Budget Management
- Financial and accounting management
- Management of inventory items and fixed assets
- Inventory and supply management
- Investment Management
- Financial analysis
- Human resources (integration of existing solutions)
- Building permits (integration of existing solutions)

The system architecture is shown in the following figure.

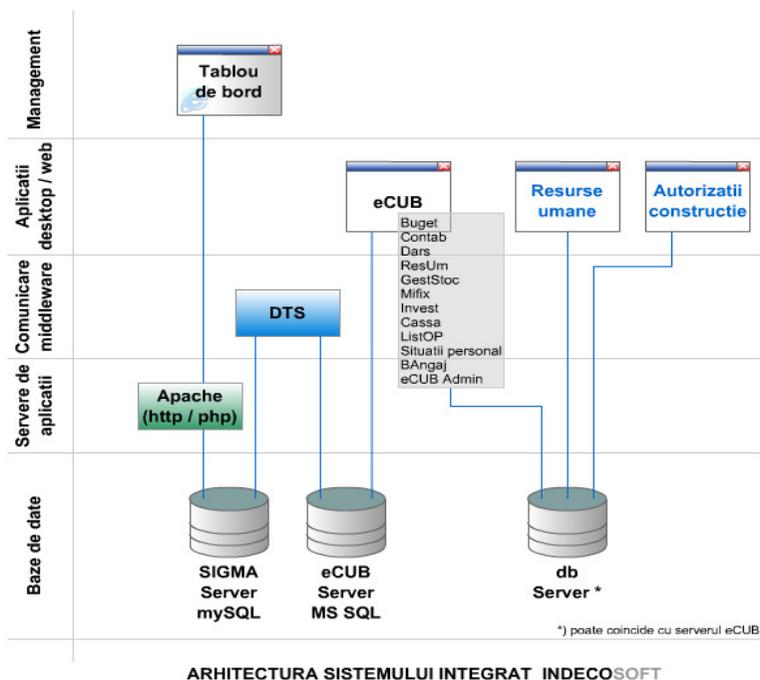


Fig. 4 System Architecture

a. Coherentization of IT components in covered areas

– Standardization and unity maintaining of common data, by bringing together similar databases, respectively identical replication

- Creation of data maintenance and management tools
- Delineation of responsibilities to these data
- Establishing standards for use and handling of common information

b. Implementation of high-level capabilities

- Implementation, configuration and launching of the manager scoreboard
- Installing access components for councilors
- Implementation of solutions for publishing information on the Internet, with open access or secured (authenticated) by category of information
- Installation of integrated computer system management and monitoring components

c. Awareness of the need and usefulness of the system and user empowerment

- Training of system controllers and administrator

- Assessing the impact of implementation, opportunities of value continuing and increase

The project is expected to be implemented over 2 months since launch. The solution is adaptable and scalable and can be replicated at the county council subunits, with capabilities of information consolidation at the central level.

Estimated results of the project

The integrated computer system carries out the automatization of financial transactions and will provide informational support for analysis and decision making. Data management will thus be more effective, departments will be able to follow more easily and accurately specific situations and be able to provide synthetic and detailed reports more complex and in less time. Harmonizing the institution activities and use of the management software tools will make public administrations more efficient.

Result:	Method of verification / assessment:
County Council informatization by implementing software modules according to operating specifications and needs.	Database and applications servers are installed and configured according to the architecture. Client software modules are installed on all workstations according to the diagram, are functional and have passed the quality validation tests, communication between them goes well, response times are acceptable, it can work online and competitor.
Securing access to information.	Users can access the system solely based on user / password account type, the rights will be limited by the job competency. Interactions with the system will be monitored, with the possibility of obtaining reports of “who, when and with what data they interact” type.
Data security.	Backup mechanisms are tested and validated. The data can be restored based on backup files. Transactions are persistent.
Decision support.	The scoreboard-type financial analysis module provides online, in a clear manner, valid and actual information that can be support to decisions.

Conclusions

Success of an organization depends on its people. Increasing emphasis given to the training side of organization management comes from the perception of the strong conditioning between quality human resources available, the stock of knowledge, skills and experience on the one hand, and obtained efficiency on the other hand.

All this is not possible without a strong economic informational system - a complex of people, machines, programs and practical work, a gear that collect data, transform them into information they store, process and transmit selectively to managers at all levels.

Informational system must assume a part of the managers’ work, namely data and information processing, results analysis, developing variants of problems solving, and providing permanent connections between the manager system and the managed system. Investments are very large, but by introducing automatic data processing (ADP) the rate of generation of documents increases and information reaches in good time to the managers that requested it. Information obtained on time helps managers to adopt and implement the right decisions, and the profit (the result of effort) contributes to the growth and development of the organization.

Effects of its introduction and use may be: technical, embodied in reducing the workload and time of data processing, freeing personal from routine work, etc., or may be economic, caused directly by the difference between operating costs of old system and the new system, expressing increased productivity in data collecting, processing and transmission or, indirectly, from the overall results of the business given by the increased productivity in management and execution processes.

In conclusion, by introducing the computer system in the public administration, the corruption is greatly reduced by eliminating the taxpayer's physical contact with civil servants, documents are tamperproof, and processing accuracy can not be put in doubt.

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A NEW GENERATION - QUALITY DESIGNER

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Now more than ever the quality management need some changes, not because of generation changes but because of the new provocation " green products".

The "green products" provocation needs changes to be implemented in each manufacturing technology and also in quality management. The organization must to be flexible to costumers needs and also to the new trends in industrial fields. This new generation for quality management change appear as a result of new eco-age , when in every second a new method, a new discover in researching work will bring more and new solutions to similar problem but in different places. The paper present the investigation results in a common manufacture organization who produce industrial products and also the solutions propose by author to improve the quality products and organization quality management.

Keywords: green products, manufacturing change, quality simulation

JEL: 032

Introduction

Any system performance improvement processes in an enterprise, is effective when internal processes are stable and controlled.

For that reason companies wishing to become or stay competitive, they need competent persons in the planning and control processes but also identify specific methods for improving internal coordination changes.

The new generation of green products can be realize only with the implementation of the new methods of simulation and modeling products characteristics and shape from the first stage of product design, when the engineer-designer can anticipate the future damage and failures of the products in his life cycle curve.

The implementation of a maintenance service, represents an important function of the enterprise which leads not only the possibility of both foreseeing and anticipating the possible flows , but also the opportunity of planning the interventions which will permit us to avoid them, as well as to get certain cuts of the expenses under crisis circumstances of the firm.

Maintenance must also be the production partner. Maintenance role is often undermined and productive function is not recognized.

Now that the old term maintenance and repair is replaced with maintenance, serving as a higher level of fixed assets, which must aspire to any enterprise, optics has a new culture-oriented management and achieves maximum business efficiency.

Our maintenance costs are extremely complex, requiring a thorough knowledge of their workload.

Lowest costs are the prevention and remedying defects. Unlike them implement a corrective policy is very expensive. Many of the maintenance costs are not covered by the records of the company, they are difficult to identify and measure.

They are hidden costs and the expenses are situated in the hidden parts of iceberg product quality. Economic and technical characteristics of equipment can match the availability, thus paying maintenance activities are carried out by the entire organization, this leads to undue expense, and paid the outstanding work and providing the necessary resources to conflict in their servicing.

A good manager wants to have accurate records and information on the state system which he leads, because efficiency resulting from the correctness of decisions.

Research and methods

The paper presents some solution for a traditional organization which have problems in adaptation

and be flexible to the new trend in management and quality management.

The investigation identifies the quality problems in technological process and present some solutions.

Some companies have already made a beginning by introducing and certification systems quality management and the environment. Known as reference standards for these systems focus on identifying key processes and process leaders.

Following the consultancy services offered to implement management systems Quality environment and training to improve managerial skills revealed clear need to identify support for the reorganization of production and management processes, but nobody pay attention to the maintenance management

The progress of various categories of cost and efficiency indicators leads to the best solutions in solving everyday problems little things who can give the solution key for organization problems.

Available remember dashboard, develop a budget for maintenance activity, the monthly allocation for each machine or plant part.

Building maintenance budget can be achieved only by changing the traditional optical manager in terms of management effectiveness of each action is characterized not only technically but also economically.

Starting with the organization dates and elements we can present a new management concept of total productive maintenance, which together with other pillars of the company can realize a house of quality and a house for quality. For that reason the base of the quality house is TQM total quality management, the columns are:

- preventive maintenance,
- maintenance-productive;
- 5 S;
- auto maintenance,
- Continuous-improvement gives the answer to the link between quality and maintenance.

The roof of quality house is TQP, total preventive maintenance sustain by all five columns.

These keys TQM and TPQ together with production efficiency, configure up golden triangle quality, weakness of one full set of columns compromise the triangle and the quality house.

Total quality is the basis of total productive maintenance, we can define eight basic points of total productive maintenance system: abolition of losses, self-maintenance, maintain productive, technical training and operational, design and management, quality products, service-site performance, safety management, all these factors lead, in turn, the success of the company's productive activities.

Company's mission is to provide technical conditions for obtaining total quality through effective exploitation of the means of production.

The six major sources of losses that lead to support the implementation of such a system are:

a) Stop-time accidental: time to change, adjustment and adaptation of equipment, micro-machine stops, slow-functioning equipment,

B) Defect quality: start-faults.

It requires the resumption of Ishikawa diagram to outline the steps necessary to obtain a practical quality in manufacturing activity.

Applying Ishikawa's strategy may be removed where, considering the price as the main criterion, is made to purchase second-hand equipment, which in the short term, are advantageous due to lower investment costs, but inhibit the medium and long term competitiveness.

5S concept is good to comment, for any type of organization and to identify the sources of success:

-SEIRI -setting, elimination of unnecessary things,

-SEITON-order, methodical

-SEISSO - inspection control

-SEIKETSU-cleaning

-SHITHSUKE-discipline, moral education, and respect for others.

Initially, the 5S increase production and maintenance costs, but contribute substantially to strengthening labor motivation, employees and improve company's image in the eyes of providers and beneficiaries.

As adopted by all members of the company the 5 S are elements of culture and, while no longer necessary additional expenditure.

In the Romanian tradition, the technological process inside the organization was seen as a noisy place, filled with dirty equipment, served by workers in gowns, oil stains, leaving the assembly by visual measurement and hammer to corresponding technical documentation, recent years have brought changes, so the first steps were made.

In the process of implementing the 5 S, everything starts from the manager, from top to bottom, the holder of the established human intelligence and machines characterized by force and precision.

Man can improve its qualities and capabilities through training and practice, and companies can move pushing for continuous training of employees.

The key to success in implementing quality and its diagnosis is to make all the steps in six sigma programs, which is a wizard with no errors in the production of products, manufacturing tolerance errors 0.

Quality control movement has expanded the original named new quality control method, means providing a product that is better than the best, no better than most.

Also, starting from control, planning, implementation, quality must be closed circle, spread across the following segments of the new product: product research, production planning and production.

Six-sigma is home-sigma statistical term used to measure the standard deviation of average distance, is a program of excellence, as allocated no more than four errors in one million operations.

Target level of damage is the same for both producers and service functions. Six Sigma is a rigorous standard, expensive, because we know that quality brings investment, and vice versa, because so many operations to monitor costs, but at the same time and correct them immediately.

The companies have resorted to this method have found that improved quality means fewer defects, eliminate stagnation, greater customer satisfaction.

Improving quality is more important than the cost of implementing and maintaining six sigma programs.

Organization of work and the possibility of rescue efforts have led to a return to investment is the best solution compared to years to find solutions to save the company to use the process correctly.

The method is based more heavily on quality control, to have a competitive advantage, to produce error-free, to make good things come alive on quality.

We could allow employees mistakes?

A single mistake could not slow down too much company and management style. If in the course of occasional errors, they do not affect too much production, but considering the many errors could be made in the course of the entire company, the economic impact on productivity, customer satisfaction and profitability is dramatic.

This method of management approaches organization to find and identify what he know or should not, what he need to know and to act to reduce errors and their adjustment, which for organization means time, money, opportunities and consumers.

The method applies the following steps:

a) measurement, identification of Y and X options: plane measurement, accredited-measurement system, measurement process;

b) consumer-finding design: high-precision processes, development projects;

c) implementation-generating and evaluating alternatives: constructive remedies, control design.

The best method, six sigma projects is the beginning, not inside the company as a business, but outside them, focusing on the answer to:

How can we make our products more competitive on the market?

Six Sigma is the key to open new levels of quality, performance, provision of services and achievement of profit. The manager has in his hand the destiny of the company, everything depends. The method is today the ideal solution for busy managers, the first steps are choosing the project team, systematic education of employees is known on various levels.

Who are the major players in the program: Masters Black Belt, Green Belt, Orange Belt, Yellow Belt, this structure allows visualization of transfer tasks in the organization levels, each performing specific tasks under the program:

-Enforceable are those that deal with method and explain its implementation within the organization;

-Champions will try to present and explain what was used in this program and remove any barrier;

-Master Black Belt is actually the one who will train staff, will manage and oversee the production process of the activity;

- Black Belt, who would work effectively only nonstop for the project;

-Green Belt, are those who will assist those working in the Department of Black Belt. It is vital that everyone knows exactly what to do and its role in achieving quality.

Of course nobody wants that after investment in Six Sigma and after time spent coaching and training people, project selection favorable for the production company to lead, eventually, lower profits and achieve a satisfactory quality.

The method is a way of life for business, they continue throughout the implementation period is initiated at the same time use other production projects, by finding new methods for obtaining profit increase.

Implementation of quality takes time requires achieving infrastructure in first year, followed by total quality house building foundation with the following magical elements:

- defining objectives, gaps and desires of consumers;

- current performance measurement process;

- analyzing and determining the causes that led to defects;

- implementing a new project to eliminate the defects;

- monitoring the performance, following the implementation of the new project.

Six Sigma, for manager is actually the solution to any problem if it satisfies the following:

- learn the basics of the method it will use;

- select the best specialists and projects;

- makes a team work;

- apply appropriate methodology with tools.

In other words, if:

- define the target group for six sigma project, ie internal and external customers;

- measure and analyze the features of the process;

- implement, monitor and maintain phases.

Through them we discover, in fact, the new method DMAIC-define, measure, analysis, implementation, monitoring.

Like any start virtually any method will be in Six Sigma, should start going through all the steps needed to know all the internal and external factors.

Obviously, they could not obtain satisfactory results if we go directly to the fourth or fifth step. We can measure if we set the unit and we do not define the problem we face. Below is the logical scheme of the five steps of DMAIC methodology:

-Definition of the problem- identify the major problems of process, selecting a project to combat one or more of the problems, vital factors determining required measurement, analysis, implementation and control.

-Measure problem- selecting critical characteristics of the product or process quality, standard - definition performance variables Y, a system of measurement for Y, establish a process able to create the size of Y;

-Problem-analysis- defines Y one implementation targets, identifying sources for Y, finding potential causes that could affect the size of Y and identified several vital Xi;

-Implementation-issue-discovering vital link between the variables Xi, setting acceptable tolerances for Xi, establish a measurement system for Xi, control problem, measurement accuracy determination for Xi, control system implementation.

Conclusion

Studies shows that in organization works long day, workers are perceived a rhythm witch is very intense, but at the same time there is a low productivity, competitiveness and restricted items. It is evident that the development needs economic performance is about upgrading the skills and human resources areas such as labor organization, design - sizing - measure - control - improvement - from business process management, quality management, change management, risk management, project management and not at last maintenance management with direct consequences on labor productivity and competitiveness performance.

Some companies have already made a beginning by introducing and improving business through quality products, services macroeconomic market at an affordable price is what is sought using the method. Tools and techniques applied so far known to improve quality are of the past, no longer satisfy consumers the economy today, as a result of changes in society.

Manager is focusing and promote a new management on:

-channeling efforts of all employees in achieving product quality;

-to identify and isolate the factors affecting product quality, company image;

-to encourage the entire organization personal in business activity;

In conclusion this method is a guide to understanding and management of each sector of business on the road to quality.

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MODERN INSTRUMENTS FOR MEASURING ORGANIZATIONAL PERFORMANCE

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Any significant management action can be assessed both in terms of success of immediate goals and as effect of the organization ability to embrace change.

Market competition intensifies with the development of Romanian society and its needs. Companies that offer different products and services need to impose certain advantages and to increase their performances.

The paper will present modern tools for measuring and evaluating organizational performance, namely: Balanced Scorecard, Deming model and Baldrige model. We also present an example for Balance Scorecard, of an organizations belonging to the cosmetics industry.

Key words: management, performance, balance scorecard, performance measurement

JEL Code: M10, L25, L66

1. The concept of performance

Performance can be defined as “*a state of competitiveness of the organization, reached through a level of efficiency and productivity which ensures a sustainable market presence*”¹³³⁴. In our opinion performance needs both effectiveness and productivity simultaneous. Hence we conclude that a performing organization is efficient, competitive and productive.

P. Druker considered that to be effective means “to do planned things well”; by efficiency he meant “the extent to which objectives were achieved”.

T. Katarbinski defined effectiveness as precision in achieving targets. He suggested that efficiency is the action by which an organization achieves its goals in terms of minimal cost.

Both management specialists come to reinforce the above statements on the concept of performance.

The purpose of the paper is to find indicators and instruments that reflect as closely as possible the subtleties of how an organization is functioning. We started with the following questions. What indicators reflect best organizational performance? Profit level? Different rates of efficiency? Achieve planned results? The answer must take into account the multiplicity and diversity of factors that influence both individual and organizational behaviors.

Performance measurement represents results quantification of activities undertaken within an organization over a period of time. For performance measurement we started from a series of questions: Is there a link between objectives, performance measurements and organization results? Are performance metrics relevant? To answer these questions we identified a series of modern management methods for measuring and assessing organizational performance.

¹³³⁴

M. Boulescu, M. Ghiță, V. Mareș, “Auditul performanței”, ed. Tribuna Economică, București, pg. 13, 2002.

2. The Balance Scorecard

In the early '90s two experts from the Harvard Business School introduced a new performance measurement tool they called The Balanced Scorecard¹³³⁵. The two experts Robert Kaplan and David Norton have started identifying the weaknesses of previous management approaches and through their approach of the balance scorecard provide a clear prescription of what companies should measure in order to balance the financial perspective.

The balance scorecard is a measuring instrument that offers to the organization the opportunity to clarify its vision and strategies and translate them into action. This provides feedback on both internal business processes and on external achievements in order to continuously improve strategic performance and business results.

The balance scorecard is a concept that allows performance evaluation and assessment by focusing on presentation of the results. This instrument is characterized by flexibility. Results areas should be specified depending on the interests involved:

1. Shareholders or financiers (financial results)
2. Clients (external results)
3. Staff (internal results)
4. Managers (results of improved processes)
5. Results of learning and innovation

Results in each area must be observed as a multitude of objectives, performance indicators and standards involving the relevant key-factors and authorities. Balance scorecard suggests that managers look at the organization from four perspectives: learning and growth perspective, business process perspective, customer perspective and financial perspective.

It is recommended to use this management method in all managerial situations. The balance scorecard can be used:

- When the managers want to track the degree of objectives achievement and the level of results to ensure improvement in the degree of substantiation of managerial decisions.
- When one area or another are checked, monitored by top management due to continuing poor results recorded in a previous period of time.
- When the time budget for managers, especially those from top management is busy, when they are assaulted by numerous information, some with a low relevance to the objectives.

3. The Deming model

In the traditional industrial activity “quality control” and “zero defects” were keywords. In order to defend the client from receiving poor quality products numerous efforts were undertaken to try to control the products at the end of the production line.

The problem with this approach - as Deming said, is that the true causes of defects will never be identified and there will always be inefficiencies due to the rejection of defects.

What Deming says refers to changes occurring at each step in the production process and causes of variation must be identified and fixed. If this is possible, then there is a way to reduce defects and improve product quality indefinitely. In order to establish this process, Deming also stresses that all business processes should be part of a feedback system with chains. The feedback should be examined to determine the causes of change, which is what presents significant problems (See figure below):

¹³³⁵ D. T. Corodeanu, “Management comportamentul și performanța întreprinzătorului român”, ed. Tehnopress, Iași, p. 248-250, 2008

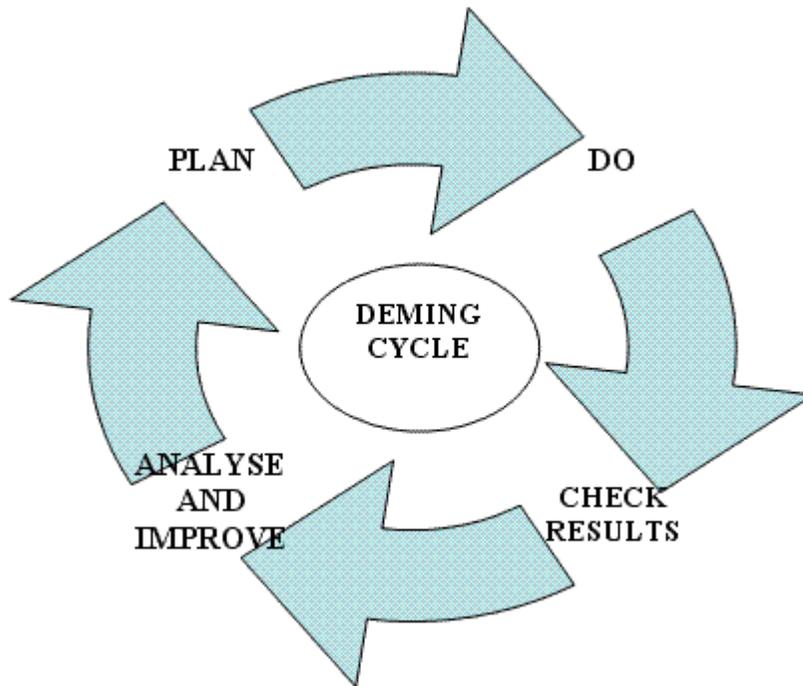


Figure 1: The DEMING cycle¹³³⁶

4. The BALDRIGE model

The Baldrige method (1997) reiterates the concept built on facts-based management: **modern businesses depend on performance measurement and analysis**. The purpose of measurements is to obtain information that allows managers to know the company and to take responsible long-term decisions.

Measurement standards must derive from business strategy and provide critical data and information about key processes, productivity and results. There are many types of data and information necessary for performance measurement and improvement, including: consumer performance, performance products and services, operations, marketing, competitive comparison, suppliers, employees' performance related and financial cost.

Of major importance in performance improvement is the creation and use of performance measurement standards or indicators. Performance measurement standards or indicators are measurable characteristics of products, services, processes and operations that the company uses to track and improve performance. These measurement standards and indicators should be selected to represent the best performance factors.

Among the most important benchmarks for measuring performance, the Baldrige model (2005) identified: income from sale of products and service delivery, customer-based results, financial and market results, the evaluation results of human resources, organizational effectiveness results, social responsibility and organizational results.

5. Example of Balance Scorecard at L'Oreal

5.1 The cosmetic market

Cosmetics are important consumer products, with a key role in everyone's life: beside traditional cosmetics that include makeup and fragrance products, these include also personal hygiene products such as dental care products, shampoos and soaps.

¹³³⁶

Source: http://www.valuebasedmanagement.net/methods_demingcycle.html

Current cosmetic market is oriented towards innovation, by including new color palettes, treatments directed to certain types of skin and unique formulas that focuses on different needs. Most cosmetics have a life expectancy of less than five years and 25% of producers reformulate its products each year. They must constantly improve their products to maintain its position on the highly competitive market. The consumer expects a more diverse range of options and greater effectiveness.

The current cosmetics market is dominated by several multinational corporations: L'Oreal, Colgate Palmolive, Beiersdorf, Kao Corporation and Avon Products.

5.2 Proposal for improving the activity at L'Oreal Company

Many companies need a model for measuring and evaluating performances that truly pulls together all parts of the organization. The balance scorecard model offers an optimum image on the key activities in the business. Keeping the points above in mind we developed an example of balance scorecard which can be used in the cosmetics companies. The model identifies the key success factors for financial, customers, internal processes and knowledge and learning activities. Also for each strategic objective we identified the performance indicators, targets and improvement actions.

Table 1: Balance Scorecard at L'Oreal¹³³⁷

BALANCE SCORECARD				
<i>FINANCIAL</i>				
Key success factors	Strategic Objectives	Performance Indicators	Targets	Improvement actions
Good financial results and increasing profitability	Maximizing shareholder value	Increase sales	5% in 3 years	– Penetrating young markets. - Increasing prices for the best quality products.
	Higher profits	Profit on equity consistently	Increase by 15% in 3 years	- Wider range of products. - Intensification of promotional campaigns.
<i>CUSTOMERS</i>				
High global market share	Greater market share	Market share	3% in 3 years	- Developing marketing programs focused on objectives - Communicate with customers using electronic instruments.
	Global market presence	Number of potential customers approached	5% increase in 5 years	-Developing a plan for penetrating untapped markets. egotiating a strategic partnership with other local firms.

¹³³⁷ Adapted after the Balance Scorecard from Easy Jet: H. K. RAMPERSAD, “*Total Performance Scorecard*”, ed. Didactică și Pedagogică, București, p. 111-113, 145, 315-322, 2005

	Deeper knowledge of the global market for personal care products.	Revenue potential	10% increase in 5 years	Creating a database that includes characteristics of potential customers.
High quality products	Increased degree of loyalty on products purchased	The number of complaints from customers	Decrease by 10% per year	- Providing additional bonuses to employees who are customer oriented.
		Degree of customer loyalty towards brand	1.2.1 Increase by 5% per year	Design of procedures to resolve customer complaints Measuring the degree of customer loyalty.
Image	Improved awareness of audience target	Awareness of brand	At least 50% in 4 years	- Benchmarking in terms of customer loyalty.
INTERNAL PROCESSES				
Team spirit and motivating work environment	Managers act as mentors	P e r c e n t	At least 70% in 3 years	-Formulating a development plan for managers. - Provide guidance for training teams.
		Degree of satisfaction with the feedback	At least 70% in 3 years	- Study the employee satisfaction.
Successful introduction of new products (innovative)	New products developed	urvey score of employee satisfaction	Increase by 5% per year	- Offering products that meet customer needs.
		Percentage of sales from new products and services.	Increase 5% per year	- Develop a formula for extending the range of products for men.
		Time required to launch a new product on the market	Reduction by 10% in 3 years	- Better organization of research and development department. - Determining the criteria for developing new products
KNOWLEDGE AND LEARNING				
Competitive advantage based on	Improved managerial skills	Sales per month	Increase by 10% in 3 years	- Matching skills with the performance evaluation system.

knowledge, abilities and skills of employees		Percentage of managers trained in management skills essential.	80% in 3 years	- Learn effective leadership.
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6. Conclusions

Successful organizations depend critically on the ability to differentiate themselves from the competition through continuous and consistent concern in increasing prosperity of the organization. In this context change adaptation and progress have a vital role in creating a high degree of competitiveness of organizations.

This paper tried to offer a few examples of modern performance measurement and evaluating methods like the balance scorecard, the Deming and Baldrige models. Also we presented a simplified balance scorecard example used at L'Oreal.

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CORPORATE SOCIAL RESPONSIBILITY DURING THE ECONOMIC CRISIS. THE CASE OF THE ROMANIAN COMPANIES

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The aim of the present paper is to identify and comment on the existing relationship between corporate social responsibility (CSR) and the current economic crisis, by focusing on the experience of the Romanian companies. After briefly defining the concept of CSR, the article presents the above mentioned relationship from a triple perspective: the lack of ethics as a cause of the economic crisis, the threat of CSR in periods of crisis and the opportunity of CSR in periods of crisis, considering that the last perspective could be maximized if companies are going to approach CSR from a strategic point of view. Finally, the second part of the paper presents what Romanian companies really do, but, more important, what they should do in order to increase their effectiveness in terms of CSR implementation when social budgets seem to remain constant or even decrease.

Keywords: Corporate Social Responsibility, Economic Crisis, Stakeholders, Risk Management.

JEL Codes: M14, G32, G33.

Introduction

Before the crisis that has begun in 2007, CSR was considered just a luxury and a set of voluntary assumed initiatives implemented by successful companies in good times for ethical, altruistic or branding purposes, but definitely not a part of a corporate core strategy, and companies would have reduced or even abandoned their commitments to CSR in times of economic difficulty. Nowadays, the evidence of the last three years suggests that commitments to CSR are neither being reduced nor abandoned during the crisis, except in those cases of total bankruptcy, and a well institutionalized, communicated and reported strategy of CSR is granting the responsible company “a license to operate” in the new world economy emerging after the crisis.

The global economic crisis and the collapse of trust in the capital markets are strengthening CSR, while the rules of the game are changing by considering sustainability and responsibility the main new pillars of the game. According to KPMG (“KPMG International Survey of Corporate Social Responsibility Reporting 2008”), the proportion of the world’s 250 largest companies issuing annual reports on CSR increased from only 50% in 2005 to 80% in 2008, the main drivers for implementing CSR strategies being risk management, investors’ pressure for long-term profitability and ethical considerations¹³³⁸.

1. Current State of Corporate Social Responsibility

The most accepted definition of Corporate Social Responsibility (CSR) is the one of the European Multi-Stakeholder Forum on CSR (2004) considering it “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction

¹³³⁸ Møller, K., 2009.

with their stakeholders on a voluntary basis”. Two aspects are relevant in this definition and they actually represent the essence of the notion: first, the fact that CSR is about simultaneously satisfying economic, social and environmental needs of the company and the community it is acting in; second, the fact that these obligations are voluntarily assumed and they are not imposed by any type of rules or regulations¹³³⁹.

2. Relationship between Corporate Social Responsibility and Economic Crisis

Often it takes a crisis to precipitate attention to CSR. The present global crisis emphasizes stronger than ever the idea of *corporate responsibility*, a new commitment to responsibility being demanded of companies in order to create economic and social value. As a result of the combination of the economic crisis with what has been called “an entrepreneurial crisis of maturity”, CSR has risen to prominence in the last decade and, even though CSR is a new controversial concept, everybody in the academic and business spheres agree that it is a fundamental strategy for achieving the sustainable development in the globalized world¹³⁴⁰.

The results of the GlobeScan Salon: “CSR in the Economic Crisis” – that took place in London, on February 2009 – emphasize the fact that companies are now facing enhanced expectations, pressures and opportunities regarding their social and environmental behaviour, even if they are confronting with the worst economic crisis in 80 years. The presented data (based on compiled results from 32 highly developed or large developing countries) showed that expectations of CSR are on the rise again and have reached a new high point since tracking started in 2001; at the same time, perceived CSR performance continues to fall and have reached a new low point, with a lowest one in the banking sector, which registered the sharpest decline. The new pressures imposed by the crisis on CSR commitments include the reduce time available for short-term decisions, the cost reduction and a more cautious approach to CSR in companies. Finally, companies not fully committed to CSR face growing risks, whereas those with CSR at the core of their business model could gain ground and new business opportunities¹³⁴¹.

The relationship between CSR and the economic crisis could be analyzed on three levels:

The lack of ethics of the financial decision-makers as one of the causes of the economic crisis:

A scientific paper on the analyzed topic¹³⁴² presents a set of arguments for reducing the magnitude of the economic crisis, perhaps not systematically but definitely in some of the organizations that have been most affected by the crisis, by appealing to and implementing generalized practices of CSR within financial institutions. The author considers that it would have been necessary to apply a CSR with ethical background – a voluntarily-assumed code of ethics – in order for the financial decision-makers to cope with self-generated duties.

The threat of CSR in periods of crisis: The negative potential of CSR is particularly represented by the high cost of its implementation, considering the fact that putting into practice responsible policies and strategies is a long-term process. More than that, the overuse of corporate sponsorship, based on CSR only with marketing purposes, can change the customers’ initial positive perception because customer sensitivity is much more likely to break out during crisis.

The opportunity of CSR in periods of crisis: CSR could also be considered an opportunity that increases the corporate core values on the long run, especially because organizations must redefine and coordinate their essential business objectives in order to implement responsible practices. Some of the main advantages that CSR could bring during crisis periods are: innovation; comfortable atmosphere; adequate treatment to stakeholders and better engagement with them; reinforcement of business strategy; strengthening of market position; consumers’ loyalty; guarantee and confidence for investors; deep internal reflection. Generally speaking, successful CSR policies might contribute to the sustainability of companies in times of global

¹³³⁹ European Multistakeholder Forum on CSR, 2004, p. 3.

¹³⁴⁰ Fernández-Feijóo Souto, B., 2009, p. 38.

¹³⁴¹ http://www.globescan.com/news_archives/salon_lon-0109/.

¹³⁴² Argandoña, A., 2009, p. 2.

economic crisis, by rehabilitating their corporate image on the market and by positively involving all the interested stakeholders, especially for the sectors that have caused the economic recession, like the financial and banking one, for example.

CSR in crisis periods can be converted from being a threat to an opportunity¹³⁴³: CSR, as a management tool, can be helpful in identifying ways to overcome the crisis and meet the social and ecological challenges of the future¹³⁴⁴.

3. What Romanian Companies Do

Usually when an economic or financial crisis appears, the normal reaction is to cut costs or, at least, to try doing this in all the business sectors. This is why many companies acting on national or international level are firstly cutting the costs that are not aggressively impacting their core business and CSR appears to be an attractive area from this point of view, especially when companies intensively rely their responsible initiatives on non-strategic philanthropic forms of CSR that are most at risk in times of economic crisis.

CSR in Romania is rather a PR fashion and it is frequently strictly associated with multinational companies, lacking strategic vision, long-term commitment, coherence and unity. The main areas of corporate social involvement in Romania are: environmental protection, social problems, civic behaviour, human rights, health, education, research, arts and culture, sports. The most important forms of corporate social involvement in Romania are represented by donations and charity, sponsorships, philanthropic and volunteering activities, CSR being usually considered just a tool to react to certain situations or a PR instrument. CSR in Romania is not correlated with the core business activities of the companies and it is not fully integrated into business practices.

Projects that are limited to sponsorships or donations – as it is the case with the majority of CSR initiatives in Romania – and have no direct connection with a company's core business have little to do with true CSR, and during a recession they are usually the first activities to fall victim to budget cuts. This type of social engagement is, more than anything else, a cost item whose benefit to the company is difficult, if not impossible, to measure and its value to society is also limited, since the corporate resources for philanthropic purposes are not sufficient to achieve a comprehensive solution to social problems¹³⁴⁵.

Romanian Donors' Forum (RDF), a NGO promoting philanthropy and CSR in order to contribute to the sustainable development of civil society in Romania, yearly celebrates Top Romanian Corporate Awards, emphasizing the first 10 companies in terms of their social involvement. First year when such a research took place was 2006 (quantifying the social involvement of the most responsible Romanian companies in 2005) and the last one, for the time being, was 2009 (quantifying the social involvement of the most responsible Romanian companies in 2008). The yearly analysis of Top 10 Romanian most philanthropic companies shows a sharply increase of CSR involvement (it was financially quantified the corporate social involvement through cash and services donations, in-kind contributions, sponsorships and own developed social projects): 2,963,928 EUR in 2006; 7,035,586 EUR in 2007; 7,565,100 EUR in 2008; and 16,215,000 EUR in 2009. The 4th edition of Top Romanian Corporate Awards (2009) prized organizations from five main categories: Top 10 big companies, Top 10 medium and small companies, Top 10 corporate foundations, Top 10 financing foundations and Top 10 philanthropic individuals; the social involvement of these 50 winners of RDF awards was about 31 million EUR.

In the field of CSR, a paradoxical situation appears in Romania: although NGOs and different types of social beneficiaries or stakeholders are complaining about the CSR decrease because of the economic crisis and the logical economic thinking is supporting their assumptions, the yearly researches conducted by Romanian Donors' Forum (since 2006) demonstrate all the contrary,

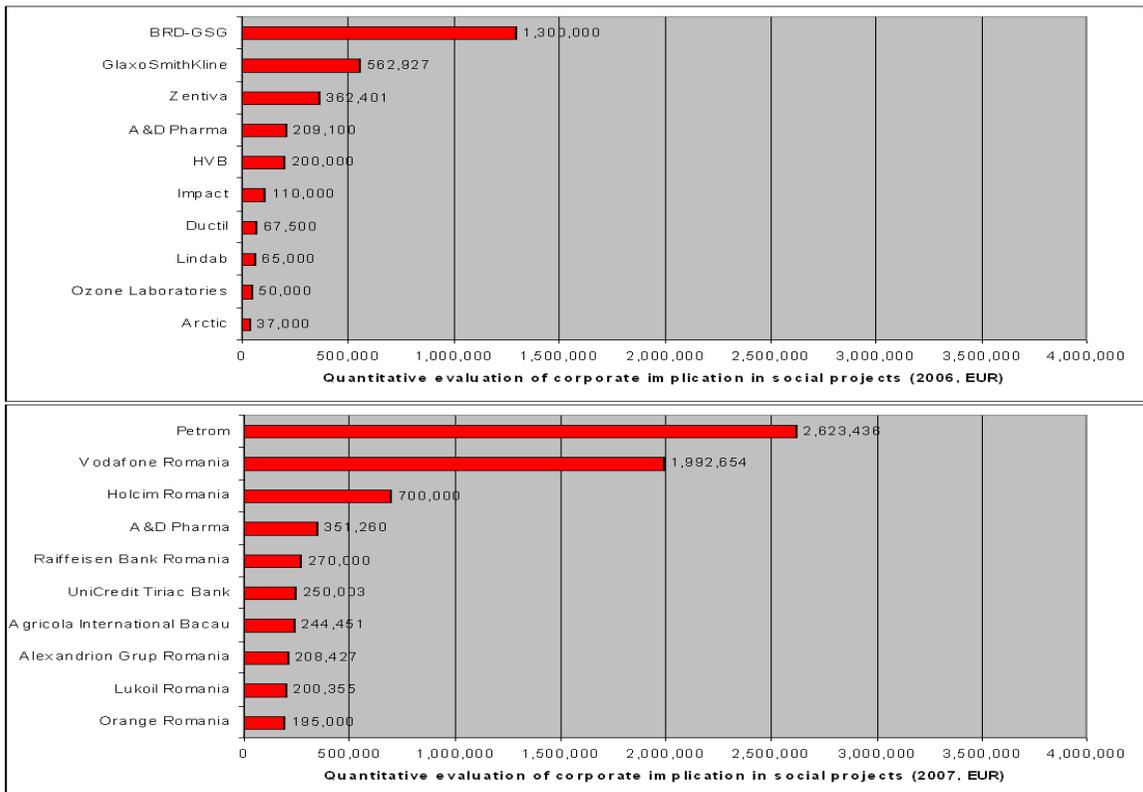
¹³⁴³ Fernández-Feijóo Souto, B., 2009, pp. 36-47.

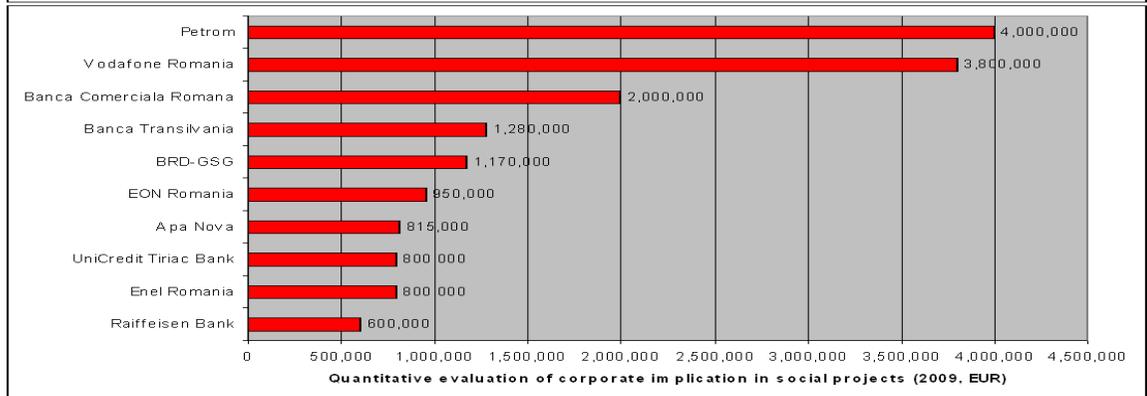
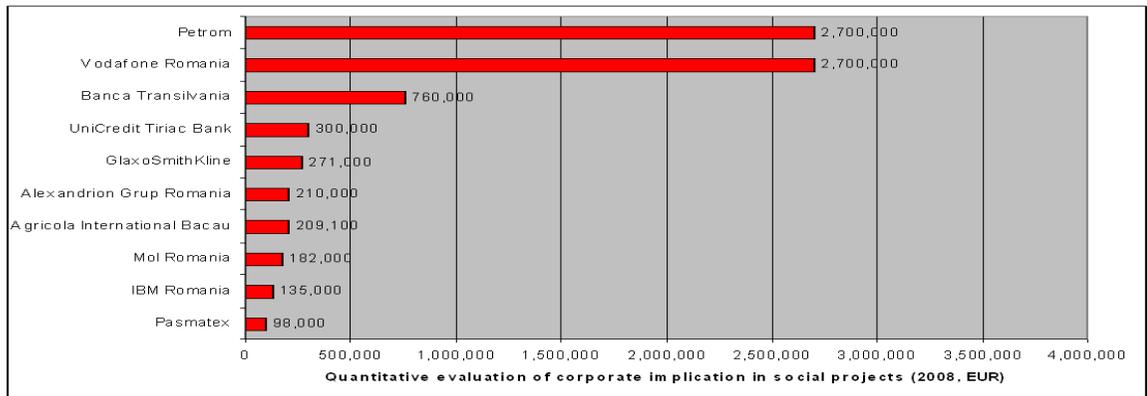
¹³⁴⁴ Peters, A., 2009, p. 5.

¹³⁴⁵ Idem, p. 8.

showing an increase interest of Romanian companies from one year to another in supporting social causes (see *Figure 1: Top 10 Romanian Corporate Awards (2006, 2007, 2008 and 2009)*). The explanation for this paradox consists in the following three arguments: first, the beneficiaries of CSR initiatives usually take into account only the cash donations that they receive from the responsible companies, meanwhile companies financially quantify all their types of social involvement; second, the economic and financial crisis made companies more accountable than ever for their actions and more conscious about the importance of strategic social involvement, that should be highly correlated with their core business activities (cash donations are basic CSR forms and do not represent strategic social involvement); third, companies are more eager to transparently communicate their social involvement also for pragmatic reasons. Although some companies – especially the SMEs – were obliged to diminish their CSR budgets (strictly considering here the cash donations), this does not mean that their social implication decreased, because usually cost reductions are accompanied by increased employees' volunteering. The CSR representatives of the most responsible Romanian companies (Petrom, BRD-GSG, Vodafone, Orange etc.) announced that their CSR budgets for 2009 were the same as the ones for 2008, but the economic crisis put a pressure on them in order to restructure the jobs, improve the efficiency of their operations or prioritize the investments.

Figure 1: Top 10 Romanian Corporate Awards (2006, 2007, 2008 and 2009)





Data source: <http://www.forumuldonatorilor.ro/proiecte/top-corporate/44>, <http://www.donorsforum.ro/fdr.php?b=TOP%202006&lg=ro>, <http://www.donorsforum.ro/fdr.php?b=Top%202007&lg=ro>, <http://www.donorsforum.ro/fdr.php?b=TOP%202008&lg=ro>, <http://www.forumuldonatorilor.ro/proiecte/TOP-Donatori-editia-a-4-a/126>.

4. What Romanian Companies Should Do

In order to maintain the corporate commitment to improve CSR performance for consolidating the financial performance and not cutting costs with CSR, a company should respect at least the following five main action lines: a) to sharply align CSR efforts with core business objectives for supporting the company's cost-savings efforts; b) to increase research and development spending, including in new CSR initiatives; c) to measure the CSR benefits; d) to build partnerships across important business units and functions; e) to strengthen the implementation of CSR in all the departments of the company¹³⁴⁶.

A study conducted last year by Braun Partners consultancy firm in order to identify the current state and the main problems associated to CSR in Hungary, Poland, Bulgaria and Romania emphasized the strong need of the Romanian companies to consolidate their responsibility regarding the human resources, to integrate the fundamental principles of CSR in their business strategy, to strengthen systematic projects with civil society and to transparently communicate the corporate initiatives in the field to all interested stakeholders. Especially in times of economic crisis, the human resources – their capabilities and behaviors – are becoming an extremely important corporate asset. More than that, integrating CSR in the business strategies and the HR policies of the Romanian companies could improve the “rumple” reputation of the firms, particularly in the financial sector (considered to be the most responsible one for the crisis).

When companies carry out well considered, strategic activities that are in keeping with their core business rather than simply distributing random donations, this produces far greater benefits for both the company and society at large. This type of engagement promotes sustainable stakeholder management, leads to greater confidence and helps to integrate the company into the surrounding

¹³⁴⁶ <http://mpiweb.eu/cms/mpiweb/community/commblog.aspx?viewblog=1786&groupblog=4>.

society. As a responsible corporate citizen, a company could test new partnerships, engage in serious dialogue with stakeholders, gain insight into their interests and acquire new expertise¹³⁴⁷. Stop sponsorship and investing in CSR programs can have a boomerang effect, both in corporate image as well as in sales, especially now that companies are facing the largest deficit of trust. Waiving these programs practically shatters the positive results achieved in the past and the corporate effort of being “a responsible citizen” would become much less credible for the public. Although CSR is usually associated with big or international companies, SMEs in Romania should also play a role by pursuing specific socially responsible approaches, engaging in social dialogue and contributing to community development at local level. Moreover, at international level, socially responsible investments as a specific component of CSR are confirming their potential of increasing financial returns by incorporating environmental, social and governance (ESG) issues into the decision-making process¹³⁴⁸.

5. Conclusion

Assuming CSR activities proves to be a necessary, but not sufficient, endeavor in systemic risks situations, when the main disequilibrium affects the macroeconomic environment. In this context, the Romanian companies have understood the necessity – both in deontological and pragmatic terms – to maintain and consolidate their implication in social projects, especially in times of economic crisis. The fundamental change that the crisis brought in terms of CSR implication, excepting the thorough awareness considering the potential of socially responsible actions, was represented by the shift from philanthropic activities and simple cash donations to more strategically coordinated CSR actions, related with the core corporate business activities. This trend is the one that should be emphasized and developed in the future, in order for both the companies and the society to gain significant advantages.

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¹³⁴⁷ Peters, A., 2009, p. 8.

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SOME ASPECTS REGARDING TRADE FOR SUSTAINABLE DEVELOPMENT IN THE CONTEXT OF THE ECONOMIC CRISIS

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The trade (qualitative and quantitative level of trade) can promote the concept of sustainable development.

The concept of Sustainable Development involves the implementation of theoretical and practical components for making decisions in any situation in which features a man-type medium, be it the environment, economic or social.

The goals of sustainable development include the harmonization of the economic, social and environmental targets.

This paper presents the main types of the correlations: Trade – Sustainable Development – Economic Crisis.

Keywords: Trade, Sustainable Development, Economic Crisis.

JEL Clasification: L25

Introduction

The world must quickly design strategies that will allow nations to move from their current, often destructive, processes of growth and development to sustainable development paths. This will require policy changes in all countries, with respect to both to their own development and to the impact on other nations' development possibilities [1,7].

The concept of sustainable development designates all forms and methods of socio-economic development, whose foundation is primarily to ensure a balance between these systems and socio-economic elements of natural capital.

Development is sustainable when it addresses the problem of the large number of people who live in absolute poverty - that is, who are unable to satisfy even the most basic of their needs. Poverty reduces people's capacity to use resources in a sustainable manner (it intensifies pressure on the environment). Most such absolute poverty is present in developing countries (it has been worsened by the economic stagnation of the 1980s).

A necessary but not a sufficient condition for the elimination of absolute poverty is the relatively rapid rise of per capita incomes in the Third World. It is therefore essential that the stagnant or declining growth trends of this decade are reversed.

Growth must be revived in developing countries because that is where the links between economic growth, the alleviation of poverty, and environmental conditions operate most directly. Yet developing countries are part of an interdependent world economy; their prospects also depend on the levels and patterns of growth in industrialized nations.

Such growth rates could be environmentally sustainable if industrialized nations can continue the recent shifts in the content of their growth towards less material and energy-intensive activities and the improvement of their efficiency in using materials and energy.

About the trade for sustainable development

The most known definition of sustainable development is given by the World Commission on Environment and Development (WCED) report "Our Common Future", also known as the Brundtland Report [4]: "*Sustainable development is development which aims to meet the needs of present without compromising the ability of future generations to meet their own needs*".

The concept of Sustainable Development involves the implementation of theoretical and practical components for making decisions in any situation which features a man-type environment, be it the environment, economic or social.

In the human-environment correlation (more precisely the human-environments correlation), the trade is of particular importance [2,3,5,6]. This importance is that the trade may affect (positively or negatively) all three types of environment (the environment/ ambient, economic and social environment). Figure schematically presents the importance of the trade for the human-environments correlation.

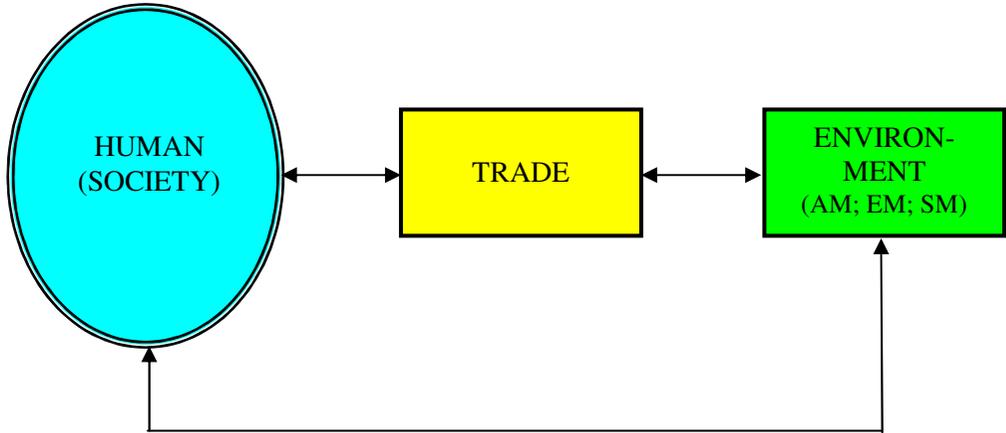


Figure 1. The importance of the trade for the human-environments correlation.

AE – Environment (Ambient Environment); EE – Economical Environment; SE – Social Environment.

The importance of trade in human-environments relationship is revealed by the central position of the trade. The double correlations trade-man and trade-environments is also highlighting the importance of trade in this relationship.

For the detailing of the human-environment relationship schematically presented in figure 1, we may define two specific types of trade:

- Ecological Trade (“Green Trade”) in direct correlation with the environment (ambient). The Ecological Trade-Environment correlation consists of: the trade that applies and extends the requirements as to the protection of the environment positively influences the latter (↑). Implicitly, under these circumstances, the ecological trade is the sustainable development generator (figure 2).
- Social trade, in direct correlation with the social environment. This correlation suggests that a trade that puts the forefront of continually optimizing the price/quality ratio in terms of customer (that is the increase of this report without being affected quality) is a trade positively affecting (↑) the social environment.

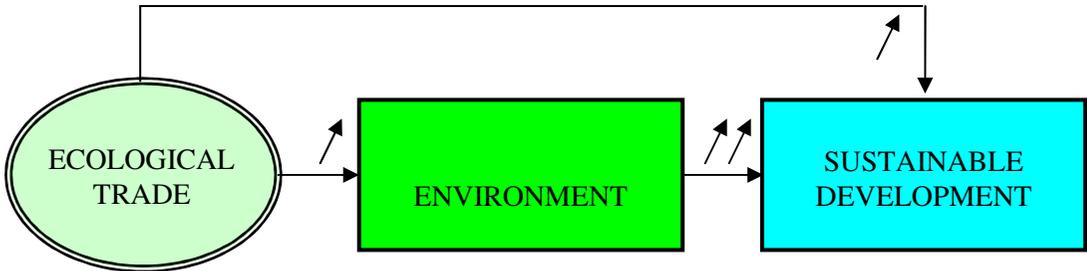


Figure 2. Ecological Trade – Environment – Sustainable Development correlation

The multiple correlation human (society)-trade-environment-sustainable development is schematically in figure 3.

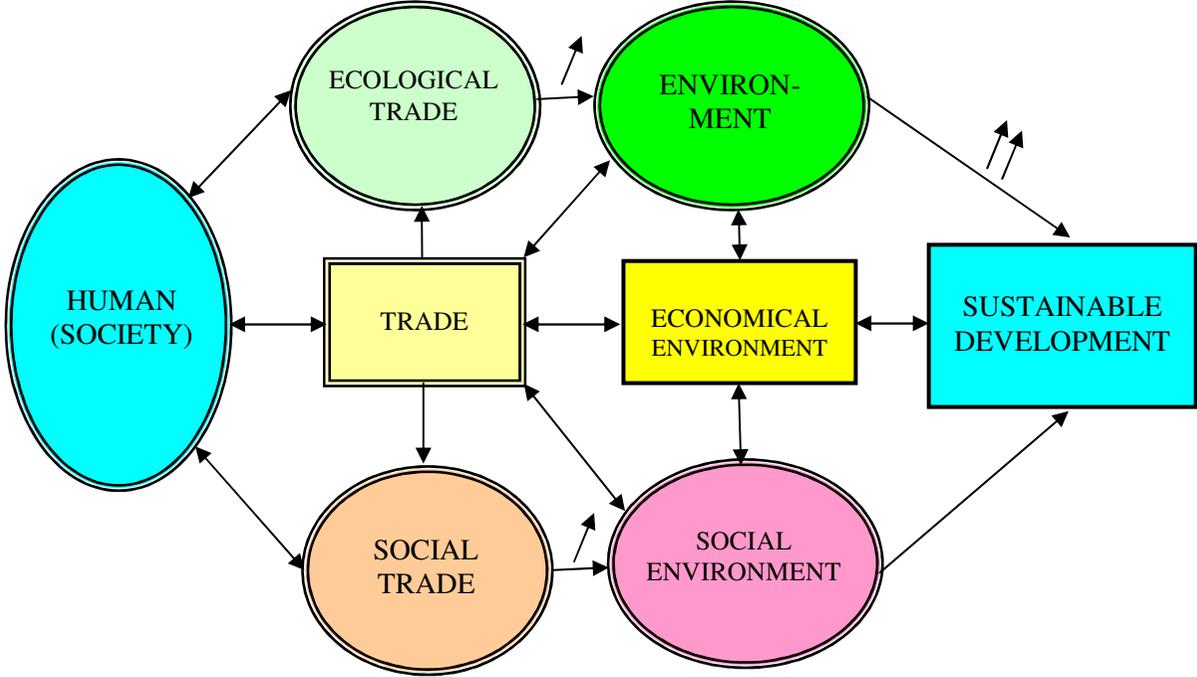


Figure 3. The multiple correlation Human (Society) – Trade – Environment – Sustainable Development

The following positive influences (favorable, ↑,↑↑) are identified:

- Positive influence (↑) of the ecological trade on environment.
- Positive influence (↑) of the social trade on social environment.
- Clear positive influence (↑↑) of environment on sustainable development.

About correlation: Trade – Sustainable Development – Economic Crisis

The main types of the correlations Trade (T) - Sustainable Development (SD) – Economic Crisis (EC) are presented below (figure no. 4).

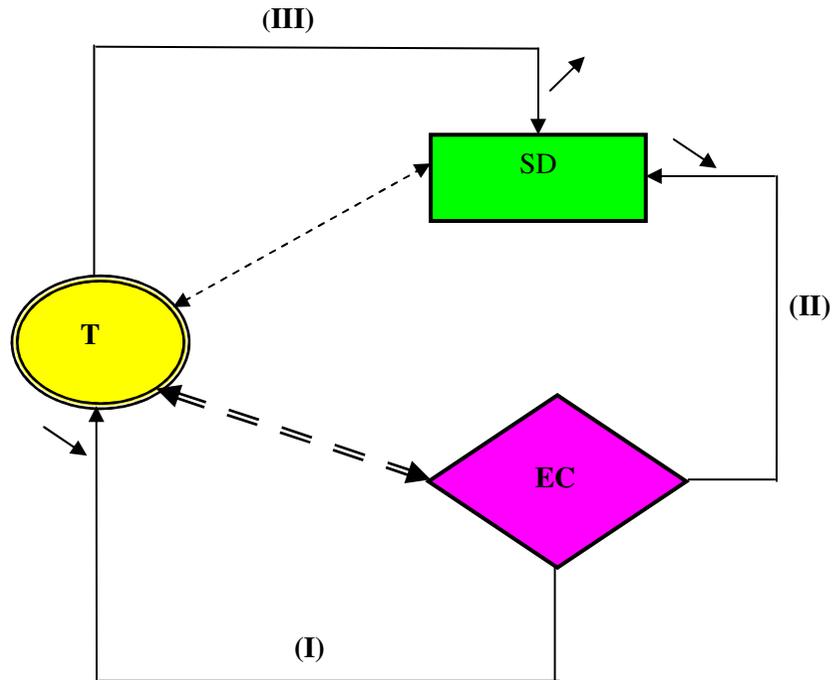


Figure 4. The main types of the correlations Trade (T) – Sustainable Development (SD) – Economic Crisis (EC)

There are three types of correlations:

- The negative influence (↓) of economic crisis on the trade (decrease of the sales volume).
- The negative influence (↓) of economic crisis on sustainable development.
- The positive influence (↑) of trade (ecological trade) on sustainable development

Conclusions

The concept of sustainable development designates all forms and methods of socio-economic development, whose foundation is primarily to ensure a balance between these systems and socio-economic elements of natural capital.

Many correlations may be identified among trade, sustainable development and economic crisis. Of these correlations the following are most important:

- Positive influence (↑) of the ecological trade on environment.
- The negative influence (↓) of the economic crisis on sustainable development.
- Obvious positive influence (↑↑) of environment on sustainable development.

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ISSUES OF HUMAN RESOURCES, MEMBERS OF PROJECT TEAMS IN THE NGOS: A CASE STUDY

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Romanian non-governmental organizations (NGOs) have the specialists and the capacity necessary to attract funds from European Union for European integration aim. For this purpose they create and implement different kind of projects (social, cultural, etc.). To create such project it is only needed one or two specialists in writing a project, but to successfully implement one, it is needed a whole special united team, motivated and committed to the purpose. In making this successful team, the project team management confront with a lot of challenges. This paper illustrates, from a human resources perspective, some of the most common issues that a project team manager has to deal with. Using the case study method, this thesis suggests the challenges that the manager has in building the team, creating a united team, motivating the members and solving potential conflicts.

Keywords: human resources, project teams, NGO, voluntary work.

Cod JEL lucrare: L31, M12

1.Introduction

In the past decade increasingly European funds were allocated for Romania's integration in European Union, funds that were either pre or post accession. The purpose of these funds is to reduce the gap between the Romanian economy and other European Union's members. Romanian non-governmental organizations (NGOs) have an important role in this process because they have the experts and knowledge for attracting the necessary funds for development and European integration.

In Romania, NGOs have emerged as a result of the desire to mitigate social problems of society, once economic prosperity began to enlarge.¹³⁴⁹ Currently, non-governmental organizations create projects for supporting society and the economy default, not only in social matters. Specificity of these organizations is given by their way in structuring the activities - project teams - which involve different personnel management issues.

This paper refers to the challenges and implications that arise in human resources management, members of project teams. The issues presented below should be taken into consideration by project team managers given the fact that members can easily become unmotivated. If the team members are unmotivated, then the work quality will become poor, the project's objectives will not be reached (both qualitative and quantitative goals) and the European values will not be transmitted, making the European integration more difficult. Consequently, funds provided to reduce disparities between Romania and other European Union members will no longer be efficient (further efforts, projects and additional money are needed) and effective (not doing what is required).

This thesis offers an approach of human resources management challenges that an NGO is facing in our days. Even if these organizations meet a lot of other problems like financial, marketing, management, the personnel problems seem to be more complex and determinant in facing the

¹³⁴⁹ Ioan Strainescu, Ben-oni Ardelean, 2007, *Managementul ONG*, Ed. Didactica si Pedagogica, Bucuresti, p.3.

other challenges. Peter Drucker claimed that there is no other area in which more differences between businesses and NGOs are, than in managing people and relationships between them.¹³⁵⁰

¹³⁵⁰ Peter Drucker, 2001, *Managing the Non-profit Organization*, Ed. Butterworth-Heinemann, Oxford, p.143.

2.NGO's role in Romanian economy

In the emergence of NGOs they offered only social services, but in present, there is a much wider range of services that the community benefits. These services were classified according to International Classification of Nonprofit Activities in twelve categories: culture and recreation, education and research, health, social services, environment, development of housing, law advocacy and politics, philanthropic intermediaries and voluntarism promotion, international, religion, business and professional associations, unions, not elsewhere classified. NGO's actions are support activities for the economy (besides those of the state) and their necessity appeared together with economic prosperity. The actions of these organizations rely mainly on voluntary work and come often to supplement services provided by local public authorities. This relationship is inclined to create a positive image of the public institutions and to facilitate the access of the community to public services. Without substituting public sector, NGOs mobilize funds that would be inaccessible, offer a quality service and solve additional semi-free community social problems.

In Romania, NGOs have a facilitator role in helping for European integration and often promote European values and determine their clients – in contrast with public sector - to become active. These organizations also create links between users and public authorities using a referral system and sometimes even offer support for benefit the supplementary services.

Jose Luis Monzon Campos (1992) identified a growing need of NGOs in business practices, as there are a lot of problems (both new and old) that capitalist companies, public enterprises and public sector generally can not solve. NGOs integrate “(...) both social and economic function and they are capable of creating wealth in an efficient manner, and then distribute them fairly.”¹³⁵¹

3. Teams features of a non-governmental organization

David Mason claims that there are fourteen NGO's characteristics that differentiate the non-governmental sector from other types of organization. Of these, those that have direct relationship on staff and team member are illustrated below:

- the main tool used in staff motivation is voluntarism produced by persuasion;
- money are just an instrument for NGOs, not the aim;
- NGOs tend to accumulate more targets, therefore volunteers and employees are always exposed to newer needs;
- NGOs tend to have a great social feature, which influence the management style (for example: the staff has a great need for affiliation - McClelland motivational theory);
- NGOs are more complex, in a characteristic way than other types of organizations;
- performance standards tend to be replaced by the ethical standards.¹³⁵²

The literature review on teams and teamwork offers a wider range on classify them, taking in consideration criteria like: the purpose of building the team, the amount of control over the objectives that team has, the team composition, the size. Romanian NGO's teams are project teams, a common type that also exists in profit organizations. Project teams are the key to success of an NGO functioning and therefore highlights the need of human resources management skills for those that manage these type of teams. Even though the NGO still need a strategic vision on human resource management at the top of the management hierarchy. The project team manager's actions have been often linked to those that human resource management does and often the accent was on leadership skills.

¹³⁵¹ Jose Luis Monzon Campos, 1992, *The “Social Economy”*, Third Sector in a Evolving System, pp.22-23, in Ion Boboc, 2004, *Managementul organizatiilor non-guvernamentale*, Ed. Didactica si Pedagogica, R.A., Bucuresti, p. 49.

¹³⁵² David E. Mason, 1984, *Voluntary Nonprofit Enterprise Management*, Ed. Plenum Press, New York, pp. 67-165.

According to Larson C.E. and LaFasto F. M.J. team's classification, depending on the broad objectives, the teams are: problem solving, creative and tactical. NGO's teams can be both creative type designed teams and tactical. The creative type involves skills such as persistence, independent thinking, self-determination and their process emphasis exploring possibilities and alternatives for successfully project implementation.¹³⁵³ Another team classification is offered by Hackman J. R. and take in consideration the amount of authority of the team. According to this criteria the teams are: manager-led teams, self-managed teams, self-directed teams, self-governed teams.¹³⁵⁴ The NGOs ordinary develop manager-led teams and sometimes, when the team cumulated some experience in working together, they develop self-managed teams.

4. Research method

This paper uses the case study research method in order to illustrate the most common challenges faced by Romanian NGOs. It was used a single case study applied on a subsidiary organization of a national NGO, named Romanian Association Against AIDS, ARAS Iasi. Choosing this NGO was due to their extensive experience of fifteen years in local activities and also due to the fact that it was among the first NGOs appeared in Iasi. ARAS Iasi was, until the year 2000, the only local NGO who worked in HIV/AIDS domain.

The case study proposed in this thesis is mainly descriptive and less explanatory and answers most often to the question: "how?". The information described below resulted form two semi-structured interview guidelines with two project team managers of the organization. For illustrating the volunteers motivations it was used a number of thirty "entrance questionnaires" of the volunteer department taken at the last two recruiting sessions. The research's results asserted that the situation in NGOs is more complex then in profit companies and that people require a lot more attention.

5. Human resources issues in project teams from ARAS Iasi NGO

5.1. Brief description of the NGO

ARAS Iasi is an NGO with fifteen years experience in educating the general public on health issues and in providing primary social assistance to vulnerable groups. Because young people are the main target group of the association, its members are dynamic, flexible and innovative people willing to promote the values of the European Union for the benefit of integration. According to the classification made in the year 2000 by teachers Frumkin and Andre-Clark from Harvard University, ARAS Iasi is a charitable organization having a strong commitment to values and a weak commitment to performance.¹³⁵⁵

The association has seven employees, specialists in various fields - psychology, social work, health care, economy, public relations - and twenty volunteers involved in information, education, counseling and advocacy projects. Given that Iasi is a university city and that most volunteers are students (80%), ARAS Iasi held many seasonal activities that make management work very difficult (retention and motivational issues). Most of activities are held on the streets, in direct contact with beneficiaries, but there are also activities held at the office, like counseling and writing reports and evaluations.

Most actions taken by the association are engaged in projects, but there are also some support type activities like: accounting, human resource management, counseling and referral. The director is the one who also meets human resources responsibilities, at the strategic level, while

¹³⁵³ Carl E. Larson, Frank M. J. LaFasto, 1989, *TeamWork. What Must Go Right/What Can Go Wrong*, Ed. Sage Publications, Inc, California, p. 43.

¹³⁵⁴ J.R. Hackman 1987, *The Design of Work Teams*, in Leigh L. Thompson, 2004, *Making the Team: a Guide for Managers*, second edition, Ed. Pearson Prentice Hall, New Jersey, p. 18.

¹³⁵⁵ Peter Frumkin, Alice Andre-Clark, 2000, *When Missions, Markets and Politics Collide: Values and Strategy in the Nonprofit Human Services*, in Ion Boboc, 2004, *Managementul organizatiilor non-guvernamentale*, Ed. Didactica si Pedagogica, R.A., Bucuresti, p. 47.

the project team manager meets them at the team and individual level. If the director has to have predictive and planning abilities, the project team manager has to have interpersonal, analytical and leadership skills for meeting all the teamwork challenges.

5.2. Challenges in building and developing functional project teams

Each project team has several development stages to get to high performance. The common stages of a team are: forming, storming, norming, performing, adjourning. The success of the project team depends most on the team manager abilities to make all these stages easy to pass and understandable for each member of the team.

The forming stage is the most important, complex and critical in success of the team. First, the project team must have the required knowledge, skills and abilities necessary to the project. For that to be accomplished it is necessary a good selection of its member. The features that have to be taken in consideration in this stage are the purpose, the type, the composition and the size of the team. In ARAS Iasi teams are only project teams, creative and cross-functional with implementing the project's objectives purpose. At the beginning, teams are **manager-led** because it has to execute tasks as they are being defined by the project manager. After the first stage, of knowing the activities to be undertaken and after accumulating enough knowledge and experience of work, the project team becomes self-managed and has the authority to choose the methods that can achieve the goals.

Cross-functional teams have proven over time the most important advantage of summing talents. Association's projects aims are offering health education and social support. That is why the members of teams are social assistant, psychologist and medical assistant who were able to provide integrated and quality services (primary care, testing, counseling, referral) to a number of 130 beneficiaries from 980 had in the year of 2009.

Cross-functional teams have also a great disadvantage: due to professional differences it can occur disputes regarding problem solving or referral to the local public institutions. For example, the most common conflict is that counseling is offered by all team members and has nuances, depending on profession. The contradictions in which type of counseling is more appropriate and who will carry out the counseling session can often arise among team members.

Since the association's principal value is voluntary work, but the projects also ask for employees, ARAS Iasi is dealing also with **composition team** issues. Most of the time, ARAS Iasi works with a minimum number of employees and rest of it are volunteers. Project team composition within the European-funded projects is:

- team developed mostly of employees: when there is a budget line project for staff;
- team developed mostly of volunteers: when there is not a budget line project for staff.

In the first case, responsibilities are first divided - depending on the importance, safety and security in doing the task - between the employees and afterwards to the volunteers. Importance of the tasks is based on the type of influence they have on the key indicators of the project (directly or indirectly influences), the complexity of the task (counseling, education, information, referral), the content of the task (member's competence). Considering the fact that beneficiaries of these types of projects originate from vulnerable groups, volunteers are more involved in office and advocacy actions, because these presume less risk. Even though, volunteers are trained before and they have the chance to give up anytime if they do not feel attracted enough in doing what they were asked to do.

In the second case, in which the teams are made up mostly of volunteers, employees are often project manager, but they also can be implementers. If there is a volunteer with at least one year experience, he can be project manager. Employees from these type of project have the volunteer status, because besides the activities required by the job description they also do extra activities. These extra-activity, often represent a tool for measuring employee commitment towards the organization and to the work.

This type of involvement, both volunteers and employees has its own benefits, but also arise some issue that ARAS Iasi has to deal with, mostly in *storming, norming and performing team stages*. Some of them were relieved bellow:

- volunteers: making them responsible in meeting the task on time, even if their actions are voluntary work, training them for being prepared to represent the association, clearly defining roles;

- employees: clearly defining assessment system (that its applied only on paid activities and that there will be no remuneration involved for volunteer work), offering recognition and permanent encouragement for volunteer work, dealing with inclination for exclusion and discrimination of the employee who does not involves in voluntary work.

Other problems in the project team may come up when there is a new project that involves employees recruitment and volunteers are not graduates of specialization required by the project. Although volunteers demonstrates involvement, commitment, competence and have great results, they cannot occupy positions in this project, because there are certain requirements - eligibility criteria - of the financing authority. In such moments team manager has to deal with disappointed, frustrated, unmotivated volunteers.

The manager will have to appeal to external recruitment, but considering the fact that the interview does not always provide sufficient information about a candidate, there is the possibility that he will not fit in organizational culture and have different values from those promoted by the association. This stimulates the emergence of conflicts and involves a much longer period of insertion of the new member. If this culture modeling of the new member is not obvious its cause frustration among team member and the manager has to take a decision on the weak "chain joint".

Another challenge that had to be held in the *forming and performing stage* of project teams in ARAS Iasi was hiring people with a part-time working program. This implied a different management, based on good communication among team members (informing the part-time member about what happened during his absence), a rigorous labor organization and more understanding people inside the team. If the communication system does not work properly - the informal one is very important here - there is the risk that part-time employee to feel excluded from the team, or at least uninformed.

5.3. Human resources motivations, members of project teams

ARAS Iasi is a charity organization whose aim is to help the society to prosper by offering the necessary support in education and health issues. This is the reason why it expects from organization's members to have humanitarian values and commitment to this purpose. These issues involve intrinsically motivated and self-determined project teams (staff and volunteers), people that can solve all sorts of problems that can occur in achieving objectives.

Motivational methods for employees differ from those used for volunteers. The team managers claim that employees from ARAS Iasi are primarily motivated by professional development in a less rigorous environment, which allows some beginner mistakes. They are also motivated by challenges and by the work itself, often waiting to be offered more responsibility and special recognition. That is the reason why motivational process focuses more on *intrinsic motivation* (the financial reward is also not too flexible), on trying to keep them motivated, rather than actually motivate them extrinsic. An important strength of the recognition system is staff development through participation in all kinds of trainings (mostly provided for free by other NGOs) both on the project and personal interest.

Regarding volunteer's motivation, according to data centralization of "entrance questionnaire", appeared that they are motivated: first, by a desire to do something useful in their spare time; second, to be part of a group; third, for personal development. ARAS Iasi has defined a clear path for volunteer promotions and has also a recognition system which includes: designation volunteer of the month, offering a degree in the festivities, offering medals for activities that they engaged,

nomination on different festivities: Volunteer Portrait or Volunteer Gala, offering the possibility to apply to wide variety of trainings and youth exchanges.

ARAS Iasi offers a carefully attention to all the needs of its members, because it believes that high degree of motivation leads to strong commitment towards the organization and its objectives, and by default to qualitative results. Although the NGO's turnover is high, this is due to seasonality activities and also to financially unstable environment (people look eventually for financial security, because needs also change).

6. Conclusions

Romanian NGOs become an important participant in decreasing the gaps existing between Romania and European Union. Therefore, they have to deal with a large amount of new expectations from the outside of organization and by default with new challenges. The project team management seems to be the most complex issue to deal with. Even if the project team members in NGO's have a common purpose and special motivations that differ from people in profit sector, they are also professionals coming from different areas, with different personalities and different vision in purpose achieving.

This paper illustrate, from a human resources perspective, the most common challenges that a project team manger from a non-governmental organization can meet in building a functional team for implementing the European-financed projects. The team management has to deal a large amount of issues so as to prevent potential conflicts. The forming stage represents the most complex work that team leader has to perform because involves an evaluation system, recruiting skills, training and coaching, managing the part-time and full-time job as part of the same project. Developing the team is also very important in achieving project's objectives, in motivating and creating committed team members.

Because of humanitarian values and intrinsic motivation, the members from a NGO tend to implicate personal in solving the tasks, they become committed to their work and to the organization. That is the reason why team managers have to be very close to the organization's members, to their needs, to their expectation and to respect their values, to recognize and appreciate their efforts.

7. Research limits and further research.

The research proposed has method limit. It was used a single case study based on two semi-structured interview guidelines and thirty volunteer's "entrance questionnaires". Another limitation could be the interview guidelines, that may have been subjective interpreted.

For further research it will be taken in consideration the team's member opinion, in dealing with human resources issues and then compare it with manager's opinion. Further researches could also take in consideration the team management style which may be a cause for challenges that appear during storming, norming or performing team stages.

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EFFECTIVE PROCEDURES USED IN QUALITY MANAGEMENT OF COMPANIES

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The paper deals with elements concerning the application of the new “real options” approach system in project management of small and medium sized companies. The real option approach has the advantage of a great flexibility when a high degree of uncertainty is present. Also, it suggests to estimate the maximal profit obtained by investing a certain amount of capital using: updated monetary flow methodology, Monte Carlo simulation method and other stochastic optimization techniques like those using minimum and imposed risk problems. Generally, this new approach was used in the project management of large companies.

Keywords: real options, stock exchange options, risk, simulation method, stochastic problem.

JEL Classification: C02, C15, C51, C53, C61, C73, O12

1.Real Options approach introduction

1.1.Basic elements concerning real options concept

The new real option system regards the strategic management and decision taking process as a process aiming at the same time, at the reduction of risks and enhancing of favourable opportunities. Real option approach takes into account the investment financial system (particularly shares) and also other fields concerning decision making in risk circumstances (e.g. project assessment in a market input-output organization restructuring and reintegration, taking over new technologies concerning climate change decision making, organization reintegration, biodiversity, etc).[2]

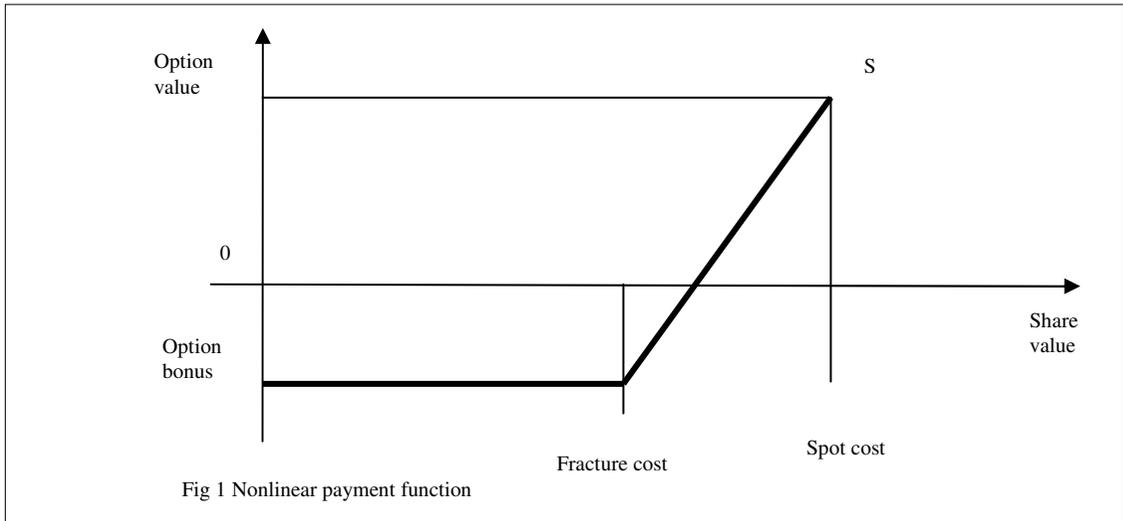
This approach is used in various activity fields of modern companies: market covering and developing finance, human resources management, technology and knowledge management, etc.[4] It represents an important change in strategic management but it is relatively almost unknown, despite the fact that it was adopted by many large trusts like: Airbus, HP, Intel, Toshiba, etc. At a macroeconomic level financial system efficiency is based on a thorough assessment of risks and a good project management. Real options approach is a crucial analytical instrument for this assessment and is also the connection between the financial system and the project management sector for actual investments.[8]

1.2.Financial options connection – real options

Real option approach is based on financial options working systems on Futures stock exchange. A financial share gives the owner the right but not the obligation to buy (or to sell) a given amount of shares in the future at a predetermined cost. The share owner will execute the option only if it is profitable. That is the cost on the market is high; otherwise the option is not executed and the bonus (the amount paid for the right of exercising the options) is lost (Fig.1).[1],[11]

In time it was found that some actual investments are correlated with financial options.

Let's consider the example of a plane ticket. A fixed date plane ticket is cheaper but the loss in case the owner is ill represents the whole cost of the ticket. In exchange of an additional bonus the ticket may be returned or another departure date may be chosen. In this case, if the flight is not possible the ticket can be returned and so the loss is limited to the additional bonus. Similar options can be found for planning strategies in project management or in project financing.[7]



So, project managers can forecast the possibilities of some reactions to various risks occurring during the ongoing project so that when costs are similar to option bonuses the losses are limited to this cost, the manager being able to choose another way or to give up the project when it becomes unprofitable.

1.3. Risk categories

The risk is regarded as an exposure to uncertainty for which most of the investors show some aversion, because investors are interested in obtaining maximum profit from a share, respectively from an invested capital.

On this basis were defined a set of models dealing with risk and gain. In this models the risk is divided into two components:

- Systematic risk affecting all investments on the market.
- Specific risk affecting only specific investments.

According to some of these models the expected gain is proportional with the systematic risk associated to the investment. As the investments are practically different in a certain field, only the specific risk shows the benefits are proportional with the exposure to the systematic risk.[6]

Risk level can significantly change in various phases of the project (development, research, marketing).[3]

1.4. Assessment binomial model

Ordinarily every option is connected to the value of a share. So, the future value of the option directly depends of the future value of the share. For this reason the current cost of the share and its future development is most important information for the assessment of the share which can be considered as representing a part of the assets of the company.

The actual cost of a share S – represents the market value. After a given time interval the value of the share can evolve to two possible limits. Let highest value be S^+ and the lowest be S^- . The fraction S^+/S is called growth factor u and the fraction S^-/S is called reduction factor d . Actually the cost of a share can take an infinity of values after a certain time and taking into account several intervals one can obtain a most realistic distribution of the cost of a share.

Volatility σ is a measure of the total risk of the share and is used as a magnitude of the uncertainty concerning the cost variations of the share. For the binomial model a combination of factors u and d may be calculated as below:

$$u = e^{\sigma} \text{ and } d = \frac{1}{u} \Rightarrow S = \begin{bmatrix} S^+ = u \cdot S \\ S^- = d \cdot S \end{bmatrix}$$

At the end of the interval the net gain is given by the cost of the share minus the X fracture value. If the value of the net gain is negative the option is not executed and its value is zero. The future values will be noted C^+ , C^- and the actual value C .

$$C = \begin{bmatrix} C^+ = \max(S^+ - X, 0) \\ C^- = \max(S^- - X, 0) \end{bmatrix}$$

Eventually, the binomial model shows a computed equivalent of the real option similar to that of the model computed using the formula Black and Scholes for financial options.[10]

Elements for the assessment of the options	
S	Actual value of the share (of the investment)
(S^+, S^-) or (u, d) or σ	Assessment values for the future development of the investment
X	Fraction cost
r	Interest rate for zero risk (the interest rate for state bonds)

The actual value (S) of a share can be observed in the market. The fracture cost X may be deliberately chosen so it may be known. The interest rate at zero risk is the interest rate for state bonds. So, the historical data may give enough information on volatility making possible the assessment of the share cost development from the beginning until the end of the considered time interval.

2.The transition from the financial options to the real options

2.1. The similarity between financial options and real option assessment

The assessment techniques of financial options can as well be used to the assessment of real options. While the financial options are based on the evolutions of some shares on the market, the real options are based on the evolution of some investment values on the market. The first example of real options is found when the value of some investments is very close to the market value. The financial shares are traded meaning that on the market appears a momentary cost called market cost.[2]

The financial markets prove that information concerning the future development of the share cost of is reflected in the market cost. Actual investments that have many common parts with financial investments are presented in the following examples:

- The right of drilling for crude oil (correlated with the future cost of the crude oil) and assets of the company. The crude oil is traded on the market so there is a cost called spot cost and also some information concerning the volatility of this cost. The cost of a company may be also transacted at a cost fixed by the market. The information concerning the future cost is included in the spot cost. The approach of cost evolution of an investment to the option system is obvious. In these circumstances the value of the optional investment can no more be calculated using the traditional system of the analysis of the updated value of DCF (discounted cash flow) in project management.[5],[8]
- The option to launch a new product is based on the market volume; if the demand is high, the product is launched, if the volume is not large that is the demand is low the product will not be made and launched on the market. Starting from such examples a new theory of actual options is developing based on ideas such as a new technology leads to the option to develop a new product. The new product leads to the option of trading it or not when the market is favourable or not. For a

right modelling of the market updated value assessment of volume and volatility are necessary which sometimes are very difficult to obtain because it is not about elements transacted on the market.

2.2. Techniques used to assess volatility

- The **Correlation Technique** makes the correlation between a nontransactionable investment value and a similar transactionable share. It is about the rule of shares strongly correlated with the nature of the investment value. These shares are frequently called tracing shares because they trace the market volatility aimed at. As an example many western pharmaceutical companies use the shares of medical companies transacted on options market to compute updated values for projects concerning the launching of new products. Many other business opportunities especially projects based on new technologies are unique, so that finding new shares in similar areas is difficult and we can use the following technique.
- The **Assessment technique** based on the assessment of the market potential for the respective product and then on the attempt to assess this potential and to use the assessment as a basis. The expected value of the investment may be found in the computing methodology for the updated monetary a flow computations made in traditional analyses found in investment projects, hence maximal and minimal estimated values may be determined using risk maximal and minimal values taken into account. In more complex cases the estimation may be performed using the Monte Carlo method for simulation by which the probabilistic distribution function of the gains generated by project completion is synthesized.[5] Then an evaluation of the interest rate on the market is necessary for a right determination of the risk, more exactly of its systematic component. Computing the updated net value, the values of S (and X) may be determined when using a right interest rate.[9] Maximal profit estimation for a certain amount of invested capital may be carried out using also stochastic optimization techniques. This may be approached in two different ways:
 - Minimizing the risk of not obtaining for the objective function of the profit a value smaller than a given one (these are called minimal risk problems).
 - The risk we take can be chosen and the decision resulting in the highest value of the profit function can be determined.

3. Conclusions

The use of real options is difficult and requires substantial know – how to perform the quantitative analysis. The difficulties in performing the quantitative analysis are a true barrier in the development and dissemination of that methodology. Another major difficulty is the access to confidential and protected data resulting from previous researches. This seems to be the hardest problem knowing that small and medium sized companies depend on the way they protect their research and technological information.

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THE QUALITY OF THE TOURISM SERVICES UNDER THE SIGN OF SUSTAINABILITY

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The intensive development of tourism represents a unique challenge in history. That is why we have to be prepared that in the 21st century we should cope with the "avalanche" represented by the quality of life, especially related to the food quantity and quality needs and the greater need of people to recover rapidly and pleasantly through holidays and tourist travels. A first step in this sense, which we assume, is the superior educational effort to train real professionals with certain competences for solving the complexity of these realities that we live. The society becomes more and more aware of all these realities.

The activity of the international organisations shows that their efforts for the development of food and tourism are more and more appreciated by the population. Urgent actions based on the mature thinking and quality scientific interpretations are necessary, in order to stop, on the one hand, the food decline in certain areas of the world, and on the other part, for the proportional and harmonious development of food and tourism on more expanded areas, and to reconcile man with nature, to focus on agriculture and on the ecological and biologic food and eco-tourism, to leave future generations an environment at least as favourable as the one we inherited. All these wishes mean important changes in the economy and of everyday life, request large investments and sacrifices, a new mentality. It is not easy to fulfil these tasks, but we must think about what would happen if we did not solve these problems. In a short while we would block the normal evolution of the contemporary human society.

Keywords: tourism services, quality, sustainable

JEL classification: M50, Q01, Q56, L83

The establishment of the potential markets, the marketing strategy and the radical change of the training manner for the personnel in tourism represent the main areas where Romania needs to act in order to reevaluate the tourist potential in the next 20 years.

We all believe that it is the moment that the main tourism operators in Romania¹³⁵⁶, the local tourism agencies, the consultancy companies in the field had the last word regarding the development and the promotion of tourism in Romania, that they accepted the change, even if the change produces enthusiasm when we are its authors and it seems threatening when we are its subjects...

¹³⁵⁶ Mazilu Mirela Elena, *The Actors involved in sustainable tourism of a destination*, published in Proceedings of The 2nd International Tourism Conference: "Sustainable mountain tourism-local responses for global changes", Drobeta Turnu Severin, Sept. 26-27, 2009, Universitaria Publishing House, Craiova, pg. 215-221;

The transparent access to the funding offered by the European Union will facilitate the development of tourism and of infrastructure in the tourist potential areas of Romania. Of course this depends to a great extent on Romania's capacity to "create viable projects" for tourism, and here the human resources have an important role.

The impact on tourism is not relevant on a short term. There is no guarantee of the fact that the foreign tourists will be more interested in Romania upon its entry in EU, but only a chance which must be reevaluated through an aggressive promotion on the member states market, doubled by the offer of quality services. We must take into account the improper infrastructure in many regions of the country, the poor quality of the tourist services and the existing prejudices towards our country in the West.

On long and medium term, if Romania knew how to take advantage of the opportunities offered by the quality of EU member, it could become one of the veritable tourist destinations not only exclusively for the old member states, but also for all the member states or not from the Central and Eastern Europe. It would be ideal to transform professionally and especially with the tourist potential, exceptional even, the recognition at the highest forums from the European and world tourism field, the Illusion into a sustainable reality!

This article tries to offer a pertinent analysis after 3 years since the adhesion to the European Union, of Romanian tourism following the 2 diagnosis informational axes: advantages + disadvantages offered by the adhesion and the impact on the quality of services in tourism, themselves dependent on the quality of the human resources who perform it:

Advantages:

- Europe, the first destination of the world: over 60% from the world tourism;
- the desire of the European people to discover the aesthetic borders;
- "the opening of the gates" for the spa tourism of the EU countries;
- a huge market of consumers, including tourists;
- the rapid development of the low-cost flight market and their arrival in Romania;
- the cancellation of the customs check-ups - ease of the traffic flow;
- the pressure for the Romanian authorities to hurry the development of the road, railway, naval infrastructures, funded with European public money;
- the competition, including for the tour-operators, the hotel managers and the Romanian restaurateurs will develop.

Disadvantages:

- the material basis - approx. 50% from the hotels and restaurants - is not ready for the competition with the neighbouring countries;
- infrastructure: especially the road one, behind the one of the countries which adhered;
- closing the access for retired persons and the persons with health problems, to the medical services through MMSSF in the Spa resorts;
- the high taxes on the work force - small wages, the migration of the qualified and skilled work force to other markets;
- the incapacity of the institutions which train the work force - vocational and for adults - to provide an optimal number of personnel with qualifications (more diplomas than skills) - in comparison with the demand of the internal market for the basic jobs, supervisors and top-management;
- non-concluding some commercial conduct codes between the hotels and the tourism agencies - barrier in the correct function of the internal tourist market.

The quality of the services in the hospitality industry

Who generates/closes the quality of services in a unit?

- the owners of the business;
- the management;
- the employed personnel;

- the utility providers: chosen or imposed (the monopolies);
- the business partners;
- the central and local state authorities;
- the Parliament, the Government and the governmental agencies through laws (with a positive or a negative effect on the tourism sector);
- the local councils through decisions on the development plans, the taxes and the fees, the investments in the infrastructure, utilities etc.;
- the forces of the tourist market (internal and external);
- the clients - the guests.

The quality of the human resources, the key to the success of the tourist services

The training, the recruiting and the employment of the specialised human resources

- the vocational system;
- the professional training system of the adults;
- the apprenticeship at the work place;
- the evaluation of the acquired skills using other methods than the formal ones;
- the lack of practical abilities of the ones from the university educational system;
- the lack of transferable credits systems, for the access to a carrier;
- the economic operators' lack of interest to ensure the access to a productive practical course for the students;
- the families' lack of interest to financially support the access to a carrier of the young people who turn to the industry of hospitality;
- the lack of national marketing policies for the tourism carriers (similar campaigns to those for the military carriers);
- the expenses with the professional training etc. of the human resources considered, unfortunately, expenses not investments - from the employees part: approx. 1% from the total of investments;
- the human resources are not perceived as "assets", but as employees, thus it is very difficult or impossible to apply the principle "HR Assets Management".

The competitive advantages¹³⁵⁷ of the hospitality industry in Romania

- the Relatively positive attractiveness of the basic jobs;
- the still cheap work force - a trap for the employers;
- tourism and the hospitality industry: are not gathered by the EU under one company, they function based on the subsidiary principle;
- Romania - still unknown to the European public, who travels, so this becomes a target for the coming years;
- very many natural products: vegetables, fruit, dairy products etc., which can, by their revaluation, in hotels and restaurants, ensure the quality of the Romanian tourist product
- the Romanians have a preference for the services, having as proof their success in the employment in the hospitality industry from EU countries, especially Italy, Spain, Great Britain, Germany;
- the ones who come back home and work in the same sector - over 75% - will bring added value to the quality of the services provided, based on the exigencies for quality of the citizens of the countries where they have worked for a short while;

¹³⁵⁷ Melinda Cădea, Felicia Aurelia Stăncioiu, Mirela Mazilu, Roxana Cristina Marinescu, The Competitiveness of the Tourist destination on the future Tourism Market, published in WSEAS Transactions On Business And Economics, VOL.6, Issue 7, August 2009, pg. 374-384, www.wseas.us/e-library/transactions/economics/2009/29-592.pdf

- the tourist potential, the improvement of the infrastructure, the coming of the great tour-operators and of the international chains will push forward the development and the competition; hence they will generate the acute need for quality of the performances and of the hospitality services.¹³⁵⁸

Conclusions

According to the data published by the Statistics Office of the EU, the financial crisis propagation has obviously affected tourism in the EU. According to the statistics, last year, the number of night spent in the EU hotels was of 1.578 billions, recording a decrease of 0.5% compared to the previous year. The same figures knew an increase of 3.4% in 2007 compared to the previous year and respectively an increase of 2.9% in 2006. If we make an analysis of the different periods, we can notice the obvious influence of the financial crisis on tourism. Compared to the similar period of 2007, between January and April 2008, the number of nights spent in the EU hotels recorded an increase of 1.6%. This figure dropped 0.5% between May and August, and between September and December, when the crisis worsened, this number decrease drastically with 3.2%.

- The crisis transferred to the private sector, thus tourism suffered a lot. This was felt in the degree of occupation of the accommodation units in the country, which decreased significantly with 20% (in hotels).

- The world economic crisis has a powerful effect on Romania, which does not have a developed market economy, but an economy based on the consumption and loans. What we can expect from the tourist point of view, nobody can answer. The rich persons suffer less; unfortunately, there is the wide majority of the population, affected by the economic crisis effects, which will suffer its costs: unemployment - due to the bankruptcies from the private sector, the investors leaving to other countries etc.

- All these make Romania very vulnerable from a financial point of view, because Romania's economy of 19 years has functioned according to a model of the so-called market economy, which has had as basis the privatization of all the state companies, from all the domains of activity: industrial, extractive, communications, agriculture, tourism etc. After 1989, for the development of industry and the private sector, the attraction of foreign and Romanian investors, the development of infrastructure and of agriculture and tourism had to be done through the granting of fiscal facilities and bank loans with low interests, with a grace period of 5 years. If these facilities had been granted, Romania's economy would have developed these 19 years, which passed and we would not have had to borrow from IMF.

Thus, although the predictions say that the number of tourists will drop this year, the operators must try to make a profit offering service packages at attractive prices. The predictions for this year estimate that the number of tourist who visits Romania will drop with approximately 10%. According to the organizations from the Romanian tourism, the world crisis will be guilty of keeping the foreign tourist far from Romania. Only that even before the launching of the financial problems, our country was avoided by the foreigners who preferred to go to Bulgaria, Hungary, Croatia or Montenegro.

The promotion only within the tourism fairs with slogans of the type "Romania - always surprising", made with a budget of only five million Euros, equivalent with the one from 1980, did not have any results. The race for enriching of the hotel managers from the seaside who offered terrible services for Ibiza type prices is no longer a solution. Romania has more attitude and human value. We do not have to want to transform our country into another France or another improved Germany.

¹³⁵⁸ Mazilu Mirela Elena, Roxana Marinescu, *The Competitiveness of the Romanian Tourism - a ghost or sustainable reality?*, in Annals of Faculty of Economics, vol.4, Issue 1, Oradea, 2009, pg. 367-372.

Tourism will be affected by the global economic crisis the following years, because all the prices will rise, and the people will pay more attention when they will spend their money. "Tourism will be affected by the world financial and economic crisis these next few years, which first started in the United States of America. This, because everything will be more expensive and people will have to take care how they spend their money. Financial and economic reductions will take place and, certainly, there will be a reduction of tourism. Also, the climate changes and the price of the oil barrel are other factors that will affect the world tourism" (Eduardo Fayos Sola - regional representative for Europe of the World Organisation of Tourism, seminar for the World Day of Tourism, in Poiana Brasov 2008).

From the date we have so far, we can draw the conclusion that the holiday market will record stagnation.

After the worsening of the world economic crisis, the Romanian internal tourism seems to be more interesting so far for the Romanian tourists, but the holiday products for external destinations are launched on the market only at this moment, so that it is too early to express an opinion. It is certain that, at least for the first half of 2009, the tourism for events will be seriously affected, because the majority of the corporations have drastically reduced the travel budgets. These aspects were noticed as early as October, November and December 2008.

2009 represented for Bucharest first year of decline after the spectacular increases recorded in all the fields. 2008 had a decrease of 8% compared to 2007, accelerated during the last trimester and noticed along 2009. This fact was noticed first in the main cities, especially Bucharest, because the travel expenses were the first ones to be reduced from the companies' budgets, and Bucharest was 65% based on the external business tourism and, thus, here the first signs of crisis were felt.

The external business tourism decrease from two points of view, firstly as traffic within the degree of occupation and secondly as duration of stay, which reduced. After the first trimester of 2009, the hotel owners panicked and started the war of prices, which, together with the reduction of the average rate of occupation, meant the entrance into a spiral difficult to stop and control. This war of prices dominated much of 2009 the hotel market in Romania, on all the segments, fact that led to a decrease of the overall turnover of 25%.

In this case we cannot speak about profit, but of survival, respectively to keep all the properties functioning at a certain standard of services and quality. Anyway, the effects of this crisis in our country will be seen during the following years in the decrease of the quality of services to the clients and of the deterioration of the properties, because the majority of the operators have reduced the maintenance expenses, the personnel training and even the personnel, and all these will be noticed on a medium term. Until the end of the year the minimum level of the reduction is expected to be felt from all the points of view of the hospitality market, because, according to the estimations of Trend Hospitality, the trend this fall is decreasing, so that a very difficult first trimester of 2010 is predictable, and only as early as the second trimester the stabilisation is expected to start. The increases in 2010 are not estimated higher than 9% compared to 2009, on this segment.

"The market in 2010 shows signs of revival - at least internationally - but in Romania the state institutions and the economy have to settle first, and then we can hope that the hotel occupation recovers. In a captive market, considered expensive, Romania has the chance to come back through quality service at an optimal price. It depends, I repeat, on the political stability which will generate the economic revival and the healthy travel of the hotel services consumers on all the segments: business, events, leisure, seaside and mountain holidays, circuits etc. The revival, for those who survive, will be felt around September 2010", concludes Mihai Rajnita, general secretary of FIHR.

What brings 2010? The inflation and the interest rate will remain within relatively low values. The investments in hotel structures will stagnate. The major risk will come from the labour

market and will determine a lower number of tourists, because of the growth of the number of unemployed people (the unemployed rate in EU was of 9.5% in July, increased at 10.2% at the end of the year and will remain around 10% in 2010).

The European industry of hospitality will have an evolution of "W" type, in other words the graphics of the main indicators will look like the letter mentioned, with ups and downs which mark 2010 as a period of instability, in which the winners' advantages will be the flexibility and the reaction speed.

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THE REPLACEMENT-RENEWAL OF INDUSTRIAL EQUIPMENTS THE MAPI FORMULAS

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Since the production has been found to be an economical means for satisfying human wants, this process requires a complex industrial organization together with a large investment in equipments, plants and productive systems. These productive systems are employed to alter the physical environment and create consumer goods. As a result, they are consumed or become obsolete, inadequate, or otherwise candidates for replacement. When replacement is being considered, two assets must be evaluated: the present asset, the defender and its potential replacement, the challenger. Since the success of an industrial organization depends upon profit, replacement should generally occur if an economic advantage will result. Whatever the reason leading to the consideration of replacement, the analysis and decisions must be based upon estimates of what will occur in the future. In this paper we present the Mapi algorithm as a procedure for evaluating investments or for analyzing replacement opportunities.

Keywords: replacement/renewal policy, Mapi formulas, adverse minimum, defender and challenger plant, operating inferiority, one-more year test

JEL Classification Code: M10, M11, M20, M21

1. The replacement-renewal problem for firms

Due to the typical activities of industrial firms and their increasing need for mechanized and automatized productive systems, plants, machinery and equipment play a central role in investment decisions.

In fact, in the present context of international development, industrial firms tend to increase in size in order to strengthen their supply pool and to reduce the threats from the competition. On the one hand, this growth in size requires increasingly larger investments in industrial plants; on the other, trends in demand, the pressure from the competition, which reacts with contrasting strategies, and, above all, the important trends in scientific and technical progress, which heighten the obsolescence processes, make such investments in industrial plants riskier.

Management must thus continually evaluate with even more care the convenience of their plant investments; once the investments are undertaken they must monitor the prospects for future use in order to determine the economically useful life cycle, determining the optimal period in which to discontinue operating the plant.

In determining the economic viability of medium-term industrial plans, calculations regarding the *optimal duration of the plants* are taking on more importance. Such calculations estimate the period of time beyond which the continued utilization of a plant, already installed and operational, is no longer economically viable and should thus be *replaced* or *shut down*.

Regarding the size of the invested capital, an appropriate *replacement/renewal policy* is one of the most important and thought-out decisions for industrial firms, precisely in order to maintain the maximum economic efficiency in the productive structure, thereby improving quality and

increasing productivity without increasing fixed unit costs.

If we consider the firm as a *viable system*, adopting Beer's sense (Stafford Beer, 1972) of the term, or as a system of efficient transformation, in Mella's sense (2007), it is clear that the decision to replace the plants is fundamental for maintaining the conditions of vitality and, more generally, for the necessary economic operating efficiency.

The replacement problem does not only concern plants and other fixed assets but is much more general: in fact, it can refer to the same businesses in which the plants participate.

In fact, as has been highlighted for years by the BCG (www.bcg.it), every business, after the start-up, boom and maturity phase, begins a period of decline.

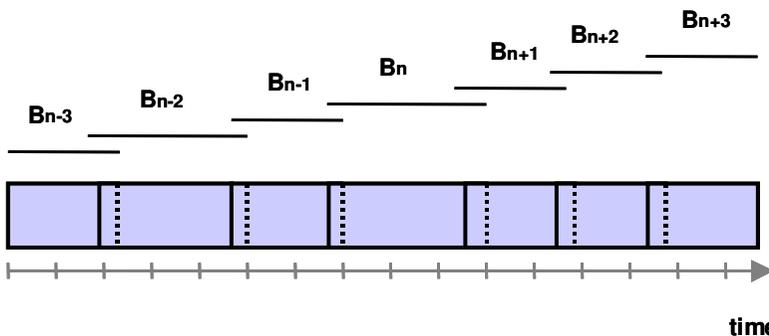
The manager must then determine the optimal moment not only to discontinue the business in decline but also to replace it with another business, in a typical operation of the renewal of the business portfolio over time, thereby giving rise to a true *chain of renewal*.

Obviously the renewal of a business depends on the availability of other replacement businesses, and the moment for renewal is conditioned by the activation time of the new business.

We can thus view a business B_n as a link in a chain of business renewals in which its life cycle is not determinable in an absolute way, but only in relation to the business B_{n-1} that precedes it and B_{n+1} that replaces it (fig. 1).

Prolonging the life of B_n means delaying the start-up of B_{n+1} ; calculating the optimal replacement time for B_n would thus mean optimizing the profitability and cash flow of the composite business $B_n + B_{n+1}$. However, the same reasoning must apply as well for B_{n+2} , and so on; this means there are no businesses that succeed each other over time with an autonomous existence, and autonomous profits and financial flows, but rather a chain of businesses where the life of each depends on that of the others.

Fig. 1. The business chain



The above discussion leads to an important implication: from the financial viewpoint the time factor can be recognized on the basis of two linked elements: timeliness in starting up a business and, at the same time, timeliness in ceasing operations. The former occurs when a firm perceives (or generates on its own) the potential for new demand; being first in the business means being pro-tempore in a position of near-monopoly and creating a competitive advantage until the time when competitors come on the scene.

This type of timeliness leads to notable advantages, among which: being the first to gain a consistent market share (Smith & Reinartson, 1991), setting high prices before the arrival of competitors, fidelizing the clientele that is served first, fully exploiting the learning of costs in order to gain internal competitive advantages, anticipating the recovery of fixed costs by reducing the risk on invested capital, and obtaining good profitability, which improves the firm's credit capacity for future growth.

2. Plant replacement

The renewal problem can specifically refer to the calculation of the optimal date for replacing the

industrial plants, understood as the *set of instrumental goods in a productive system, which are necessary to carry out a given business*.

The economic value of the industrial plants varies over the life cycle, and this variation depends on several factors, all of which are linked to the physical wear and tear and the economic obsolescence due to technical progress of both the plant as well as the product obtained with its help. These factors act to modify the firm's profitability, which tends to gradually diminish, thereby necessitating the decision to replace the plants.

The calculation of the *optimal operating period* for a plant \mathcal{E} , not included in a chain of renewals, is thus a typical economic-financial problem: it is necessary to determine how much time is needed to cover the purchase and operating costs for the plant with the sales revenue of the production obtained from its use, with the desired operating result.

The problem could be solved through Break-Even Analysis; since the life of industrial plants is usually several years, the financial present value of the future costs and revenues relative to the purchase cost must be taken into account.

It is also necessary to consider that the length of the operating period of the plant itself conditions the costs and revenues that derive from it, in that:

- the purchase cost of a plant equivalent to the one to be replaced presumably varies from year to year since, due to technological progress, the retired plant is replaced with one technically more advanced and with greater productivity;
- the cost and revenue flows are sensitive to the period of reference, because of both the volume of demand and the prices, if the more modern plant allows the same products to be obtained at lower costs, or products of higher quality and with more attractiveness for the market;
- the disposal value of the retired plant varies according to the year it is shut down.

The replacement policy does not concern the single firms but rather an entire productive system, since the totality of replacement policies of the various firms is in turn a factor that determines the level of activity of the productive sectors involved in manufacturing the plants, with effects that can extend to the entire economic system and to the latter's growth.

When firms begin to postpone the replacement of their plants, the immediate result is a decline in production and/or innovation regarding these industrial plants and this process – being part of a productive network (Mella, 2009) – can lead to a general crisis.

3. Conditions for replacement

Since for industrial firms the costs of plants represent a considerable portion of production costs, replacement policies play a key role in industrial plans.

In general terms, we can observe that renewal is not a simple operation that concerns only a single plant, but one that involves the entire productive system.

Especially with regard to complex plants, on which an entire business is founded, replacement involves all the plants that make up the productive network, since the introduction of a new and modern plant at a point in the network makes the other plants connected to it technically obsolete. The renewal of large plants also involves implications, often relevant and radical, for the entire production, commercial and administrative organization, so that the replacement must be linked to measures that concern the firm as a whole.

Considering the time frame of the operation, we must always keep in mind that the convenience of undertaking renewal depends on the moment when the operation must be realized. Only if this occurs at the supposed optimal moment, from the economic point of view, will it allow the firm to maintain and improve its existing economic equilibrium or its re-establishment, when this is more or less seriously compromised by obsolete plants.

Negative consequences always result from carrying out renewal too late or too early with respect to the optimal moment.

When the replacement is delayed the firm will most likely see its production costs increase at an

increasing rate and will not be able to remain price competitive with respect to its competitors, the more so if the latter use more modern and efficient plants.

If the delay of the renewal is too long, the business connected to the plant will enter its declining phase, becoming “dog”, so that it will have increasing difficulty raising the necessary capital for replacement, which is more urgently required due to economic necessity.

Similar problems would be encountered by anticipating the replacement since, due to the contraction of the pay-back period, the cycle of economic utilization of the previous investment would not be completed, and the capital that is invested and not yet written off through the depreciation process cannot easily be fully recovered through the sale of the retired plant.

Even from these simple considerations it is clear that management must place the renewal problem in the context of overall corporate strategy, understanding in a timely way the evolution of the organizational and environmental forces that influence its business and, more generally, its overall business portfolio.

If it is necessary to be attentive at the moment of replacement, this means that the optimal utilization period for a plant also depends on the characteristics of the rival plants that can be considered as alternatives.

From the above considerations it follows that, more than referring to an individual operation, renewal must be viewed more broadly to include the concept of “chain of renewals” in which the replacement of each link in the chain inevitably ends up conditioning all the subsequent links and, as a result, the entire chain of subsequent substitutions.

We inevitably associate with the concept of a chain of renewals that of obsolescence, viewed as a continual process of technological progress of the new plants with respect to those in use, both as regards productive efficiency, through an increase in productivity, as well as manufacturing quality.

Precisely because of the continuity of technological progress we need to take into account this important variable when making renewal decisions, since such choices involve the entire future chain of renewals and not merely a single replacement of a plant.

The first attempt in this direction comes from Terborgh and the MAPI formula he developed.

4. The MAPI formula

In 1949 the Machinery Allied Production Institute in Washington set up a study committee chaired by George Terborgh to come up with a new evaluation system for investments aimed at the equipment-replacement problem, which led to a general rule, usually referred to as the MAPI formula, that allows for the determination at a given moment of the opportuniteness of replacing an existing plant with a *new plant* that has come on the market, called the potential challenger plant. Even if the MAPI formula has been the focus of criticisms, it offers a general solution to the equipment-replacement problem that covers a wide range of cases.

“Essentially, it provides a quick test of current replaceability on the basis of a prefabricated structure of assumptions and projections into which the analyst can insert the necessary stipulations and estimates for the case in hand (the amount of the investment, the income tax rate, the interest rate, the service life, the terminal salvage ratio, etc.). It is an elaborate gadget to simplify an otherwise almost insoluble problem.” (Terborgh, 1956: p. 138).

The novelty of the potential replacement plant should be understood both in terms of its complete technical efficiency – since it has not yet been utilized – as well as the improvement it embodies due to technical progress. With particular reference to the latter, Terborgh assumes continual technological evolution, which posits that progress is continuous and capable of making available to the firm a plant perfected at every future instant (in an abstract sense). There is thus the assumption of a continued operational superiority of future plants with regard to those the market offers and will offer; or, conversely, a continual operational inferiority of the plant to be replaced with regard to the new ones.

- Plant E_t in use at instant t is called the *defender*. The new plant, $E_{t'}$, available at t' , is called the *current challenger*. Compared to the challenger, the defender has an *operating inferiority* that manifests itself in the following values:

- gross revenues, E_t , less than those obtainable from $E_{t'}$;
- annual costs, E_t , greater than those required by $E_{t'}$;
- consequently an annual margin, E_t , less than that obtainable from $E_{t'}$; this margin has a monotonic non-decreasing trend for each future $t > t'$.

If the defender's margins have a *monotonic non-decreasing* trend year-to-year, then its *operating inferiority* will also have a monotonic non-decreasing trend.

From the theoretical point of view, if the cost of capital were zero then the optimal renewal policy would obviously consist in replacing the plant every year (even at every instant, given the hypothesis of the continuity of technical progress) in order to have the best plant at every moment. In fact, Terborgh writes: "Now we consider a hypothetical question. What would be the proper equipment policy if capital goods were available free? The answer is obvious. Equipment would be replaced with great frequency, generally once a year or more often. With this high turnover, we should have continuously a state of "perfect" or "total" mechanization, yielding at all times the very highest operating performance the technology is capable of". (G. Terborgh, 1962).

If we abandon this unrealistic hypothesis and assume that every investment entails a cost for the invested capital, then it is realistic to assume that the cost of the capital invested in the defender plant decreases as its period of utilization increases.

Regarding the challenger, as the utilization period increases there are two opposing trends at work: on the one hand, the cost of the invested capital declines, but on the other the *operating inferiority* increases.

The optimal solution is to find the point where the sum of the values of these trends is at a minimum – Terborgh defines this as the "adverse minimum" – that is, the minimum of all the alternative magnitudes, each of which is adverse: "Unfortunately machines are not to be had for nothing. They cost money, a fact which precludes the attainment of this state of technological blessedness. For when their cost is taken into account, mechanical perfection can be no longer the exclusive goal of equipment policy. The analyst has to choose between more capital cost with less imperfection or less capital cost with more imperfection. Now when we have alternative magnitudes, each of which is adverse, the best we can do is to find the proportion or combination of the two which minimizes the sum. This proportion is the key to correct equipment policy. It is the policy that minimizes the time adjusted sum or combined average of capital cost, and operating inferiority. This brings us to the concept of adverse minimum". (G. Terborgh, 1962).

Two fundamental hypotheses are posited to formulate the evaluation criterion:

- All the future plants (the succession of challenger plants) have an adverse minimum equal to that of the best plant at the time of the survey. This is equivalent to hypothesizing not only the continuity of technical progress but also its constancy and uniformity over time. This serves to narrow the analysis to the data regarding the defender plant and to the best plant available for substitution at that moment, without worrying about what would instead happen if, due precisely to technical progress, the successive challenger should have very different economic-technical improvements.
- The operating inferiority of the defender increases linearly over time; that is, both the costs regarding the physical deterioration of the plant (costs for maintenance and lower productivity) and those linked to the plant's obsolescence grow linearly.

These hypotheses reduce the analysis of the opportuneness of an investment in plant substitution to a comparison of the adverse minimum of the most technically-advanced plant (the challenger)

and the plant in operation at that moment (the defender), based on the procedure indicated in the following section.

5. The calculation of the adverse minimum

We indicate by E_0 the defender plant and by $E_1, E_2, E_3, \text{ etc.}$, the challengers available for substitution in the subsequent years.

We indicate by $m_0, m_1, m_2, m_3, \text{ etc.}$, the annual margins (revenues less operating costs) that would occur under the assumption that after t_0 the best new plant is always utilized.

For convenience sake we assume that the margins are discrete and achievable at the end of each year.

If we set t as the instant in which the plant E_0 begins operating, and setting $h = 1, 2, 3, \dots$, then the initial annual margins for each new and improved plant will be:

$$m_1(t+1), m_2(t+2), m_3(t+3), \dots m_h(t+h)$$

and, based on our hypotheses, we will initially have:

$$m_1(t+1) < m_2(t+2) < m_3(t+3) < \dots < m_h(t+h)$$

If the firm keeps plant E_1 in operation in the year subsequent to year one, when technically better plants are instead available which, through technical progress, can offer increasingly greater initial annual margins, it will achieve lower annual margins: in other words, the firm would sustain costs due to the obsolescence of the plant with respect to new ones.

If the firm should thus maintain E_1 in operation past the first year, it would achieve lower annual margins, even while plants with higher annual margins would be available.

If we indicate by:

- _ $m_1(t+1)$ the annual margin achievable with plant E_1 one year after it has entered into service at instant t ;
- _ $m_1(t+2)$ the margin achievable with E_1 two years after it has become operational; ...
- _ $m_1(t+h)$ the margin attainable with E_1 h years after its adoption by the firm,

then we obtain the following relation:

$$m_1(t+1) > m_1(t+2) > m_1(t+3) > \dots > m_1(t+h-1) > m_1(t+h)$$

The above relation indicates that if the firm should continue to utilize E_1 for periods subsequent to the first year, it would suffer disadvantages from lower margins owing to the gradual deterioration of the plant, together with:

- an increase in the operating costs due to a reduction in the technical productivity of the plant;
- a reduction in sales revenue from products which, due to the wear and tear on the plant, may have lower quality;
- an increase in maintenance costs.

We thus define the *operating inferiority* of E_1 , for each subsequent year of utilization $(t+h)$, as the difference between the net margin of a new plant and that of the plant in consideration:

$$m_h(t+h) - m_1(t+h) = g_1(t+h)$$

The *net present value* of the operating inferiority, for a duration of “ n ” years of plant utilization, after adding the purchase cost C_1 , and subtracting the revenue from salvage obtainable after “ n ”

years, $S_1(n)$, at a chosen given discount rate, “ i ”, takes on the meaning of the *total opportunity cost* of the plant for “ n ” years:

$$B_1(n) = C_1 - S_1(n) v^n + \sum_{h=1}^n g_1(t+h)v^h \quad [1]$$

where $v = (1+i)^{-1}$ is the present value coefficient at discount rate “ i ”.

Using [1], it is more significant to determine the *average annual burden of service of the plant* in use for “ n ” years:

$$b_1(n) = B_1(n) \frac{i}{1 - v^n} \quad [2]$$

If we take “ n ” as a variable, we can calculate [2] for periods of increasing length, $n = 1, 2, 3, \dots$, and determine the period “ n^* ” that corresponds to the minimum average annual burden of service [2]. This value, $b_1(n^*) = \min$, represents the *adverse minimum* of E_1 , “ n^* ”.

However, since we are looking for the desirability of substitution of the *defender* plant E_0 , we must compare the adverse minimum of the challenger E_1 – that is, $b_1(n^*) = \min$ – with the *annual replacement cost* of the defender E_0 , called the *adverse cost*, which is calculated as follows:

$$\Delta_0(t) = [S_0(t) - S_0(t+1)] + S_0(t) i + g_0(t+1) \quad [3]$$

where:

$[S_0(t) - S_0(t+1)]$ represents the loss in value of the scrap due to an additional year’s utilization of E_0 ;

$S_0(t) i$ is a year’s lost interest on the *terminal value*;

$g_0(t+1)$ is the operating inferiority of E_0 following its prolonged use for another year.

The defender E_0 should be replaced with the challenger E_1 when:

$$\Delta_0(t) > b_1(n^*) \quad [4]$$

If this optimality condition is not satisfied then it is economically more useful to utilize E_0 for another year, at the end of which a new comparison will be needed, but this time between E_0 and E_2 for the following year.

If the inequality $\Delta_0(t+1) > b_2(n^*)$ does not still exist, then it will be necessary to utilize E_0 for another year and then compare E_0 and E_3 .

The process should be repeated every year until the optimality conditions exist.

6. The MAPI formula as an approximative method

The procedure presented to this point is difficult to apply in practice due to the difficulties in estimating the *adverse minimum* of the challenger plant relative to the length of utilization of the defender. In fact, a too forward-looking knowledge would be required, which is almost impossible to satisfy.

To overcome this difficulty Terborgh suggests a simplified formula, commonly known as the MAPI Formula, which allows us to determine the sum of the adverse minimums of the challenger plant (thus its adverse minimum), thereby reducing the calculation to a comparison of data regarding only the subsequent year.

In practice, starting from the assumption that the simple average of the *operating inferiority* of the challenger for each period is higher than the corresponding equivalent annuity and that, on

the other hand, the simple average of the cost of capital is lower than the corresponding average annual cost, financially calculated, then in order to avoid cumulative calculations for each year we can approximate the results by substituting the simple averages for the equivalent annualities that are theoretically required.

In fact, based on the assumptions made, the errors made as a result of this substitution are in opposite directions, and thus basically compensatory; since the sum of the simple averages is thus not that different than the sum of the equivalent annualities, then the adverse minimum of the challenger can thus be approximated with a good degree of accuracy.

Rather than calculate for each year of the probable life of the challenger plant the annuality equivalent to *total opportunity cost*, as is the case in [2], Terborgh, in order to calculate the adverse minimum, provides the following formula, which is easier and more practical to apply:

$$b_1(n^*) = \frac{1}{2} [(C_1 i) - g_1] + \sqrt{2 C_1 g_1} \quad [5]$$

Where, assuming a salvage value of zero and an interest rate “i”:

C_1 is the purchasing cost of the challenger plant;

g_1 is the average, constant over time (in case of the linearity of technical progress), of the *operating-cost inferiority gradient*; this is assumed to be equal to that of the plant in current operation;

The adverse minimum thus found is compared with the replacement cost of the defender plant, as shown in [3]. We thus return to the optimality condition [4], which determines whether or not renewal is appropriate.

7. An initial numerical example

A numerical example will clarify the application of the MAPI Formula given in [5].

Let us suppose the following data:

- the defender is operating for 12 years and has a residual value of € 20,000,000;
- after another year of operation the residual value is estimated to be € 12,000,000;
- the challenger, possessing greater technical efficiency, has an initial cost of € 200,000,000;
- the interest rate chosen is 10%;

- the challenger plant allows the firm to achieve, for the following year, the economic advantages indicated in Table 1, which compares the adverse minimums of the defender and challenger plants.

The value of the sum of the alternative minimums of the challenger plant is calculated by applying Formula [5].

Assuming a residual value of zero, a lower operating efficiency rate that is constant and equal to that of the defender plant, and inserting the following values:

$$\begin{aligned} I_1 &= 200,000,000; \\ g_1 &= 60,000,000/12 = 5,000,000; \\ i &= 0.10 \end{aligned}$$

we obtain:

$$\begin{aligned} b_1(n^*) &= \frac{1}{2} [(200,000,000 \times 0.10) - 5,000,000] + (2 \times 200,000,000 \times 5,000,000)^{1/2} = \\ &= (44,721,400 + 7,500,000) = 52,221,400. \end{aligned}$$

Since: $52,221,400 < 70,000,000$, and thus the optimality condition [4] exists, it is absolutely appropriate to replace the plant in operation with the new one.

Table 1.

EVALUATION ELEMENTS	ADVANTAGES FOR FOLLOWING YEAR IF THE CHALLENGER PLANT IS INSTALLED	ADVANTAGES FOR FOLLOWING YEAR IF THE DEFENDER PLANT IS MAINTAINED
Lower maintenance costs	3.500.000	
Lower labor costs	34.500.000	
Lower general production costs	25.000.000	
Lower insurance costs		3.000.000
	63.000.000	3.000.000
Inferior operating efficiency of the defender plant compared to the challenger plant for the following year		60.000.000
Loss in value of old plant		8.000.000
Passive interest on the residual value of defender plant		2.000.000
Sum of adverse minimums of defender plant		70.000.000

8. The new MAPI formula: one-more year test

With regard to the MAPI formula, Terborgh subsequently devised a new formula that, though based on the same principles as the preceding one, represents an extension and improvement over the latter.

This new Formula does not stop at indicating the optimal time for renewal but is extended to consider all types of investment opportunity for the firm, and thus even new business projects, thereby making the replacement problem more closely adhere to the logic of the renewal of businesses, which was touched on in section 1.

The intent no longer is to examine the economic conditions of use of an individual machine or plant but to examine whether or not an entire productive system can be improved by replacing one or more parts of the “whole”, leaving the other parts unchanged.

The new MAPI Formula is set up to uncover the economic advantage that would accrue in the subsequent year’s income by investing a given capital in a “new project”, evaluating the qualitative-quantitative improvements to production.

The new formula is different, in both how it sets out the problem and the solutions it envisions. As far as setting out the problem is concerned, Terborgh partially modifies his initial assumptions. In particular, there is no longer the assumption of the linear growth in the operating inferiority of the plant in current operation. While maintaining the assumption of the constancy of obsolescence, it is recognized that, during the use of the plant, the trend in costs due to its operation and maintenance will not always be constant.

Terborgh maintains the assumption of the equality of the adverse minimums of the future challenger plants, on the one hand, and the best available plant on the market at the moment of

the survey on the other, but this hypothesis is restricted in the sense that these plants must be similar: that is, have the same initial cost and the same residual value as the current plants when they are retired, after the same length of time.

A new procedure, called a “one-more year test”, is proposed according to which an *internal productivity rate* is determined for the subsequent year with regard to the net capital investment required to realize the project, and thus to replace the plants, which is compared to the hypothesis of not going forward with the renewal.

The algorithm provides an adjusted, after-tax rate of return criterion which the decision maker may use in replacement analyses or in selecting one investment opportunity from among many. The MAPI procedure is based on a one-year evaluation period. Alternatively, a period of several years might be considered with a “typical” single year obtained from an arithmetic average. Application of the MAPI formula requires the computation of six elements. These are used to calculate a rate of return for a one-year period based on average net investment. These elements are:

(1) The arrival operating advantage, expressed as the sum of the net increase in revenue and the net decrease in operating cost. From this we derive that the *next year operating advantage* is composed of the increase in the operating result in the following year deriving from the project.

(2) The initial net investment, expressed as the installed cost of the asset less any investment released or avoided.

At this point it is important to define several concepts.

– *Net invested capital*. This is composed of the capital needed to realize the project, and thus to purchase the new plant, install it, etc., net of the disposal value of the used plant and of any investment avoided due to the project’s implementation (costly repairs, improvements and change in the existing plants that would have been necessary without the new project).

– *Next year capital consumption avoided*. This is composed of the reduction in the residual value of the plant kept in service for another year if the new project is not implemented.

– *Next year capital consumption incurred*. This is the difference between the cost of the project and its value after one year, and in practice is equal to the amortization rate with interest of the new plant. Of all the above elements, *next year capital consumption incurred* is surely the most difficult to determine. The evaluations and forecasts required in this case extend, in fact, beyond the following year, since the annual share of costs for the investment project depends not only on the known amount of the purchase cost of the new plant but also on the residual value the plant will have at the end of the following year, and as a result on the estimated number of years of useful life. Thus, long-term forecasts are needed, which, nevertheless, can be avoided by using the diagrams developed by the MAPI formula, which allow the firm to determine a percentage which, applied to the net investment cost, allows it to calculate the value of the consumption of the required capital.

(3) The terminal net investment obtained from the appropriate Mapi chart.

(4) The average net investment, expressed as the sum of the initial net investment and the terminal net investment divided by 2.

(5) The average capital consumption per year, expressed as the initial net investment minus the terminal net investment divided by the comparison period in years.

(6) The increase in income taxes. The change in next year’s income taxes is basically the net increase in income taxes from the project in the subsequent operating year.

We can thus calculate the *internal productivity rate* for the following year – also called the “Mapi urgency rating” – with the help of a simple formula that permits a ranking of the investments, so

that the most urgent ones (in the sense of having a higher relative productivity rate) can be realized first.

The foregoing elements may be used to find the after-tax rate of return as:

$$\frac{(1) - (5) - (6)}{(4)} \times 100$$

This formula allows us to determine the return on investment from implementing the new plant; that is, the percentage of net income to the capital invested in the operation for the following year that the renewal will ensure.

At this point, in order to determine whether it is economically appropriate to renew the plant it is necessary to compare the rate of relative productivity, or the Mapi urgency rating, for the following year with the minimum productivity rate required by the firm to undertake the investment projects (Mella, 1997).

If the former is greater than the latter, then the investment to replace the plant should be undertaken.

9. A final numerical example

To better understand the new Mapi formula, it is useful to give an example from Terborgh's Business Investment Policy. The problem involves determining the net profitability, expressed in percentage terms, of the investment in a new plant, equipped with devices that allow savings in manufacturing times, as a replacement for a similar existing plant.

The old machine is 39 years old and has a residual value of 200. It is assumed that paying a cost of 3,850 to adapt the old machine will provide another 10 years of use.

The overall cost of the new plant is 15,700 and it is assumed its useful life is 18 years and that it has a final residual value equal to 5% of the original cost. Linear amortization at constant rates is chosen, a tax rate of 50% of gross income is assumed, and normal or standard obsolescence (with a linear reduction of the annual margins obtainable with the plant's use) is adopted.

The calculations and analysis from the above data are shown in Table 2.

Table 2

REQUIRED INVESTMENT		
1) Installed cost of project		15.700
2) Disposal value of assets to be retired by project		200
3) Capital additions required in absence of project		3.850
4) Investment released or avoided by project (2 + 3)		4.050
5) Net investment required (1 - 4)		11.650
NEXT YEAR ADVANTAGE FROM PROJECT		
6) Assumed operating rate of project (hours per year)		3.300
	<i>Increase</i>	<i>Decrease</i>
<i>Effect of Project on Revenue</i>		
7) From change in quality of products	---	---
8) From change in volume of output	---	---
9) Total	--- (A)	--- (B)
	<i>Increase</i>	<i>Decrease</i>
<i>Effect of Project on Operating cost</i>		
10) Direct Labor	---	2.000
11) Indirect Labor	---	---
12) Fringe Benefit	---	350
13) Maintenance	---	1.160
14) Tooling	---	---
15) Materials and supplies	---	---
16) Scraps and re work	---	500

17) Dow time	---	425
18) Power	---	---
19) Floor space	---	---
20) Property taxes and insurance	150	---
21) Subcontracting	---	---
22) Inventory	---	---
23) Safety	---	---
24) Flexibility	---	400
25) Others	---	---
26) Total	150 (A)	4.835(B)
27) Net increase in revenue (9 A – 9 B)		---
28) Net decrease in operating cost (26 B – 26 A)		4.685
29) Next year operating advantage		4.685
<i>Non operating advantage</i>		
30) Next year capital consumption avoided by project		
a) Decline of disposal value during the year		---
b) Next year allocation of capital addition		422
<i>Total advantage</i>		
31) Total next year advantage from project (29 + 30)		5.107
32) Total next year advantage after income tax (50%)		2.553,50
33) Mapi Chart – Allowance for project		785
34) Amount available for return on investment (32 – 33)		1.768,50
35) MAPI URGENCY RATING (1.768,5/11.650)x 100		15%

The value of 785 – that is, the share of capital cost – was calculated by recording from the appropriate monogram the percentage (4.7%) that must be applied to the original cost of 15.700 for a plant with a presumed useful life of 18 years, a disposal value of 5% of the original cost, and for which we assume that 25 out of each 100 of capital invested is obtained from credit operations with an interest rate of 3%, and 75 from stock issues that pay a 10% dividend. This explains how the calculation was made to determine the affect of the plant renewal on the “following year’s” percentage of net income to capital invested in the operation.

10. Critical considerations

The critical considerations which can be made about the Mapi formula basically refer to the particular nature of the hypotheses underlying the problem that is posed; these do not always appear to conform to the actual operating conditions of firms. Among these we wish to point out:

- the hypothesis of the linear diminution of costs of future new plants; that is, the linearity of obsolescence and the evolution of technological progress at a constant rate over time;
- the hypothesis of the equality of purchase costs of future plants and those of the best plant currently available at the moment of the survey;
- the hypothesis that the comparison should be limited to the productivity of the plant currently in operation and the new plant only for the following year.

These hypotheses clash with the reality the firms operate in, since technical progress shows instead an uneven trend over time and the purchase prices of the plants in subsequent periods are not easy to predict.

Limiting ourselves to considering only the costs and revenues from the plant for only one year, ignoring the trend in costs and revenues from the plant in subsequent years, can lead to unreliable results if, in effect, such costs and revenues turn out to be different from those considered in the analysis.

Obviously using data from the industrial plans could help in extending the calculations for a longer period.

The model developed is thus able to produce valid results only in so far as these are limited to the field of application fixed in the initial hypotheses.

This must always be kept in mind in order to best adapt the model's findings to the possible cases that arise in the actual management of the firm.

As Terborgh himself underscored, the formula does not solve all the renewal problems: "No knowledgeable person has ever claimed universality of application of the MAPI formula. It was conceived and presented as a replacement formula (the term "replacement" being broadly construed to include mixed replacement-improvement-expansion situations), its main purpose being to indicate the proper timing of re-equipment decisions. It was offered as an improvement over the primitive rules of thumb so widely employed in American industry to make these decisions. As such, it has proved very useful, as evidenced by the extent of its employment." (Terborgh, 1956: p. 138).

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PROFESSIONAL PERFORMANCE OF THE HUMAN RESOURCES DURING A CRISIS

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In a vigorous social and economic environment dominated by multiple situational changes and complexity of organizational activities, professional performance tends to be a result of managerial competence. Crisis characterized by reducing organizational expenses and increasing occupational stress level is the best test for the ability of the manager who has to motivate and influence the human resources with low costs. Managing human resources was, for many companies, one of the main organizational problems of 2009. The feeling of uncertainty and insecurity specific to the crisis has augmented the organizational failure and occupational stress of human resources, leading to the loss of loyalty to the organization, poor health and even death of certain employees because of inadequate human resource management during a crisis.

Key words: organization, motivation, occupational stress, human resources, professional performance.

Cod JEL: M 12.

1. Professional performance of the human resources in modern market economy

In the current socio-economic environment the knowledge-based organization is efficient when human resources generate organizational excellence and efficiency. The origins of the organizational management theory are closely linked to the need of improvement of the industrial productivity, of economic power growth and increasing organizational performance, the main driver of this development/productivity is the human resource, “*The most valuable asset of an organization*”¹³⁵⁹.

Starting with the '50s, in order to achieve organizational performance and productivity growth of economic activities it was necessary an orientation to the human resource. It is when they emphasize the fact that employees, as members of the organization, have needs/expectations that can not be reduced solely to financial issues or work safety. Therefore a redesign was needed of the strategies of human resources activity and of the strategies for decision and control processes in order to enable human resources to identify with the objectives of the organization and to work efficiently to attain them. We can see today various forms of organizing of human resources in political, economic, industrial or military systems but each of them is based on activity ergonomics issues or on the orientation to own personnel through the focus on evaluation process and motivational aspects, as well as through the interest in employee health (stress, depression, accidents).

One of the main promoters of the orientation to human resources was Rensis Likert¹³⁶⁰, who after the Second World War compared simultaneously work groups with high productivity and work groups with low productivity, examining the influence generated from the managerial decision and control systems on professional performance. The result revealed that in the highly productive groups the management style is oriented towards human resources, while in low productive groups the management style is focused on production capacity. Likert has shown that the orientation towards human resources is more profitable than any other organizational activity.

¹³⁵⁹ Manolescu Aurel, *Human Resource Management*, Editura Economică, Bucharest, p. 21, 2003.

¹³⁶⁰ Likert Rensis, *New Patterns of Management*, McGraw-Hill Book, New York, pp. 249 - 263, 1961.

The main ideas regarding the professional performance of the experiment conducted by Likert reveals that in an organization the effectiveness of the human resources is influenced by the leadership style and the behavior of the manager, and the author recommends:

- Using the „*supportive relationships*” principle, this can prevent and eliminate the problems regarding the occupational stress and lack of organizational communication.
- *Cohesion of the members of the organization* that affects human resources productivity, directing it towards professional duties.
- Application of the „*participative management*” principle, which implies the existence of collaboration between managers and performers in establishing organizational objectives and the execution of the professional tasks.

In another conception, the professional performance of the human resource is reported to the motivational system. In a knowledge-based economy the human resource is the only capable of acting contrary to the organization’s objectives or to generate organizational excellence, aspect that is acknowledged by the major organizations of the modern market economy that “*get sustainable growth and profits because they do what other companies do not succeed in doing: they maximize innate individual talents of the employees into customer relations. They know that the use of human resources is the only area where significant improvements can lead to an unlimited source of competitive advantage in the marketplace.*”¹³⁶¹ The managerial motivation and training of the resource are essential elements for the modern organization for the process of planning for and obtaining organizational performance.

The study of managerial motivation comes from the *hierarchy of individual needs* or the so-called “*Maslow's pyramid*”. Further development and adaptation of Maslow’s theory generated more diverse classifications of the individual needs; relevant to the organizational environment is the “*Theory Z*” produced by the American professor of Japanese origins William Ouchi. It proposes a type of organizational culture based on:

- *Satisfying the higher needs of the member of the organization.*
- *Individual achievement in his working environment and the intersection between this environment and the family and social environment.*
- *Individual access to the organizational culture and his involvement in the development of the organization, setting goals and improving the results.*

Table 1 – Motivation by Maslow and Ouchi

<i>Maslow's Theory and its implications</i>	<i>Ouchi's Theory and its implications</i>
Self-actualization (self-development, personal achievement, career development)	Higher needs (recognition, esteem, status, self-actualization)
Esteem (assigned or assumed responsibilities, prestige, recognition of contribution and effort, status)	Increased focus on human resources (team work, decision-making by consensus, individual achievement in the organizational environment and its intersection with social and family environment, emphasizing the group responsibilities)
Social needs (belonging to a group, collegiality, communication)	

¹³⁶¹ Coffman Curt, Gonzalez Gabriel, “*The Galup Way – Emotional Economy*”, Alfa Publishing House, p. 15, 2007.

Safety (work safety, working conditions, personnel policy)	Increased confidence among members of the organization (job security – long term employment, individual access to the organizational culture and his involvement in the business development, setting goals and improvement of the results, informal control)
Biological (food, home, salary and other bonuses, transportation)	

According to Ouchi's theory, the manager must know his own employees and recognize the relevance of labor ergonomics on the productivity of the company/organization. From this point of view "Theory Z" provides solutions for a competent management of human resources, efficient organizational communication and eliminating occupational stress causing staff turnover and high financial costs.

In order to analyze business performance, besides "theory Z", the well-known "expectations theory" is relevant. This theory is developed by the Canadian Professor Victor Vroom who considers that from the organizational point of view, performance depends on the work climate, ability and motivation of the employees, according to the following equation:

$$PP = f(Me, A, M) \quad (1)$$

Where,

Me = Work environment (good/poor working conditions).

A = ability (effect of the qualification, involvement, experience of the employee).

M = managerial motivation.

In a socio-economic environment dominated by technological evolution, scientific organization of labor production, development of transport means, action and communication, the professional performance depends both on work ergonomics and capabilities of the employee supported by motivation and occupational stress which affects more and more intensely the physical/physical condition of human resources. Given that in the knowledge-based organization the working environment influences the stress level of human resources, professional performance is represented by:

$$PP = AxM - S \quad (2)$$

Where,

A = Ability (effect of the qualification, experience and involvement of the employee).

M = Managerial motivation.

S = Occupational stress.

With a high level of occupational stress (S) human resource needs to be re-positioned and to reassess the need to continue its work, feeling suffocated by work overload, the significant mental and relational pressures, destabilization and uncertainty of their future, aspects that are inversely proportional affecting professional performance, irrespective of the involvement (A) and managerial motivation (M).

Thus, employee skills, efficient use of managerial motivation together with appropriate involvement and organizational stress control are the foundation of competitive and sustainable results for organizations in the modern market economy both for normal economic situations and for the crisis.

2. Professional performance during a crisis

The prospect or the occurrence of a crisis is deemed, in all areas of socio-economic life, as deepening the difficulties, disrupting social, economic and/or financial stability, or conflict outbreaks.

At organizational level a crisis generated by endogenous and exogenous influences. Endogenous causes dysfunction consist in the dysfunctions of their own internal control system, conflicts of

interest, the professional conduct of human resources, mismanagement and inadequate motivation system, situations that usually deepen the occupational stress. In terms of exogenous causes, a crisis is difficult to foresee, as it can be triggered by unexpected causes, from political environment to unconventional wars or natural disasters.

A crisis can cause various effects upon organizations, from financial losses to underperformance, lack of productivity, loss of market position and even loss of image. Whatever the cause, exogenous or endogenous, crises entail changes in the conduct of economic and social actors, changes in the attitude of managers, entrepreneurs and consumers. Each participant in the economic life is affected and therefore reacts, according to one's own set of values and knowledge. In these circumstances, organizational stress is high, managers' motivation is difficult to attain, and the human resources are concerned with the insecurity, rather than organizational performance.

When a crisis occurs, the human resources have to bear the higher demands - physically and mentally-, which translates into high levels of stress. Due to stress and/or crisis members of the organization will react, depending on personality and education, in two different ways, namely:

- They will involve actively in the activity of the organization, reacting to the state of uncertainty and insecurity of work. A recent study conducted by researchers at the *Finnish Institute of Occupational Health* points out that the intensive activity of the human resources generates higher negative effects for long-term organization and its members. With a sample of 2214 subjects, the researchers of the above mentioned institute highlighted that those who work more than 50 hours per week face a higher risk as regards the brain functioning¹³⁶². Such a attitude leads to concentration problems and a poor quality in performing the tasks.
- They will develop/ amplify a feeling of insecurity and uncertainty, reaching high levels of occupational stress.

Thus, in times of crisis, when it is difficult to make the best choice, the manager's professionalism is paramount for raising the awareness and total involvement of the employees in the organization, with a view to obtaining excellence and avoiding organizational ineffectiveness. The manager has to train and motivate the human resources, with low costs, as the organization's expenses cuts, so specific for periods of crisis, affect, usually, "the *most valuable asset of the organization*" as well.

Analyzing the pyramid of needs developed by Maslow, one can notice that, in times of crisis, the needs of the employees are negatively affected, which eventually influences on to professional performances.

Table 2 – The hierarchy of the needs of the individual and their implications in crisis situations

<i>Motivational levels according to Maslow</i>	<i>Aspects affecting human resources motivation during crisis</i>
Self-actualization	- Lack of an efficient management of human resources, generated by the managerial orientation exclusively towards the economic and financial aspects of the organization.
Esteem	- Reduction of market positioning of the organization. - Organization image loss.
Social needs	- Social needs are not directly affected by the crisis.

¹³⁶² Virtanen Marianna, Singh - Manoux Archana, Ferrie Jane, Gimeno David, Marmot Michael, Elovainio Marko, Jokela Markus, Vahtera Jussi, Kivimäki Mika, *Long working hours may be a risk factor for decline in cognitive function*, American Journal of International Epidemiology, vol. 169, no. 5, pp. 596 - 605, 2009.

	- During a crisis, they may be exploited by providing a relative autonomy in decision making and work teams control.
Security	- Lack of job security. - Reducing employee health costs. - Failure to ensure salary growth according to the inflation rate.
Biological needs	- Salary losses. - Reducing/terminating financial rewards.

Regarding to the staff expenses policies, if possible, in times of crisis, as well as in situations of decreased performance, in terms of to maintain the salaries, rather that cut them, as a system characterized by decrease and steps back would lead to a decrease in the employees motivation and will entail irreversible process in the organizational performance. In times o crisis, the psychological incentives are recommended, as they increase the interest for career and the employees' commitment to the organization. Also, an alternative/complementary motivation policy determines a complex balance that has infinitely more nuances than the mere salary policies. The Employee Recognition and the feedback on performance achieved require very small costs, as it depends more on the creativity and openness of the decision makers, with considerable impact in terms of motivation. In times of crises, the advantage will belong to the organization which has implemented a motivation system which is not centered on salaries, and generalized it throughout the organization, transforming it into tradition. An organization that has a motivation system focused on psychological aspects will have a greater cohesion among employees, will avoid the organizational stress and, in term of employee's attitude, will easily overcome a crisis.

Professional performance in crisis situations can be achieved by using two types of strategies aimed at influencing the human resources:

1. Direct Influence - the strategy refers to direct interaction between managers and human resources that has to be motivated. The effectiveness of this type of strategy depends on the employee's set of values and on the manager's values as well. Thus, young employees will be oriented towards meeting basic needs, while employees will be oriented towards meeting the superior needs. Depending on the scale of the crisis, manager may choose to implement a series of incentives for the human resources:

- A training course chosen by the employee or organization.
- Purchase of books or tickets to an event from the organization's fund.
- Taking over part of the employee's tasks for a short period of time (a day).
- Offering a meaningful gift for the employee, etc.

Such methods do not require high costs, have a positive effect if the employee's needs have been properly assessed; it requires more than managerial creativity. Furthermore, such method reduces organizational stress, as it makes the human resources more emphatic with the management decisions.

2. Situational adaptation - adaptation strategy refers to the adaptation of human resources to the working climate, so as to influence situations within the organization. Specific methods mentioned strategy consists of:

- *Feedback*, recognition of merit, providing useful information to employees and achieving an effective vertical and horizontal communications.
- *Management by objectives*, participation of the employees in planning, setting goals and decision making within the organization.
- *Competition*, determining the desire to win the competition by placing several employees and/or departments in competition.

The incentives and bonuses are the easiest method of motivation, but in times of crisis, the manager's ability to work with people and influence human resources is paramount to success. In

addition these additional payments are used by employees to meet higher needs; in times of crisis, it is recommended that these needs are be satisfied with lower costs by the organization's manager. Thus, a crisis means, for the manager, an assessment of his own abilities and success/failure of the organization is the result of the test.

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THE CULTURE OF ROMANIAN ORGANIZATION: THE DIAGNOSIS OF THE REMANING MENTALITIES

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After 20 years of transition, the culture of Romanian companies is still dominated by some remaining block culture mentalities proper to Eastern and Central European countries. Although, from a technical point of view the transition may be regarded as an ended process, it is certain that there is still a communist inheritance strongly integrated in this culture in series of remaining mentalities. Such mentalities are to be found in the culture of Romanian companies framed into a vicious circle of inertia representing significant change resisting structures. Thus, this paper displays the results of a pilot study meant to establish the diagnosis of the dominant values of Romanian companies' culture. The results reveal the fact that although some reminiscences of the communist period are still integrated in the culture of Romanian companies some of those mentalities have been overcome.

Key words: organizational culture, block culture, remaining mentalities

JEL Code: M12, M14

Introduction

Within the transition toward a competitive market, the capacity of Romanian firms to initiate internal changes and to cope with the external ones that is their adaptation capacity is conditioned mainly by some old mentalities of block culture characteristic to Eastern and Central European countries. Block culture represent that cultural fund common to all Central and Eastern European countries, acquired in over 40 years of command economy regime. It practically synthesizes the entire range of cultural remains of a 40-year experience, being a drawback to effective change, an impediment to the reforming process. This occurred, as Sztompka (1994) stated, as a result of old socialist regimes intention to forcefully modernize the society but still preserving traditional elements. The existence of such a culture, with all specific features, was highlighted by the empirical results of some researches made on different capitalized and evolutive components of transition societies (Bakacsi and Takacs, 1997; Karacsonyi, 2006; Taarniczky, 2006).

In the 80s, most communist countries began their reforms. In Romania, the situation was a little different considering that 1989 was the year when Ceasescu was removed and the communist regime ended. The uniqueness of the Romanian case could be more evident if we mention also: (1) the aggressive anti-abortion policy stated by Ceausescu in 1965 and operated until 1989, (2) the rationing of some basic goods, (3) the higher level of communicative isolation of people in Romania as compared to other communist countries (Romania being the only one without a capitalist neighbor). Since 1990, Romania involved into a series of deep reforms of economic systems, institutions, economic processes, individual fundamental attitudes and concepts. According to Scarlat and Scarlat (2007), Romania experienced three major distinctive levels in her way towards a free market economy: (1). 1990-1997: this level represented the period in which the socialist model was abandoned and free market economy principles were adopted. This period was characterized by high transition social costs such as: a dramatical lowering of living standard, a high unemployment rate due to the fact that many state enterprises were closed; high

inflation and a low exchange rate for the national currency; (2) 1998-2001: represented the period when liberalization and privatization reforms were accelerated and policies for economic increase were adopted. This stage was dominated by a series of structural reforms and austerity policies; (3). 2002-2005: In the above-mentioned authors' opinion, this stage marks the end of the transition period in Romania. According to EU Country Report, the transition period for a country ends when the economic system of the respective country reaches the level of a functional market economy. Thus, in 2003, the European Commission, stated in the report: "Romania may be rated as a functional market economy considering the progress made and the continuation of these progresses." At the same time, this period was marked by the reformation efforts in order to accomplish the requirements for integration in EU. On 1st January 2007, Romania became full member of the EU.

Although from a technical point of view, transition in Romania may be considered accomplished, it is certain that Romania must also overcome the communist inheritance and some remains of mentality that are still deeply integrated in her culture. Thus, in spite of all reforming progresses in the last 20 years, the remains of the communist past have not disappeared completely, yet. They are to be found in the culture of Romanian companies being strong resistance structures against change that frame them into a vicious circle of inertia and affect their competitiveness and performances. For example, the fear for the superior or the spur to hide mistakes is still common realities in Romanian companies. That is why, the efforts of Romanian managers to change the organizational culture should be a priority. Romanian companies should break the vicious circle of inertia and involve into a genuine process of change for increasing competitiveness and performances. Although, low performances should represent a major force in considering the change steps as Hill and Hull (2004) point out, in fact it rarely happens that such performances represent a reason for unleashing the process. The authors above mentioned, empirically proved that usually the organization needs external events in order to break the vicious circle of inertia. Taking into account that nowadays Romanian companies are a part of the global hyper-competition and considering the unprecedented dynamics of changes that alter the business environment, the need for a change becomes an essential condition of survival for companies. But organizational change should not represent a mere effect of restructuring and reforming. This change cannot be effective and efficient as long as it remains clustered to some strictly structural factors such as: changing property, technology or organizational structure. A change that disconsiders the organizational culture may be formal and very often blocked and obstructed by a series of factors that belong to the way and manner of structuring and understanding the formal and informal relations within the organization. Behavior and attitude patterns developed during a certain period within an organization are not only difficult to change, because of their inertia, but practically represent the most important and difficult to change structures.

In the context above described, the main question of our research was: At what extent the culture of Romanian companies is still dominated by some remaining communist economy mentalities and how many of them have been overcome?"

Research Methodology

The diagnosis analysis focused on three major directions: (1) the assessment of perceptions about fundamental values of market economy vs. remaining block culture mentalities; (2) the assessment of perceptions regarding key values of organizational culture; (3) the assessment of perceptions over the organization itself. The questionnaire was subdivided into three groups of questions according to the directions of diagnosis analysis settled, containing 21 close questions with 3 multiple choice questions.

In order to constitute the sample, 15 Romanian companies were selected according to the size (number of employees). Only 11 companies contacted – out of the 15 initially selected - accepted the poll; thus the answering rate was of 73,3%. The 11 companies were grouped according to

their size as follows: (1) one big company with over 250 employees, (2) seven middle-sized companies having between 50 and 249 employees; (3) three small companies having a number of employees between 10 and 49. These cover fields of activity ranging from processing industries (6), constructions (3), trade (1), and services (1). The turnover had a significant variability which represented an important asset for representativeness. A particular case is the fact that all companies had a profit or were even in 2008. The general profit rate (gross profit/ turnover) varied between 0 and + 9,7 with a consolidated value of 3,8%.

The 11 companies constituted the basis of the employees' sample, 881 were subordinates and 124 managers (top management and middle management) out of 1005 enquired persons. Out of 881 subordinates 14,67% ranged from 20 to 25 years old, 68,48% ranged from 26 to 45 years old and 16,85% ranged from 46 to 65. Out of 124 managers, 3,23% were aged between 20 and 25, 80,64% between 26 to 40 and 16,13% between 41 to 65. The sample structure according to age displays the structure of active population in Romania on age groups as well as the three generation-structure of active population taking as referential the year 1990: **the young generation** that was born in either the last years of the communist regime or in the first years after the fall of the communism. This generation has an innovative thinking, is very open to change yet has a low commitment to the organization; **the middle generation** encompasses the individuals that experienced both before-and-after-communism periods and are called "the children of transition", "fighters", or "survivors". "The survivors" prove a high degree of commitment to the organization and are open to change; **the old generation** is professionally trained during communism. Although the representatives of this group prove a high degree of commitment to the organization they are reluctant to changes.

The analysis and interpretation of the results

There are differences between managers' and subordinates' opinions regarding the manner in which the management took their vote. The employees that took part in voting the management were 55,4% subordinates and 38,7% managers; this confirms the inertia regarding the specificity of system changing in Romania. Its feature is that the employees vote for the management similar to the 1990s procedure which had negative results on the performances of Romanian enterprises through changing target function from maximizing economic efficiency to job protection and salary increase. One can notice that employees' vote for the managers is perceived as a way of controlling the future personnel. But this perception is unrealistic and it proves a serious change resistance source. At the same time, for both the subordinates and some managers it is not very clear the status of the owner who has the right to decide about the enterprises whose main shareholder is.

A high percentage of employees (71,1%) and of managers (58,1%) expressed in favor of protectionism stating that Romanian companies should be protected by the state against foreign competition in spite the fact that they think their own company can cope with this competition (50% subordinates, 74,2% managers). This apparent paradox may be explained by the remaining mentality according to which the state should interfere with companies' activities but also by the lack of information about the basics of free competition. On the other hand, the options of the enquired employees demonstrate the resistance to liberalization of trade which is a feature of the ex-communist countries.

At a social level there is an option for fair economic efficiency and competence criteria disfavoring the social egalitarianism. Regarding the salary differentiation, the results of the research showed that the enquired employees are willing to accept salary differences no matter how big according to individual performances, which implies that they reject the principled egalitarianism. From this point of view the research reveals that there are no remaining mentalities about equal salaries. After 20 years of egalitarianism, the idea of differentiation according to competences won.

The issue of job protection so sharp a few years ago, has now split. We can state that there is a de-radicalization of counter-reforming tendency, in which economic efficiency is sacrificed no matter how, for the job safety as it happened during the 1990s. When enquired if inefficient jobs should be saved only to prevent idling, only a minority (9,7% managers and 23,4% subordinates) answered “yes” in a categorical manner. After 20 years of transition, the remains of this mentality seem to vanish.

As to the delimitation between political and economic aspects, the enquired employees give a bigger importance to relationships that the management of the enterprise has with political environment (59,8% employees and 67,2% managers). This demonstrates that there is no clear delimitation between political and economic environment.

The quasi-unanimous opinion is that the success of a company depends on the way of managing it. . About the management of the organization, the preference is for a strong hand (63% subordinates and 83,9% managers). The option for a strong hand disfavoring employees’ active implication in decision-making process seems to be a consequence of employees’ lack of trust in democratic-participative mechanisms. The cause of this lack of trust lies on the idea that democratic institutionalized mechanisms work rather chaotically. Thus, this type of strong hand management seems to be the guarantee for a strategic coherence according to enquired subjects. Ready to act in group and to receive orders to execute, the subordinates but some managers, too, find it difficult to have initiative or creativity being thus, inhibited. This is in accordance with Romanian culture perception that power means distance.

With a view to criteria that should be used for salary differentiation there are different opinions of subordinates and managers. Managers state that the main criteria that should count are: the outcomes of the work (100%), competence and qualification (93,6%), position within the organization pyramid (51,6%). The subordinates state the following criteria for salary differentiation: competence and qualification (78,8%), outcomes of the work (76,1%) and number of work hours (60,3%). We have to notice that seniority, in general and length in service within the organization are the less important criteria for salary differentiation. This shows the choice for modern values compared to traditional values such as seniority. As to the criteria for choosing a job, the most important are those connected to work satisfaction and rewarding salary (in a reverse order for employees). We can notice that work safety is on the 3rd place for the subordinates and on the 4th for managers. This leads to the idea that job mobility concept won against the “I get hired and retired on the same job” concept. We can notice that the visibility of the company is not an important criterion in choosing a certain job.

Regarding the desirable attitude and behavior patterns of managers, according to the enquired subjects, the main qualities of a good manager should be competence and professionalism (86,4% subordinates and 96,8% managers). For both subordinates and managers the first three options comprise manager’s interest to solve employees’ problems (62,2% and 51,6% managers). The subordinates have also included employees’ motivation in the first three options while the managers rated it on the 4th position their 3rd option being decision-making. Thus, a rather modern value-focused orientation relying on competence and efficiency criteria is also noticed in appreciating the qualities a manager should have. As to the manner in which instructions must be followed there is a significant difference of perception between managers and subordinates. Managers are inclined to a formal task execution (54,8%) while the subordinates are inclined to an informal approach (68,7%) focusing more on a correct understanding of the decision. This demonstrates that orders-are-not-discussed-but-executed mentalities are overcome.

When asked “if your company didn’t have a retail market share or registered big losses” the enquired subjects rejected the idea of shutting down the company suggesting the reorganization of the activity. Should the company register big losses, the enquired subjects suggested first of all, to change the managers (51,61%) and after that reorganization of the activity (41, 94%). Only 3% of the enquired subjects think that the company should be closed in the first situation and 6,45% in the second situation.

The perception of the enquired subjects about the general situation of the company they work for is mostly favorable (63% subordinates and 77,4% managers) in accordance with reality as the companies included in the sample are profitable.

The answers of the subjects to the three questions concerning the organizational environment are convergent. Thus, managers and subordinates equally think that they have co-operation relations with the management of the company, conflict occurrence is reduced and team environment is pleasant or acceptable. Both managers and subordinates, with minimum disparities, mainly appreciate professionalism, correctitude and organizational capacity of their superiors.

According to the results, the level of communication within the company is differently perceived by managers and subordinates. Managers state that they are informed on a great extent, about the strategy of the company (87%) and the current problems of the company (93%). On the other hand, only 51,6% of the subordinates are informed about the strategy and 40,2% about the current problems. This difference in communication on the two levels is typical for all companies of the sample. This reveals a low communication degree inside the organization. From here we can see a median position of the companies enquired about the organizational culture dimension provided by the strict control vs. weak control.

Conclusions

The “communist legacy” is an expression used frequently after 1989 by Romanian governments when explaining their failure in improving the economic and social situation of the nation. Beyond the expression, there is an empirical reality with important consequences upon the transition period. After 20 years of transition, the culture of Romanian companies is still dominated by some remaining mentalities of block culture featuring the Central and Eastern European transition economies. These mentalities generate inertia and affect competitiveness and performance of Romanian companies considering that organizational culture represent the foundation to build a business strategy on. The adjustment of organizational culture to corporate strategy is an essential condition to achieve the competitive advantage. Although Romanian economy works according to market economy principles, values and mechanisms, our research emphasizes that at present, considering the employees’ values and attitudes, we can identify, on the one hand, modern values strongly associated with reforms and changes and on the other hand, values pertaining to a slowing-down reforming process mentality.

The conclusions of the study confirm what a well-known Romanian economic analyst, Silviu Brucan, stated in 1990, namely that Romania needed 20 years in order to learn market economy values. If in 1990 his affirmations seemed very pessimistic, after 20 years of transition we can say that they were realistic maybe even a little optimistic.

We believe that investing in the development of human resources is the most important direction for Romanian companies to act in order to overcome the remaining communist mentalities during the change of organizational culture. This is to be done by changing the mentality according to which the labor force is a cost with that according to which the labor force is an investment. Such investments should focus on the development of managerial education and the training of an efficient and productive labor force.

The limits of the research and future research directions

The limits of the research derive, first of all, from the fact that the dimensions of the sample of companies were too small in order to consider the results of the research relevant for all population of Romanian companies. Therefore, we intend to extend this research to a bigger number of companies. We would also like to repeat the research (longitudinal research) in order to supervise the evolution of remaining mentalities identified during time.

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CLIMATE CHANGE DISCOURSE. CASE STUDY: RAIFFEISEN BANK

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This study investigates the climate change discourse as this is a highly debated topic nowadays. A case study is revealed in this paper, which consists of applying the critical discourse analysis method at Raiffeisen Bank, one of the most important international banks. The findings of this study disclose that misleading messages are construed in climate change discourse by using some persuasion means in order to support the statement of the discourse. The study was conducted by combining a wide variety of sources, such as articles, strategies, and reports.

Keywords: climate change, discourse analysis, Raiffeisen Bank

JEL Classification: M10, M14, M16.

1. Introduction

Actions for both adapting and mitigating climate change are fewer and smaller than it is necessary, may be because climate change cannot be perceived directly and the reaction to it depends on how it is communicated. Climate change could be seen as physical process (non-discursive), as well as rhetoric (discourse) of different stakeholders. The aim of this paper is to reveal the issues on which climate change debate is focused, as well as the discourse of Raiffeisen Bank in this area.

2. Background

Climate change is a strongly debated subject, but the debate was not always focused on the same issue. Firstly, the focus was on the process itself – does or does not happening, then it shifted to the human agency, and now it is about the consequences and actions needed. Thus, Crist (2007) suggests that since climate change is now a fact, it is worth focusing more on consequences where uncertainty is legion.

Climate change is beyond its physical dimension an invitation for action. Firstly, by assuming that humans are the causes, and not a natural process beyond their power and will, it results that they has to be the ones who do something to prevent the process. Secondly, if a change takes place in the environment humans will need to adapt to it. These also could be considered as reaction stages. Thus, Huq (2006) argue that two and a half decades ago the focus was on preventing climate change through mitigating emissions, while now adaptation has to be twined with mitigation, because some effects of climate are inevitable.

The scientific debate is not entirely settled (since the “climate consensus” was already criticized by Corcoran in 2006), but it has gave a consistent explanation of the processes and also provided indications on what is to be done. In addition, climate change information is now a mighty flow that reaches far in society.

Despite these premises, appropriate action is lagged, a strong emphasis being on the need to be more active. Since developed countries already have a climate policy, there is a global market for greenhouse gas emissions, renewable energies have stronger support as ever, businesses disclose

their contribution to climate change mitigation we could say that society is already active. Thus, the issue is not to be active, but to be more active. What more active means could be approximated by looking to the gap between what is needed and what is achieved. Research done in this respect has revealed that the difference between active and more active is huge.

What prevent an appropriate reaction to climate science's findings is therefore considered an issue of communication and is researched as such using semiotics and discourse analysis. Some of the outcomes are contradictory. Gare (2007) explores the semiotics of global warming and finds that market, as a field defined by Bordieu, has overlapped all facet of life and this transferred the debate to individuals or institutions that do not have the expertise needed to handle it. Therefore, the blend of climate change messages that often contradict themselves is not convincing enough to change behaviour. Discourse analysis of climate change related articles, web pages and ads in the United Kingdom has brought Ereaut and Segnit (2006) to the conclusion that climate change discourse "looks confusing, contradictory and chaotic". Nevertheless, solutions are viewed differently. Gare (2007) considers that in order to have more meaningful climate change messages it is necessary to restrain market's field by heavily taxing advertising. Thus transnational corporations will have less power to corrupt semiotics through rhetoric that undermines people's capacity to think rationally. Ereaut and Segnit (2006) consider that the most effective way of stimulating climate-friendly behaviour is to treat this activity as a brand to be sold, thus expanding again market's field.

3. Raiffeisen Bank's climate change rhetoric

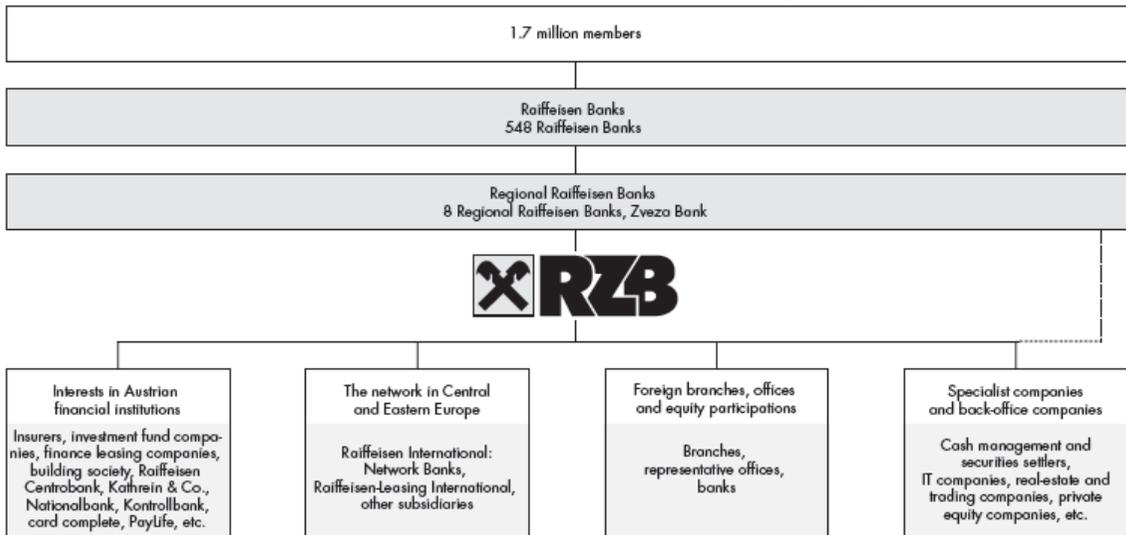
The **Austrian Raiffeisen Banking Group** dates back to the year 1886 when the first local, cooperative Raiffeisenbank was founded in Mühldorf in Lower Austria. 10 years later there were already as many as 600 savings and loan banks operating according to the Raiffeisen system in Austria. From 1894 on these individual cooperatives founded Regional Raiffeisen Banks (Raiffeisen Landesbanken; the first one was founded in Tyrol) with the primary purpose of liquidity equalisation. Finally, Raiffeisen Zentralbank (RZB) was founded for the same reason (equalisation of liquidity for Raiffeisen Regional Banks) in 1927 as Genossenschaftliche Zentralbank (GZB) and was renamed in 1989. Today, Austria's Raiffeisen Banking Group has the largest retail banking network and a market share of approximately one quarter of the domestic banking business (RZB, 2010a). The structure of the Austrian Raiffeisen Banking Group is highlighted in Figure 1. The Raiffeisen Banking Group is Austria's market leading banking group with EUR 260.2bn of total assets as at 31.12.2009. Its principal focuses in the financing field are retail customers as well as small and medium-sized enterprises. It employs around 85,000 people around the world (RZB, 2010a).

Raiffeisen Zentralbank Österreich AG (RZB) was founded in 1927 and is the central institution of the Austrian Raiffeisen Banking Group (RBG) and the core company of the RZB Group. With a balance sheet total of € 147,9 billion as of 31 December 2009, Raiffeisen Zentralbank Österreich AG (RZB) is the third-largest bank in Austria and one of the country's leading commercial and investment banks (RZB, 2010b; RZB 2010d).

Raiffeisen International is a fully-consolidated subsidiary of Raiffeisen Zentralbank Österreich AG (RZB). RZB owns about 70 per cent of the common stock, the balance is free-float. The shares are traded on the Vienna Stock Exchange. Starting already in 1987 by founding what is today Raiffeisen Bank Hungary, Raiffeisen International has consistently entered growth markets and expanded its regional and local presence (Figure 2). Recent examples are the acquisitions of banks in Kosovo, Belarus, Albania and Ukraine in 2002 through 2005. In January 2006, Raiffeisen International acquired 100 per cent of Russian Impexbank. In July 2006, it purchased Czech eBanka. Both banks were integrated into the network by merging them with the existing local Raiffeisenbanks. As of year-end 2009, Raiffeisen International managed subsidiary banks, leasing companies and a number of other financial service providers in 17 markets of the region. 56,500 employees served more than 15 million customers in around 3,000 business outlets. This

presence provides Raiffeisen International with the most extensive and closely-knit distribution network of the international banking groups active in the region (Raiffeisen Zentralbank Österreich AG, 2009; RZB, 2010c).

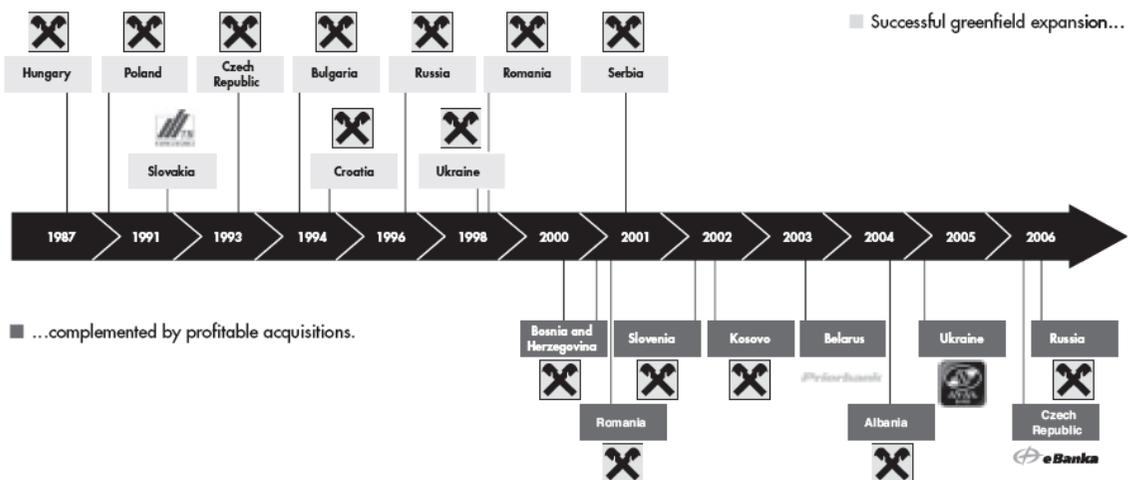
Figure 1 Structure of the Raiffeisen Banking Group



(Source: Raiffeisen Zentralbank Österreich AG, 2009b: 25)

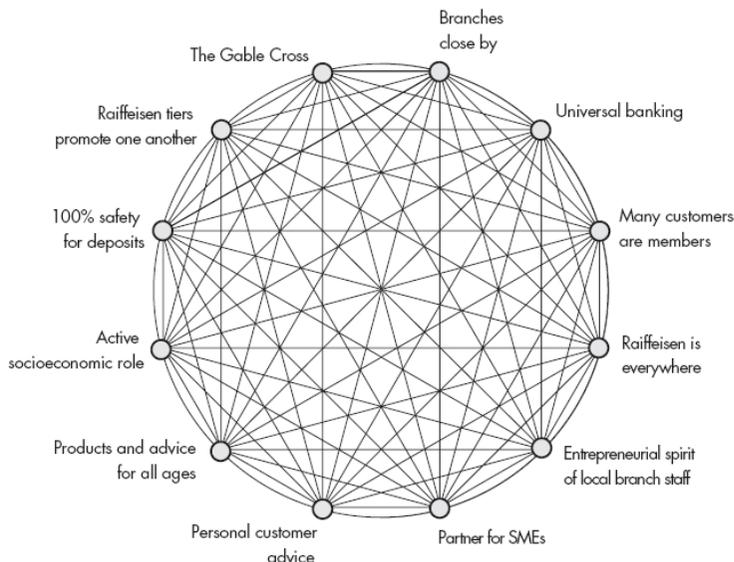
The “DNA” of the Raiffeisen brand consists of 12 success factors (Figure 3): (1) branches close by; (2) universal banking; (3) many customers are members; (4) Raiffeisen is everywhere; (5) entrepreneurial spirit of local branch staff; (6) partner for SMEs; (7) personal customer advice; (8) products and advice for all ages; (9) active socioeconomic role; (10) 100% safety for deposits; (11) Raiffeisen tiers promote one another; and (12) The Gable Cross, meaning the time-hallowed symbol of safety for Raiffeisen’s owners, customers and employees (Raiffeisen Zentralbank Österreich AG, 2009b: 26-27).

Figure 2 Raiffeisen’s network expansion



(Source: Raiffeisen Zentralbank Österreich AG, 2009b: 27)

Figure 3 Success factors of the Raiffeisen brand



(Source: Raiffeisen Zentralbank Österreich AG, 2009b: 27)

RZB addresses climate change in its Corporate Responsibility Report 2007/08 issued in March 2009, and also in its Corporate Responsibility Report 2008 issued in July 2009. The structure of these reports is based on five “guiding principles” of RZB, separate chapters being devoted to each of these principles, preceded by an overview of the company’s values: (1) “who we are”; (2) “a future always needs a past”; (3) “we are here to stay”; (4) “our clients’ success defines our own success”; (5) “the best become better with us”; and (6) “a strong cultural mix”.

The first chapter of the reports entitled “Who we are” firstly presents the RZB Group and afterwards addresses the corporate responsibility in the RZB Group. The authors of the reports are emphasising the idea that the company is “committed to protecting the environment – especially against climate change; upholding human rights; fighting corruption; and contributing to the stable economic development of the regions where we operate” (Raiffeisen Zentralbank Österreich AG, 2009a: 15). In addition, the authors are using a diagram (Figure 4) and are citing Simon Zadek’s model of the various stages of corporate social responsibility in order to demonstrate that corporate responsibility is a core component of RZB’s culture.

Figure 4 Stages of corporate social responsibility and RZB’s achievement



(Source: Raiffeisen Zentralbank Österreich AG, 2009a: 16)

In the end of this first chapter the authors put emphasis on the five above mentioned principles and briefly explain each of these principles that are detailed in the following chapters.

Even though the report issued in March 2009 comprises 80 pages, and the one issued in July 2009 comprises 70 pages, both reports address climate change in only one page (subchapter 3.4 “Raiffeisen Climate Initiative”. This may be surprising having in mind that the first guiding principle of Raiffeisen, declared by the authors, is “protecting the environment – especially against climate change”. However, the authors are tangentially referring to climate change in other chapters (for instance subchapter 4.2 “Consideration of environmental and social factors”), trying to convince the reader that Raiffeisen is actively involved in solving the problem of climate change.

The Raiffeisen Climate Initiative (Raiffeisen-Klimaschutz-Initiative), as it is explained in the report, “brings together all the activities planned and implemented by Raiffeisen organisations relating to sustainability, climate change, energy efficiency and renewable resources. Its purpose is to exploit synergies, make a significant contribution to combating climate change and raise public awareness of the problem” (Raiffeisen Zentralbank Österreich AG, 2009a: 78). This climate protection was called into being in November 2007. “The goals of the *Raiffeisen* climate protection initiative are to take suitable action capable of making a significant contribution to climate protection; to create the prerequisites that will enable the members of the association to make the greatest possible use of potential synergies in the climate protection field; and to promote public awareness of the need for sustainability, climate protection, energy efficiency and renewable resources” (Ecker-Nakamura, 2008: 67-68).

The reasoning begins with the claim that RZB itself “makes a significant contribution to combating global warming”. The main ideas, actions and facts described afterwards signify reasons in support of the claim. The second paragraph starts with the declaration that “RZB sets a good example on climate change”, and some examples are given in support of this statement, such as: internal energy saving days at Raiffeisen; employees are informed about how to save energy outside work (based on the principle that “climate protection begins at home”); exhibitors provide comprehensive advice. The third and fourth paragraphs are also trying to demonstrate that RZB is actively involved in solving the problem of climate change. Other examples are given, and figures are used in support of the main claim (“limiting the average CO₂ emissions of new company cars to 150 g/km”).

Furthermore, after “guiding” the reader to believe what the authors want him/her to believe some objectives and actions are highlighted in both reports. This is the part where the authors are trying to persuade that Raiffeisen has an important role in protecting the environment. However, it is to mention that the goals of “10% reduction in energy consumption at the headquarters building by the end of 2010” and “effective use of donations in response to regional social challenges” appear only in the report issued in March 2009, and they are not stated in the report issued in July 2009. Therefore, we may assume that these two goals have been achieved from March to July of 2009, or they are no longer important for the company. In addition, the actions planned in 2009 identically appear in both reports and these are: (1) helping employees to help: time off for employees to act as volunteer helpers after natural disasters or accidents; (2) training focus on corruption prevention: increased inclusion of corruption prevention in employee training courses; (3) internal environmental actions: implementation as part of the Raiffeisen Climate Initiative; (4) European Energy Service Initiative: planned entry of the RZB headquarters building for the European Energy Service Award; (5) solar energy: installation of PV arrays and solar collectors at the headquarters building; and (6) environmental indicator system: improvements to the RZB Group environmental reporting system.

The authors of the reports claim in subchapter 4.2 (named “Consideration of environmental and social factors”), that the loans are evaluated by focusing on environmental impacts. They even mention that “in one instance the review resulted in the rejection of a loan application”. This way they are suggesting that the environmental impacts are more important for the company than its own profit. Also, the authors mention the company’s “highly specialised teams of advisers on renewable and conventional energy sources”, and the fact that the company financed small

climate change and environmental protection projects, including solar energy equipment. In addition, some figures, pictures (for instance a Bulgarian wind farm financed by Raiffeisen-Leasing International Ges.m.b.H.) and examples are used in order to sustain the claim that the company is sustaining and promoting environmentally friendly projects.

4. Conclusions

Climate change debate has undergone several stages and now it settled on the need for more action. The delay in acting is explained by several studies which are focusing on communication and which reveal that climate change messages come from many sources and crush in an inconclusive and endless public debate. The messages construed by an important climate change stakeholder, Raiffeisen Bank, could be evaluated as misleading since they use truncated or distorted information, and construe immutable facts and goods that justify both uncertainty and slowness in action. On the other hand, this company invests a lot in “greening” its image and preparing its future role as an environmentally friendly company.

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ANALYSIS OF HUMAN RESOURCES MANAGEMENT

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Along with other material, financial resources, human resource is an indispensable element of each work process. The concept of human resource derives exactly from the fact that it has a limited nature and it is consumed by usage in the workplace.

Any work process cannot be developed without the labour factor. Work is essentially a conscious activity specific to humans through which they release certain labour objects and transforms them according to his needs.

Keywords: human resources, analysis, indicators, labor profitability.

JEL classification: M, M2, M21.

1. Introduction

During work, the man highlights his physical and intellectual capacities, that is workforce.

The analysis of how human resources are managed in an enterprise follows the next issues:

- ensuring the human resources analysis;
- using (extensive and intensive) the existing human resources at the enterprise level analysis;
- the effects of insurance and human resource use.

2. Ensuring the human resources analysis

Ensuring the human resources analysis has the following priority objectives:

- provides quantitative human resources
- ensures the human resource in the units
- analysis in terms of human resource skills;
- term insurance with human resources.

2.1. Providing quantitative human resources at a company level analysis

Setting up a strategy for the development, the continuous deployment of work process involves knowing the human potential in quantitative terms.

Its size, the classification, its co-interest must be consistent with the output produced, the technological potential the company disposes of. Managerial attributes are met when one knows, after the analysis, the human resource available, and could thus make decisions on hiring, restructuring or reducing staff.

Human resources available in an enterprise can be characterized by the following indicators:

1. Number of employees at a time - is the number of employees and is aimed at the beginning and at the end of management period.

This indicator includes all the employees with individual employment contract (indefinite or fixed) at a time, people who worked and those who have not worked, being on sick leave, maternity leave for childcare, holidays, leave without pay. Such an indicator highlights the whole human potential, but does not show its usability.

2. Number of employees at some point – it has the same information content as the number of employees at a time, but this indicator relates to both employees and contract personnel service, collaboration, agreements, being greater in size than the number of employees at a time.

3. *Average number of employees* - this indicator is calculated as a result of the existence of the movement of staff phenomenon (personnel entries and exits) and is considered as an indicator of the flow of personnel;

Average number of employees is calculated as a simple arithmetic medium of the daily employees livestock and it can be done daily, monthly, quarterly and annually.

4. *Average number of staff* – it is calculated as the simple arithmetic medium of the daily personnel livestock.

5. *The maximum allowable number of staff* - is the upper limit of the number of staff and it is determined having given the volume of activity and the average labour productivity, being noted down in the budget revenue and expenditure costs of undertaking.

Sizing the human resources shall be based on the production and labour standards. Labour standards are currently set by each company based on technical equipment, measurement, timing of the human resources, etc, these rules may be:

- of time;
- of production.

2.2. Ensuring the human resources in the units analysis

Such an analysis is necessary to highlight certain features of the workforce in an organization. Conformation of an optimal proportion between operational staff and the inoperative one represents a condition for an efficient activity. Grouping people to study and discover the causes which led to inefficient use is essential.

Depending on the purpose, the structure analysis is performed using several grouping criteria:

1. *according to the role occupied in the production activities we distinguish:*

a. workers:

- directly productive
- indirectly productive;

b. technical staff: - economic, engineers, sub engineers;

c. economic trained personnel;

d. technical management staff: foremen, technicians;

e. management and administrative staff;

f. general service personnel: service, security, firemen.

Such an analysis, in relation to the personnel occupation highlights the personnel needs of qualifications, of employment or dismissal.

2. *by age:*

- a. under 25 years;
- b. between 26-35 years;
- c. between 36-45 years;
- d. between 46-55 years;
- e. over 55 years.

3. *by seniority in the enterprise:*

- this criterion aims the existence of a balance between experience and maturity of the elderly and the enthusiasm and initiative of the young. One can watch from seniority intervals from - 5 years, 5-10 years, 10-15 years etc., or selected age groups with a spacing of 5 to 10 years.

4. *by sex:*

- a. male;
- b. female,

5. *according to training:*

- a. workers (skilled, unskilled);
- b. professional staff (with secondary or higher education);
- c. administrative technical staff (high school or higher);
- d. management staff.

6. according to business functions:

- a. research and development;
- b. production;
- c. marketing;
- d. staff;
- e. the accounts function.

Applying these criteria should not be a rigid, but flexible depending on the purpose and could also be found other classification criteria and applying the above criteria according to different levels of the human setup of the economic agents.

As a method of analysis it is used the total weight of each category of staff (rates structure) method.

2.3. Analysis in terms of human resources qualification

Workforce (human resources) is analyzed in dynamic both in terms of volume and of structure, but also in terms of its classification, so a qualitative analysis of human resource.

By qualification, in a narrow meaning, we understand the acquiring in a certain period of time of a minimum level of knowledge and skills in a domain, a checked and accepted quality by a committee based on examination of the theoretical or practical evidence.

Specific indicators of quality human resource analysis are:

1. *Qualification weighted average (Km):* $K_m = \sum N_i \times k_i / \sum N_i$

where:

N_i = number of categories of skilled workers

K_i = skill category

If workers, these categories range from 1 to 7.

2. *Complexity of workers weighted average (Kt):* $K_t = \sum V_{li} \times K_i / \sum V_{li}$

V_{li} = Volume of work: in days /man, hours /man, standards/ man

K_i = category of complexity of the work (from 1 to 7).

Qualification is not a static size, it changes from one period to another, a change due, first, to the degree of complexity of the work that must be executed and on the other hand due to the technical progress. It is necessary to pursue the correlation of the qualification levels with the level of efficiency to determine the economic limit for qualifying expenditure growth. There are attempts in this regard, which correlates the indicators of skill increase with the economic efficiency growth indicators.

The deficiency of these indicators is that they issue from the assumption that the economic effects get the same proportion with the increase in skill level, in reality, economic efficiency growth is not only the result of the staff qualification, but of other direct factors of the nature of the setup and of the technical progress. The most commonly used indicator in this regard is the coefficient of elasticity which shows us how the efficiency indicators increase when change with a percentage of skill levels indicators takes place.

Qualitative aspect of workforce a trader disposes of is an important component in the functional companies organizational system, because, largely, the dimensioning of the volume of production and economic efficiency expressed in various forms (productivity, profit per employee, etc.) depend on its level. It is useful that the staff qualifications analysis to be done in "levels" according to the human organizational structure of societies. In this way, one can watch for:

- staff working in production units;
- average and higher wage staff from the functional departments;
- management and security personnel;
- management board personnel of the company (company management).

2.4. Term insurance with human resources analysis

Qualitative side of the workers related to ensuring the stability of personnel is an important

prerequisite in the efficient use of workforce.⁷⁴

Workforce mobility is actually given by the interference of two flux of staff, which develops at the economic agents level, namely:

- personnel input flux;
- personnel output flux.

Depending on the nature of causes that lead to the mobility of working personnel, the economic agents are facing in terms of two different phenomena:

- a. the labour movement is an enterprise staff movement during a period, both in terms of inputs and outputs for normal reasons: transfer, illness, retirement, death, disability;
- b. labour turnover is an abnormal phenomenon which refers to labour output in an enterprise without the management's approval, or termination, as a result of breaking of employment contract.

Labour mobility and stability analysis is achieved through specific indicators:

1. Indicators of labour mobility:

a. indicators of the labour movement:

a 1) average ratio of staff input (Ci) : $CI = I/Np$

where:

I = input

Np = average number of staff

Analysis of personnel entries must be made considering the employment and namely their source.

Sources of employment come from:

- a. labour-offices;
- b. vocational schools;
- c. high schools;
- d. post-secondary schools;
- e. higher education.

The principle that must underpin employment must be that of professional competence.

a 2) the average ratio of staff exits (Ce) : $Ce = E/Np$

where:

E = exit

Np = average number of staff

Within the staff output analysis there should be a clear distinction between natural leaves category and those with unjustified causes. For the second category, the implications of such a business phenomenon should be established.

a 3) Average ratio of total movement (Cm): $Cm = (I+E) / Np$

Where:

I + E = input + output

Np = average number of staff

b. indicators of labour turnover - staff turnover coefficient (Cf) : $Cf = En/Np$

where:

En = total personnel output of unjustified reasons

Np = average number of staff

The analysis based on these indicators is carried out dynamically from one period to another, for at least 3 to 5 years. Such an analysis highlights the increasing or decreasing trends of the phenomenon of personnel movement.

2. Indicators of workforce stability:

a. age in the same unit is calculated by the relationship : $Vt = \Sigma t / \Sigma T$

where:

Σt = seniority expressed in years of all staff in that unit;

ΣT = total seniority of each worker, expressed in years

The value of this coefficient in ideal conditions should be also 1.0, this value would indicate a perfect stability of the workforce. The more it deviates from 1 value, the lower employment stability, with unfavorable implications on business.

b. the average age in the same unit is calculated as a weighted arithmetic medium between seniority of workers in the unit and the number of employees having the same experience:

$$I_m = \frac{\sum N \times t}{\sum N}$$

Calculation of average age indicator in the same unit and its analysis should be made in dynamic to determine the trend. The values of this coefficient should be linked to the alleged economic and financial indices: production year, commodity production, turnover, added value.

3.Conclusions:

Practical work shows that the most common underlying causes of fluctuation are:

- dissatisfaction of employee- driven by causes more or less objective, from misunderstandings about the way of establishing entitlements;
- deficiencies in the work of organizing production and labour often lead to conflicts with the boss directly: deficiencies in planning workplace (facilities, equipment, supplies materials, lighting, ventilation, temperature, noise, danger, etc..) work schedule (shift work, overtime or holidays, granting leave, etc.), chiefs and colleagues attitudes ;
- poor working conditions with a higher degree of toxicity;
- psychosocial dissatisfaction: providing housing opportunities, proximity to home, transport desires and aspirations instability (lack of maturity, people change their work after various fads), unrealistic expectations prove
- profession complaints: a desire for better conditions in terms of the nature of the work(According to competence, to avoid monotony, opportunities for self-improvement), prospects for promotion.

Evidence shows that at least 50% of leaves are due to factors inside the enterprise, they can be directly influenced by foreman, head of department or co-workers by following a few rules:

- the permanent knowledge of members of a group and their behaviour in and outside the enterprise;
- training and fostering team spirit and creating an appropriate work environment;
- open and direct approach of problems which leads to the desire of changing jobs;
- particular attention given to newcomers in the band, regarding their group integration.

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HOW TO TRANSFORM SMALL AND MEDIUM ENTERPRISES (SMEs) INTO LEARNING ORGANIZATIONS

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Small and medium sized enterprises (SMEs) are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, employment opportunity provider for most of population, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration. In Romania and other countries from The European Union, SMEs play an essential role in economic life, having special features that make adaptation process to the knowledge-based economy easier. In a knowledge-based economy context, SMEs should act as learning entities, by developing the most important resources they own: the human resources.

Keywords: learning organization, knowledge-based economy, small and medium enterprises, Romania

The article's JEL code: M3, M31, L81

SMEs features and regional distribution

Small and medium sized enterprises (SMEs) represent the most numerous and important category of enterprises, with multiple economic, technical and social functions. SMEs are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration. SMEs generate the most of Gross Domestic Product (GDP) in every country - usually 55%-95%, provide employment for most of population, and generate a major part of the technical innovation applicable in the economy¹³⁶³.

The higher flexibility of SMEs, the permanent contact of the entrepreneur with the organization, the capacity of producing goods and services to satisfy different needs and demands, the organizational environment favourable to change and innovation represent the elements that explain higher performance of the SME sector¹³⁶⁴.

Unlike larger organizations, SMEs enjoy a number of advantages, such as small number of employees, which facilitate communication and propagation of change within the organization, a smaller proportion of total tangible assets, economic and relatively simple management, adaptability and flexibility to changing external environment, entrepreneurial spirit, faster growth, development potential, but more intense interpersonal relationships and greater cohesion.

¹³⁶³ <http://www.eurostat.com>, access date 15.04.2010

¹³⁶⁴ Chivu, I., Garcia-Sanchez, A., Lefter, V., Popescu, D., Ramos, *Human Resource Management in Small and Medium Sized Companies, Contemporary Tendencies*. Ed. Economics, 2001, Bucharest, p.76

These features allow easier adaptation of SMEs to change imposed by the knowledge based economy, in particular economic sectors based on art techniques and technologies, the permanent renewal is key to success. We consider that all the specific characteristics of SMEs define a profile of those who can harmonize with the specific knowledge based economy and organization. Concentration of enterprises differs according to the development regions, as typological economic evolution areas. The region Bucharest-Ilfov, with 144,018 companies, has the largest density, approximately 23.33% from the total number. The other extreme is the South-West region with 45,889 companies, meaning fewer than 8% (Table 1).

<i>No. crt.</i>	<i>Region</i>	<i>Number of enterprises</i>	<i>Weight</i>
1.	North-East	67,333	10.91
2.	South-East	71,585	11.59
3.	South	65,001	10.53
4.	South-West	45,889	7.43
5.	West	58,745	9.51
6.	North-West	88,315	14.30
7.	Centre	76,519	12.39
8.	Bucharest-Ilfov	144,018	23.33
Total	-	617,405	100.00

Table 1. Small and Medium Sized Enterprises distribution by regions¹³⁶⁵

The average level for a regional unit is 77,177 companies, with a 10% increase compared with the previous year. The Bucharest-Ilfov region is over the national average by 1.87 times, being 3.1 times higher than the South-West region. These differences highlight entrepreneurial environment specificities, having as a result differentiation between country areas.

Higher values correspond to Bucharest-Ilfov, West, North-West and Centre, which indicates a strong polarization of small and medium sized companies, while lower values correspond to North-East, South-East, and South-West.

Predominant among SMEs are the micro enterprises, with up to 10 employees, companies that represent over 90.66% of the total number, only 31.95 from the total number of employees (Table 2).

<i>SME Groups (by number of employees)</i>	<i>2001</i>		<i>2007</i>		<i>Dynamics of number of employees</i>
	<i>Number of employees in SMEs</i>	<i>Weight %</i>	<i>Number of employees in SMEs</i>	<i>Weight %</i>	
1-9	459,210	26.64	917,514	31.95	199.8
10-49	564,651	32.75	946,237	32.95	167.6
50-249	700,072	40.61	1,007,742	35.09	143.9
<i>Total</i>	1,723,933	100.00	2,871,493	100.00	166.6

Table 2. SMEs distribution by number of employees

The number of SMEs increased in 2007 compared to 2001 by approximately 40%. After 2001, the main category that increased was that of micro enterprises. In 2001, the number of employees in enterprises with over 250 employees was 1,240,211, representing 41.84% of the total labour force employed in the enterprise sector. Compared to the numerical dynamics of the SMEs (152.1% between 2001 and 2007), the dynamics of the employees' number (166.6%), demonstrates strengthening of the SME sector.

¹³⁶⁵ <http://www.cnesmc.ro/CARTA%20ALBA%202009.pdf>, access date 09.03.2010

Knowledge-based economy as favourable environment for SMEs

Knowledge has always been an important driver of competitive advantage, but changes in the economy have made it increasingly so. In order for knowledge to provide competitive advantage, it must be explicitly integrated into a firm's strategy. Knowledge development lies at the heart of organizational innovation and growth and can be achieved through learning activities. Human resources, main owners of knowledge, develop especially within organizations¹³⁶⁶.

Economic activity is increased in sectors that intensively use knowledge and technology and increase production and employment in high-tech sectors. Success in the knowledge based economy depends on the ability to innovate. Researchers¹³⁶⁷ have identified the following characteristic of the knowledge based economy: physical distances represent no longer an obstacle to economic development, communication, education, successful implementation of projects and integration into society, economic system is open the world.

Key change involving the transition to a new kind of economy is not only the concern of the scientific world. Leaders of developed countries in European Union policy areas identified transition options to the new type of economy, the knowledge based economy: building an information society to citizens, by extending the Internet, electronic commerce, telecommunications, building a dynamic business environment, stimulating, developing small and medium enterprises, supporting scientific research as a vector of competitiveness and the enhancement of human resources, investing in education and training, promoting social protection systems and incentives to work¹³⁶⁸.

To create a competitive advantage, SMEs need to be able to learn faster than their competitors and also develop a customer responsive culture. Argyris (1999)¹³⁶⁹ identified that in light of these pressures, modern organizations need to maintain knowledge about new products and processes, understand what is happening in the outside environment and produce creative using the knowledge and skills of all employed within the organization. This requires co-operation between individuals and groups, free and reliable communication, and a culture of trust.

Learning Organization main characteristics and importance

Organizations with the best chance to succeed and thrive in the future are learning organizations. There are some fundamental aspects that need to be reinforced inside the company, in order to become a learning organization. Main tools and techniques include: continuously seeking information, encourage creativity (brainstorming, associating ideas), management techniques that imply the development of skills like leadership and mentoring, using and develop the latest and best information and communication methods and means.

The concept of "learning organization" is a relatively new one¹³⁷⁰, that has been developed in the last three decades and that has been successfully implemented by an important number of companies. Of course, the "learning" concept is not a new one; quoting no one else but the creator of the Theory of Evolution himself, Charles Darwin who said: "It is not the strongest of the species who survive, nor the most intelligent; rather it is the most responsive to change.", we realize that this concept existed since the beginning of times: men progressed by learning.

¹³⁶⁶ Harris, L., Leopold, J., Scholes, K., Watson, *The strategic managing of human resources*, Ed. Prentice Hall, Englewood Cliffs, 2005, p.234

¹³⁶⁷ Prusak L., Matson E., *Knowledge Management and Organizational Learning*, Oxford University Press, New York, 2006, p.156

¹³⁶⁸ Harrison, R., Kessels, J., *Human resource development in a knowledge economy: an organisational view*. Ed. Palgrave Macmillan, Hampshire, 1997, p.76

¹³⁶⁹ Argyris C., *On Organizational Learning*, Blackwell Publishing, 1999, p.235

¹³⁷⁰ first developed by Argyris and Schon in their work, "Organizational learning", 1978

Even if this statement is based on an obvious argument, many organizations refuse to acknowledge certain facts and continue to repeat dysfunctional behaviors over and over again. Huber (1991)¹³⁷¹ considers four constructs as integrally linked to organizational learning: knowledge acquisition, information distribution, information interpretation, and organizational memory. Senge¹³⁷² defines the Learning Organization as "a group of people continually enhancing their capacity to create what they want to create."

The present reality and the fierce competition created the need of theorizing the concept of organizational learning in the entrepreneurial environment and the creation of the **learning organization model**.

Argyris and Schon talk about 2 learning models:

- the single loop learning: the organizations modify their actions starting from the comparison of the obtained results with the expected results;
- the double loop learning: the organizations analyze the politics, values and the suppositions that lead to these; if they are capable of modifying these politics and values, then we have a process of double loop learning.

Peter Senge, developed the term of organization learning, in 1990, in his work that quickly became a best seller: "*The fifth discipline: The Art and Practice of the Learning Organization*".

Senge defines two concepts that need to be accomplished in order for a company to be named a learning organization:

- the ability to shape the organization to be in accordance with the desired results;
- the ability of recognizing the moment in which the direction of the organization is different from the desired result and to follow the necessary steps to correct this imbalance.

The learning processes within a Learning Organization

The first process refers to external sources knowledge acquisition. The organization human resources come into contact, socially, with external sources, which facilitates the information and knowledge input. For instance, scientists engaged by a private organization to offer their professional knowledge, gained within academic environments and research centers, that eases employees access to outdoor sources. Similarly, one of the reasons for companies to form partnerships is to build social connections with the local market, with the political environment¹³⁷³.

Knowledge transforming from tacit to explicit form represents the second process. The advantage is using employees knowledge for all organization and reducing management dependence on a limited number of people owning tacit knowledge.

The third process regards a collective contribution of different social groups for creating new knowledge, as a result of different competencies. Knowledge conversion refers to exploring existing knowledge, meanwhile creating knowledge refers to exploring new knowledge.

Human resources development refers to the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved. Changing to a new economic and social organization model, a knowledge model, implies employees, as part of the organization, higher adaptation capacity. Within organization, the learning process takes place at individual level, team level and organizational level. Continuous concern for training and professional improvement of human resources knowledge and capacities has favorable results for employee and organization.

Learning Organization contributions to SMEs performances are:

¹³⁷¹ Huber, G., *On organizational learning: The contributing processes and literature*, *Organization Science*, 2(1), 1991, p.88-115

¹³⁷² Senge, P., *The fifth discipline: The Art and Practice of the learning organization*, Ed. Random House, USA, 2006,

¹³⁷³ Lopez S., Pen J., Ords C., *Organizational learning as a determining factor in business performance*, *The Learning Organization*, Vol. 12, Nr. 3, 2005, p.6

-links individual performance with organizational performance. In terms of Planning and Strategy, SMEs from Romania are still in an incipient stage. Planning is used to a higher extent in 45.5% of the cases, but a career plan for employees exists in only 18% of the firms and there is a small declared linkage of the human resources recruiting strategy to organizational objectives¹³⁷⁴. The management of the firm is in these conditions mainly intuitive and does not apply the rules and rigors found in large companies. By their nature, SMEs nurture with their reduce dimensions and small number of employees the existence of a less rigid business work frame.

-develops collective as well as individual learning. This characteristic is also sustained by the fact that 75% of the entrepreneurs encourage the employee's involvement in other areas than those specified in their job description. A less favorable characteristic revealed by the study is that in SMEs the predominant way of working is still very individualist, the majority of the respondents (45%) neglecting the benefits of team work for the organization.

Over 35,63% of the microenterprises, 40,69% of small enterprises and 54,06% of medium enterprises allocated 1 to 5 training days for their employees (Table 3). SMEs which preferred training programmers for more than 6 days long, represent an important percentage, for all three enterprises dimensions types. All these data results indicate that significant importance is given to human resources development, although resources owned are more reduced than for larger organizations.

	Number of training days	Enterprises		
		Micro (0-9 employees)	Mici (10-49 employees)	Mijlocii (50-249 employees)
1.	Over 10 days	12,78%	12,57%	15,38%
2.	6-10 days	12,14%	24,54%	9,85%
3.	1-5 days	35,63%	40,69%	54,06%
4.	0 days	39,45%	22,20%	20,70%

Table 3: Medium training days number within SMEs evolution in 2009 compared with 2008¹³⁷⁵

Development may be a characteristic of the culture, values, processes and resources of the organization, not just specific of individuals. Initiated at the organizational level, development involves change, change in behavior, beliefs, attitudes. The role of management becomes as new values: the definition of processes, methods and techniques for managing development processes of the human factor, setting clear environmental impact of changes in internal and external, ensuring the availability of tangible resources (financial, material) and intangible (skills, facilities) in the development process, there is consistency between plan development and organizational strategy¹³⁷⁶.

Conclusions

Small and medium sized companies represent 99% from all enterprises, drawing up the main human resource agglomeration. In Romania and other countries from The European Union, small and medium sized companies play an essential role in economic life, having special features that

¹³⁷⁴ Chivu I., Artenie C., Popescu D., Ciocârlan-Chitucea A., Popescu D. - *The Profile of the Romanian Entrepreneur and its Compatibility with the Characteristics of a Learning Organization, Review of International Comparative Management, Vol.10, nr.4/2009, p.13*

¹³⁷⁵ <http://www.cnesmc.ro/CARTA%20ALBA%202009.pdf>, access date 09.04.2010

¹³⁷⁶ Chivu I. (coord.) *The Learning Organization and Human Resources Development, Ed. A.S.E., Bucharest, 2009, p.35*

make adaptation process to the knowledge-based economy easier. The results of the study demonstrate that learning capacity and knowledge sharing within SMEs consists of maintaining levels of innovation and remaining competitive, being better prepared to respond to external pressures, improving corporate image by becoming more people orientated. At the organizational level, a successful human resources development programme will prepare the individual to undertake a higher level of work, to provide the possibility of performance change and consequently.

There is a competitive advantage for an organization whose workforce can learn quicker than the workforce of other competing SMEs. In these settings, human resources development represents the solution that focuses on the organizations competencies at the first stage, training, and then developing the employee, through education, to satisfy the organizations long-term needs and the individuals' career goals and employee value to their present and future employers.

Human resource development (HRD) has gained a permanent role within SMEs, agencies and nations, increasingly as not only an academic discipline, but as a central theme in development area. Being a combination of training and education, in a broad context of adequate human resource policies, HRD ensures the continual improvement and growth of both individual and organization.

Development people as part of an overall human resource strategy means the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved.

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THE IMPACT OF ORGANIZATIONS' POTENTIAL OF COMPETITIVENESS ON THEIR CURRENT STRATEGIC AND TACTICAL MOVEMENTS

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Organizations' competitiveness is an effect of their current strategic and tactical movements and also a cause, a driver of future performance. This paper aims to analyze competitiveness in dynamics, by taking into account the impact of organizations' potential of competitiveness on their current actions, which of course will lead to a higher or lower level of competitiveness in future.

Keywords: organizations, potential of competitiveness, sustained competitive advantage, strategy, management, dynamics

JEL classification: L14, L21, L25, M16

Introduction

Any organization should try to be competitive and, moreover, any organization's performance is directly related to the quality of its strategic and tactical movements. Therefore these movements deserve special attention. However, they are partly the result of the organization's current potential of competitiveness and we will explain our view in the following pages.

Literature review

Competitiveness – a dynamic concept

Competitiveness clearly implies dynamics, by being a time-dependent structure (if an organization is currently competitive, this does not mean it will also be competitive in the future).

We define competitiveness as *the capability to successfully compete, to provide products and services as or more effectively and efficiently than relevant competitors for a specific time frame* (Radu, 2009).

There are many theories and models that try to explain why some organizations perform better than others. These theories and models can be grouped in three categories: **the internal perspective**, which concentrates on resources and capabilities, **the external perspective**, which focuses on the structure of industries and **the dynamic perspective**, which bridges the internal and external perspectives and explain why competitive advantages do not typically last over long periods of time (Carpenter and Sanders, 2007).

In order to have a good vision regarding a company's future, a careful analysis of the whole system a company is part of and the ability of the company to achieve future growth are clearly necessary (Woodhead and McCuish, 2003). It is clear that current competitive position and potential influence the future level through company's current responses (actions). However, an incorrect assessment of the current situation may lead to two errors: an under-response (in terms of relative competitive force) should result in deteriorating relative competitive position; the over-response is also a problem, as it can result in wasted resources with little gain in advantage (Oliva, Day and Macmillan, 1988).

A company's long term adaptation is actually produced by a series of strategic behaviors and organizational innovations. Therefore the organization's capability to develop effective strategic behaviors and organizational structure is critical for any company's growth (Kuwada, 1998). Strategic decision speed is very important; it matters for companies' growth (competitiveness as a result). Therefore, companies need to master fast decision-making (Baum and Wally, 2003).

The potential of competitiveness

In practice, when we analyze competitiveness dynamically, we refer less to specific strengths or weaknesses, and more to "a potential of competitiveness", a response capacity, and adaptation to various evolutions in the environment in which a company activates (Radu, Grigore and Cătăneț, 2009). The difficulty of dynamical analysis consists of the variable certainty of the predictions (regarding the environment), as well as the difficulty of obtaining relevant information, which many times happens to be confidential. However, the potential of competitiveness may be analyzed in dynamics, by using an extended Porter's model in dynamics (Radu, Grigore and Cătăneț, 2009), a dynamic analysis of the five competitive forces and of the macro-environment. The idea is to identify the organization's responses to the main evolution trends regarding competition, potential competitors, substitute products, customers, suppliers and general environment. In this way we obtain a response capacity of the company to the evolution of its environment, which we considered to be "the potential of competitiveness".

Evaluation of organizations' current strategic and tactical movements

It is not easy at all to evaluate organizations' current actions, strategic and tactical movements. Respondents to our questionnaire would not have answered to specific questions (or perhaps they would have answered, but not sincerely). However, we understood that the main points to be attained refer to cost, time and quality in an extended view (Radu, 2009) and these aspects could be pursued in our questionnaire. With respect to cost, we were particularly interested in analyzing the cost of actions seen as use of resources and tendencies towards outsourcing or not non-core activities. With respect to time, we followed to rapidity of organizations in adapting to various new conditions (flexibility). Last but not least, with respect to quality, we looked for organizations' focus on customer.

Conceptual framework

It is clear that any organization's potential of competitiveness will impact its future level of competitiveness. However, this influence is not a direct one. The main idea is actually one hypothesis we were interested to test: **The potential of competitiveness has a direct and positive influence on organization's current actions.**

Methodology

In order to test our hypothesis, we developed a questionnaire of 54 questions that was applied in two periods of time (June – September 2007 and June – September 2009), in order to see the causal relationships and the transformations over time. Almost half of the questions were actually translated and adapted after a standard questionnaire developed by European Foundation of Quality Management (EFQA) and used to assess business excellence.

223 questionnaires were distributed to managers of different Romanian organizations (7 of them non-profit organizations, the rest of them companies of different scales and from different fields of activity). Our final analysis was limited to 98 organizations.

Main findings

After processing the completed questionnaires we analyzed the average scores for each company regarding both the potential of competitiveness and their current strategic and tactical movements. Therefore we could analyze the distribution of results and also to perform a

regression analysis in order to test our hypothesis. The following figure shows the distribution of average scores for organizations' potential of competitiveness:

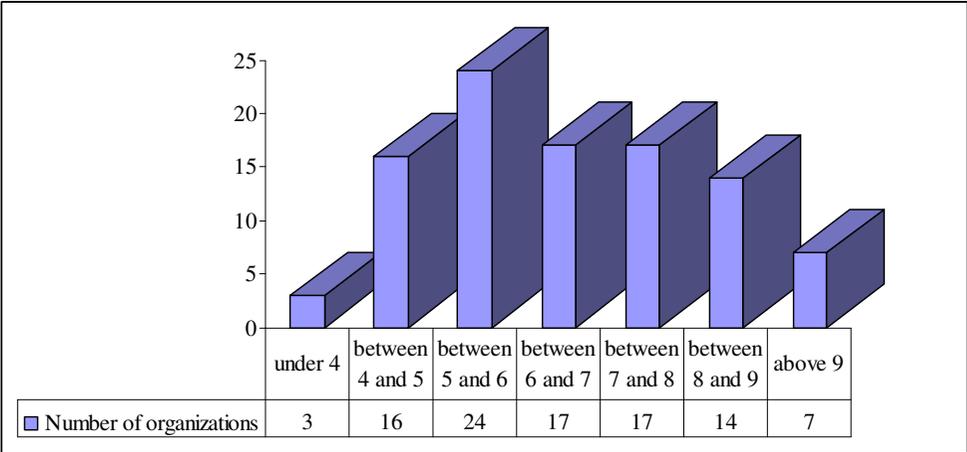


Figure 1. Distribution of average scores for potential of competitiveness

With respect to the average scores obtained for the potential of competitiveness, the distribution is quite uniform. Most of organizations have an average score between 5 and 6 (24 out of 98, which corresponds to 24.49%). The averages scores are between 4 and 5 for 16 organizations, between 6 and 7 for 17 organizations, between 7 and 8 again for 17 organizations, between 8 and 9 for 14 organizations. 3 organizations have very low scores (under 4), and 7 very good scores (above 9).

Figure 2 shows the distribution of average scores for organizations' current strategic and tactical movements:

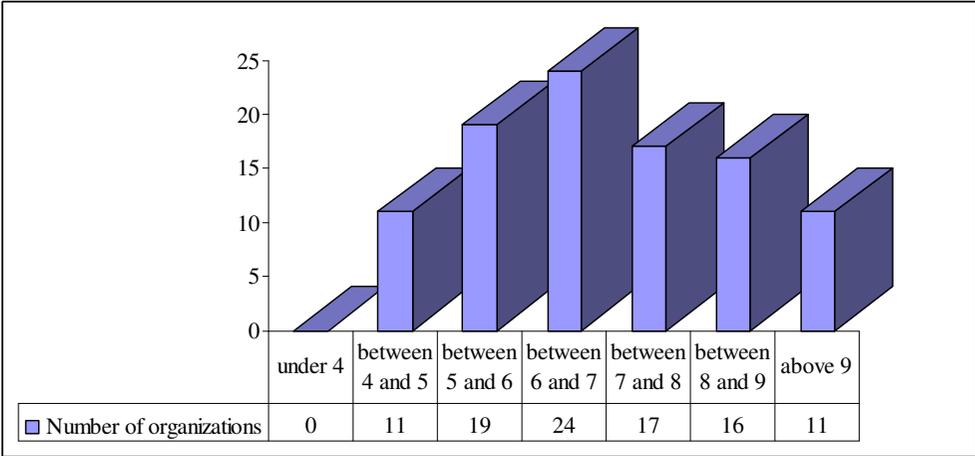


Figure 2. Distribution of average scores for current strategic and tactical movements

Most of organizations that participated in the questionnaire led to a distribution with the highest proportion of results between 6 and 7 (approximately one quarter – 24 out of 98 organizations, meaning 24.49%). The distribution is quite uniform, and there is no organization with a lower score than 4. We can also notice that the number of organizations with a score between 4 and 5 is the same with the one with scores above 9 (11 organizations).

Although distribution of average scores indicates some elements, for our analysis what happened with each organization in part is more important. In order to test this hypothesis we used the simple linear regression. The graph that shows the dependency relationship is the following:

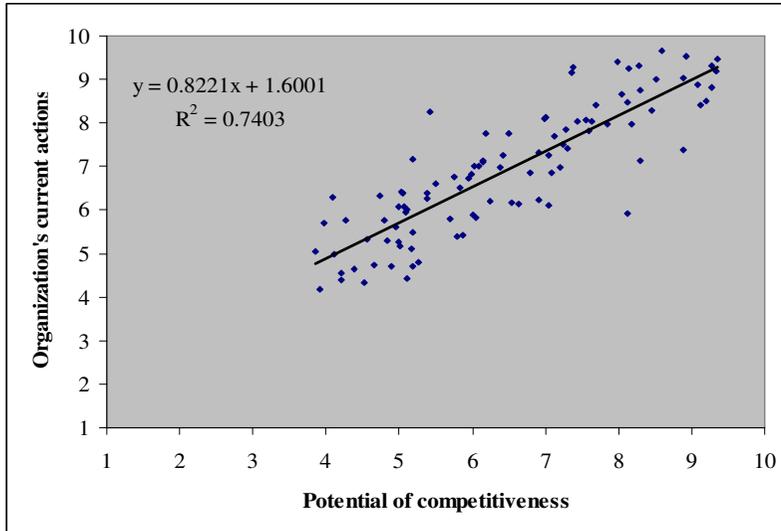


Figure 3. Regression line – “Potential of competitiveness – Organization’s current actions”

The coefficient of determination R^2 has a high value (0.7403). Linear relationship of dependence between the two variables is strong, as it can be seen from the figure, as there are quite few distant points (outliers). F test and p value show that the model is valid:

Table 1. Information regarding the regression line

Regression line:	$y = 0.8221 \cdot x + 1.6001$
Coefficient of determination (R^2):	0.7403
Standard error:	0.76
F test (Fisher):	273.7224
p-value:	$7.32 \cdot 10^{-30}$

Conclusion

We can validate our hypothesis. Indeed, the potential of competitiveness has a direct and positive influence on organization’s current actions.

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FINANCING SOURCES FOR SUPPORTING INVESTMENTS AND INNOVATION WITHIN SMALL AND MEDIUM ENTERPRISES (SME)

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The SME are the key sector to generate economic growth and a sustainable and permanent economic development. The Small and Medium Enterprises contribute to the creation of an important number of jobs, absorbing part of the available labour force as a result of economy's restructuring. Besides all these, Small and Medium Enterprises may influence, through their mobility and flexibility, the production's adjustment process to the market's requirements. The article is a glance of the main financing sources of the SME and attempt a description of how they are applied in the current economic context from Romania.

Keywords: innovation, financing, resources, venture capital, factoring.

Cod JEL lucrare: M20.

1. Introduction

The organization has to be receptive to **innovation** and willing to perceive change as an opportunity, rather than as a threat¹³⁷⁷.

In order to face the **innovation** challenge, in order to encourage the entrepreneurial spirit, the company has to be able to allot **financial resources**.

During the last decades, on the financial level we have seen a proliferation of the new financial instruments, which justify an older description made by James Tobin to the world economy: "a paper economy". The importance of innovation and of the structural changes within the financial system of the developed countries have been without precedent: new financial instruments have appeared, new negotiation markets have been created and new regulations emerged, the rapid succession of changes finding a necessary support in the "big bang".¹³⁷⁸

The financial innovation was defined as a creation (development) process of some new financial products; in a broader sense, the methods of mobilizing or placing funds are included, or the development and evolution of some new financial bodies. Consequently, the financial innovation is present not only within the capital market context, but within the entire financial market: the NOW accounts or credit derivatives, together with the financing of certain acquisitions (leverage buy-out type), the electronic funds transfer and credit cards, the real-estate euro-values, all of them being the result of the financial innovation.

¹³⁷⁷ Hinescu, A., Deac, I., Todoran, R.M., Fit, T., Rece, V.M., *Managementul strategic al firmei*, Editura Risoprint, Cluj-Napoca, 2008, p. 95

¹³⁷⁸ Stoica, O., - *Inovația financiară și dezvoltarea piețelor de capital*, Analele științifice ale universității „Alexandru Ioan Cuza” din Iasi, Științe Economice 2005/2006, p. 77-82

2. The main financing alternatives of the SME

Roxana Ștefănescu has identified a number of conventional and unconventional financing sources of the SME.¹³⁷⁹

Conventional financing sources of the SMEs:

- entrepreneur's own, personal economies;
- family's and friends' money;
- the incomes from the enterprise's patrimony;
- the business partners;
- the loans from banks.

I would add here the non-reimbursable funds of the Phare Programme and from structural funds and financing from the state budget and from guarantee funds.

Unconventional financing resources of the SMEs:

- the issue of shares and bonds on the capital market;
- venture capital funds;
- the factoring;
- the leasing;
- strategic alliances (franchise, joint venture, common licensing of some products, technologies).

Small and medium enterprises seem to choose the financing from own economies, from the family's resources, from different business partners, from the incomes of the enterprise's patrimony.

Self-financing is rightly considered the "healthiest" way to finance any type of company. It is strictly based on the company's self abilities, having as main sources the depreciation of fixed capital and the undistributed part of the profit which is put as savings and it represents the financing source of forming the capital. Self-financing is thus a company's ability of internal accumulation.

In 2006, approximately 70% of the small and medium enterprises in Romania have self-financed themselves.¹³⁸⁰

2.1 The loans from banks

The bank loan, depending on the company's activity and profit, may be a very comfortable financing way of a small and medium enterprise. The bank offers the petitioner an amount of money that will be returned at a specified moment.

During 2009, loans decreased in intensity. Cost of credit has increased significantly due to worsening economic environment in terms of attracting financial resources increasingly scarce and expensive.

The number of units decreased bank with 90 branches and over 3,000 employees of banks and have lost their jobs. Profitability of the banking system was positive, although profit fell banks. But no bank in the Romanian banking system has not been in default during 2009.

In 2010, banks have preferred to deposit money in exchange for an interest in National Bank which fell from 3.5% on year in January to 2.5% in March, instead of crediting the private sector at between 14 and 25% interest per year. This phenomenon occurs not only in Romania but also in the U.S. and Europe.

It is estimated that the banking system will be relatively quiet in 2010 but banks will still have to adapt to problems in 2009.

2.2 The SMEs access to non-reimbursable financing through European funds

¹³⁷⁹ Ștefănescu, R., *Managementul întreprinderilor mici și mijlocii*, curs disponibil online la adresa <http://www.scribd.com/doc/22747303/Www-referat-ro-Managementulintreprinderilormicisimijlocii-88e00>

¹³⁸⁰ Nicolescu, O., coordonator, *Carta alba a IMM-urilor din Romania – 2007*, editata de Consiliul National al Intreprinderilor Private Mici și Mijlocii din Romania (CNIPMMR)

The Poland Hungary Aid for Reconstruction of Economy Programme (PHARE) – is one of the three pre-accession instruments of the European Union to aid the candidate countries of Central and Eastern Europe to adhere to the European Union. Until 30.11.2010 two other assistance programmes are still valid which provide non-reimbursable financial support to small and medium enterprises

- PHARE 2006 „SME assistance for the acquisition of business consultancy services”;

- PHARE 2006 „The investment scheme to support the SME private sector initiatives within the waste management sector”.

Beginning with 2007, the **structural funds** are available for access.

The structural funds are post-adhesion funds supplied by the European Union’s budget, whose purpose is to offer support to the member states. Investments in education, research, agriculture, infrastructure, SMEs development and measures for the development of rural areas are sustained. A special attention is given to less developed regions, in order to consolidate economic and social cohesion in the European Union.

During the last years, the 23 million SMEs in Europe have been the main point of interest both at the European level and at the level of the member states. But more is requested and more can be done in this respect. In June 25, 2005, the European Commission has adopted “Small Business Act for Europe”, a document through which **the SME become the central point of interest in formulating the European and national policies.**

The most important European financing programmes aim to promote the growth and to create new jobs for the European economy, and the SMEs play a key part in reaching those objectives. The variety of programmes offers a multitude of opportunities, the role of this instrument being to help the SMEs find the opportunities that best fit their specific situation.

The EU sustains the financing offer for the SMEs for covering establishment or development costs.

During 2007-2009 Romania has attracted approximately 600 million euro of the 5,624 billion available, with a 10% rate of absorption.

The SMEs have spent only 5 million euro from the budget of over 700 million euro allotted by the European Union for the 2007-2009 period. The manager of the financing programme for SMEs, Catalina Melia, states that at least one beneficiary out of 10 gives up the approved projects due to co financing problems.

2.3 The shares and bonds issue on the capital market

Small and medium enterprises resort to a small extent to share and bonds issue, them being an important financing source for the big companies, and are very less accessible to newly-established companies.

The financing through the capital market is an alternative to the bank loans; unfortunately this possibility is very less known and used in our country. This type of financing is done through public issue for shares to sell.¹³⁸¹

Financing through the capital market is a possibility that should be taken more seriously into consideration, since most of the Romanian companies are at the banks’ and their regulations’ disposal for getting funds necessary to their activity.

As far as the public issue of real-estate values (shares or bonds) is concerned, the issuing company establishes the conditions of this sale (these conditions, however, must comply with the investors’ requests in order for the sale to be successful). Therefore, any company in Romania may diversify its financing structure and may include the capital market in its plans.

The capital market offers the dynamic companies the possibility to be listed at the **Bucharest Stock Exchange (BSE)**, the single market for securities’ trading in Romania. Listing also brings

¹³⁸¹ *Ghidul emitentului de actiuni si obligatiuni*, disponibil online la adresa http://www.intercapital.ro/componente_pagini/documente/ghidemitent.pdf

important advantages for the company: increased visibility among business partners and current and potential clients; free advertising; the establishment of “market” value of the company, a value that can be much higher than the one from the documents; the trust increase of Romanian and foreign partners; attracting new business partners; increasing the efficiency and effectiveness of exchange of shares between shareholders; capital raising; the issue of shares and bonds.

2.4 Venture capital funds

A special type of financing was invented in the developed economies, for financing the innovative development projects, especially for the small and medium enterprises, the risk capital, known as the **venture capital**.¹³⁸²

Venture capital have extended at the end of the ‘80s, aiming the emerging markets, the greatest expansion being noticed in the new industrialized countries of Asia and in the countries in transition to the market economy in Central and Eastern Europe. In 1995, there were 72 such funds, holding a capital of 4,5 billion USD.

The emergence and development of these funds have been supported both by the International Financial Corporation and the European Bank for Reconstruction and Development¹³⁸³.

Venture capital is a long-term financing of a company’s needs in the form of capital investment in the company’s assets.

Venture capital is among the most efficient development instruments of the small and medium enterprises, also playing an important part on the capital market of big companies in developed countries.

According to the **European Venture Capital Association**, venture capital is a long term investment in companies at different stages of development: it also includes an early stage, of financial expansion and replacement, being a temporary source of capital given to the small and medium enterprises by the venture capitals.

Harvard Business Schools defines venture capital as a long term investment in companies that are not listed on the stock exchange, referring to all stages of development of a company.

2.5 The Factoring

Factoring is a business financing method, especially of the import-export transactions, less known in Romania.

The factoring operation consists of the selling by the bank or a specialized company of the debts generated from commercial invoices. During the transaction, the bank (or the factoring company) offers immediate financing. Therefore, when the client shows the invoices for the purchased products or services, an 85% percentage is immediately paid from their value. After recovering the invoices’ equivalent, the factor will pay the 15% difference from which he keeps the commission’s and interest’s equivalent. Practically, the factoring is the financing mechanism to **get liquidities fast** by selling invoices whose maturity is short (usually between 180 and 360 days). Since the factor is the one who takes the debtor’s non-payment risk, he must take into consideration the external partners’ seriousness. To this respect, the bank (or the factoring company) will request financial statements and reports on the importers’ loans, so that it can check their situation. The factor will also take into consideration the debt’s quality. If some debts will prove risky from the point of view of how they are paid, they will not be taken over.

Factoring is a complete financial package which combines the work capital financing with the credit risk protection, with the non-payment risk management and the collection services. Based on the understanding between the factor and the seller, the factor buys the non-payment risk, normally, without appeal, thus taking the responsibility regarding the debtor’s financial payment

¹³⁸² Markova, V., *Probleme aparute in urma utilizarii capitalului de risc in intreprinderile mici si mijlocii din Slovacia*, Revista Studia Universitas, Universitatea Vasile Goldis din Arad

¹³⁸³ Matei, M., *Fondurile cu capital de risc – o noua sursa de finantare a investitiilor din Romania*, Buletinul Universitatii Petrol Gaze din Ploiesti, 2002, p. 1-5

ability. When the seller and the buyer are in different countries, this is called **international factoring**.¹³⁸⁴

The factoring market's value in Romania was of 1,8 billion EUR in 2008, which is a significant increase of 63,64% as compared to 2007 and places Romania on the seventh place in a classification of the markets that had the greatest development in 2008.

In 2009, the factoring market fell 27.8% to EUR 1.3 billion, but International Factors Group, an international association of banks and factoring institutions, estimated 15% growth for 2010.

2.6 Leasing

Leasing is a good financing method basically due to the efficiency which can satisfy the financial needs of the economic agents and natural persons as well. Complicated procedures of contracting some new bank loans can be avoided with a leasing operation, procedures which sometimes involve the immobilization of the company's patrimony, to produce guarantees.

Leasing is the operation through which one party, called lessor, transfers to the other party, called user, for a periodic payment, called leasing rate, the right of possession and usage of a good, whose owner is, for a determined period of time.

Leasing implies the existence of a **third party**: the supplier, the financing company (the leasing company) and the user (the financing beneficiary). The leasing company buys from the supplier the good solicited by the users and gives to this one to the latter one, for a specific period of time, against some monthly charges. This is basically the financing operation through leasing.

The leasing market in Romania decreased in 2008 with 2,6%, as compared to last year, and in 2009, the sales dropped with approximately 74%, the financial crisis having a much stronger impact on the internal leasing market than in other countries.

In countries from Central and Eastern Europe, the leasing market decreased by approximately 60%, while in Western Europe, the decrease was more moderate (15%).

In 2010, the leasing companies do not expect the market conditions to change, their efforts now being focused on rendering profitable the repossessed assets.

2.7 Strategic alliances

Entrepreneurs sometimes resort to strategic alliances which consist of a relation between two or more organizations, in which partners pool certain resources, in order to achieve certain common strategic objectives. The most used strategic alliances are the franchise, the joint venture and the common licensing of certain products and technologies.¹³⁸⁵

2.7.1 The franchise

The franchise is **an agreement** (a contract) through which a bigger company – franchiser – owner of a trademark of products or services, offers to another company – the franchisee – the right to exploit the trademark of products or services in franchising system, under his name and assistance, for a price.

The franchise is an indirect source of financing which replaces liquidities through the management, production, commercialization, consultancy etc. system, which the franchiser offers.

The franchise market in Romania has had, over the years, a **generally an upward trend**, this trend maintaining over the 2008 year. Although the economic-financial crisis has also affected our country, we can not talk about an obvious stagnation in the local landscape of this type of business, not even in the year of 2009.

¹³⁸⁴ Doroftei, G., *Aspecte ale factoring-ului in 2005*, Analele Universitatii din Oradea, Stiinte Economice, 2006, p.1111-1114

¹³⁸⁵ Stefanescu, R., *Managementul intreprinderilor mici si mijlocii*, curs disponibil online la adresa <http://www.scribd.com/doc/22747303/Www-referat-ro-Managementulintreprinderilormicisimijlocii-88e00>

2.7.2 Join Venture

Within the geographical space of business, dominated by partners who communicate through the English language, the physical and legal enactment of some joint cooperation, based on obtaining profit, has led to the appearance of the so-called “**join venture**”.¹³⁸⁶

In our space and in the Romanian legislation, the common names are: “**mixed company**” or “**foreign participation company**”.

All types basically refer to the same content: the existence of at least two partners, who invest capital into the business, one of which is a foreign citizen or organization.

Join venture means the type of company formed by business partners, natural and/or legal persons from different countries, who aim to maximize profit in the national and worldwide competitive environment.

2.7.3 The common licensing of certain products and technologies

The licensing is the operation through which a company (beneficiary) gains, against a price, the right to use patented technological knowledge of another licensing company.¹³⁸⁷

The advantages are cost economies, the rapid generation of incomes, the introduction of advanced technologies etc.

3. Conclusions

The most frequently used ways of financing by the SMEs are: self-financing – the most frequently used, followed by the banking credits, then the leasing; some of the SMEs have resorted to non-reimbursable funds and then the factoring. A part of the SMEs have taken loans from specialized institutions or they have accessed the National Fund for Credit Guarantees for the SMEs. The shares’ issue on the capital market is the most less used as a financing source for the SMEs.

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11. http://ec.europa.eu/enterprise/sme/funding_ro.htm;
12. www.euractiv.ro;
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¹³⁸⁶ Nicolescu, O., *Strategii manageriale de firma*, Editura Economica, Bucuresti, 1998, p.458-463

¹³⁸⁷ Stefanescu, R., *Managementul intreprinderilor mici si mijlocii*, curs disponibil online la adresa <http://www.scribd.com/doc/22747303/Www-referat-ro-Managementulintreprinderilormicisimijlocii-88e00>

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EVOLUTION TENDENCIES SPECIFIC TO THE FIELD OF QUALITY IN THE CONTEXT OF KNOWLEDGE BASED ECONOMY

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In the actual rivalry environment characterised by the exacerbation of the competition, quality is getting the most important factor. Sequel every organization has to consider a priority the improvement of their products quality. Set going from these realities, we consider convenient and interesting to present the most important tendencies in the field of quality, which understanding depends on the turning to account of numerous improvement opportunities.

Keywords: quality, tendencies, competitiveness, knowledge economy.

Clasificare JEL:A00

1.Introduction

In the actual rivalry environment characterised by the exacerbation of the competition, quality is getting the most important factor. Sequel every organization has to consider a priority the improvement of their products quality. Quality improvement is an organised way for generating a positive change, an advantage for the company. Appropriate to the current matter is this quote from W. Churchill: “To improve means to change; to be perfect means to change often”.

Set going from these realities, we consider convenient and interesting to present the most important tendencies in the field of quality, which understanding depends on the turning to account of numerous improvement opportunities.

2.Evolution tendencies specific to the field of quality in the context of knowledge based economy

Further we would relate and study thoroughly these tendencies and their implications also.

2.1.Integration of customers in the process of obtaining quality and bringing forth the value that was intended

This could be done by setting down the client to the following roles:

Customers are providers of information. We have to consider the following categories of information: information of the needs and exigency of our customers about the desired quality of our products (it is a special duty of marketing to obtain these kind of information); feed-back information about the grade of satisfaction after sau during the use of the product; know-how – not infrequently customers are very well informed and have gathered evidence in a specific domain, acquireing distinctive abilities. To improve the role of provider of information of clients organizations use the following methods: marketing research, customers telephone, customers loyalty club, virtual chat rooms, box of complaints, drive test, etc.

-Designing customer, who sets the structure and configuration of the product desired, or sets some quality features only (like endowments of an automobile, the configuration of a PC, the structure of television programes). Herewith assumes an extreme demasification, since every customer represents in the main a market niche. It is clear the abandon of standardizing in favour of personalization.

-Maintenance assuring customer. In the future bearers will offer a wide series of facilities (infrastructure + ability by instruction) for their clients in order to assure themselves the maintenance of the acquired goods. In this way they could secure considerable cost savings and advanced customer satisfaction.

-Carrying out services customer: e-banking services, services of transport and mounting (see IKEA sistem), self-service in the field of commerce. In most of the cases these situations provide advantages not only for the organization but for their customer too.

-, „Opinion leader” customer, is generating intangible value for a brand by its image on the market. Also, he can play the role of a consultant for the actual or potential customers, providing them information and survey.

-Manager customer. This could mean the set up of a team of customers involved in the management activities of the firm. For exemple, the team could be involved in the launching on the market of a new product. Customers would always understand better the needs of their peers (we refer here to the people with the same sistem of values and lifestyle), unlike a manager who does not use the respectiv products. An actual exemple of manager customers is of the students who sit on the Board of Faculty where they study. In this way they have an approved understanding of the necessities of students, and can find more suitable solutions. Such a measure could be taken for the improval of a company’s image.

The turning to account of the right customer presented above it is possible only when you can rely on a mutual and advantageous partnership between him and you company.

2.2.Promotion of a holistic view, integrator of the process of quality improvement and the value creation chain

Suggestiv in this respect is the quote from professor Ion Stanciu: „ Today, more and more companies does not put their interest into quality programes for reducing deficiencies only. This is the traditional broach of activities ment to improve quality. Now the emphasis is put in the constitution of programes of quality by integration and correction of all the processes associated with quality during the long chain of value creation for the customers. Acting this way we can stimulate the whole potential not only of the company, but of the bearer’s and distrubitor’s too, in order to rise the value of the products/services dedicated for the customers with beneficial effects for the sales and the profits. ” We can’t exclude the customer itself from this value creation chain for customers, fact brought up in the previous chapter.

2.3.Proximity in time and space between the bidder organization and client, due to the modern means of transport and communication, especial the internet

The implications of these in terms of quality management:

-*easy communication*: presentation of products, informing (site, newsletter), customer’s feed-back (e-mails, chat groups, telephone);

-*easy acces and provision of service* like e-banking, e-learning, e-commerce, with an 24 hours/day availability;

- *reducing the carryinn out a product ordered by a customer*;

- *significant reduce of costs* not only for the seller but for the customer too;

- *possibility of checking the condition of the product or service ordered by the customer*.

Exemple: an order from an e-shop, a package sent by an express courier;

- *growing transaparency of the market* following the presentation of the offers in the virtual space, which let customers make the best choise. This situation determine organizations to focus on the continuous improvement of quality, and on offering superior value for their customers.

The existence of virtual space have created the premises of a similarity between preindustrial age of crafts and our contemporary information society under the appearance of customer’s feed-back. If in the age of craftsmanship the bearer met his customer face to face, now they can very easily connect using the virtual space.

2.4.Promotion of a holistic view in terms of the concept of quality by inclusion and recovery of intangible quality characteristics

Quality is not resuming only on product characteristics which fulfill the functions for which they were created; ie the quality of a product is not supposed to satisfy only the generic needs for which satisfaction it was projected (a car – the need of transport, a public food service – the need of food). In defining quality we have to keep in view the intangible quality characteristics too, the most important ones are:

- prompt delivery of the product, very important to keep in view de current business environment characterised by a remarkable dynamic;
- the set of services „joining” a product which it makes more accesible and interesting: payment methods, information methods, transport, installation, commissioning services, instructions, etc;
- the purchase experience of a customer determined by: the quality of relationship between the customer and bearer (professionalism, kindlyness, promptness, emotional intelligence) and the specific environment of space for sale;
- environmental friendly aspects of the product, are getting more and more important in the decision making of responsible customers;
- customer status achieved by the purchase of a good. We have to keep in view the prestige of a brand and the values this is promoting (exemple: exclusivity, prestige, safety, friendship, innovation, performance). These days, the decision of purchasing a product is also based on the wish of the customer to communicate his status to the others. Precisely why perhaps the greatest responsibility of marketing is the creation of a unique personality, unique even for the brand had in managing.

Relevant to the issues presented above is this quote from professor Ion Stanciu: „Quality is an emotional experience for the customers. They wish to feel good after purchasing a good, wisg to feel that have obtained the highest value. They intend to know their money were used to help and to be proud with associating themselves with a company obtaining a high quality image.”

2.5.Tranzition between the interest for quality standards type iso 9000 and the business models providing world class performance

Quality standards type ISO 9000 represent a ghide on which a company can base it's quality management and would be capable to generate the quality promised their customers constantly. One of the purposes of a company's authentication, according to these standards, is to rise the trust of employees and clients' in the capability of offering the promised quality consequently; ie it is possible that two rivals to be certified according to the same quality standard even if their products on the market has eloquent difference in their level of quality. The target in the case of standards is represented by the quality promised to the market and it's improvement in time.

Through the implementation of the business models which are providing world class performance (Sis sigma, Kaizen), companies follow to reach world ranking, and to excel. The target in the case of these business models is represented by the highest quality achieved at a global level, making an obsession from the continuous improvement of it. ISO standards can help a company to survive on the market, transforming to an elementary necessity, until world class performance providing business models assure succes only.

2.6.Integration of economic issues of quality in the sistem of financial – accounting indicators of a company

During a long period of time companies have slighted the importance of an objective and fix cost generating non-quality evaluation. This was due to issues like: the lack of understanding the scale of these costs (it is estimated that in some companies they can represent up to 20% of the incomes); inexistence of a unified approach, at the level of concept and practice, of the measuring sistem of the generated non-quality costs. Yet companies that apply value analysis for maximizing the rate between quality and costs in order to improve their competitiveness on the

market, understood the importance of the exact evaluation of these type of costs. Issues represent a premise for the initiation of improvement projects which will lead to the reduction of non-quality costs. Non-quality costs means not only costs generated by the internal non-conformities but the external shortcomings and lost opportunities also, due to a weak good-will of the company in terms of the quality offered (issue which is hard to quantify). In order to piloting a company managers need exact information about the costs and proportion of non-quality, being a relevant indicator of the companies overall performance. General Electric was the first american company which introduced a sistem of management based on costs of quality in 1946.

Only those companies would survive and would have succes on a highly concurential market who would consider these kind of tendencies.

2.7.Extension of concern for quality in all the spheres of socio-economical life of a society

Here we are talking about the central and local public administration, the activities of non-governamental organizations, educational institutions, health care sistem, cultural institutions, etc. Quality is not a unique concern of a profit based company anymore. This is the only way we can consider a significant improvement of a societies quality of life. Unfortunately, we have to admit that Romania has a lot more to do in this sense.

2.8.Quality becomes a priority for decision making factors at national level or at the level of supranational structures

A good exemple for this is the European Union, where a wide training campaign of „european quality culture” is taking place by: the achievement of a common infrastructure in quality management policy; the broadcast of a considerable amount of information of quality management policy in order to strenghten the unique european market; preparations of documents of the E. U. like the „European Quality Management Policy”, „The European Way Toward Excellence”, „European Programe of Quality Management Policy” – all of these provide measures for obtaining a strategic view of quality in all the member states. Understanding the importance of quality is evident in the next provision drawn from the „European Carta of Quality”: „In global economy, competition exists everywhere. To win, european products and services has to be the best if our continent requires to get a chance on the international market.” It is regrettable that decision making factors from the macroeconomic level in Romania poorley understood the importance of quality promotion in the means of growing national competitiveness on the global market.

Unfortunately many romanian companies did not understood the importance of quality like major factor in competitiveness, neither did understood the tendencies presented above. The role of quality in the actual global economy, characterised by a strenghtened competition is emphasized by Jech Welch: „Quality is the best guarantee for the loyalty of our customers, the best defence from foreign competition and the single way to a lasting growth and sustained gains.” All of these are demonstrating the fact that quality is a social responsibility. Consequently an individual, a company, the professional organizations, the employers’ organizations, civil society through partnerships and non-governamental organizations must get involved in obtaining quality due to the following advatages:

-Improving the competitiveness of economical organizations. „Quality has become a strategic element of global management for organizations, because it determines the competitiveness of products/services at a high national and international level”. This is due to the following implications of obtaining quality: increasing sales due to the superior grade of satisfying the needs and exigencies of customers, customer loyalty, reducing of costs due to the improval of productivity (quality management aims the disposal of all the activities that are not adding value) and due the reduction of waste; recognition of the organization – the excellent quality obtained by an organization represents the most important marketing tool which could be used for it’s

promotion; development of a motivating environment – it has to be one of the best in terms of quality achieved, you have to set high quality as goal, which represents a challenge for the human resource of an organization; it stimulates the development and accumulation of knowledge in a company; it is a facilitator of change by connecting the company to the newest market tendencies (customer requirements, new technologies, etc.).

-Improving the competitiveness of national economy on the global market and is assuring macroeconomical balance. Relevant in terms of national importance of quality is the quote from A. Feingebaum: „High quality products are the key of economical health for contemporary nations”. The health of organizations, specially determined by their competitiveness, would have the following implications on their national economy: generating bugetary resources for the local budget; creation of new jobs with positive effects on reducing unemployment; increasing incomes of the population with positive effects on the standard of life; contribution to the growth of the gross domestic product; it has a dinamic effect on economy simulating it’s development and of other fields and organizations; it has a contribution in the foundation of a national brand; it is a source of national pride when a brand is getting well known internationally; it is facilitating the accumulation of know-how not only for the economy but for the society also; it has a strong training role in the promotion of quality cult and in dissemination of management practices.

-It ensures the health of the population and the environmental protection.

-The growth of overall satisfaction of people in their capacity of customers.

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STUDY ON THE PERCEPTION OF THE EMPLOYEES RELATED TO THE TRAINING OF FUTURE GRADUATES

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At present, taking into consideration the economic situation and the aspects related to the social life, the students need permanent guarantees that the standards of their diplomas are acknowledged by the future employees at a national and international level, and the employees need guarantees that they may choose from well trained future employees. Among the important elements of quality assurance, the feedback of the employers or potential employers – respectively of the business market, represents a strategic element of a competitive and efficient quality assurance system of any university.

Keywords: practical training, lifelong learning, higher education, tutors.

JEL Classification Code: M 20

Higher education is a service offered to society, which has a very strong impact on the personal development of individuals, as “it offers them the chance of being more freestanding, to have increased social mobility, professional and international mobility, increased incomes and increased empowerment”¹³⁸⁸.

The permanent increase of the population who has access to this service (at least at the level of year 2008) has created higher expectations, increased demands of the beneficiaries of these services. Although several young people do not succeed in making the necessary effort to graduate, the profit brought by this kind of education is clear and unanimously recognized in the Romanian society, so that we may uphold that all Romanian competitive universities are engaged in lifelong learning.

At present, taking into consideration the economic situation and the aspects related to the social life, the students need permanent guarantees that the standards of their diplomas are acknowledged by the future employees at a national and international level, and the employees need guarantees that they may choose from well trained future employees.

There is a common belief, presented in the Standards and Guides for Quality Assurance¹³⁸⁹, that the formal policies and procedures, prepared by the Romanian Agency for Quality Assurance in Higher Education (ARACIS) together with the Ministry of Education and the management of universities, offer a framework where each higher education institution may develop and monitor the efficiency of its own system of quality assurance, and thus, the superior quality of the educational services offered. By the development and implementation of its own strategies, policies and quality procedures, the higher education institution engages explicitly to promote quality in all its activities.

¹³⁸⁸ POPESCU Sorin, Constatin Brătianu coord., Gabriela Atanasiu, Costache Rusu, Constantin Oprean, Adrian Curaj, Ștefan Buzărnescu, Ioan Pânzaru, Ghidul *calității în învățământul superior*, Editura Universității din București, 2004, pag.7.

¹³⁸⁹ www.aracis.ro

Among the important elements of quality assurance, the feedback of the employers or potential employers – respectively of the business market, represents a strategic element of a competitive and efficient quality assurance system of any university.

In this context, according to Law no. 258/ 2007¹³⁹⁰ on the practical training of pupils and students, Order no. 3955 / 2008 on the approval of the general organization framework of the practical training strategies of the bachelor and master degree programs, of the Ministry of Education, Research and Youth, and the Regulation¹³⁹¹ on the professional training of the students of “Dimitrie Cantemir” Christian University, Bucharest, the Faculty of Economic Sciences of Cluj – Napoca has made a study on the perception of the employers related to the training of the students. This study is a preliminary test of the questionnaire which the faculty wants to use in the future in all its collaborations with the practice partners.

Based on an evaluation questionnaire for the interns, prepared at the faculty, the tutors (persons appointed by the practical training partner, who assure the observance of the training conditions and the knowledge of professional abilities planned for the period of the practical training), and the members of the department that prepares the practical training were asked to complete these questionnaires. We have interpreted the answers in this paper.

We have to mention that the staff of our training partners for 2009 – 2010 academic year, for the students of the Economy of Commerce, Tourism and Services are persons from the sales and marketing departments of various companies, performing commercial activities, in Cluj – Napoca:

No.	Practical training partner	Department	Number of employees in the department	Number of interns	Number of processed questionnaires
	Company 1	Sales department	5	3	15
		Marketing department	3	2	6
	Company 2	Sales department	4	4	16
		Marketing department	1	1	1
	Company 3	Sales department	3	3	9
	Company 4	Sales department	4	4	16
Total			20	17	63

The questionnaire includes several questions. The respondent has evaluated each intern practicing in his department, using an evaluation scale from 1 to 5, where 5 means “very well” and 1 means “insufficient”.

Respondents’ answers related to the evaluation indicators of the interns

Evaluation Indicators	Number of answers					Total
	Very well (5)	Well (4)	Indifferent(3)	Sufficient (2)	Insufficient (1)	
Work quality						
- understanding	9	29	4	18	3	63
- speed and amount of work performed	11	27	9	9	7	63

¹³⁹⁰ www.edu.ro

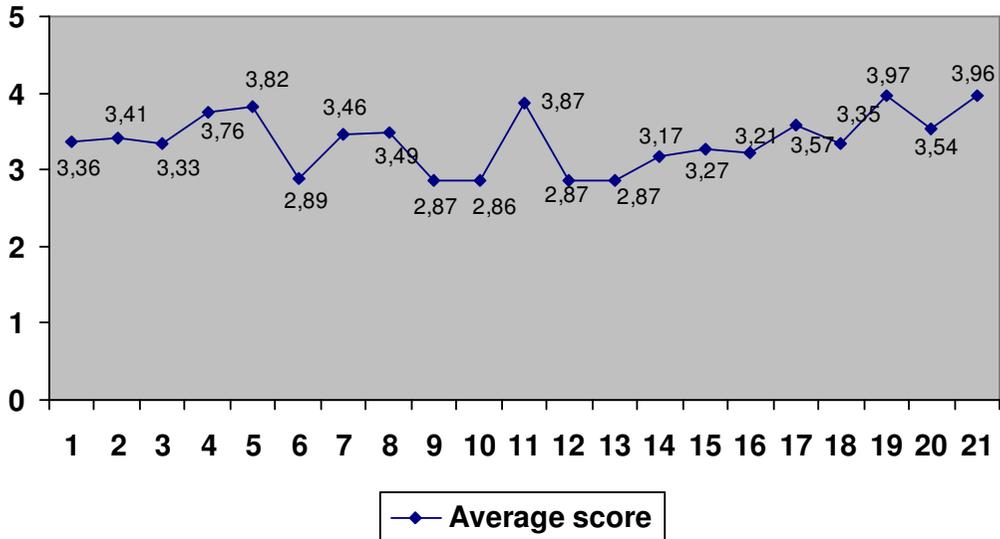
¹³⁹¹ www.ucdc.ro

- achievement of the tasks given	17	19	5	12	10	63
Reasoning						
- capacity to make logic and viable decisions	20	25	5	9	4	63
- capacity to act independently or to ask for help	21	24	6	9	4	63
Creativity						
- capacity to suggest viable alternatives	7	16	9	25	6	63
- capacity to apply efficiently their knowledge and abilities	10	18	28	5	2	
Problem solving						
- capacity to identify, analyze and solve the problems	18	21	5	12	7	63
- capacity to analyze the impact of decisions before performing them	9	14	6	28	6	63
Planning and organization abilities						
- capacity to prioritize	6	17	8	26	6	63
- capacity to observe the planned program	21	25	6	10	1	63
- capacity to manage time in an efficient manner	9	14	6	28	6	63
Communication and interpersonal abilities						
- capacity to express correctly and concise, both orally and in writing	5	19	6	29	4	63
- capacity to be a good listener	11	19	5	26	2	63
- capacity to interact tactfully when he has contact with internal and external staff	12	18	10	21	2	63
- capacity to adapt to the team work, to collaborate to the achievement of the tasks	12	17	6	28	0	63
- punctuality	21	19	5	11	7	63
- capacity to evaluate critically his own activity and to be impartial	15	20	8	13	6	63
- capacity to maintain confidentiality and to be trustworthy	27	19	6	10	1	63
Professional curiosity and wish to learn	19	21	5	11	7	63
Ability to use the logistics (computer, telephone, etc.)	26	21	5	9	3	63

Respondents' evaluation

	Evaluation indicators	Average score
	<i>Work quality</i>	
1	- understanding	3,36
2	- speed and amount of work performed	3,41
3	- achievement of the tasks given	3,33
	<i>Reasoning</i>	
4	- capacity to make logic and viable decisions	3,76
5	- capacity to act independently or to ask for help	3,82
	<i>Creativity</i>	
6	- capacity to suggest viable alternatives	2,89
7	- capacity to apply efficiently the knowledge and abilities	3,46
	<i>Problem solving</i>	
8	- capacity to identify, analyze and solve the problems	3,49
9	- capacity to analyze the impact of decisions before performing them	2,87
	<i>Planning and organization abilities</i>	
10	- capacity to prioritize	2,86
11	- capacity to observe the planned program	3,87
12	- capacity to manage time in an efficient manner	2,87
	<i>Communication and interpersonal abilities</i>	
13	- capacity to express correctly and concise, both orally and in writing	2,87
14	- capacity to be a good listener	3,17
15	- capacity to interact tactfully when he has contact with internal and external staff	3,27
16	- capacity to adapt to the team work, to collaborate to the achievement of the tasks	3,21
17	- punctuality	3,57
18	- capacity to evaluate critically his own activity and to be impartial	3,35
19	- capacity to maintain confidentiality and to be trustworthy	3,97
20	<i>Professional curiosity and wish to learn</i>	3,54
21	<i>Ability to use the logistics (computer, telephone, etc.)</i>	3,96

If we make a graph of the results obtained, respectively the average value of the marks, taking into consideration that the maximum mark that may be obtained for each indicator is 5, we have the following information:



– the lowest average score is for the *“capacity to prioritize”* – 2,86 (when 41,26% of the respondents gave the mark “satisfactory” for this indicator). If this result is correlated with the very low score of the indicator *“capacity to manage time in an efficient manner”* – 2,86, we have an unfavorable image of the element “Organization and planning activities”; namely, the future graduates have problems with organizing activities. The majority of these students are not capable to identify the priorities and manage their time to fulfill their tasks. We may ask the question if this result is a signal related to the way the students are “fed” with theoretical elements, without having enough time to practice; or if there is a deficiency in the relationship with the practical training tutor, who cannot send the adequate information to the student. We think that both situations may be improved if in the future we lay stress on teaching strategies focusing on the student, on creating learning methods focusing on the student and if we renounce partly to the classical teaching method, which concentrates especially on giving information.

– we think that the low result obtained for the indicator *“capacity to express correctly and concise, both orally and in writing”* – 2,87 is the unfavorable effect of the examination methods, as we know that in the higher education system, the written examination is the most used examination form. As if it weren’t bad enough this way, we have gone further and generalized the level of the bachelor programs, and the students have multiple choice forms to complete for their exams. If for the written exams, where the students have to present the exam subjects, we have the possibility to see at least how they think, how they express in writing, at present, using the multiple choice tests and eliminating almost totally the oral examination, based on the hours spent by the students in front of the computer – we have “stolen” from them this minimum possibility to express themselves! We ask ourselves if this is a strong signal that the examination methods should be re-thought for the benefit of the student, by choosing methods focusing on the student, as we have already mentioned: case studies and role – playing games during the seminars, respectively oral examination or based on projects for semester examinations. Is this the result of the pressure made by universities that register many students, without being able to offer them the necessary conditions for a quality education service?

- as related to the result obtained for the indicator *“capacity to maintain the confidentiality and to be trustworthy”* – 3,97, we think that this is the result of the confidentiality conventions that the interns have signed with some practical training partners, by which they have undertaken to observe the confidentiality of commercial information they would find during their practical training;

– it is important to notice the results obtained for the indicators “capacity to act independently and to ask for help”, respectively “capacity to observe the planned program”, which make us see better the employment possibilities of the future graduates.

We think that this is a present-day subject. The partnership between universities and business environment is only the beginning, because as we try to understand each element that may connect the university and business environments, we find more and more questions that we have to answer as quickly as possible.

Analyzing the first information, we think that the persons in charge with the practical training of the students, together with the practical training partners, permanently involving the students and all academic staff, have to be responsible for these practical trainings and analyze the following aspects:

- alternatives of the teaching strategies focusing on involving the students in the teaching process, in order to offer them the possibility to improve their communication abilities, both in writing and especially the oral communication;
- involvement of the Student Career Orientation and Counseling Centre, which operates at each university and / or faculty and which should concentrate its whole activity according to the needs identified as a result of these studies, and at the same time to be a collaborator of the faculty in its relation with the business environment;
- re-thinking of the examination forms and change of the written examinations with other forms of examinations as projects, test based on oral examinations;
- organization of round table discussions where the representatives of the universities should discuss the best practices in the field of these strategic partnerships between the universities and the business environment;
- organization of periodic meetings with the representatives of the business environment to identify the contradictions between the training of the future graduates and the requirements of the employers, as related to their training for their profession;
- determination of performance indicators for the students’ professional activity, correlated to the results of these permanent studies of the employers’ perception, in order to obtain a quality educational service.

We think that within the context of the present reform of the Romanian education, the attention of the Romanian universities for the practical research activity, respectively for the students’ practical training, both at the bachelor and master degree programs (or maybe especially at these levels) should represent an important part of the process for the adaptation of the institutional evaluation procedures to the European standards for higher education.

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SMES COMPETITIVENESS AND ENVIRONMENTAL INFLUENCES

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In the related literature, there are many ways in which company competitiveness can be defined and understood. The purpose of this research is a better understanding of the SMEs competitiveness from the West Region of Romania. This study presents preliminary results of a research focussed on SMEs competitiveness. There are some positive and negative local and national factors which are influencing firms' competitiveness. This study confirms us our presumptions. The internal and external environment's influences on SMEs are very strong. Managerial competence and good managerial practices are very important factors in the durable success of SMEs.

Key words: SMEs competitiveness, entrepreneurs, environmental influences

JEL Classification: L26, O18

1. Introduction

SMEs plays an important role in our local economy. This role will increase in the future. It is very hard to determine the influences on SMEs competitiveness. We are sure that both factors, internal and external, are important for SMEs competitiveness. We do not propose here a methodology to find which factors are very important in SMEs competitiveness. It is difficult, because the importance of factors is changing now from one period to another. But we can say that, in the actual turbulent environment, these factors are constantly important for SMEs competitiveness: managers and their managerial ability.

2. Literature Review

In the related literature, there are many ways in which company competitiveness can be defined and understood. There is not a universally accepted definition of company competitiveness and there is a lack of precise definition of this concept.

At a country level, competitiveness is determined by productivity, depends on firms strategies, is, partially, the results of relationship between companies and local business environment, depends on social and economic objectives synergy and is influenced by factors from external environment (M. Porter). According to Porter, there are some internal and external factors that create a context in which firms compete and determine the ability of a firm to maintain its market share, to compete successfully.

During the time, many researchers focused on company international competitiveness, with examples from multinational companies. A neglected subject was the SMEs competitiveness, especially those companies, start-up firms, from Central and Eastern Europe, which are operating only in a local and/or regional market.

Many researchers are considering that competitiveness is synonymous with success and that means achievement of firm's objectives.

3. Research Methods

Our research is going on from the following *assumption*: the SMEs competitiveness in the Timis county is influenced by external and internal environment including entrepreneur's profile and competency.

We have used a questionnaire with 23 pages, 6 sections (with subsections) and 111 questions. The first section contains information about founder, company, field, employers, turnover in the last 5 years. (basic information). The 2nd section (the entrepreneur) contains information about the entrepreneur: education, training, experience, motivations to start a business, success factors. The 3rd section (companies profile) contains information about human, physical, financial resources, companies performance. The 4th section contains information about business environment. The last section contains information about entrepreneurship and ethics. This questionnaire was used in a previous research of a finished grant about SMEs competitiveness, directed and managed by Professor Nicolae Bibu, PhD. We also ask a question concerning the current crisis. We want to know if their firms were prepared for economic crisis.

The sample included only companies with income statement and balance sheet from an official database. We received and processed questionnaires with valid responses. The companies questioned were from *different fields*: production (70%), trade (20%), others (10%). The majority of questioned enterprises are in the top of *first 50% of competitors*. We focussed our attention on some SMEs county.

4. Results

In Romania, in 2007, the number of active SMEs was about 487,628. In 2009, the estimated number of SMEs was 600,000. Most of the SMEs were microenterprises, (88%), while 10% were small enterprises and 2% were medium-sized enterprises.

Sample structure by field of activity in 2007 shows us that there are many SMEs in the services sector, (75.5% including trade, different services, and tourism). In the industry and energy field were 12.41%, in construction 9.41% and in agriculture and forestry were 2.88%. In our country the number of SMEs was growing continuously since 2002. There was a favourable macro-economic context which influenced many people to start a small company.

In Romania, in 2009, the number of SMEs per 1000 habitants was about 26, very far from the EU average, 50.

In the Timis County, in 2007 there were 22,394 SMEs. Most of them were microenterprises (88.7%), while 8.9% were small companies and 2.4% were medium-sized company. Since 2002, when the number of SMEs was 12318, the number of SMEs was increasing continuously. Year by year, we can talk about a slowly growth. Most of SMEs were in services (79%). In the industry and energy field there were 11%, in constructions were 10% and in agriculture & forestry. The number of SMEs per 1000 habitants was about 32.5 in 2007.

We found that our companies have only internal competitiveness. This concept means that a SME is competing with other companies only in the local/regional/national market, in our case Timis / the West Region or Romania. We think that most of studied SMEs were defensive, very preoccupied to maintain their market share and gain an acceptable profit.

In our studied companies, the turnover was growing slowly in the last 5 years. The profitability rate was 15% (per all). In production SMEs the average of profitability was 10%. In the field of services, the profitability rate was 30%. It is important that we can discuss about the growth process. The net profit has increased continuously, but the growth was very slow. The main factors for this continuous increase were: improvement managerial skills; new distribution channels; modernization in technology, growth in production capacity; improvement in people motivation. The products are sold in the domestic market.

We found that *entrepreneurs* are important in the firm's growth process. They are the key in the entrepreneurial process. The owners have learned to become good managers for their business. Most of them have higher education (70%). They have technical education (80%) and economic

education (30%). 40% from all entrepreneurs have followed managerial training programmes. The average age for entrepreneur is 45 year. About the entrepreneur position in company, 80% are also managers, in most than 50% cases they are top managers.

The *external environment* influence on SMEs perceived by owners/managers is very strong. The actual environment is more uncertain, very difficult to understand.

The external environment, is influencing the small and medium sized competitiveness, and of course, management decisions. Through our questionnaires, entrepreneurs-managers have identified some external factors with positive influences on their productive business, in the 2005-2009 (during the first 3 months) period: the increase in the demand for their products in local markets; infrastructure modernization; opportunity for investments financing (EU money, structural programme) simplified access to loans; best quality of raw materials; production methods and modern technologies; growth in population buying power; positive modification in rules, governmental policies.

90% from questioned companies recognized that growth demand for their products in local markets is a very strong positive factors for their business, especially for companies with low performance. 60% from SMEs said that simplified access to loans is not so important for profit growth average rate. Infrastructure modernization is a very important factor for 50% questioned SMEs, per all. 84% of SMEs evaluate as being important the influence of investment financing opportunities on profit and of course on development process. Financing is also very important for business development and for profit growth average rate. Financing opportunity is also important for turnover average growth rate, for 80% of SMEs.

In the same time, we have identified factors which may have a negative impact on business development. Raising prices on raw materials and utilities have a strong influence on SMEs profits. The growth of competition is a very important factor, with a strong influences on turnover and profit rate. Entrepreneurs are expected that competition for resources and clients will be very strong. Legal and political factors are also influencing managerial decisions in company. To many taxes creates problems for small firms.

Entrepreneurs were asked about their strengths against competitors, which helps them to obtain good results: excellent organization; planning competence; good relationship with workers; marketing abilities; technical competence. Good workers, modern technologies, a good quality of the product/services, a good relationship with actual clients, innovation, enough financial resources, good strategies are also important for company competitiveness.

New EU regulations, including environmental protection, is a important factors with strong influences on companies profit (48.1%).

The main obstacles for business were: the payment for delivering products; the low level of qualified workers and the weakness financial power (difficulties in obtaining financial resources). Most of firms have appreciated that integration in EU is a positive factor for their business because of opportunities (new markets, free circulation of goods, a better access to raw materials). The influence of this factor on profit rate evolution is not so strong. All of entrepreneurs believe that increasing loyal competition is good, forced them to be more attentive to their products and clients.

Our questioned companies have the ability to provide products/services to consumers in an efficient and effectiveness manners. They have a competitive advantage among competitors and are able to generate profit (even the profit rate is low it is important that is profit).

Entrepreneurs consider that achieving success requires rapid, efficient and effective actions. Companies must be proactive, must be able to forecast the actions of external environment, anticipates changes and to prepare the answers. In our study, micro enterprises and small firms are active-reactive firms. They know that they must react in a short time, since the opportunity/threats have identified.

We can say that in most of the cases we found that there is a strategic approach, thinking, but few companies are really having a strategic plan.

There are many factors, from inside and outside the company, which can create a favourable conjuncture and the company achieve a temporary competitive advantage. The success consolidation depends on entrepreneurs, on their managerial ability to adapt environmental changes. Small firms are not so oriented to innovation (product, process, method).

In the future, the entrepreneur-manager must talk about sustainable success in both markets. That is why it is not enough for companies to compete only on the internal market.

Most of entrepreneurs said that they were not prepared for the crises. They were not enough interested in growing economic efficiency in their companies, especially reducing costs.

5. Conclusions

After this research, we are able to formulate *some conclusions concerning the SMEs growth and competitiveness*, from our questioned companies:

- For small business entrepreneurs, forecasting time horizon is limited under two years; in most of cases, entrepreneurs are managers and they are very implied in day to day activities. They do not have enough time to prepare long time plans.
- They have personal objectives which are related with companies. We found especially short time objectives.
- They do not use planning modern instruments (for studying external environment).
- They do not use contingency plans.
- Most of entrepreneurs have a flexibility in behaviour.
- Small businesses are very strong market oriented.
- Some external factors (economic factors) have a strong influence on internal competitiveness in the Timis County.
- A very important problem is the quality of qualified workers. We know that people, workers and managers make the difference between companies.
- Personal implication of entrepreneurs in problem solving helps many small companies to obtain favourable economic results. But is not a good practice for long time. As companies grow, managers must learn to delegate authority.
- Management style is influenced by entrepreneur's personality, his knowledge about management styles;
- Many companies, especially small companies have lack of formal information system; they are not able to process efficiently external information. In forecasting, entrepreneurs need many and different information
- In decisional process, managers are based more on creativity and their experience.

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PSYCHO-SOCIAL PERCEPTIONS AND MANAGERIAL PREFERENCES OF WOMEN ENTREPRENEURS IN WESTERN ROMANIA

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Our study aims at identifying correlations between preferences and psycho-social choices of women entrepreneurs, more precisely the effect of these characteristics on a given managerial strategy. Based on the data obtained through the administration of two types of questionnaires, we analyzed the relations between social and psychological set of perceptions and managerial strategy. Social success and managerial performance are related with these perceptions and thus we can identify a significant conversion of mentalities determined by the governmental changes which took place in Eastern Europe after 1990. The data presented here are driven from the research conducted within the project "Entrepreneurship and equality of chances. A inter-regional model of entrepreneurship training for women in western Romania".

Keywords: social preferences, managerial style, bussiness performance, self-actualization

Cod JEL lucrare: M00, M1, M21,O18

Aspecte metodologice

Datele pe care le prezentăm în această lucrare sunt preluate din cadrul proiectului „Antreprenoriatul și egalitatea de șanse. Un model inter-regional de școală antreprenorială pentru femei în vestul României”, coordonat de prof. univ. dr. Anca Dodescu în activitățile de selecție a participanților la cursuri respectiv activitățile de cercetare – monitorizare. În cadrul acestui proiect unul din grupurile țintă este reprezentat de femei manager care doresc să își dezvolte propria afacere, grup asupra căruia ne oprim în cadrul acestei prezentări. Datele prelucrate au fost obținute prin aplicarea unui chestionar de selecție, respectiv un chestionar de cercetare, aplicate femeilor manager de la nivel teritorial: orașele Oradea (30 de persoane), Timișoara (24 de persoane), Arad (27 de persoane), Baia Mare (24 de persoane), Reșița (24 de persoane) și Satu Mare(24 de persoane).

Descrierea eșantionului:

	N	Minim	Maxim	Media
Varsta	152	20	66	37,60
Venit pe gospodarie_luna trecuta	119	100,00	20000,00	5276,4454
Venit personal_luna trecuta	124	,00	15000,00	2611,8306

Majoritatea respondentelor (66%) sunt căsătorite și locuiesc în gospodării cu 2-4 membri, având în cele mai multe cazuri 1 sau 2 copii (14% nu au niciun copil). În proporție de 94%, participantele sunt de naționalitate română. Din punctul de vedere al vârstei, majoritatea (66%) au vârste cuprinse între 30 și 49 ani.

Din punctul de vedere al afacerilor reprezentate de femeile manager participante la aceste cursuri trebuie microîntreprinderi în proporție covârșitoare (78%), urmate de firme mici și mijlocii; domeniile prioritare: turism, servicii, comerț (în total peste 80%).

	N	Minim	Maxim	Media
Cifra de afaceri în anul 2008 (RON)	122	0	28097921	969342,33

Profitul în anul 2008 (în RON)	95	0	8800000	150462,67
Numărul de angajați ai firmei în anul 2008	142	0	235	12,35

AN INTEGRATED AND EMPIRICAL MODEL OF PERFORMANCE ASSESSMENT. A CASE STUDY

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In this paper we present a new and competitive personnel assessment procedure, developed and tested on the General Social Care and Child Protection Department of Bihor County. The procedure is based on behavioral anchors evaluation scales and has a seven folded structure, completed by the employee and the hierarchical coordinator. The evaluation of this scale proved valid and also revealed the fact that in assessing the professional performances we cannot use only the self-evaluation, which is under the risk of subjective influence, but in the same time we cannot use only the evaluation of managers because they don't capture specific aspects of behavior on the workplace.

Key words: performance assessment, personnel evaluation strategies.

Cod JEL: M00, M1, M52, J39

Performance assessment between theory and practice

The efficiency of organizations can be analyzed also in terms of the efficiency of its personnel: to what cost and with what results a certain activity can be carried out, how can one improve the results obtained, and how does each individual contribute to the achievement to the organization's goals are important questions. In the dynamic of labor markets and theories as well as practices of human resources, the role of assessment of goals, of structures and as people became an important dimension of evaluation of a given organization. Having efficient employees is a key element in both public and private organizations.

In an organizational structural, the appreciation of professional performances represents a goal which focuses mostly on an objective measurement of results. This activity is based on self evaluation as well as on a received feed-back regarding personal achievements. Nonetheless, personnel assessment can offer a starting point in stimulating performance, a method of correction deficiencies related to work results, as well as the foundation of human resources management strategies.

Romania is one the first countries that regulated this activity through the Law no. 12/1971 and then consequently in 1998, 1999 and 2001 (Laws no. 154/1998, 188/1999 and Governmental Regulations no. 775/1998 and 1084/2001) through which there was initiated a personnel assessment system first for public employees and then for other categories of personnel (Pitariu, H., 2003, p. 113-115).

Professional performance assessment represents a complex activity based on a synthetic analysis of previous activity undertaken by a person. This procedure starts from establishing the objectives of assessment, continues with the investigation of the situation and the construction of assessment instruments, data gathering and analysis, interpretation of results, description of performances and the creation of a strategy.

“Personnel assessment can be defined as a set of processes through which critical judgments are issued on the personnel, considered individually, as employees in a concrete position, with the aim of reveling the key elements of the way objectives are achieved, concrete actions are carried out and the responsibilities and competences are practiced, as well as to set the retributions,

define the training strategy in terms of qualification improvement needed and elaborate the promotion perspectives". (Nicolescu, O., Verboncu, I., 1995, p. 324)

It is a complex process, often controversial. In order to ensure the correct measurement of results it is important to correlate this activity with an advanced evaluation technology which can offer logically set criteria, realist performance standards, as well as the use of adequate evaluation instruments and methods. In this context the evaluation procedures should correspond to the firm's vision regarding the way activities are organized and coordinates personnel, the procedures being standardized to avoid biases induced by the evaluator. Standardization is ensured through training of evaluators, use of written forms and audio-visual materials. More, the information used should be reliable to avoid errors in the results (Byars, L., Rue, L. W., 1991, p. 311-343).

Analyzing the way organizations assess personnel performances one can draw the conclusion that there is no ideal procedure, the methods and techniques used being the result of several factors such as: organization culture, the size of the firm, domain of activity, strategic trends, objectives, the employment methods, remuneration and promotion system, etc. (Mathis, R. L., Nica, P. C., Rusu, C., 1997, p. 162). In this context it is crucial to set several methodological and organizational standards for the assessment of personnel;

- the assessment criteria should be differentiated on the nature of jobs, the potential of the organization and its objectives;
- assessment should be unitary,
- assessment should be relevant, conducted during a longer period of time,
- assessment methods should focus on the characteristics of each separate jobs,
- assessment should be based only in correct information which can be verified,
- assessment results should be communicated to the persons evaluated, along with necessary recommendations. (Burloiu, P., 1997, p. 157)

The elaborated models of personnel assessment, as opposed to the empirical ones (Pitariu, H. D., 2003), are determined on criteria, concepts, methodologies and evaluation standards based on scientific knowledge. These models target the performance analysis of managers and personnel on the following elements: the structure of personality and specific experience, process related mechanisms of professional behavior, and the product of professional behavior.

Another relevant aspect of the characterization of performance assessment systems is represented by the social actors involved in this process. Thus, depending on the organizational structure and culture, one can find only the involvement of the employee and its direct coordinator, or we can find also the involvement of: colleagues and collaborators, subordinates, internal or external clients, or even external evaluators (Abrudan, M., 2009). In this sense, it is worth mentioning that participative managerial styles promote an assessment procedure in which the assessed person is actively involved sometimes even at setting sanctions and personal developmental plans.

Professional evaluation scales

One way of assessing the professional performance refers to the use of behavioral scales. They proved to be the most effective types of performance appraisal systems, mainly due to their reliability, high validity and the possibility to reduce systematic errors compared to other evaluation methods. In this category are included the behavioral anchors scales (S.E.A.C) and the mix standard evaluation scales (SEMS) (Codoban et. all, 2003, p. 46). The evaluation scales that are focused on behavior are continuous assessment techniques in which the items used for classification are possible examples of conduct relating to a specific job. This kind of scales measures the specific level of performance for each dimension of the job. The evaluation scales based on behavior reveals concrete conducts, observable and measurable corresponding to the target job. Using behavioral anchor scales in the professional performance evaluation process we can obtain specific information about the persons which are evaluated. The first step in this technique is to establish the criteria that need to be followed in the evaluation process, and further to award grades for each criterion (Pânișoară, G., Pânișoară, I., O., 2007, p. 154). The starting

point for the elaboration of a assessment system such as the behavioral anchor scales is the idea that the assessment errors can be avoided if the assessor is actively involved in the grading process, objectively filling up the evaluation form. Also, is extremely important to involve the assessor in the elaboration of the scoring system (Pitariu, H. D., 2003, p. 153).

The logic of the scales with behavioral anchor S.E.A.C. (Landy, F. J., Trumbo, D. A., 1980, p. 276) is that the anchors are explanatory statements that can accurately distinguish a good from a weak one employee. These types of scales meet three important criteria: professional success factors are defined with great accuracy, anchors describe with precision the positional categories of each job dimension, and the grading process is based on specific instructions for operating the scale.

The construction of an expectation evaluation scale implies the involvement of specialist in the elaboration process (Smith, P. C., Kendall, L. M., 1963, p. 149-150). In the initial phase, specialists establish the dimensions of a certain sector. Subsequently, to each dimension are assigned professional performance behaviors: superior, medium and inferior. These examples of behaviors are then selected using a group of experts whose task is to eliminate those behaviors that cannot be properly framed in the dimensions. The selected items will represent the final scale used in this research.

Data and measure

To measure the job performance recorded by the social workers from the General Directorate of Social Work and Child Protection Bihor, we used an evaluation scale with behavioral anchors, based on the model of behavioral anchors scales SEAC. The scale was build using the support of professionals operating in the institution in order to capture specific aspects of the activity from this type of institution. We note that the scale with behavioral anchors used in this study was not validated before.

The research was conducted with the participation of 50 social workers and 8 head of services, employees of the Directorate of Social Work and Child Protection of Bihor. For the construction of the scale we involved the 8 head of services. Using the information gathered from them and the legal information regarding the performance criteria used in the individual performance evaluation of employees in public institutions (Order no. 13 012 of 13 November 2007), together with the experts, we drawn the items and the description of each item from the scale. This form was examined by a number of 7 experts (sociologists, social workers, psychologists), who were tasked with the discussion and the selection of the items included in the final scale. This evaluation scale uses professional performance criterion for the social workers who work directly with the beneficiaries of social services.

The scale is built on 7 dimensions (see Table 1). For each item, the assessor can give grades rating from 1 to 9, where 9 represents exceptional performance, 5 represents average performance and 1 represents poor performance.

One of the objectives of the study is the validation of the scale, both for the self-evaluation and for the evaluation by the manager. The research also sought to capture the difference between the self-evaluation scores and the evaluation scores.

Results

As presented in the table below, results show differences between the scores obtained through self-evaluation and scores obtained through evaluation by directors. Also the graphic representations of the distribution of scores for each dimension reveal us differences regarding the normal curve. The graphics implies higher Kurtosis values for the distribution of scores from the evaluation scale, compared to the self-evaluation scales. This means that managers more frequently use values from the two poles of the scale, compared with employees who have a tendency to use central values for the self-positioning on the scale. For each dimension of the evaluation scale, employees obtained lower scores from the directors, compared to the values given by themselves.

Table 1. Mean values for each dimension

	SELFEVALUATION		EVALUATION	
	Mean	Std. Deviation	Mean	Std. Deviation
D1. Theoretical and practical competences	7,53	0,680	6,67	1,546
D2. Professional interest, self-evaluation	7,90	0,941	6,80	1,369
D3. The ability of problems solving	7,73	0,861	6,98	1,233
D4. The ability of organization and planning	7,94	0,899	7,18	1,034
D5. Interpersonal relationships and communication abilities	8,18	0,882	7,53	1,120
D6. Compliance with labor discipline	8,45	0,738	7,43	1,000
D7. Ethic behavior	8,69	0,508	8,35	0,561

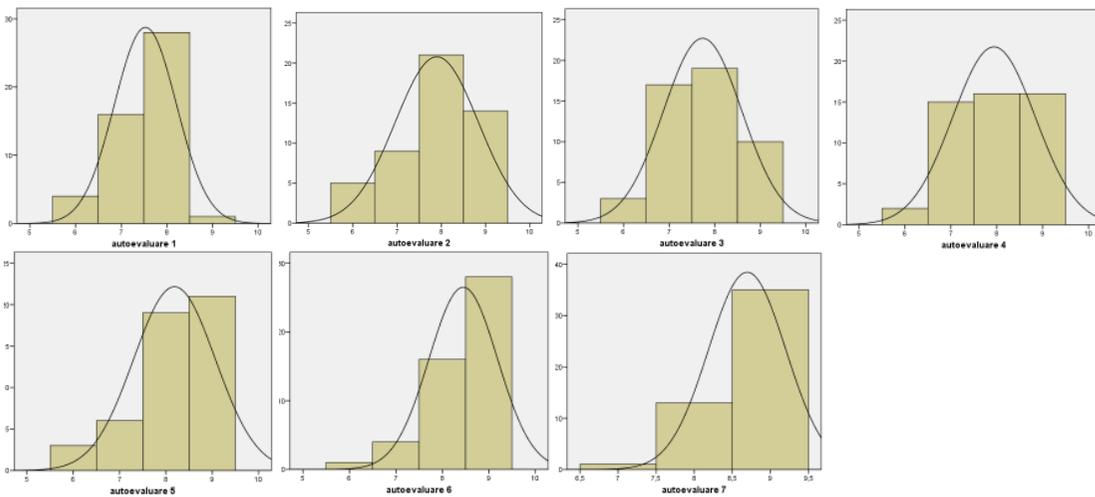


Figure 1. Distribution of the dimensions from the SELF-EVALUATION scale

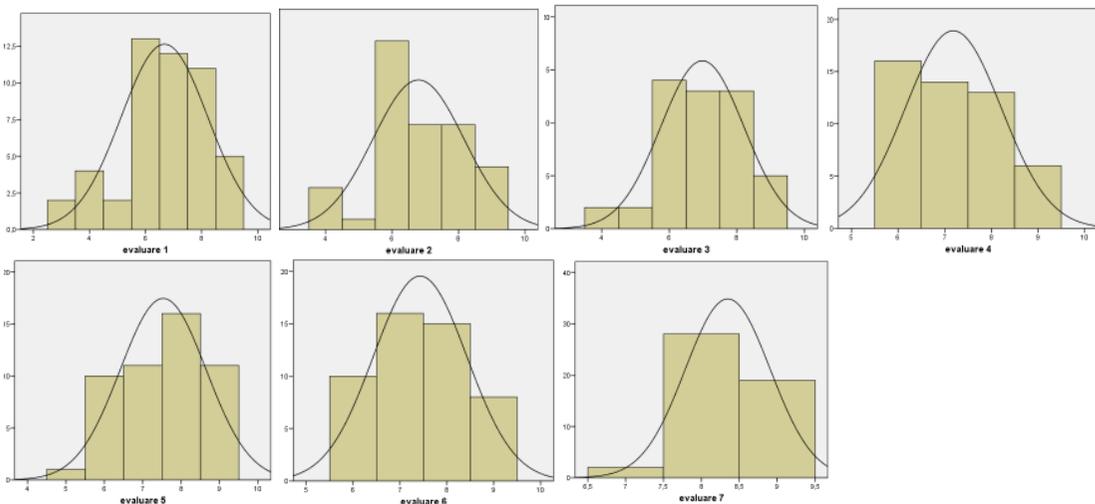


Figure 2. Distribution of the dimensions from the EVALUATION scale

Further analyses reveals significant statistical differences between all the dimensions used in the evaluation scale ($p < 0.001$). The test results suggest that the directors significantly gave lower

grades to their employees, compared with the values given by the employees for themselves. In this sense we draw attention to the subjective issues that may arise in the process of self-evaluation.

Table 2. Differences between the mean values of each dimension from the Self-evaluation scale (SEV) and Evaluation scale (EV)

SEV-EV	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Dev.	Std. Error Mean	95% Confidence Interval of the Difference		Mean	Std. Deviation	Std. Error Mean
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
D1	0,857	1,620	,231	,392	1,323	3,703	48	,001
D2	1,102	1,279	,183	,735	1,469	6,033	48	,000
D3	0,755	1,315	,188	,377	1,133	4,018	48	,000
D4	0,755	1,283	,183	,386	1,124	4,119	48	,000
D5	0,653	1,267	,181	,289	1,017	3,607	48	,001
D6	1,020	1,108	,158	,702	1,339	6,444	48	,000
D7	0,347	0,663	,095	,156	0,537	3,663	48	,001

The professional evaluation scale we tested is valid: for the self-evaluation scale, Cronbach alpha=0.827 and for the Evaluation scale, Cronbach alpha =0.908. The mean value for the EV is lower, compared to the SEV mean value. The scales register a normal distribution (see figures below).

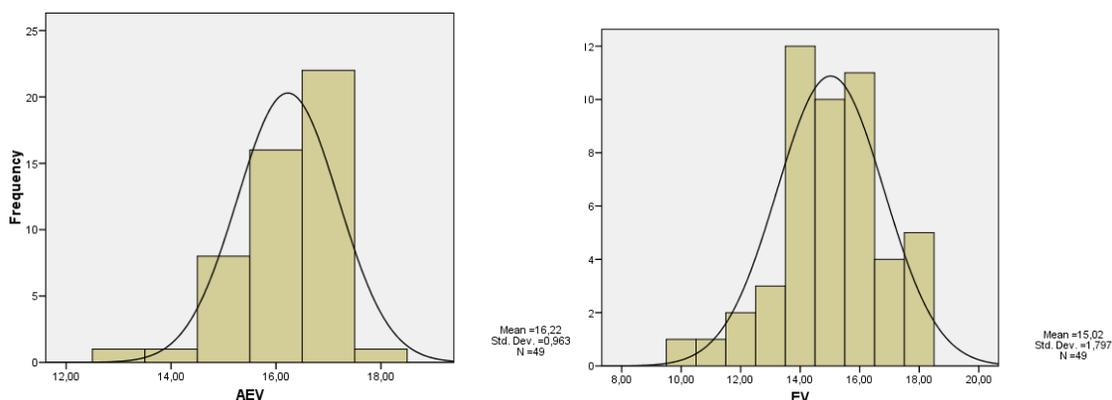


Figure 3. Distribution of SEV scale and EV scale

Test results show significant difference between the mean value of the self-evaluation scale and the mean value of the evaluation scale. The more objective evaluation by the directors places employees lower on the scale. This situation provides us a segment on the scale that refers to the difference between self-evaluation and evaluation.

Table 3. Differences between the mean values of the SEV and EV

SEV-EV	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		Mean	Std. Deviation	Std. Error Mean
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
SEV-EV	1,20408	1,84819	0,26403	0,67322	1,73494	4,560	48	,000

Discussion

In our study we tested a professional evaluation scale based on the behavioral anchors evaluation scales (S.E.A.C.). Our scale turned out to be valid, and thus we reinforced the conclusion that it is crucial that evaluation systems should be based on scientific knowledge, with the contribution of experts in this area, adapted to the characteristics of job description and should also be based on behavior.

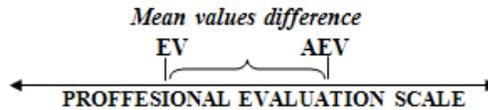


Figure 4. Proposed model for the professional evaluation

Also the analyses revealed significant differences between self-evaluation scale and the evaluation scale. In assessing the professional performances we cannot use only the self-evaluation, which is under the risk of subjective influence, but in the same time we cannot use only the evaluation of managers because they don't capture specific aspects of behavior on the workplace. Using both types of evaluation, and measure the final score based on the difference between the two values obtained, it provides higher fidelity for the evaluation process.

Consequently, an assessment procedure should include at least the appreciation of self and the appreciation of a direct coordinator, yet it would be interesting to evaluate the extent to which the assessment of others in the organization (subordinates and colleagues) as well as assessments of external clients can contribute to a more valid result. In further activities in this area we propose such an approach.

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THE MANAGEMENT OF THE OPTIMAL CONDITIONS OF STORAGE - TRANSPORT - TRADING OF THE FOOD PRODUCTS

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A product cannot fulfil its role, its calling, unless it enters the final consumption, satisfying the need of the consumer who has bought it. But, the road from the producer to the consumer, in the contemporary conditions is not general, nor simple, nor short, nor cheap. The processes of globalisation, the internationalisation of the markets have lead to the intensification of the distribution of products, and, at the same time, to the amplification of the distances they travel. All these have determined the awarding of greater attention on the maintenance of the quality of the food products on the entire technical-economical circuit.

Keywords: storage, transport, trading, food products, quality

Cod JEL lucrare: M31- Marketing, Q18 - Agricultural Policy; Food Policy

1. Intrinsic factors that influence food quality

The quality of the food products is a dynamic feature, a status quo which is modified in time due to certain influence factors, modification which can be done in favour of the food products (as it is in the case of the vegetables) when the storage conditions are controlled and directed, or which can damage it when the optimal conditions of transportation, storage and trading are not met.

Regardless of the technical and economical process where the food products are found, these are found in a continuous process of storage. Due to this fact, this process must be kept all the time under control and we must intervene for the product to keep its quality features, in order for the processes and the modifications that can manifest in the food products to affect its quality.

The influence of the factors which act on the quality of the food products on the path of the technical and economical circuit can be noticed during the storage, their preservation in warehouses, the transportation of the food products, as well a during their trading.

One of the main factors that have a major influence on the quality of the food products is the chemical composition of the products. The chemical composition of the live organism, animal or vegetable, is complex, including numerous chemical compounds whose structure and proportion differs a lot according to the nature of the organism, the age, the food and the environment conditions. Nevertheless, the food products have certain common features, in the limit of each group, especially related to the chemical composition. Either they are native chemical substances (water, mineral salts, sugars, fats, proteins, vitamins, pigments etc.) or they are added chemical substances (tonic substances, aromatic substances, colour substances, emulsions, stabilisers, flavours etc.) or accidental substances (herbicide, insect powder, anti fungal substances, substances from the machines and the wrappings etc.), these influence and can negatively affect the quality of the food products while preserving, transporting and trading.

The quality of a product is appreciated through the level reached by all its properties, which represent, each in part, the multiple faces of the quality. One of the ways that lead to the

knowledge of the quality of a product consists in the identification of the properties which, finally, lead to the satisfaction of the need for which they have been produced. The structure of the food products, the relations that form between the different components of the system-merchandise, the interactions products - environment and products - human being, must be known in detail in order to find the way to follow to maintain the level to which the product preserves its optimal quality.

2. Environmental factors that influence food storage

The preservation, the transportation and the trading of the food products depend on the series of influence factors, internal as well as external, process during which there can appear physical changes, chemical changes or biochemical changes with more or less intense implications on their quality. These factors must find themselves in a certain balance for the preservation of the quality of the food products intact.

The maintenance of the temperature at a certain level during the storage influences the quality as well as the storage duration of the food products, for each type of product an optimal regime of temperature being necessary.

The humidity is another factor which influences the quality of the products while preserving and storing them. The relatively high humidity of the air from the storage facilities has as a result the development of the micro-organisms, the humidity of the products etc. In the case previously presented, of the horticultural products, when the humidity is too low or the temperature is too high, the water losses from the stored products are high and, thus, the vegetables and the fruit fade. Hence, the relative humidity of the air is maintained to a certain level in order to record the lowest total losses. The optimal limits of the relative humidity vary, generally, for the products stored between 55 - 95%. For the relatively high humidity (95-100%), moulds can develop on the storage walls, on the wrappings, on the products.

The air circulation also is important during the preservation and the storage of the food products, through the means of the ventilation the temperature and the humidity of the warehouse being able to adjust.

During the preservation, the products come into direct or indirect contact with the atmospheric air. Interactions with repercussions on the quality of the products can take place between the products components and the air components. The atmospheric air is a mixture of gases and liquid or solid particles, its components being: fix, variable and random. For a series of products the preservation within a controllable atmosphere is imposed, that is an adjustable atmosphere especially regarding the proportion of oxygen and carbon dioxide.

The air components can have, in certain conditions, positive effects. Thus, the ozone helps to disinfect and refresh the air in the storage, the carbon dioxide, in a certain proportion, reduces the development of the micro-organisms, and the sulphide dioxide fight mould.

The food products constitute good environments for the development of the biological agents, especially of the micro-organisms and the insects. In favourable conditions of temperature and humidity, the micro-organism develops rapidly, producing enzymatic complexes which attack the products. Among the degradations provoked by the biological agents, the most important are the ones that lead to the reduction or even to the total loss of the mechanical resistance of the products. The presence of the fungi affects the aesthetic of the products through a disagreeable aspect and through a specific smell, unpleasant, developed by moulds. Other biological factors would be the xylophages insects and the rodents, which constitute a danger for the integrity of the wrapping, the products and their hygiene.

Along with these factors we must take into account the hygiene of the storage facilities, the existence of the foreign smells in the warehouses and the principle of vicinity of the products, for the features of the products, especially the organoleptical one, not to have to suffer.

The means of transportation constitutes also an environment which can maintain or not the quality of the food products; certain measures being necessary in order to protect the food from

the potential sources of contamination, in order to protect the food from deterioration, this becoming non-fit for consumption, as well as to ensure an environment which cannot favour the development of the pathogen micro-organisms or the alteration and the production of the toxins in the food.

While transporting the products there can appear risks caused by the hygiene status and the technical status of the transport means, by the physical and the hygiene status of the transport wrapping; by the improper unfolding of the loading - unloading operations; by the hygiene of the personnel involved in the transportation activity; and the micro-climate conditions specific for the transported products etc.

The transport constitutes one of the most important stages of the food products distribution. Due to their specific and their perishability in their great majority, the condition in which the transport is executed contributes to a great extent to the maintenance of the quality features. The problems that appear in this stage refer especially to the choice of means of transportation proper to each type of product, to maintaining a constant temperature all the duration of the transport, the manner of arranging the products in that transport, the choice of the routes from the starting point to the destination point.

Taking into account the considerable size of the European Union space, the means of transport as well as the routes that those transport companies shall travel must be carefully chosen, so that to maintain between normal limits the quality features of the food products. The critical roads should be calculated between the shipment locality and the destination one, choosing the optimal variant. Any delays or distractions from the set route can affect the transported products.

In the decision regarding the transport of the food products one shall take into account the differences of temperature among the different countries and locations, according to these and according to the specific conditions of transport, storage and preservation of each product, choosing the best way to transport it.

The food products, due to their chemical composition, present a favourable environment for the development of the micro-organisms, being an excellent source of energy and development of the metabolic activity. Within the same product, there can exist more types and species of micro-organisms, but also the ones which have the optimal food, humidity, pH, oxide-reduction potential conditions shall develop. Until a certain point, there prevails a certain micro-flora, but through the modification of the environment conditions, under the influence of some micro-organisms, there starts to develop another micro-flora, which until then has been latent. For the food products, a huge interest belongs to the bacteria, moulds and the yeasts.

The humidity of the food products is a huge important factor; because for 12% under the water content, no micro-organism can attack the food products (see water in the food products).

The temperature is an external factor which contributes in a certain measure to the diversity and the variability of the micro-organisms.

The light is an external factor which can influence the activity of the micro-organisms to a great extent. If the orange and yellow radiations from the electro-magnetic spectrum are indifferent, the yellow and green radiations are active, while the ultraviolet radiations are destructive.

The level of the food products pH influences the activity of the different types of micro-organisms, taking into account the fact that the majority of the bacteria develop at a pH of 6.5 ... 7.5. The more the value of the pH exceeds these limits, the slower the development becomes, and for the limits of the pH <4 or pH >8, it stagnates. The yeasts and the moulds do not have the same behaviour; they prefer the more acid environments, some of them being able to develop in a very low level of the pH, around 2.

Among other external factors with influence on the micro-organisms activity we enumerate: the electricity, the pressure, the osmotic pressure, the superficial tension, the ionisation radiations etc. The main micro-biological processes which can take place in the food products are: the fermentation, the rottenness and the moulding.

Within the fermentation process, many chemical compounds appear. The ones found in the greatest quantity are the main compounds, the accumulated in smaller quantities are called secondary compounds. The fermentation is called after the main product - alcoholic (ethyl alcohol), acetic (acetic acid), lactic (lactic acid) etc.

Generally, the micro-organisms need air, heat, humidity and food to exist and multiply. So, there are the following possibilities to control their evolution: the humidity change (dehydration); the thermo processing and the elimination of the air (cans conditioning); the reduction of the temperature (refrigeration and freezing); the transformation of the food into the product improper for the development of the micro-biologic life (salting, smoking, pickling, adding sugar).

Fortunately, researchers pay a special attention to the correct direction of the manufacturing processes and preservation processes which aim the reduction to a maximum of the danger of falling ill because of the pathogenic micro-flora.

As a consequence of these factors, within the food products there can take place different changes while their preservation such as: modifications due to the temperature, modifications due to the humidity, chemical changes, biochemical changes, enzymes and micro-biological changes. Thus, the preservation in optimal conditions of the products in the storage facilities means the control and the direction of the size of the atmospheric parameters - temperature, humidity, composition and the speed of the air circulation, according to the standardised stipulations.

We mention that through the storage facility we understand the means of transport (mobile storage facility) and the warehouses (fix storage facilities). The operations occasioned by the control and the direction of the size of the atmospheric parameters differ according to the type of the warehouse where the products are kept, taking into account the particular features the respective products have. These operations, connected to creation of the optimal preservation regime of the products, aim at: the control and the direction of the temperature, the humidity of the air in the warehouse, the circulation speed of the air, as well as the content of the storage facility air.

3. The distribution and the trading

The distribution and the trading constitute an important stage of the technical-economic circuit of the food products, stage in which there can appear all sorts of economic and social problems. Due to the nature of these products, any distraction from the conditions of trading and any non-concordance with the technical norms stipulated for the food products can lead to the deterioration in quality of the products, becoming improper for human consumption. As a consequence, to prevent the problems that can appear along the distribution and trading path, and to maintain the quality of these products, the distribution channels of the products, the trading forms, the manner of wrapping, the manner and the conditions of transportation, the preservation and the storage facilities must be chosen carefully, all these on the background of the hygienic and sanitary conditions strictly regulated.

Due to the specific of the manufacturing process specific for the evolution of the request and the manner of organisation of the rural environment, the agricultural products are traded very differently, this fact leaving its mark on the structure of the distribution channels. The difficulties of the agricultural products trading refer mainly to the following aspects:

- the agricultural production is located very unevenly and dispersed in space and time. The products are almost all very perishable and the majority of the products appear on the market at the same time. Moreover, while the individual request is non-flexible, the industrial request is speculative, waiting for the overproduction, to obtain a reduction of the price which allows the profitable supply;
- the purchase process of the products is long and especially very expensive as a consequence of the dispersion and the dividing of the agricultural exploitations. The preservation of the agricultural products of perishable nature needs large interventions regarding the storage and the transportation, as well as the technical endowments.

Under these conditions, in distributing the fresh food products, all types of circuits must be used. Thus:

- a) the direct channels and the shortest one appear frequently in the trading of the agricultural products, because the majority of these agricultural producers sell their products directly to the final consumers, either at the residence of the producer or in the agricultural market places;
- b) the short channels are quite well used, because a part of the retail traders have the possibility of supplying directly from the agricultural exploitations and the slaughter houses, the animal farms etc. with a series of products, which they later on offer the consumers through the means of the different forms of sale;
- c) the distribution channels of medium length are used when the central unit of purchases has the possibility of purchasing the products from the agricultural exploitations, assuming the responsibility of the storage and the conditioning during these periods of storage, in order to direct towards the retail sales points;
- d) the long channels are used when a series of economic agents, specialised in the storage and the conditioning of the products for larger periods, they store the products and then they sell them either to the en-gross seller or to the retail sellers, who, in their turn, place them at the disposal of the consumers. Having as an object of activity the take over, the processing and the trading of the agricultural products, the economic agents with a mixed feature assume the responsibility for the storage and the selling by instalments to the en-gross sellers and the retail sellers existing on the internal markets, but also on the external ones.

In the choice of these distribution channels, one should take into account the expiration date of the food products which make the object of the distribution, so that the products that have a small expiration date should not stay too long on their way from the producer to the final consumer.

The food products are under the impact of the environment agents, so their properties are constantly changing from the moment of the end of the manufacturing process and until the products reach the non-edible stage when the attitude of the negative changes make an impression on the consumption, needing to take it out from the food circuit. Within this frame, one must take into account the following time parameters: the maximum duration of the product circulation, the validity period given by the manufacturer, the maximum duration to store it and the maximum duration of the edible stage. The producer guarantees the quality directly during the validity period, within this period the merchandise should be wrapped, transported, manipulated and stored according to the instructions, in order to preserve the initial quality unchanged. The validity period set forth experimentally by each manufacturer in precise conditions, is lower than the durability of the food product, which in turns is smaller than the consumption of the food product.

In order to reduce the trading risk, it is indicated that the manufacturer to deliver rhythmically food products, after the end of the technological process, in order for the validity period to be as much as possible at the disposal of the trader and the consumer.

It is mandatory to write down on the wrapping or on the label the validity period or the expiration date for consumption of the respective products. The problems connected to this can take many shapes: either the expiration date is missing from the wrapping or it is overdue, situation in which the respective products shall be pulled out of the economic circuit and destroyed, or, due to the improper conditions of storage and preservation of the respective products are altered, although they are within the normal validity period.

4. The hygiene and sanitary conditions of food products

The food products must fulfil hygiene and sanitary conditions. The food products in general and the food products of animal origin especially, must fulfil the hygiene and sanitary norms in force in the European Union.

The hygiene and sanitary conditions must be complied with starting with the hay for the animals, the sacrificial facilities, the halls of the slaughter houses, the warehouses and the preservation place until the shops.

The feeding of the animals with the hay that does not comply with the norms lead to their falling ill, the meat obtained from the animals becoming inadequate for consumption. Not a few time, the inspectors have found discrepancies in the slaughter houses halls, in the storage facilities, the respective unites being closed down, withdrawing their licence.

Even if the products reach in fairly good conditions the retail units, many irregularities have been found regarding the products trading (without being kept in the right conditions of temperature, the non-compliance with the principle of vicinity, the precarious conditions of hygiene). Including the persons from the commercial sector who come into contact with the respective products like the transport companies, the seller etc. must fulfil certain hygiene conditions.

5. The wrapping conditions of the food products.

The wrapping is the key point in maintaining the quality features of the food products along the technical and economical circuit. Besides the protection function fulfilled by the wrapping, the consumer can obtain information about the respective product through it.

The problems that appear in the case of the wrapping are connected to the manner of wrapping and the material of the wrapping. This must be chosen so that it can protect the product from the external factors and must ensure an environment for the preservation of the optimal quality of the product.

Along the technical and economic circuit of the product, an improper manipulation of the products can deteriorate the wrapping fact that might lead to the partial or total loss of the respective product to the contamination of the product or to the loss of the quality features of the product. Even the wrapping operations must be performed in such a way to avoid the contamination of the products or their deterioration.

6. The products traceability

The traceability of the food products, of the animals from which the food products are obtained and of any substance destined to the incorporation into a food product is set forth for all the stages of the production, manufacturing and distribution. The operators from the food sectors and the operators with an activity in the field of animal food must be able to identify any person who has provided them with a food product, food for the animal, an animal from which food products are obtained or any other substance destined to be incorporated into a food products or animal food. To this purpose, these operators dispose of the systems and procedures which allow this information to be placed at the disposal of the competent authorities, upon request.

The food products which are introduced on the market or are expected to be introduced on the market in the Community are labelled or identified accordingly for the facilitation of their traceability, through documentation or adequate information, according to the relevant requirements of the special dispositions.

There are specialists who state that the complete traceability is impossible to achieve. A system which follows every input and process, with an adequate degree of accuracy, is almost impossible. In essence, according to the EU Directive no. 178/2002, the concept of traceability means the ability to follow the agricultural product or the hay, an animal which produces food or a substance which is about to be incorporated in a food product or in the hay, in all the stage of the production, processing and distribution. For the European countries, the traceability has become a key concept in the are of the logistics, in the context of the crises from the '90, related to the mad cow disease which appeared first in Great Britain and then in other EU countries, as well as in the context of the very powerful debates referring to the genetically modified organisms or bio terrorism.

The concept of traceability refers not only to the upstream sequence, but also to the downstream sequence of the marketing channels. Besides the ability to identify the supply sources, any operator must dispose of the ability to identify the organisations which have supplied its products.

The specification of each operator's obligation to ensure the traceability is a real challenge under the organisational and informational aspects. Each economic agent from the production, processing and distribution field of the agricultural food products and of the hay must dispose of the systems and procedures which allow the information to be available at any time within the organisation and to be place at the disposal of the competent authorities, upon their request.

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THE PUBLIC ADMINISTRATION COMPARED TO PUBLIC MANAGEMENT AND OTHER SCIENCES

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Abstract: In this paper we try to analyze the meaning of the public administration term. In our opinion it is necessary to be able to define exactly what public administration means but at the same time to clearly distinguish it from the other sciences. This is due to the fact that very often confusion is made between public administration and public management, public administration and bureaucracy or public administration and policy.

Throughout this paper we hope to clarify some of the aspects related to what exactly distinguishes public administration from the above mentioned sciences and what are its own particularities.

Keywords: public administration, public management, new public management

JEL Classification: H 83

The Concept of Public Administration

The public administration term has a latin origin and comes from the latin „administer” which means servant, or from another point of view, instrument. The verb „administro” means to lead, direct or lend a helping hand. The word „administer” almost synonymous with „minister” – which means: servant, care-taker, helper was formed from the root „minus”-„minor”, which means „less” and the prefix „ad”, which point direction, „sensul” and highlights the state of inferiority related to „magister”, translated as the one who orders, the superior, the boss – word that was formed from „magis”, which means more (Matei, 2006).

In the Romanian dictionary, administration refers to the activity of administrating, leading, directing, as well as to the total of administrative organs in a country or section of an institution encharged with administrating that institution.

The Illustrative Oxford Dictionary defines administration as business management, public affairs management, governing.

In the Public Administration Dictionary (Fox & Meyer, 1996) is shown that administration involves performing activities by persons encharged with comun objectives.

Some authors believe that administration means public affairs management or the way in which a country functions in exerting government duties (Maheshwari, 2002).

Administration is the most obvious part of governance, it is the governance itself, it is the executive side, the operational one, the most visible part of governance, and it is of course, as old as the governanace itself (Pestrit, 2005).

Of all the numerous meanings that the term of administration can have, the accent is predominantly put on what public administration means, having as purpose to clarify the meaning the later has.

Most of the times there is a tendency to confuse the terms, although at a closer examination, the aspect that diferentiates administration and public administration is the purpose and the method of organizing activities.

Defining public administration is necessary, firstly in order to establish the general boundaries and to express the main concept of discipline and practics of public administration, secondly in order to help including this area in a large political, economical and social context, and third to

be able to show that by considering the major definitions of public administration there are three major approaches for this field (Ioan, 2007).

Public administration, as many human efforts, is difficult to define, but people all have given a sense to it, although there are different opinions on how it could be achieved (Ioan, 2001).

A simple approach of public administration is that it refers to two distinct, but close activities: a professional practice and an academic area. On one hand, it refers to administering or management of the aspects related to society, politics and its subparts that are not private, familial, commercial or individualist, and on the other hand, it refers to the disciplined study of these aspects (Marini, 2000).

In spite of the apparent similarities, nowadays public administration is an entirely different organism from the public services in the past. It is wider than before and is still expanding. It is much more complex than in the past and it continues to grow each day. It has more responsibilities towards the citizens and it still needs to handle the increasing demand of the population. It needs more qualifications, but more than before, it needs to restrain activities and to reach the standards of equity, justice, social justice and most of all of assuming responsibility (Vigoda, 2002).

Public administration is the activity that consists in using managerial, political and judicial processes and theories, in order to achieve legislative, executive and judicial government mandates, to ensure the regulations and services for society in its ensemble, as well as for its segments (Ioan, 2007).

Public Administration and Politics

Public administration has frequently been understood through the political analysts point of view or the point of view of political researchers. Alternatively, it was considered to be a specific field of the management science. Meanwhile the origins of administrative processes are firmly identified with political science, political studies and managerial construction of public institutions, it would be inaccurate to show the nature of public administration strictly referred to these aspects (Vigoda, 2002).

Eran Vigoda (Vigoda, 2002) shows in „Public Administration An Interdisciplinary Critical Analysis”, the main approaches of various American authors, which refer to the connection between politics and public administration as follows:

-„the political approach of public administration made by Rosenbloom shows the value of representativity, of political responsibility and of the responsibility towards citizens through the officially elected persons”;

-Wallace states that in fact, public administration represents „a problem in political theory. It operates with the responsibility of administrative and biocratic agencies as opposed to the officially elected, and through them, towards the citizens”;

-Shafritz and Russell mention a few definitions of public administration, oriented towards politics: „it is what Government does, it is a phase in the politics cycle, it is a first tool in implementing public interest and achieves in a collective manner what cannot be achieved individually” .

Although seldom mistaken for politics in general, public administration is different. The delimitation is superficial as each definition of public administration contains both terms that refer to administration and terms that refer to government, to the political process in general (Cziprian-Kovacs, 2005). The boundary between the public, the private sector and the volunteer sectors has a crucial importance in the understanding the future course of public administration (Fenwick & McMillan, 2004). Delimitating politics from administration, reformers believed that scientific rationality would eliminate the political conflict (Rabin et al., 2007). However, there is a dichotomy between politics and administration (Rosenbloom & O'Leary, 1997). If this mechanism, composed of politics and public administration, could be compared, it would resemble

a human body, with politics as the head and public administration as the body (Cziprian-Kovacs, 2005).

Public Administration and Bureaucracy

Very often, the terms „administration” and „public administration” are mistaken for bureaucracy. In the eyes of the public, the governmental administration is „bureaucratic”; the private administration is „expeditive”; governmental administration is „political”; private administration is „apolitical”; governmental administration is characterized by „formality”; the private one is not (Simon et al., 2000).

In Max Weber’s vision, bureaucracy is a social and political phenomenon, whose characteristics were defined as the following: (Weber, 1997):

- a strict definition of upper- and subordination, meaning the authority relationships;
- a high work division according to the specialisation of the human factor;
- a complex system of rules, converted for each post and person, part of the system, as related to rights and obligations;
- impersonal interpersonal relationships, which exclude subjectivism in interhuman intra- or extraorganizational relationships;
- selection and promotion of personnel by strictly professional criteria;
- a series of procedures for the work done.

Administration, as related to bureaucracy is a subspecies, meaning that it is higher than bureaucracy. The definition of administration is wider than the one of bureaucracy. In other words: all bureaucracies are administrations, but not all administrations are bureaucracies. (Cziprian-Kovacs, 2005).

Public Administration and Public Management

Another interesting debate is the referring to the connection between public administration and public management. As long as the sector was small, public management was defined as administration, the exercise of public authority in accordance with a fixed system of rules. The accent was placed on the administrative action, the formal decision-making process and the implementation according to the established procedures (Matei, 2001). At the same time with the increase of public sector dimension, with service functions more important than administrative functions, the relevance of public administration has started to be deformed. As opposed to public administration, often mistaken for bureaucracy, public management (Păunescu, 2008), is not limited to following the procedures (although it includes them), but it also involves focusing on results, on establishing strategies (short and long term ones) and attention to the environment, depending on the external evaluation of services, especially by the citizen. The idea that public management is based upon is related to the concern for the quality of public services that are offered to the citizens and for their satisfaction. The failure of implementing governmental programs was due to the focus on the results of public programs, instead of focusing on the behaviour of government agencies and their employees (Sindane, 2004). Public management wishes to be reformed by the New Public Management and by the New Government. The paradigm of change The New Public Management, or the theory of the most recent paradigm of changing the way in which the public sector must be governed (Lane, 2002), involves a reformation of the public sector based on the model of the private sector, meanwhile the New Public Management (Păunescu, 2008) has as a basis the idea of a partenerial collaboration between the private, the public and the volunteer sector and of producing value for the citizen.

There are no successful economies without successful administrative states (Ellison, 2007), some authors believe.

As a result of all the above mentioned, public administration, having the role to actively participate in achieving the general interest, expressed by law, represents the activity through which law is organised, executed and its execution is guaranteed up to the material facts (Negoiță, 1993).

Conclusion

The public administration is one of the often mentioned fields of study, in the specialized literature. Its complexity is due to the fact that government actions have implications for all inhabitants of a state and also to the many changes in this area over the time, some of them due to a historical context of each country.

In our opinion, public administration is the activity exercised upon by the government, for the welfare of its state citizens, an activity which inspires itself from the procedures of management and public management, trying to limit, at the same time, the influence of politics and bureaucracy in its field of action.

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ECONOMIC EFFICIENCY AND PROFESSIONAL ADVANTAGE OF PARTICIPATING AT TRAVEL FAIRS

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The article is meant to create an idea about the opportunities of participating at a travel fair by acknowledging about the most important facts regarding preparation, participation and evaluation. Knowing the reasons of participating both for visitors and participants and getting information about the economic costs that arise at a travel fair will raise the fog from the question of which show to attend and what are the professional advantages if there are any.

Keywords: travel fair, efficiency, advantages, reasons

Jel code: A1

What are travel fairs?

Travel fair represents a wonderful opportunity to meet travel professionals in a single place. This kind of events reunites under the same roof not only the promoters of inbound, outbound, but those of the internal tourism, too.

Travel fairs offer unlimited opportunities to promote and sale the company's special destination or special product.

Fairs are able to stimulate travel, tourism, hospitality both inside and outside the country. It represents a place where travel professionals and potential customers meet face – to – face and develop a potentially advantageous relation.

Travel fairs are valuable occasions both for already active companies and for those who's activity are about to begin. These companies can later remember what they've learned from the show and they can network with potential business partners, they can study the sales strategies of the participants. For these reasons and not only, it should be paid maximum attention in participating at travel fairs as a visitor and as an exhibitor as well.

Good preparation for the travel fair will eliminate the obvious stress which comes few days before the show.

Advantage of promotion at a travel fair

Before they begin, during the shows and after they shows there is a concentrated promotion campaign to ensure and to inform an interested public. The means are:

- invitation campaigns by email and post for potential guests from different domains: transport, tourism, hospitality industry, aviation industry, government and private institutes, travel industry related companies

- publicity in main local newspapers, publicity in the most important magazines, TV publicity, Internet publicity, radio publicity etc.

- briefings from the travel show in travel related magazines

- the event is strategically programmed it should take place before the beginning of the season.

Promotion at the show is realized with the help of a media company which through its travel fair experience can ensure an adequate image of the exhibitor.

Who is participating?

Visitor's profile

- Visitors from the travel industry
- Business people visitors
- Visitors - potential holiday makers, travelers
- Visitors with a role in decision making (business, local authorities, institutions of the government)
- Potential investors in the hotel, travel and entertainment industries
- Travel agents
- Tour operators
- Visitors without any relation to the industry

Exhibitor' profile

- Government institutes and travel industry organizations
- Tour operators(inbound and outbound industry)
- Travel offices
- Tourism associations
- Professionals in relation with the travel industry: sport equipments makers, means of transport makers(buses, minibuses, camping cars) etc.
- Producers and sellers of hotel management and catering relating goods
- Publishing houses of travel related literature(books, maps etc.)
- Educational institutes

Participating at a travel fair is above all an investment for both exhibitor and visitor as well. They must take a decision about participation or not at a certain travel fair. Above the things that might have to be considered before taking any decision are: the name of the travel fair, location, date, who is the organizer, type of the show, relative number of exhibitors, relative number of visitors, the cost of rental of the booth and the necessary equipment, cost related to the travel, accommodation, meals, cost of the promotional materials and their transport(brochures, catalogues etc).

Before taking a final decision exhibitors try to determine the necessary budget. In order to be capable to realize that it must consider creating a handout with the approximate number of employees who will represent the company at the show and the estimated costs that will arise.

Although travel shows are a very good occasion to make business, limits must be considered, especially financial limits, because the investment will not necessarily determine an immediate raise of sales. In general, expenses with travel, accommodation will highly depend on the show's location, namely the distance from the company's residence.

Reasons for participating

Of course, here are certainly hundreds of reasons for participating at the travel fair. For an active travel business, participation means the opportunity to meet hundreds or maybe thousands of potential customers who visit its booth. One of nowadays sale strategies is exhibiting at travel fair, *where customers come to companies and vice versa. Speaking about difficult times(after the Gulf war, 9. 11 events, actual economic crises) travel companies must reconsider all previously tested sale strategies and implement new ones.*

Travel fair are perfect exhibition spaces to introduce new travel products or destinations, for establishing new contacts or selling or buying products or services, all these in the same spot with maximum efficiency. In order to develop customers portofolio and for a better visual presence participation is vital both for older comapnies and new comers as well.

Main reasons for an exhibitor:

- Create awareness of products/services with potential buyers
- Evaluate the competitors

- Research for demand.
- Generating sales.
- Enhancing the image of the company
- Reach of a specific targeted public
- Establishing a strong market presence
- Distribution of brochures, catalogues, promotion objects
- Enhancing marketing politics.
- Meeting face to face the customers, competitors and distributors
- Evaluation of potential or new competitors/customers.
- Demonstrating products in ways not possible using other marketing channels
- Recruiting new distributors
- Education and information for targeted customers.

The importance of a professional booth

The exhibition booth must be professionally designed. It must be able to attract the audience’s attention by using different themes(tour operators who promote a certain destination use colors and objects to remind the culture of the destination country).

Travel fairs are very important for small companies as well because exhibition are is not expensive and booth are easy to design very attractively even with the small amount of money. This way smaller company can look like a much bigger business giving a kind of an advantage.

Travel shows are a very powerful marketing atmosphere because they take place in a single location, they have limited time(usually 2-3 days) and unite hundreds of exhibitors and potential customers. It is very common for an exhibitor that during a show he will meet many of his suppliers, customers and dealers.

But, which show is worth to attend?

A research conducted by the National Fair Exhibitors Association in America revealed the top 15 criteria used by exporters in selecting which fairs to attend were:

The quality of Visitors

The proportion of visitors with decision-making power	1
The proportion of target customers among the visitors	2
Fair limited to a certain type of clientele(domestic tourism fair)	8
Number of new contracts made in previous fairs	9
Visitor rating	15

The quality of Visitors

Number of visitors	3
Extension of promotions during the fair	5
Number of visitors to the fair last year	6

Booth Location

Booth Position	4
Ability to perform requirements and specifications (size, location)	7
Traffic between the lines of traffic side booth	13

Logistical issues

Easy Registration	10
Safety (security)	11
Ease of entry or exit from the booth / fair assistants	12
Bringing / removal equipment / facilities needed	14

The decision to participate or not at a certain show belongs to each company's head and the result itself reveals the importance of that specific show for the business. Sometimes trade simulations are made to evaluate if employees are ready enough. This study reveals the importance given to people with decision power, followed by the proportion of targeted customers from the number of visitors. Facts like easy registration, security are on the end of the top.

Budgeting for the show

Budgeting for an exhibitor is not only about the cost or space and booth rental. Below there is an estimation in euro for the 3 fazes of a travel show(before, during and after) for a travel agency who finally have not attended a local travel fair organized on Oradea, in Selgros mall parking in 2009.

Before the fair

The cost of renting space / booth	300
Cost of booth design	30
Construction cost with stand	40
Creating promotional materials	300
Cost of transport	50
The cost of moving	10
The cost of preparing the team	100
Other expenses	100
TOTAL	930

Cost over the fair

Accommodation	0
Local travel (e.g. Hotel - fair)	30
Staff pay cost over fair	150
Expense for receiving guests	100
Expenses necessary equipment	20
Entertainment expenses	50
Other expenses	0
TOTAL	350

After the fair

Travel home	10
The cost of transportation advertising equipment / materials home	20
Other expenses	0
TOTAL	30

GRAND TOTAL

930 + 350 + 30 = 1310 EURO

Measuring the economic efficiency

To determine the economic efficiency indicators can be used:

- Total number of visitors(e.g. 10.000)
- Number of visitors who attended company booth(e.g. 2.000)
- Percentage of visitors who attended company booth from total number of visitors (2.000 x 10.000/100)
- Promotion level – number of catalogues/brochures distributed(e.g. 1.000)
- Number of new contacts established during the show(e.g. 50)
- Number of new requests during and after the show(e.g. 200)
- Number of effectively realized booking(e.g. 100)

If we want to appreciate the economic efficiency we must create a report containing all the fact we encountered. First and foremost the objectives must be considered if they were achieved or not, the results can be compared to previous shows or previous years.

Conclusion

Among the advantages of participation at a travel fair are the new experiences we get, enhancement of customer relation abilities dealing with a large number of potential customer in a very short time, the enhancement of company and personal image.

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DESIGNING A MANAGEMENT MODEL FOR ACHIEVING ECONOMIC-ENVIRONMENTAL BALANCE IN INVESTMENT PROJECTS

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This paper describes a method for achieving the economic-environmental balance based on the assessment of environmental and/or pollutant factors in connection to community option on the evaluation of investment projects having a major impact on environment. This assessment is based on the concept of welfare, the distinction between satisfaction and dissatisfaction and implies a practical approach including the scientific aspects of environment pollution degree and the community position on developing an investment project, by assuming responsibility for negative and positive aspects of such a project, respectively for satisfaction and dissatisfaction, in order to fulfill the supreme goal of preserving the environment and ensuring human welfare.

Keywords: welfare, Pareto optimum, satisfaction/dissatisfaction, model, economic-environmental balance

JEL Code: A12

1. Definition of welfare and the historical evolution of the welfare concept

Social welfare indicates the satisfaction or utility degree gained by each participant, but is not equal to the sum of individual welfare.¹³⁹²

Pareto concept of welfare represents a milestone in economics history. Until then it was considered that the welfare is the sum of communities' quantifiable cardinal utilities, the optimal resource allocation maximizing the welfare.

As noted before, Pareto optimum is defined as the point that allows the improvement of a certain individual welfare, meaning his movement to a preferred position by adjusting goods or services through production or exchange without affecting someone else's welfare. In order to remove the need for interpersonal utilities' comparison, Pareto has refused to assess any other changes of welfare. Therefore, his definition drops the concept of unique social optimum, providing instead an infinite number of unmatched optimums.¹³⁹³ The comparability area can be extended by introducing the concept of compensatory payment. This concept was mentioned first by Enrico Barone in his famous article called "The Ministry of Production in the Collectivist State" (1908). Barone suggested that all individual welfare changes can be expressed using the real equivalent income an individual agreed to receive or pay in order to regain his original welfare.

A change that favors certain individuals in the detriment of others can still generate an improvement of global welfare, if those who earn can compensate the losers, so they voluntary accept this change, after compensatory payment is made, and the winners are better off, but also the losers are not in a worse situation. In order to better understand this statement, we consider the example of coexistence of an airport and its surrounding areas. The airlines company and its

¹³⁹² Gilbert Abraham-Frois -" Political Economy' Editura Humanitas București, 1994, pag. 312.

¹³⁹³ X^* vector is the optimum solution if from the equations: $f_i(x) \geq f_i(x^*)$ ($i=1,2,\dots, m$) we have $f_i(X) = f_i(X^*)$ ($i=1,2,\dots, m$). When $f_i(X)$ are concave, and the admissible set of solutions x is closed and convex, then for each Pareto optimum x^* we have weighting coefficients that maximize the amount at x^* . This point provides the best available welfare.

passengers are the winners, while the neighbors are the ones that lose because of sonic pollution. The inhabitants have nothing to lose if they are compensated for their loss, finally obtaining an increased community welfare.

The Pigovian economy of welfare implies a Pigou analysis of the divergence between private marginal profit and social marginal profit. It is the problem of real external economies or diseconomies in relation with income marginal benefits. Pigou describes in his work „The Economics of Welfare” social losses such as: industrial accidents, professional diseases, child and women employment, air and water pollution, technological unemployment. The measuring of such diseconomies is a difficult task because of their pretty difficult “internalization” as they are considered outside the price system by definition.

A reward of Pigovian economics of welfare when the society goal is to maximize the difference between global benefits and global costs, shows that in a market where the price equals the marginal social cost of a product, the Pareto optimum condition is met. This can be better explained in the case of an economic activity generating external effects (diseconomies).

2. Practical considerations on designing an economic-environmental balance model for investment projects

The investment projects for fixed assets having a major impact on environment must be assessed and classified according to models that lead to their approval or rejection. The major pollutant investment projects are thermal plants, electric plants, power stations, nuclear plants, etc., but also investments in the chemical, petrochemical, steel and rubber fields. The development of a model implies, besides scientific and theoretic issues such as the acceptable pollution level, eco, green and clean technologies, also a responsible involvement of all parties involved in the positive and negative outcomes of an investment project development. These parties can be the beneficiary of the investment, the environmental agency, the developer, local administration, population, farmers from the affected area, other individuals or legal entities affected by the investment project development. Therefore, in taking the approval or rejection decision, the parties involved must assume a point of view based on a scale derived from the one suggested by the theoretic model, that can be a Stapel scale, as follows::

Stapel scale

Maximum pollution

Null pollution

-5 -4 -3 -2 -1 0 +1 +2 +3 +4 +5

In addition to assessing the pollution level on the main environment components – air, water, soil, etc. – we need to quantify the importance of each type of pollution and/or pollutant, using a weighting or importance scale (similar to the one included in the theoretical model). Through this practical approach we can determine the degree of satisfaction and/or dissatisfaction for each issue of the analyzed investment project. For example: noise level, level of suspended particles in the air, radioactivity level, thermal pollution, chemical substances soil pollution, water pollution, etc.. Such an approach facilitates the classification of suggested project alternatives, the decision-taking process regarding mutually exclusive projects and the collectivity involvement in assuming both benefits (satisfactions) and pollution (dissatisfactions) generated by such an objective.

Its practical implementation implies an active collaboration with the Environment Agency, environment experts and professionals in investment projects’ design, in order to develop a model for pollutants that allows the measurement of the perceived satisfaction or dissatisfaction level, and finally to achieve a global level of satisfaction or dissatisfaction regarding the

development of an investment project, based on weighting these elements with the importance assigned to each pollutant.

The main equation is:

$$B_j = \sum_{i=1}^k AB_i \cdot p_i$$

where:

B_j - is the j party score for a project or project alternative, which indirectly expresses a certain level of welfare as a result of project development;

AB_i - is the welfare level influence degree generated by the influence factor or pollutant i

p_i - is the weight of the influence factor or pollutant i

$i=1, \dots, k$ is the number of pollutants

$$B = \frac{\sum_{j=1}^n B_j}{n}$$

where:

B- is the global score of a project or a project alternative, which indirectly expresses a certain level of welfare as a result of project development;

$j=1, \dots, n$ is the number of parties involved in assessment.

For each investment project, the Environment Agency identifies the parties involved in preserving the environment and the parties affected by the project development, on the basis of an impact study. The Environment Agency provides the assessment applications to the beneficiary and the parties involved, and requires their response before the final notice of the project. The assessment application can also be provided to a representative sample of the affected population; in the case of major investment projects having complex implications on the economic-environmental balance, a full research can be done.

3. Case study CET Arad

"Centrala Electrică de Termoficare Arad" company, under the authority of Arad City Council (CMA), administers by concession the assets of the former Electrocentrale Branch Arad, founded on the basis of Governmental Decision 105/2002 from [S.C. Termoelectrica S.A. București](#). S.C. CET Arad S.A. provides electricity and heat through two thermal plants: CET Lignit Arad and CET Hidrocarburi Arad. From the perspective of heat production necessary to cover the needs of Arad city inhabitants, the two stations are interconnected in order to ensure a continuous provision of heat to consumers. Considering the local meteorological conditions, and especially the directional wind frequency, we consider the location of Centralei Electro-Termice (CET) Hidrocarburi Arad downtown and of Centralei Electro-Termice (CET) Lignit Arad in the north of the city of Arad inappropriate.

In order to obtain the values on the Stapel scale, presented in the table below, we considered the air pollution, water pollution and soil pollution (including underground waters, especially groundwater) with carbon oxide (CO), sulfur oxide (SO), nitrogen oxide (NO), lead and lead composites (Pb), hydrocarbons (HC), sedimentary and suspended particles + noise. The results are far from encouraging, with particular focus on air pollution (value -3) and soil pollution (value -2), according to the data provided by the Environment Preserving Agency (APM) Arad. Regarding other dissatisfactions and discomforts generated by Centrala Electro-Termică (CET) Arad, we notice human health in general and respiratory diseases in particular, according to the data provided by the Public Health Department (DSP) Arad.

Company /Indicators	Weight	Environment Preserving Agency (APM) Arad	Public Health Department (DSP) Arad	Land Reclamation Department (DIF) Arad
Air pollution	0,5	-3	-2	-1
Water pollution	0,3	-1	-1	-1
Soil pollution	0,15	-2	-1	0
Noise	0,05	+2	+3	+4
Global score per party involved		-2		
Project global score				

Stapel scale

-5 -4 -3 -2 -1 0 +1 +2 +3 +4 +5

A more analytical assessment approach for an investment project, based on the model described above, involved the following data:

Identification data _____ _____												
No.	Pollutant	Satisfaction level										
		Maximum pollution	-4	-3	-2	-1	0	+1	+2	+3	+4	Null pollution
1												
2												
...												
n												

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7. <http://www.cleaner-production.de> (is hosted by the Federal Environmental Agency of Germany and provides comprehensive, in-depth information on the performance of German environmental technologies and services)

THE STIMULATION OF EMPLOYEES' PERFORMANCE AT THE LEVEL OF PUBLIC INSTITUTIONS

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The performance of public institutions depends especially upon their low and middle ranked employees. Therefore, in the context of our country's integration in the European Union's structures, there must be elaborated the best strategies for motivating the employees of these institutions to achieve higher performance levels. The motivation of the public sector employees is not without constraints. Usually, these are different from the ones faced by profit making private organizations. Money is widely used by profit making organizations as a motivator, whereas this is not usually available for motivating public sector employees. Similarly, the punishment including firing is often used in private organizations, whereas civil servants are protected by the civil service rules. In this paper, we'll analyze the incentive of performance in case of government and European Commission employees.

Keywords: incentive, performance, motivation, commitment, government

JEL classification code: H11, J24

1. Stimulation of employees' performance within the government

The government and its subordinate institutions are important employers in a country. Their success finally depends upon how well or badly their employees perform the job tasks. The leaders of ministries and high ranking government officials offer to the nation plans and visions for the future. These are based on the effort of the state employees to bring those plans to reality. Without their motivation, commitment and hard work, all the plans and the goal setting will go to waste. Therefore, where care is taken in sound planning, care should also be given to how to motivate the employees who are actually going to transform effectively these plans to reality.

Compared to the employees from private organizations, there are limits for the motivation of government's employees. The private sector has always had a variety of positive and negative incentives to motivate individuals or teams of employees. The positive ones include the payment of bonuses, share options, gifts and promotions. The negative ones are based on the firing threat. For a government it's not usually possible to use any of these methods. Financial rewards are out of question because most governments use a rigid grade-based system for determining payment across the entire public sector. Neither is it possible to remove a non-performer from service. And in most countries, the law makes it very difficult to fire a civil servant for poor performance. According to some international studies¹³⁹⁴, a governmental job analysis project addressing both to the taking of measures for the decrease of employees' labor monotony and to the establishment of a reward system in full accordance with the employees' needs, could be expected to result in a higher level of motivation and satisfaction of labor. Options such job enlargement and enrichment, promotions, stipends, monetary and non-monetary rewards should be considered. Providing these factors can be challenging considering the bureaucratic difficulty in bringing about a change and the lack of funds available to carry out such audacious incentive plans, especially in countries recently integrated in the European Union such as Romania.

To make the job more interesting, a creative job project could serve as a motivator. One way to doing this is by **aligning organizational goals with employees' personal goals**, namely the implementation of management by objectives (MBO). But in most countries, at government level

¹³⁹⁴ William R, 2005.

MBO might be difficult to apply because the goals aren't set by the government employees, but by the parliament members or ministers. To make the MBO work, decision making and goal setting should be treated in full accordance. However, within the government, MBO can be applied at a lower level, for example at the level of an office that is responsible for its own targets. There the managers or supervisors can make decisions together with the employees as to achieve the best the targets of their office, and how much they can achieve in a particular time, thus setting their own internal objectives or reference points.

The strength of the employee's participation in the decision making process as a motivator can't be ignored, and if MBO cannot be applied, there must be considered simpler ways to make employees feel that their involvement is important to the management. In this regard, evidences show that even letting employees give their suggestions can contribute to employee motivation. One of the most well-known and widely used recognition method, resulting in motivation, is the use of suggestion systems. Employees offer suggestions for improving processes or cutting costs and they are stimulated with bonuses. These awards are nominal and their purpose is only symbolical. Besides bonuses, employees also receive intrinsic rewards under the form of recognition for their method suggesting in order to improve the activity.

Employees in most organizations would like to feel that their ideas can make a difference at their workplace. For many people, in fact, there are few things more important than involvement and assisting in the successful implementation of an idea they suggested.

If the employees choose to work for government despite the fact that the financial resources are limited compared to the private sector, this means that the non-money benefits must be higher in government work for these employees. In conclusion, the employee motivation factor can be found in these non-financial benefits.

The prestige and respect one receives from the society for being a government employee is part of the non-financial benefits in addition to job security and rich experience that could open doors for lucrative positions in the private sector, in national or multinational companies or abroad.

At the same time, we could mention that there are similarities between working for non-profit organizations and government. The government is in fact a non-profit organization. So, the motivation techniques used by non-profit organizations could be applied to motivate government employees. Motivating factors for volunteers are very alike to those found among satisfied government employees within the executive power: **a sense of public service, skill acquisition and the work environment that features more security and less stress than in the private sector** (to name just three of those that the researchers found). This is just another proof that motivation through non-monetary means is possible. There are aspects of government jobs which are often overlooked, but they can serve as powerful motivators. **Job security**, for instance, is difficult to find in the private sector, but is the mainstay of any government job. Therefore, it can be surely stated that it is possible to motivate a public sector employee without using money as a motivator. The need is to understand very well the concept of motivation and then to apply it creatively.

As a conclusion, we can emphasize the importance of the contribution of government employees to its success from the perspective of achieving its goals. This doesn't mean hiring some well qualified employees in the key jobs. It is rather the whole government machinery that needs to be motivated to build a country, to take it from where it is at that moment to higher plans. No one else is more responsible for this thing than the government employees. They are the ones who make or break a nation.

A recently performed study in the United States¹³⁹⁵ followed the emphasizing of determinant factors of job satisfaction in the case of government civil servants. In this respect 400 persons from the above mentioned institution were interviewed. The following independent variables

¹³⁹⁵ Friesen, D. & Williams, M.J., 2007.

were considered: **demographic variables**, namely: gender, education level, age, commitment (it is considered that civil servants have many interests and these are sometimes satisfied at the workplace. Nevertheless, the more the civil servants discover they can satisfy their interests at the workplace, the more and more satisfied they are at the institution they work) and, respectively, **environment variables**, these being: *variety of abilities, task identity, task significance, autonomy* and, respectively, *response from the work itself*. There was envisaged the measuring of the impact these variables have concerning *job satisfaction, satisfaction given by supervisors and satisfaction given by colleagues* (**dependent variables**). The results of the study emphasized the following: whereas in the case of job satisfaction, the most important predictive factor of work satisfaction for civil servants was the variety of abilities, the response from the work itself had the most important role for the satisfaction given by supervisors. It is important to know the fact that, in both situations, education level had the lowest impact concerning job satisfaction for that case. Talking about satisfaction given by colleagues, autonomy was the strongest predictive factor of the public servant satisfaction given by colleagues, whereas the variety of abilities was at the opposite side.

2. Stimulation of employee performance within the European Commission

During the last years, public service motivation has become one of the most important challenges for experts in human resources management. Most researches on this subject have focused only at the level of national government, while no study has examined this problem in the environment of an international organization such as the European Commission. The interviews realized by the Commission personnel at all levels show clearly that many people are motivated to join the Commission through a commitment for its whole mission, or in a certain politic area. Consequently, we think that public service motivation has an important role in the motivational framework of the European Commission employees.

First, we will refer to the conceptual framework, namely we will analyze the existing link between job satisfaction, organizational commitment and motivation.

Job satisfaction is defined as a positive emotional state resulting from the appraisal of one's job or job experiences. Organizational commitment has been defined as the identification power of one employee in an organization which is characterized by:

- a strong faith and acceptance of organizational goals and values;
- a willingness to exert a considerable effort in the name of the organization;
- a definitely expressed desire to maintain the organization membership.

Job satisfaction and organizational commitment are associated one way or another to efficiency, performance, behavior of organization member or the general psychological well-being. As job satisfaction and organizational commitment are also linked to the public service motivation, these factors can act like mediators in the relationship between public service motivation and the above mentioned variables as it has already been demonstrated for the public service motivation - performance relationship by recent studies¹³⁹⁶. Thus there is justified to stress on the relationship between the public service motivation on one hand and, respectively, service satisfaction and organizational commitment on the other hand.

Next, we will reflect the above described relationship applicability in an international environment.

The European Union is unique among the international organizations, but it has some resemblance to a federal government including the ability to impose its policy in some areas. It administrates a big budget which is especially used for the transcription into practice of some strategic projects to guarantee a continuous social-economic progress of the member states. Within the complex institutional framework of the UE, the role of the European Commission is

¹³⁹⁶ Park and Rainey, 2007 and 2008; Vandenabeele, 2008.

exclusively political. New policies are built within the European Commission before being discussed by the Parliament and the European Council. The implementation of these is actually the responsibility of the governments of the member states. It is controlled by the personnel of the European Commission responsible to ensure the harmonization of national policies and development programs with the directives of the European Union.

Employment in EC differs in one significant way from that in national governments. The level of payments and benefits is very high comparing to the one existing among the national governments. This policy was especially set to make service attractive for the people who fulfill the competence criteria required for these jobs. Thus, **we might expect the employees from the EC to be very motivated comparing to the ones from the national governments especially due to the financial rewards.**

In full accordance with the above described conceptual framework, for determining / measuring the satisfaction degree as a basis for the policies that follow to be adapted for the stimulation of personnel within the EC, the following hypotheses were taken into consideration:

-public service motivation will lead to a higher degree of job satisfaction in an international organization.. Autonomous motivation will lead to a higher degree of job satisfaction in an international organization;

-public service motivation will lead to a higher degree of normative organizational commitment. Autonomous motivation will lead to a higher degree of normative organizational commitment;

-public service motivation will lead to a higher degree of affective organizational commitment. Autonomous motivation will lead to a higher degree of affective organizational commitment;

-public service motivation will lead to a higher degree of continuous organizational commitment. Autonomous motivation will lead to a higher degree of continuance organizational commitment.

The necessary data for the achievement of this study¹³⁹⁷, developed between 2006-2008, was collected by some questionnaires distributed to all the employees of the EC by G.D. of Personnel and Administration as a part of their annual satisfaction surveys.

The main dependent variables of the survey are **job satisfaction** and **organizational commitment**.

Job satisfaction is a one-dimensional concept and it refers to: the existing relationship between the job content of one employee and his/her expectation at the moment of employment; the belief of employee that his/her job is interesting and, respectively, to what extent this person would like to find another workplace, because at present he/she isn't satisfied. This variable is measured by a Likert-type scale with five answer levels, as follows: "very unsatisfied" (1), "unsatisfied" (2), "average level" (3), "satisfied" (4) and, respectively, "very satisfied" (5).

Organizational commitment is a multi-dimensional concept that is divided – as we already have said – in: normative commitment, affective commitment and continuance commitment. The first one tries to answer the following questions: to what extent the employee considers it is an accordance between his/her values and the value of the EC; to what extent he/she is proud to affirm that he/she is a Commission's employee. The affective commitment refers to the employee's availability to make an additional effort comparing to the existing requirements to help the Commission to gain success. The continuance commitment tries to answer the following aspects: the decision to work for the EC was a mistake; it will not take long to the employee to be determined to leave the organization; the employee won't earn much working for the EC for an indefinite period. This variable is also measured by a Likert-type scale with five answer levels, as follows: "I do not agree" (1), "I partially do not agree" (2), "neuter" (3), "I partially do agree" (4), "I agree" (5).

Public service motivation is one of the independent variables of this study. To measure it, six indicators were used as follows: a) serving the European public interest, looked as an important target among the EC employees (public interest); b) the contribution to the well-being of

¹³⁹⁷ Park and Rainey, 2007 and 2008; Vandebaele, 2008.

European citizens (public interest); c) the importance of serving the public European interest comparing to the individual interests (public interest); d) the degree of availability among the EC employees to make important sacrifices for the well-being of the European Union (self-sacrifice); e) the importance to make a difference in the European society matters more than personal achievements (self-sacrifice); f) the importance to find by the European officials of the resources that are used in the EC for the assurance of the continuous development of the European Union (democratic government). Again there was used a five-level measuring scale.

Another main independent variable is the **autonomous motivation**. The measuring scale was based upon the Academic Self-Regulation Questionnaire. Eight indicators measuring the type of identity regulation were assessed, namely two indicators for **external regulation** (at work, the employee gives all the best of him or else **he would create problems for himself**, on one side, and, respectively, **he would risk to receive an insufficient assessment**, on the other side), **introjection's regulation** (at work, the employee gives all the best of him or else **he would feel guilty**, on one side, and, respectively, **he would feel bad**, on the other side), **regulation of identification** (at work, the employee gives all the best of him because **he considers it's his duty**, on one side, and, respectively, **he would like to be a good official or member of staff**, on the other side) and the **intrinsic regulation** (at work, the employee gives all the best of him because **he likes his job**, on one side, and, respectively, **he thinks his job is interesting**, on the other side). The interviewed persons had to mark these indicators on the basis of a five-level answer scale.

The third independent variable added into the analysis measures motivation on the basis of **financial rewards associated with the job**. This one can't be attributed to a certain type of motivation, although Herzberg affirmed that wages had characteristics of both the types of motivation (intrinsic and extrinsic) although conceptually it is extrinsic. There was again used a five-level answer scale.

Not at least, in the analysis there were included lots of **control variables**. First, these contain a set of **pure demographic variables**, namely: **gender** (men are the reference category), **age** and **nationality**. The last one was organized on its turn in five variables as follows: "North", "South", "CEE1", "CEE2" and respectively "CEE3"¹³⁹⁸, where the first two refer to geographical placement and the last three to the different phases of the widening of the adherence to the European Union process. A second set of control variables refers to **organizational variables**, namely: **if a person has or not a management position, the position group one belongs to** (AD, AST, CAI, CAII, CAIII and, respectively, CAIV¹³⁹⁹), **the status one has** (civil servant, full or part-time employee, contract agent, secondary national expert or trainee) and, not the least, **what type of management someone is employed for** (general manager, coordination manager for the policy of organization, second-in-command, etc).

The results of the study showed that **the control variables have a low impact upon the dependent variables**. The only variable with a significant consistent effect is **age**. When people become old, they tend to have a lower score at each of the dependent variables although they have high levels of public service motivation. Another relative effect is that **of being in a management position**. This thing is found to a certain extent in direct correlation with all the dependent variables, except for the continuance commitment. Second, **public service motivation exercises a significant influence upon the dependent variables**, that means the employees of the European Commission who have a very high coefficient of public service motivation, record higher values both from the perspective of job satisfaction and from the one which refers to the

¹³⁹⁸ Northern countries include: the United Kingdom, Ireland, Denmark, Germany, the Netherlands, Luxembourg, Belgium, Finland and Austria. Southern countries include: France, Italy, Greece, Spain, Malta and Portugal. CEE1 is formed of the Baltic States. CEE2 includes: Poland, Hungary, Czech Republic, Slovakia and Slovenia. CEE3 includes Bulgaria and Romania.

¹³⁹⁹ AD: Administrator; AST: Assistant (technical or secretarial); CA: contract agent (the fourth one is the highest in rank doing a work comparable to an AD).

organizational commitment, independently of the type of commitment taken into discussion. At the same time, the study shows that **the ability to participate directly at the substantiation and making of political decision represents a first major source of satisfaction**. The second and the most frequent source of satisfaction is **the general achievement feeling**, the fact that the employee can comply with the multiple challenges which appear regarding to the guidelines taken into consideration for the assurance of a continuous social and economic progress at the level of the European Union. We must not neglect also the aspects referring to **the opportunity to accumulate new knowledge and competences, to work in a multicultural environment or with a good team of specialists**. Third, although the members of the European Commission are, without doubt, the best paid public employees in Europe, **the influence of financial rewards upon the dependent variables is, oppositely to the assumptions, less significant comparing to the other independent variables we considered**.

Out of these showed in the present paper, we can conclude that public service motivation and autonomy are both important motivators in the international environment. We think the presented studies could be the basis for the elaboration of other researches intended to develop more complex measuring instruments for a relevant analysis of employees' stimulation at the level of public institutions, in general, and at government level, especially.

Concurrently, our opinion is that, in the context of the recent integration of our country in the European Union structures, the taking into consideration by the decision-makers of all the mentioned factors will contribute to the increase of employees' motivation in the public sector for reaching high performance levels intended to lead to the decrease of the gaps that separate Romania of the developed countries of the European Union.

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WAGE FLEXIBILITY IN THE CONTEMPORARY SOCIETY

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The paper follows to offer the most efficient solutions for the attainment by Romania of the economic development level associated to the Western European countries. It proposes the division of the flexibility of labour market in three components, namely: internal flexibility, external flexibility and wage flexibility. The analysis performed within the present study will emphasize the wage flexibility. Wage flexibility can be classified in four components: a) plans of individual and group incentives; b) plans of assigning wages out of productivity; c) plans of distribution of profits and, respectively, d) plans of suggestions. The labour market flexibility, in general, and especially the wage flexibility contributes to the increase of employee motivation at the workplace, aspect which leads to the growth of labour productivity, through this one being put the bases of the medium- and long-term economic development.

Keywords: flexibility, security, incentives, efficiency, productivity.

JEL classification code: J24, J33.

Flexisecurity of labour market, that has two biunivocal dimensions, namely: a flexible labour market concomitantly with the guarantee of employees' security, is nowadays one of the most important problems of the modern society for ensuring the economic development on a medium and long term, a reason for which it has to be taken into account by all the worldwide economic agents with decision power. It is necessary that it be applied in the context of strictly orderliness with action directions – axes – afferent to the Lisbon Strategy, revised, formulated by Jose Manuel Durao Barroso. Only in this way the mentioned strategy can achieve its purpose, namely the one that – **in the context of overcoming the actual economic recession – on a medium term, there be created not less but 6 million workplaces on the background of the generation of a medium economic growth at the European Union level of approximately 3% per year.**

The axes of the revised Lisbon Strategy are the following:

- to make Europe a more attractive place for investments and for working, by accomplishing an internal market in those fields where there is place for increase and employment;
- it is necessary that innovation and knowledge be put in the service of economic growth based on investments on a medium and long term, and on this purpose it is necessary that 3% of the GDP should be directed to the fields of research, development, innovation;
- creation of more and more attractive workplaces. The principle is that more and more individuals would be attracted on the labour force market by reducing unemployment among young people and by modernizing the social protection system.

Regarding the labour market flexibility typology, we can distinguish among internal flexibility, external flexibility and **wage flexibility**. Wage flexibility is translated through transposing into practice some incentive plans / programs for employees. They divide into the following categories: 1. plans of individual and group incentives; 2. plans of assigning wages out of productivity; 3. plans of distribution of profits and 4. plans of suggestions. Following, we will undertake a detailed analysis upon these categories of plans.

1. Plans of individual and group incentives

1.1 Merit payment plan

By this plan, wage increases, known as **payment raises depending on merit**, are determined in correlation with the performance at workplace, the employees that reach a certain level of

performance earn a payment raise to the basis salary that varies between 15 and 30 % depending on the organization. Organizations with exclusive or mainly private capital, but also public companies tried to implement a system to stimulate employees for increasing their attachment to the enterprise, an aspect that has positive effects both upon work productivity, and upon the position occupied by the firms on internal and international markets.

Despite their relative popularity, these plans proved to be, sometimes, ineffective motivators of performance. If, for example, the performance assessment system within the company does not adequately distinguish among superior levels of performance, it is possible that decisions regarding wage raise or fall would be influenced, along objective factors (**achievement of organization objectives**, both the short-term ones, and the long-term ones, **observation of each employee's habits in part, critical incidents**, namely adverse performance), including variables that are irrelevant for performance, such as **perception of others, personality, age, gender, race**, or **anticipation of (positive or negative) reactions** of the group of employees or of the trade union. Along these aspects, there come also **internal and external forces in the organization** that translate through **budget constraints, the need of correcting inequities, the need of making a difference among groups and levels, education and instruction, moral levels, inflation / cost of living or competition on the labour market**.

1.2. Incentive plan for employees in production

This type of plans usually offer additional compensations to those employees that produce goods over a certain quantity/quality previously specified. When these plans are well grounded, they can contribute to the organization's efficiency by increasing the employees' productivity and decreasing production costs for each department. However, such plans tend, by our opinion, to contribute to the increase of efficiency, but not to perfect it. For instance, in industrial production, incentive plans are often in correlation with important changes in work methods for supporting the increase of efficiency gained through time and movement studies or through work simplification. Along another line, some strategies of job description can be used for organizing tasks more efficiently or for simplifying them, and the incentive system is intended so that the employee use some more and more efficient methods.

A traditional incentive system that is used for the employees in production is **the plan depending on the quantity of items** where wage is correlated to the number of items produced. In many such plans, the worker is guaranteed a basic salary, or a minimum income per hour that supposes a certain number of items and is paid additionally for the production realized over this norm. For each item that he realizes additionally, the employee is paid a greater amount than the employees that realized only the minimum standard.

Through the **production bonus**, employees that exceeded the minimum production standards receive a supplement that is correlated to the decrease of production costs and to the increase of labour productivity. An example is the **standard-hour plan**, through which the standard time for the realization of a particular task is established. The worker is paid with the standard ratio even if he reached his norm in a shorter time. For instance, if the standard time associated to a certain task is nine hours, and the employee fulfills it in six hours, his earning represents the equivalent of nine hour ratios.

1.3. Incentive plan for employees in sales sector

Wage plan applied in the sales sector by the majority of organizations supposes **commissions** or bonuses that are granted depending on the number of products sold or in correlation to the income obtained through their sale. These can be thus considered as being individual incentive plans.

One of the **advantages** of commission-based payment is that the present system is closely linked to the income and profit obtained by the firm. Usually these are stimulated, but when the company passes through a recession period, a commission-based system allows the decrease of

its costs. The main **disadvantage** of this system from the employees' point of view is represented by the fact that their standard of living can be lower than if they were paid the basic wage.

1.4. Incentive plan at the management level

The most frequently used incentive plans for the management staff are represented by **performance bonuses**. Details linked to these bonuses vary, though, to a great extent from a company to another. For instance, they can be granted on the basis of a general assessment referring to the contribution that each manager had to the improvement of the firm activity. Regarding the bonus that can be granted at the end of each year, it depends to the extent in which the respective individual reaches the objectives that were agreed upon on the basis of annual collective negotiations.

Bonuses, paid a single time annually, represent gradual wages accepted as supplements both for the managing staff and for the other categories of employees. One of the **advantages** of such bonuses is the one that they do not additionally complicate a waging structure, if it is established that this structure is too branchy. A **disadvantage**, seen especially in the case of employees, is the one that bonuses do not increase benefits such as pensions and insurances, that, usually are in close connection with the wage level.

Another form of incentives is represented by the **sale of shares**. Through such a plan, both the managing staff and the subordinates have the right to buy a certain number of shares of the company to the established price on a certain date. The number of shares that each person is entitled to is in direct correlation with the performance of each employee. If the value of shares is superior to the predetermined price, then the person that owns them obtains a substantial profit from the exercise of the right of sale upon these. In the contrary situation, this right will not be exercised.

During the last years, incentive plans that refer to the managing staff made the object of several criticisms for the reason that the majority of these give results rather on a short term than on a long term. For instance, a study performed upon the multinational companies in the United States and the Occidental Europe¹⁴⁰⁰ emphasizes the fact that 85% of the interviewed companies reward the managing staff on the basis of the increase of earnings that can be realized from the company's shares. However, the increase of earnings per share must not be automatically correlated with the increase of the price of shares. Earnings per share can be easily manipulated on a short term, this thing non-contributing to the long-term success of the organization. Therefore, many corporations from Great Britain and the United States¹⁴⁰¹ established incentive systems that reward the managing staff on the basis of the efficiency of investments or of the economic growth.

2. Plans of sharing earning from productivity

More and more companies offer prizes based on the productivity of the organization. These prizes, often encountered under the denomination of **plans of dividing earning from productivity**, follow to stimulate the production efficiency, allowing the employees to receive a quota of the total savings reported to the costs with work and production, by the grant of some periodical prizes. The wide participation of the employees is a definitory characteristic for this type of plans. Generally, employees participate in commissions that develop and propose suggestions about the various problems of production such as work methods, necessary equipments and materials, reduction of rejections, placement plans etc.

2.1. The Scanlon plan

This is a well-known plan of earning distribution that not only allows, but it also requires a massive participation of employees. The plan grounds on a ratio between the costs of labour force

¹⁴⁰⁰ BOS, AIG, General Electric, Bayer, Colgate-Palmolive.

¹⁴⁰¹ BG Group, Hanson, AT&T, Citigroup, Mitchell Fein.

and productivity. When the costs of labour force decrease compared to productivity, employees are entitled to receive bonifications. When costs related to labour force do not decrease, there are no possibilities of dividing savings. Normally, all the employees benefit from the cost savings, also including employees from production, the ones in sales, supervisors etc.

The Scanlon Plan distinguishes through the fact that it puts the accent on the cooperation among the leadership of trade unions and the production commissions formed of employees, at all the levels. In fact, the father of this plan, Joseph Scanlon, would have not elaborated a plan without the agreement between the leadership of trade unions and employees. A production commission from each department that includes those members chosen by the trade union or by the majoritary vote of the employees of an organization and the supervisors, gathers regularly for taking into discussion of some modalities of increasing production and for assessing the proposals come from the part of the employees for improving the efficiency of the activity developed.

2.2. Rucker and, respectively, Kaiser plans

Another group of systems of rewarding and participating regarding the receiving of bonuses for decreasing the costs of production is represented by the **Rucker** respectively **Kaiser plans**. The **Rucker Plan** resembles to the Scanlon Plan, but the granting of bonuses has at its basis a more complex analysis including here the economic audit of activities for the preceding years. This audit is used for the professional check of some activities, procedures, processes for expressing a competent, well-founded and independent opinion on the basis of reporting to a quality standard. Through the **Kaiser Plan**, savings to the labour force, deliveries or materials based on the increase of efficiency are shared with the employees. The company benefits of the advantages resulted in a ratio of 67.5%, the rest of 32.5% being distributed to the employees under the form of monthly benefits.

2.3. The Lincoln plan

The **Lincoln Incentive Plan**, applied within the American company Lincoln Electric, combines the characteristics of the plans of widened planned productivity, plans of group rewarding and individual plans based upon the number of achieved pieces. At Lincoln Electric, employees are rewarded individually depending on the number of pieces achieved, but employees work together within the productivity commissions for establishing ways to reduce costs and to increase the profit of the organization. Each employee is paid by the superior depending on the quality and quantity of work and the bonus is calculated accordingly. The payment that an employee takes at home is approximately double compared to those that perform similar activities in competition companies. This plan is correlated also with other benefits, such as life insurances or the purchase of shares by the company's employees. This plan tends to become one of the most widespread incentive instruments used within strongly industrialized states.

2.4. The Improshare plan

One of the newest plans to allocate earning from productivity is the **Improshare Plan** that is correlated to a less extent to participation compared to the other plans mentioned. This plan is based **on the achievement of a pre-established number of items in a time, measured in hours, shorter than the envisaged one**. For instance, if in a company there is envisaged to achieve three clothing items in eight hours, and the employees of the respective company fulfill this objective within six hours, then for the time savings of two hours they receive a bonus with a value of 25% of their daily reward. In the situation this objective is realized, the resulted earning is distributed by the company to the employees.

The present plan distinguishes by the fact that the participation of employees within the commissions and the consideration of employees' suggestions regarding the improvement of work efficiency are **optional**. For this reason the leading staffs of the companies put a smaller accent on the employees' participation than on the corresponding rewarding system. In order that

a plan to have success in a company without trade unions, it is necessary to exist a minimum level of confidence and cooperation between the managing staff and employees.

3.Plans of profit allocation

Through such a plan there is understood a rewarding system through which a part of the organization's earnings is distributed to the employees as a supplement to their usual wage. Generally, the purpose of these plans is that of motivating the employees to contribute to the organization's rentability. The plans of profit distribution can be used for encouraging cooperation, increasing moral and for increasing the financial security of the employees. Within an organization they can include all the employees, only a selected group of the executive council or the management staff.

Following, we will analyze the typology of these plans.

3.1.Plans of Current Distribution

The respective forms of incentives are also called cash plans. Through them, a certain percentage of the company's profits – for example 25% of the net profit - is distributed under the form of cash to employees at intervals of one year or less.

3.2.Differenced Repartitive Plans

Through this type of plans, a part of the company's profits are transferred into a deposit following that the accounts of individual employees be credited. Money becomes available at the moment the employees retire. Some plans allow employees to contribute with supplementary amounts to their accounts. There are used various methods for allocating the funds resulted from the distribution of profit to employees. For instance, the amount that an employee receives can have as a ground the individual basic wage, years of service, merit-based or a combination of these factors.

4.Suggestion Plans

A **suggestion plan** is a rewarding system through which employees are rewarded if they provide useful ideas for the improvement of the organization efficiency. The usual reward is **payment in cash**, although a number of companies provide instead of this products or trips abroad. This type of plans is usually used for obtaining from the part of employees suggestions referring to the decrease of production costs, work protection or the improvement of products' quality. However, some companies promote suggestion plans for granting employees more opportunities to get involved in the company's problems. On the other side, these plans can be useful for the improvement of the communication with the managing staff. However, supervisors are often excluded from these plans because the control upon costs is a part of their job description.

Suggestion plans take the form of some boxes placed in convenient places close to the workplaces, accompanied by some forms. Employees use these forms for writing their own suggestions, then they put them in the boxes for being assessed by a commission. If suggestions are accepted, employees are paid in cash on the basis of a percentage that takes into account the productivity increases that will be possible to be obtained during the first years through the application of the respective suggestions. A standard amount is paid if the decrease of costs is difficult to be quantitatively expressed, or for suggestions that do not have a direct relation with the income, such as the improvement of work protection.

The number of companies that use individual incentive plans tends to decrease. It is not clear if the use of group incentives increases in importance, but certain companies passed, at least during the last years, from the individual plans to the group ones. It seems that plans for allocating earnings from productivity present an increasing importance. The plans of merit payments are used on a more larger scale than the other incentive systems.

Therefore, we can draw the conclusion that the **flexibility of the labour market** in general and the **wage flexibility** in special **contributes to the increase of the employers' motivation at the workplace**, an aspect that is reflected in the **increase of the work productivity**, through this **being put the bases of the economic development on medium and long term**. At the same

time, on the purpose of achieving this strategic objective, so that as until 2030 Romania would recover the differences existing at present comparing to the countries that are senior in the European Union, it is necessary that **the governmental strategy, independently of its orientation, should propose as an objective a budgetary policy intended to guarantee the continuous flexibilization of the labour market, concomitantly with the insurance of employees' security irrespective of the company where they develop their activity.**

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MANAGEMENT CONSIDERATIONS REGARDING THE TOURISM FACILITIES WITHIN THE ROMANIAN PILGRIMAGES PLACES

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Religious pilgrimages have a real history as economic generators for the visited areas and the elements of supply involved. Romanian monasteries are experiencing some continuous and constant flows of pilgrims, but, at the same time, they also turned into attractions for mass tourism. The aim of this paper is to identify tourism facilities and to establish their development level. The research method of this study was a questionnaire based survey among more than one hundred monasteries' superiors from different regions of Romania, places known as "holy" destinations for the Romanian religious people.

Keywords: religious tourism, tourism facilities, religious sites management, Romanian monasteries.

JEL classification: L83, M10, M21, R10.

1. Introduction

Tourism is a complex phenomenon regarded as an engine in many countries and areas which became one of the economic activities most spread worldwide (Bazini and Nedelea, 2008). The development of spiritual journeys coincided with the development of tourism in the modern era. Even though industry and "its related practices interact with religious life and religious institutions, hypothetically, in every corner of the world" (Bremer, 2005, p.37), *religious tourism is one of the least studied fields in tourism researches* (Vukonić, 2002).

Moreover, as a result of marketing programmes and of the high interest in cultural tourism, religious sites are more and more visited by rather curiosity-driven visitors as compared to genuine pilgrims and this is the reason why *they are promoted, adapted and comprised in products meant for tourism market* (Timothy and Boyd, 2003).

Moreover, many tour operators think that for an individual or a tourist is not mandatory to be very religious to make a journey or to enjoy visiting some attractions endowed with religious significance (Stoykova, 2009). Also the differences between pilgrims and tourists at sacred sites are vanishing, as new similarities are emerging (Collins-Kreiner, 2010).

At the same time, *the structure of the services supplied within religious attractions have changed*, as it was aimed at their adaptation and diversification according to the needs shown by various types of visitors or categories of the general public.

Therefore, *the purpose of this work* is to establish the development level of tourism facilities and the percentage share of each activity of a different nature than religious found in the main places of pilgrimage for Orthodox spirituality, which is the majority religion in Romania, yet regarded as traditionalist and conservative as compared to other denominations.

2. The tourism facilities within the religious travel

A number of economic realities determined the religious settlements to obtain funds by means of trade, collection of entrance fees and provision of some restoration services, guide or accommodation. As for religious tourism, in certain areas, the demand for services from the part of tourists and pilgrims changed the environment, the structure of local economy, while urbanization followed the track of pilgrimage centres.

Lourdes in France and Fatima in Portugal are clear examples as in these cases pilgrimage area can be divided in two: commercial or profane area made up of restaurants, shops, hotels etc. and the sacred area comprising churches, sanctuaries for pilgrimages etc. (Gesler, 1996). Lourdes' urban design has considerably changed in the sense of agglomeration of souvenir shops and restaurants lined all along the road connecting the commercialized area of the city to the pilgrimage area of the city (Rinschede, 1986). Following the same line of ideas, the number of hotels in Lourdes exceeds 200 units, starting from 4**** (stars) and up to 1* (star), without counting for „bed & breakfast” accommodation units and other residence to rent. In Romania, the number of boarding houses in the close neighbourhood of one monastery highly renowned, for instance Humor of Bucovina, exceeds 20 units.

Souvenir shops adjacent to many religious objectives have a more significant economic importance. In many cases, these are owned by the religious organization in charge with that respective destination, but often, these belong to local communities. *The souvenirs which are most looked for and sold are those representing religious symbolism*, especially if they can be associated with the place or the events that occurred at the place of purchase (Timothy, 2006). Objects which are more often traded in Christian religious sites are crosses, icons (this is especially the case with Orthodox Christians), statues (mainly in the case of Roman-Catholics), books, postcards, holy water or myrtle, rosaries, little things made by hand and handicrafts.

Like any other tourist, pilgrims must spend the night somewhere. *Accommodation means to which they resort vary from tents, little guest houses, houses for pilgrims up to luxury hotels.*

A special situation is encountered among religious settlements providing accommodation services within their own premises as is the case of the Romanian monastic complexes of Nicula, Neamț, Afteia, Portărița, etc. which are offering more than 100 accommodation beds each or the case of Bârsana monastery, which besides the accommodation beds within the monastic complex has its own tourist villa. Accommodation within the premises of the religious site is a rather frequent practice also in Guadalupe, Mexico, Medjugorje, Jerusalem etc., and in the case of monasteries or temples.

People may be provided a meal within the premises of Romanian pilgrimage sites, even within the premises of monastic settlements, while some settlements have a capacity to provide meals of more than 300 seats (Rohița Monastery of Maramureș County or Sănmărtinu de Câmpie of Mureș County). But many of them do not have fees for these services. It is the choice of every person to pay a certain amount of money for these services.

2. Study methodology and objectives

The main objective of the study were to identify tourism facilities existing within the central attractions for religious tourism in Romania and the activities carried out here which could turn into attractions, but, at the same time they represent means to obtain the financial resources which are necessary for the preservation of the religious settlement. The hypotheses from which the study started aimed at:

- *H1.Existence of some significant differences concerning the development level of facilities provided to visitors according to the identification features of the monastic complex.*
- *H2.Existence of some significant differences concerning the activities provided according to the identification features of the monastic complex.*

Therefore, the population investigated has been made up by all Orthodox monasteries all throughout Romania, while the sampling unit has been represented by the monastic settlement by means of the abbot, as its representative and the person in charge with the place.

Based on the sampling frame identified by means of the Directory of Orthodox Monasteries of Romania, we excluded the monasteries located in larger cities in order to identify with precision the locations where the demand is exclusively or mainly oriented towards religious tourism attraction. Moreover, we took into consideration the lack of permanent inhabitants within monasteries and paid a special attention to monasteries specified in tourism guide books as these monasteries, by their very nature meet at a larger extent the purpose of this survey aiming at identifying the features of religious tourism supply. As a method of data collection we used “face to face” punctual survey at the site of monastic settlement. With respect to data collection tool, we opted for a questionnaire.

Sample size comprised 151 monasteries. The choice of the units within the sample was made, in the first stage, according to a probabilistic method: the areal method. Thus, we divided the territory into 6 areas corresponding to the 6 Metropolis Community Churches, and from these we counted out 3 areas from where we were to inquire all the units. It was impossible to inquire all the units in every area due to high expenses for travelling, so we applied convenience sampling. Sample structure is outlined in the table below (Table 1):

Table 1. Sample characteristics

<i>Monastery Type</i>		<i>Percent</i>	<i>Metropolis Churches</i>		<i>Percent</i>
Monks		51.08%	Ardeal Metropolis Church		6.47%
Nuns		48.92%	Muntenia and Dobrudja Metropolis Church		2.88%
<i>Monastery Size</i>			Moldavia and Bucovina Metropolis Church		15.11%
1- 5 members		34.71%	Oltenia Metropolis Church		7.19%
(5-10] members		19.01%	Banat Metropolis Church		10.79%
(10-15] members		15.70%	Cluj, Alba, Crişana and Maramureş Metropolis Church		57.55%
(15-20] members		7.44%			
(20-25] members		6.61%			
More than 25 members		16.53%			

3. Research results

The first set of questions aimed at establishing the accommodation facilities within monasteries as well as their structure. Thus, more than 61.00% of religious settlements have accommodation facilities within the monastery (generally, within a single building called “guest house”), the number of beds ranging between 3 and 200. In the case of most of them, people are not charged for accommodation services as it is a service free of charge. However, pilgrims make donations and leave money most of times for these services. Percentage share of accommodation facilities and fees are listed in the table below (Table 2):

Table 2. Analysis of accommodation facilities existing within monastic settlements

<i>Type of accommodation services</i>			<i>Number of beds</i>	<i>Room type</i>	<i>Remarks on fees</i>
<i>Within the monastic complex</i>	Yes	61.80%	M= 43.44 (n=73) S=3171	1,2,3,4,5,6,8, 10,12,15,20, 25 beds	Average price per night = 10. 83 lei (2.5 Euro);(n=73) * at 77.30% of monasteries, accommodation is free of charge
	No	38.20%			
<i>Outside the monastic</i>	Yes	13.00%	M=60.31 (n=16) S=784	1,2,3,4,6,7,8, 10,20 beds	Average price per night = 31. 10 lei (8 Euro); (n=16) *at 20.00% of units, accommodation
	No	87.00%			

<i>complex</i>					<i>is free of charge</i>
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M= Average of the number of accommodation beds; S=Sum of the number of accommodation beds

Only 13.00% of the monastic settlements subject to our study have accommodation facilities located outside the monastery (we referred here to accommodation units which are within the property of the monastery or are run by monastery's inhabitants) and the number of beds within these accommodation units ranges between 15 and 150 beds. These units located in the close neighbourhood of monasteries usually take the form of chalets, villas, pilgrim houses or motels. Fees generally vary.

We have to underline that the rules regarding monastic life do not allow a layman (a person not belonging to clergy) to spend more than 3 consecutive nights in the monastic complex. For these reasons, some monasteries decided to build accommodation units where such rules do not apply. In case of Bârsana Monastery, for instance, a three-star villa was built having almost 54 beds in double and single rooms with phone, fax and PC access.

Some of monasteries' abbots stated that the existing accommodation beds within monastic complexes are sometimes not enough. Therefore, during peak periods, especially in the summer, the demand exceeds the existing supply to spend the night within religious settlements. In the case of Bârsana monastery, for instance, it is mandatory to make a prior reservation for an accommodation bed during summer time, one month prior to arrival at the least.

We continued by examining meal providing related facilities (restoration services) existing within monastic complexes (Table 3). The research outlined that for more than 80% of the monasteries subject to our study, tourists or pilgrims may be provided a meal while for more than 15% of monasteries, visitors are provided a meal only if they are accommodated in one of monastery's facilities.

Table 3. Analysis of meal providing facilities existing within monastic settlements

<i>Possibilities to provide meals</i>	Non	19.51%	M=63.46 (n=89) S=5648	<i>There is a fixed schedule to provide a meal for 63.60% of monasteries.</i>	<i>Seats number</i>	
	Yes, under all conditions				64.22%	33.71%: less than 20 seats;
Yes, only if lodged		16.27%				
<ul style="list-style-type: none"> - 13.79% of monasteries provide only meal without meat; - 86.21% of monasteries, except for fast days, visitors can be provided any kind of food (in certain cases without meat); - In certain monasteries, people suffering from various diseases may be provided special meals. 						

M=Average of the number of seats to be provided a meal; S=Sum of the number of seats to be provided a meal.

The following investigated aspects referred to the number of additional facilities existing within monastic settlements which are used on the one hand, but also expressly looked for, on the other hand, by tourists or other visitors.

The *hypotheses from which the survey started*- concerning the significant differences which might exist among facilities and activities of a different nature than a religious one which can be encountered or conducted within the main pilgrimage settlements according to their identification characteristics, they were tested by means of Pearson's correlation coefficient, specific to nominal variables.

The *hypotheses taken into consideration* were sub-divided each into 3 secondary hypotheses, concerning the influence of monastery type, size and Metropolis Church (administrative structure

of The Romanian Orthodox Church). The testing of these hypotheses allowed only their partial validation. Significant differences between these facilities emphasized two relationships of an average intensity as presented in the table below (Table 4):

Table 4. Additional facilities existing within monastic settlements and monastery characteristics influence

<i>Facilities existing within religious settlements</i>		<i>Influencing factors</i>	<i>Relationship intensity</i>
Souvenir / religious objects shop	70.50%	Monastery size	C=0.375 (<i>df</i> =5; <i>p</i> =0.028<0.05)
Arranged parking lot	43.40%	-	
Meeting/ conference room*	19.70%	Metropolis Church	C=0.500 (<i>df</i> =5; <i>p</i> =0.013<0.05)
Access to internet	11.50%	-	
Banking service (ATM, etc.)**	0.80%	-	

(C= Pearson's correlation coefficient; *p*= Significance level of study)

*more frequent in Cluj, Alba, Crişana and Maramureş Metropolis Church and Muntenia and Dobrudja Metropolis Church

**Bârsana Monastery

The main facility encountered within more than 70% of the monasteries investigated (the extremes values were 100% for the monasteries with 10-15 members and 47.6% for small monasteries) aims at giving to all those visiting the monastery the chance to buy souvenirs or religious objects from specialized shops which are usually located at the entrance of monastic complexes.

In tight connection to the commercial side we *identified the activities of a different nature than a religious one, which are carried out within monastic settlements and which might represent a source of funds*, but also an attraction element for many visitors. Significant differences between the activities carried within the monasteries (especially in what concerns the monastery size and type) emphasized a number of relationships of an average intensity (Table 5).

Table 5. Activities of a different nature than religious carried out within monastic settlements and their influence on these activities

<i>Activities carried out within monasteries</i>		<i>Influencing factors</i>
Painting	29.50%	Monastery size: C=0.383 (<i>df</i> =5; <i>p</i> =0.001<0.05) Monastery type: C=0.371 (<i>df</i> =1; <i>p</i> =0.000<0.05)
Embroidery	14.90%	Monastery size: C=0.334 (<i>df</i> =5; <i>p</i> =0.011<0.05) Monastery type: C=0.369 (<i>df</i> =1; <i>p</i> =0.000<0.05)
Weaving	9.80%	Monastery type: C=0.332 (<i>df</i> =1; <i>p</i> =0.000<0.05)
Tailor' workshop	6.50%	Metropolis church: C=0.574 (<i>df</i> =5; <i>p</i> =0.031<0.05)
House-keeping and gardening	6.50%	-
Agriculture and animal breeding	5.70%	-
Sculpture	4.06%	Monastery type: C=0.465 (<i>df</i> =1; <i>p</i> =0.023<0.05)

(C= Pearson's correlation coefficient; *p*= Significance Level of study)

Thus, most activities carried out in a monastery, other than religious activities refer to painting, embroidery, weaving workshops (specific to monasteries of nuns and to large monasteries). Among other activities carried out by monastic settlements we can also mention the tailors'

workshops specializing in clerical clothes (specific to monks monasteries), rosaries, candles, objects made by hand, etc.

4. Conclusions and managerial implications

The investigation of tourism facilities existing within monasteries allowed the identification of the following essential issues:

- More than 60% of monasteries provide with accommodation services within the monastic complex, and 13% outside the complex in own villas, chalets, etc. Accommodation service within the monastery is free of charge for almost 80% of the monasteries subject to our study. Nevertheless we have to specify that tourists pay most of the times for these services on their own initiative in the form of donations, amounts to pay for church service, etc., while in the case of the units run by monasteries where these unites are located outside the complex, accommodation fees amount to 30 lei (8 €) per night on an average.
- It is possible to be provided with a free meal at about 75% of the monasteries comprised in our study, sometimes only if the visitor is also accommodated within the monastery; more than half of the monasteries have a fixed schedule for meals and 20% of them provide only meal without meat.
- In more than 70% of the Romanian monasteries we can find souvenir shops; almost 40% of them have arranged parking lots, 20% have conference rooms, while 10% have access to the internet.
- Painting and embroidery are the main activities carried out within Romanian monasteries.
- Some of these facilities vary according to monastery type, size and Metropolis Church to which they belong.

Within such religious attraction settlements, people conduct a number of activities, *whether cultural or related to objects made by hand contributing to the raise of funds*. These activities represent also an attraction for visitors. Quite often, the sale of the objects made in monasteries is intended for foreigners who are more likely to appreciate their special beauty and authenticity. Issues related to religious tourism economy and commercial activities can also be found, in broad outline, in Romanian religious destinations, but on a smaller-size scale and not so much focused on the material side. One can also notice that the services and the facilities provided are at an incipient stage in the case of some religious settlements, generally smaller or less known, but in the case of other monasteries we can talk about a developed tourism and religious supply ranging from spiritual services to banking facilities or communication and information technology-related facilities.

Therefore, the *potential to develop these religious tourism attractions is extremely high*, although the crystallization of this market has hardly begun at domestic level. Nevertheless, we can talk of an ever increasing development and adaptation of the facilities provided by main places of pilgrimage as a response to a more and more diversified demand, as a significant integrant part of religious tourism phenomenon.

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BREAKING THE GLASS CEILING – FEMALE ENTREPRENEURSHIP

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„Entrepreneurship allows women to become economically independent, the essential premise for a change in mentality, attitude and behaviours.”¹⁴⁰²

Specialists claim that the only certitude of the XXIst century is change, as these decades have been marked by the fastest and most spectacular changes in the history of human kind. Difficult to forecast, the transformations that took place can be found in all areas: technical, economic, social, IT, educational, cultural and political. One of the most important, but insufficiently captured and considered changes is represented by the situation of the SMEs in the front line of the development: their transformation into the most dynamic factor and, in this context, the more and more active presence of women in management positions in SMEs.

In Romania, The National Agency for SMEs has implemented for the first time a promotion program for entrepreneurship among women managers of the SMEs sector. The program enjoyed a great success and resulted in a big impact in the business community. The program stimulates¹⁴⁰³ the growth of women entrepreneur within the business community, the development of the skill and entrepreneur spirit among women and efficient use of the human capital formed by potential women entrepreneur, improving the economical performances of existing enterprises, led by women through the growth of the training of their employees. Other aims are equal access to the knowledge based economy, experience sharing among business women, establishing partnerships and encouraging the will to represent personal interests in the civil society.

Keywords: SMEs, entrepreneurship, women entrepreneur, human capital, knowledge based economy

Current context

Numerous studies developed by researchers and experts in the field of entrepreneurship have shown that starting a new organization is a key element in the process of economic development and rebound. Nowadays, we are all aware that in any modern economy, SMEs are the “heart of the economy” as they represent 99% of all EU enterprises and have provided over the past years over 80% of the new jobs in the EU.¹⁴⁰⁴

Recent statistics from the developed countries complete this picture: most of the GDP comes from the SMEs, most of the employed work force is located in SMEs as they are, within the

¹⁴⁰² Vinnicombe, S., Colwill, N.L., *Femeile în management*, Ed. Teora, București, 1998.

¹⁴⁰³ Rotaru, C.I., *Prezentarea de bune practici privind promovarea antreprenoriatului feminin*, conferința *Promovarea implicării femeilor în mediul de afaceri* – Craiova, 2009, găsit pe www.mimmc.ro, accesat aprilie 2010.

¹⁴⁰⁴ http://ec.europa.eu/enterprise/entrepreneurship/sba_en.htm, accesat aprilie 2010.

current economic context, the only ones who create jobs and represent a favourable environment for creativity and innovation. The adoption within the EU of the law concerning SMEs is an essential stage for implementing the Lisbon Strategy for growth and work places. This results in “public administrations that that respond better to the expectations, less late payment of bills, access to a greater support through financing, innovation and professional education, lower VAT for local services and a better access to public procurement contracts. Moreover, this package will offer SMEs access to a Statute of the private European companies in order to decrease bureaucracy and increase transparency.”¹⁴⁰⁵

Philippe Maystadt, president of the European Investment Bank (EIB) has pointed out in a discussion that “*small and medium-sized enterprises wellbeing and growth will be key to Europe's future competitiveness. The market alone is unable to provide sufficient and appropriately priced finance for SMEs, in particular for high growth, innovative businesses. The EIB Group will therefore seek to address gaps in the market by broadening the scope of its financing.*”¹⁴⁰⁶

The level of entrepreneurship activities varies from one country to the other, as well as within one country, from one region to the other or from one social group to the other. Generally, regardless of country, the studies from the past years concerning the level of entrepreneurship activity show that, although the importance of female entrepreneurship shows an upward tendency in any economy, the rate of starting new companies is higher in the case of men.

Charles Handy, a management guru, states in his paper, *The Empty Raincoat* that “Organizations want quality people, well educated, trained and adaptable for management positions. They also want people who can tackle more tasks at once, people who want to act and who are not preoccupied with the title or position they have, but are more interested in the phenomenon of power and influence, rather than the social statute. They want people who will make the best of instinct and intuition as well as analysis and rationality, who can be tough, but sensitive, firm but friendly, people who can reunite all these necessary contradictions. Consequently, they want as many women as possible.”¹⁴⁰⁷

Nevertheless, female entrepreneurship still represents “an unused source of economic growth. Therefore idea that in order to fully benefit from the entrepreneurship potential of a country or region, the emphasis of female entrepreneurship is necessary.”¹⁴⁰⁸

The approach of the female entrepreneurship issue is not new, but it is more popular nowadays. The wish to expand female participation in the management activity is based on three major arguments, presented by Susan Vinnicombe and Nina L. Colwill in the paper “Essence of women in management”, as follows:¹⁴⁰⁹

- the natural style of women in work is more easily adaptable to job and structure shifts within companies than that of men;
- women can offer companies a competitive edge on the global market, helping them to better reflect in the management teams the gender composition of the markets where they are active;
- qualified women represent a vital resource. As the demographic results show, in the near future as well as in the far future, women involvement in management positions can be an imperative request

Nowadays, statistics show that women get involved in businesses at in an overwhelming degree as compared to the past years. Changing the rules of the game, women entrepreneurs create their

¹⁴⁰⁵ Maystadt, P., *Raportul de consultare al Băncii Europene de Investiții* găsit pe www.eib.org/attachments/strategies/sms – consultation – 2007 – 2008 – en.

¹⁴⁰⁶ idem.

¹⁴⁰⁷ Handy, C., *The empty raincoat*, găsit în Apostol, D., *Femeile antreprenor schimbă regulile în afaceri*, articol apărut în Wall-Street – Business in timp real, 2007 găsit pe <http://www.wall-street.ro/articol/Careers/32279/Femeile-antreprenor-schimba-regulile-in-afaceri.html>, accesat aprilie 2010.

¹⁴⁰⁸ idem.

¹⁴⁰⁹ Vinnicombe, S., Colwill, N.L., *Femeile în management*, Ed. Teora, București, 1998.

own style of leading, totally different from that of men. This new style of management has nothing from the predefined notions of tough competitiveness, aggressiveness and leadership, claims Margaret Heffeman, writer and entrepreneur.¹⁴¹⁰ In her opinion, organization, empathy and relational management represent advantages in the management of a company; the reasons that underlie the involvement of women in business are also very different than those of men. More than half of women entrepreneurs rely more on intuition when it comes to market analysis, which allows women to see opportunities that men generally fail to notice. Moreover, the feminine nature offers them a better mix of analysis and creativity – essential point for start-up companies.”¹⁴¹¹

We will present below some statistic data for the year 2009, data that will complete the female entrepreneurship picture in Romania.¹⁴¹² The data shows that:

a. Women represent:

- 51.2% of the total population of the country
- 45.6% of the active population
- 53.0% of the employed population (64.7% men)
- 5.2% are unemployed (8.2% in the case of men)

b. The female employed population divided on economic activities

- Industry – 35.0% (35.9% men)
- Construction – 1.9% (14.1% men)
- Commercial services – 32.6% (31.3% men)
- Social services – 30.5% (18.7% men)
- Specialists in intellectual and scientific areas: 52.08% women
- Doctors in sciences – 38% women
- Female physicists – 67% (40.9% in the EU)

c. Employed population according to professional position

- Owner of businesses 37.000 women, respectively 24.8%
- Freelancers 512.000 women (28.9%)
- Employees 2.843.000 women (46.1%)

d. Statistics for female entrepreneurship

- 31% of Romanian companies have a woman as an associate

e. Characteristics of companies that emerged

Women

Age of company 5.07 years

Sole owner 47.06%

Owner-manager 78.90%

Initial size 2.9 employees

Growth of business 39.2% new jobs

All these explain the major interest among specialists not only concerning female entrepreneurship and its role in the knowledge based company, **the prototype of the knowledge based company being the SME**, but also its main characteristics: fundamental competitive edge based on increased knowledge, creativity, flexibility and dynamism, high ability to learn and use new knowledge and generate added value.

¹⁴¹⁰ Heffeman, M., găsit în Apostol, D., *Femeile antreprenor schimbă regulile de afaceri*, articol apărut în Wall-Street – Business in timp real, 2007 găsit pe <http://www.wall-street.ro/articol/Careers/32279/Femeile-antreprenor-schimba-regulile-in-afaceri.html>, accesat aprilie 2010.

¹⁴¹¹ Apostol, D., *Femeile antreprenor schimbă regulile de afaceri*, articol apărut în Wall-Street – Business in timp real, 2007 găsit pe <http://www.wall-street.ro/articol/Careers/32279/Femeile-antreprenor-schimba-regulile-in-afaceri.html>, accesat aprilie 2010.

¹⁴¹² Vezi mai mult în raportul „Femeile și antreprenoriatul” care poate fi accesat pe: http://www.gemconsortium.org/about.aspx?page=special_topic_women.

The involvement of women in this type of business is a fact undisputed nowadays. More and more women become entrepreneurs and choose to be in charge of their own lives and careers, setting up successful businesses. Which are the most common qualities that all women entrepreneurs possess? In the opinion of Oana Maria Banu they are:

Ambition

A successful woman entrepreneur is extremely ambitious, has a special talent in transforming an idea into reality. The ambition to win helps her have a flourishing business.

Confidence

Confidence that she has all the requirements in order to succeed is another quality of a business woman. She is prepared to learn from the others, to ask for advice from experts and add value to her purposes. The woman entrepreneur has to be optimistic and take risks. The ability to explore new territories is also connected to self-confidence. Moreover, self motivation is an essential factor in keeping the business in high standards.

Openness towards change and will to learn

The woman entrepreneur is conscious of the importance of evolution and adoption of change. Always ahead of competitors, she is open towards what is new and willing to learn. She is curious, interested and can cope with innovations fast.

Realism regarding costs

A business is, first and foremost, money. In order to be successful, a woman who is in charge of a business prepares realistic budgets and her estimates are confirmed by the reality. Minimizing costs without sparing quality regarding services/products is one of the basic characteristics that leads to profit.

Taking advantage of team work and honesty

A business woman has the ability to work with all kinds of people, regardless of their education. She can maintain relations and communicate clearly and efficiently. This helps her negotiate even in the most sensitive aspects.

Maintaining the balance between work and personal life

Concerned not to become a workaholic, the business woman is skilled in maintaining the balance between various aspects of life. Her ability to deal with a lot of problems and also to support the loved ones helps her assume responsibilities in which the business as well as the family is concerned.

Specialists believe that women have nowadays more initiative to go into entrepreneurship and are more open to developing new businesses. Concerning the reason that women get into business, specialists also agree that they are very different from those of men. Women look for a place where they can capitalize on their qualities. For this, most of the women are willing to assume a greater risk in their career than men, claim experts in entrepreneurship.

Moreover, another reason for which women start their own businesses is, in the specialists opinion, that most of them are mothers and they want to be able to work less in order to take better care of the family. “While most of these women operate an *unusual* environment, from the point of view of income, purchases and marketing, it still is like other businesses. Just like in the case of other start-ups, the initial investment is crucial. Most of these have proved to be successful and sometimes have had better outcomes than those owned by men”¹⁴¹³, shows a study ordered by the American investment company Venture Worthy.

The study also shows that the skills of the woman entrepreneur, such as intuition, empathy, leading instead of commanding and multitasking without getting lost in details are the true values that lead their business.

¹⁴¹³ Studiu realizat de compania Venture Worthy găsit pe <http://www.ventureworthy.com/>, accesat aprilie 2010.

The Global Entrepreneurship Monitor (GEM) concludes in its study that women entrepreneurs represent an important contributor to economic growth, especially in the countries with low or average incomes. The aforementioned study shows that:¹⁴¹⁴

- In higher income countries, there is no gender difference regarding the rate of survival of businesses led by women as compared to those led by men.

- Women who are employed and have persuaded a social network of entrepreneurs are more likely to become entrepreneurs. The social and economic benefits of women who work represent a driving force for female entrepreneurship to a higher degree than family income or a high education.

- Women tend to be less optimistic and less self-confident than men when it comes to starting a business. However, once they are involved in the entrepreneurship activity, the self-confidence of women increases and they start to know the other entrepreneurs and exploit valuable opportunities, such as men do. Taking into account the differences between the various cultures worldwide regarding the financial independence of women, the lack of trust is not a surprising fact. The good news is that once they are involved in the entrepreneurship activity, they start to gain more self-confidence. Entrepreneurship does not have only financial implications for women, but also social ones.

- The fear of failing is higher in the case of women than it is in the case of men in all groups of countries. Women from low and average income countries in Asia and Europe presented a high rate of fear of failing (40.3%) as compared to women from Latin America and the Caribbeans (34.2%) and women from higher income countries (27.1%).

In which the profile of the business woman in Romania is concerned – here is how the business woman in our country looks like, according to the result of the study Eurochambres-Women in business and in decisions-making¹⁴¹⁵:

- The person is very ambitious

- Married with children (81.8% married, 77.8% with children)

- Higher education, well trained

- Devoted to her own business, sometimes even neglecting the family

- Work over 60 hours a week, deals well with effort

- Very perseverant, managing to surpass obstacles

- Independent (the main motivation for starting a business)

- Will to outdo herself (the lack of time is a barrier)

- Uninterested in participating in decision-making

We would like to take a look in what follows at the main problems that in general Romanian entrepreneurs are confronted with and female entrepreneurs in particular. Therefore, in the opinion of specialists¹⁴¹⁶, the problems that the majority of entrepreneurs are confronted with are: the instability of the fiscal system – the lack of a simple, clear and stable financial legislation; a financial context less favourable for the development of SMEs: high cost of credits associated with the instability of the fiscal system which generate the fear of investors of becoming incapable of repaying the debt; the difficulty in accessing credits in the case of a new firm; administrative bureaucracy, lack of a correct measurement program that would insure the survival of SMEs in the new competitive context created by Romania joining the EU; difficult access to entrepreneurial training due to high costs and lack of time of business women.

In which the gender barriers are concerned¹⁴¹⁷ – the specific obstacles that get in the way of female entrepreneurship are the following: type of education, lack of entrepreneurial role models, entrepreneurship based on gender, weak social statute, professional stereotype (12% lower than

¹⁴¹⁴ Global Entrepreneurship Monitor găsit pe <http://www.gemconsortium.org/>, accesat aprilie 2010.

¹⁴¹⁵ Natioanal Agemncy for SMEs study 2006, accesat aprilie 2010.

¹⁴¹⁶ idem.

¹⁴¹⁷ *Programul național multianual pe perioada 2001 – 2012 pentru dezvoltarea culturii antreprenoriale în rândul femeilor manager din sectorul IMM-urilor* găsit pe <http://www.aippimm.ro/articol/comunicate>.

the average salary); social stereotypes, lack of policies, programmes for setting up and developing female-led businesses; lack of studies concerning the accession impact that would include the threats and opportunities of the SMEs led by women; difficulty for business women to enter certain economic areas that are considered exclusively masculine; lack of accessible quality facilities for taking care of the child, sometimes combined with lack of family support; difficulties in accomplishing a balance between the personal and professional life and, most importantly, credit difficulties – difficulties in accessing unrefundable funds, which are due to the lack of education of the entrepreneurs and to Ministry clerks who do not have an “interest – performance coefficient” in making the funds available for businesspersons.

The state supports female entrepreneurship first and foremost through the “National multiannual program for 2005-2012 for developing the entrepreneurial culture among women managers in the SMEs sector”¹⁴¹⁸, program which is aimed at facilitating the mobility of women in the labour market and developing their entrepreneurial skills in order to involve them in private financial structures in the context of the problems connected to maintaining a balance between personal and professional obligations and prejudices that exist at a local level.

The main objective of this program is “Supporting the women entrepreneurs to promote their activity in the Romanian business environment.” The objective is the promotion of an educational system that facilitates women’s mobility in the labour market and develops their entrepreneurial skills. Since there has been no financial support until 2005 in Romania to promote women in the business world, the National Agency for SMEs has initiated this program starting from the necessity to prepare and develop the entrepreneurial culture of women involved in all types of activities, including those who come from a rural environment. Among the measures the program promotes are access to quality and business counselling. The latter helps women consolidate their trust in a positive view for the development and growth of their own businesses. In our country, in the SMEs sector, the required harmonized measures are aimed at:

- The promotion of culture and conditions for entrepreneurship among various categories of women, including those who are farther from the most common financial activity can be supported by innovations regarding the training, well planned innovations which are oriented towards a local level;
- Providing high quality financial support and business services which would create a bridge between private, public and semi-public agencies with the purpose of facilitating the access of women to these types of services is possible with the involvement of the municipality;
- Supporting the development of business incubators which encourage women by concluding business and university partnerships at a municipal level;
- Changing the procedures of public procurement by including social clauses can be successful in expanding the markets for family businesses.

The phenomenon of a developing female entrepreneur culture in our country is both interesting and important. “As small businesses develop, going through successive stages of organizing or legal statute, a slower process takes place, but one that is not less interesting – one of forming a collective mentality regarding business women. It is not only about the other’s attitude towards female business owners (area in which misogynistic qualifications start to give in), but also about an open recognition of the natural abilities of women to coordinate other’s work, their easily adaptable style to the environment conditions and their ability to work in a team and to develop networks, the negotiation and decision-making skills, etc.”¹⁴¹⁹

What else is required for creating a strong female business segment in Romania?

¹⁴¹⁸ *Programul național multianual pe perioada 2001 – 2012 pentru dezvoltarea culturii antreprenoriale în rândul femeilor manager din sectorul IMM-urilor* găsit pe <http://www.aippimm.ro/articol/comunicate>.

¹⁴¹⁹ Vinnicombe, S., Colwill, N.L., *Femeile în management*, Ed. Teora, București, 1998.

This is one of the questions that women associations and NGOs try to answer. We believe that it is critical to create this segment due to the following reasons: “women become themselves more powerful through business, they become more financially independent and bring wellbeing to the family. Women are inventive and creative and these traits will always influence the businesses they develop.”¹⁴²⁰

A series of opportunities have been developed in social and home activities, activities which are perfectly suited for women. Moreover, specialists believe that an increasingly greater number of women who are involved in businesses will generate a business environment that is less corrupt while financial independence and performance in business of women will give them the visibility and credibility they need in order to develop successful careers.

If “many times, women manage to enter the management of large organizations just by copying the male style (in order not to be different from the male majority of management structures), in their own businesses, women can behave naturally, which makes them more credible; they can even emphasize upon those typically feminine abilities which are sensitivity, concern for the others, empathy – which are in high demand nowadays. The good news is that more and more, the true value of a business person is regarded in relation to the results and type of relations with the others and not regarding their gender.”¹⁴²¹ We believe that it is normal that in the competition between men and women, the only selection criteria be the skills, team spirit and performance.

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¹⁴²⁰ Rotaru, C.I., *Prezentarea de bune practici privind promovarea antreprenoriatului feminin, conferința Promovarea implicării femeilor în mediul de afaceri – Craiova, 2009*, găsit pe www.mimmc.ro, accesat aprilie 2010.

¹⁴²¹ idem.

TRENDS IN DELIVERING EDUCATIONAL SERVICES WITHIN THE KNOWLEDGE-BASED SOCIETY

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Education and implicitly educational services become extremely important in the context of the knowledge-based society. Therefore, this study investigates the trends in delivering services identified through research of literature, as well as based on personal experience in providing educational services. It has been concluded that information and communication technology creates a vast opportunity to improve the way of delivering educational services within the knowledge-based society, to develop (educate) people's awareness of the need for knowledge, as well as their skills for the knowledge-based society.

Keywords: management, educational services, information and communication technology, knowledge-based society

JEL classification: A22, I20, L80.

1. Introduction

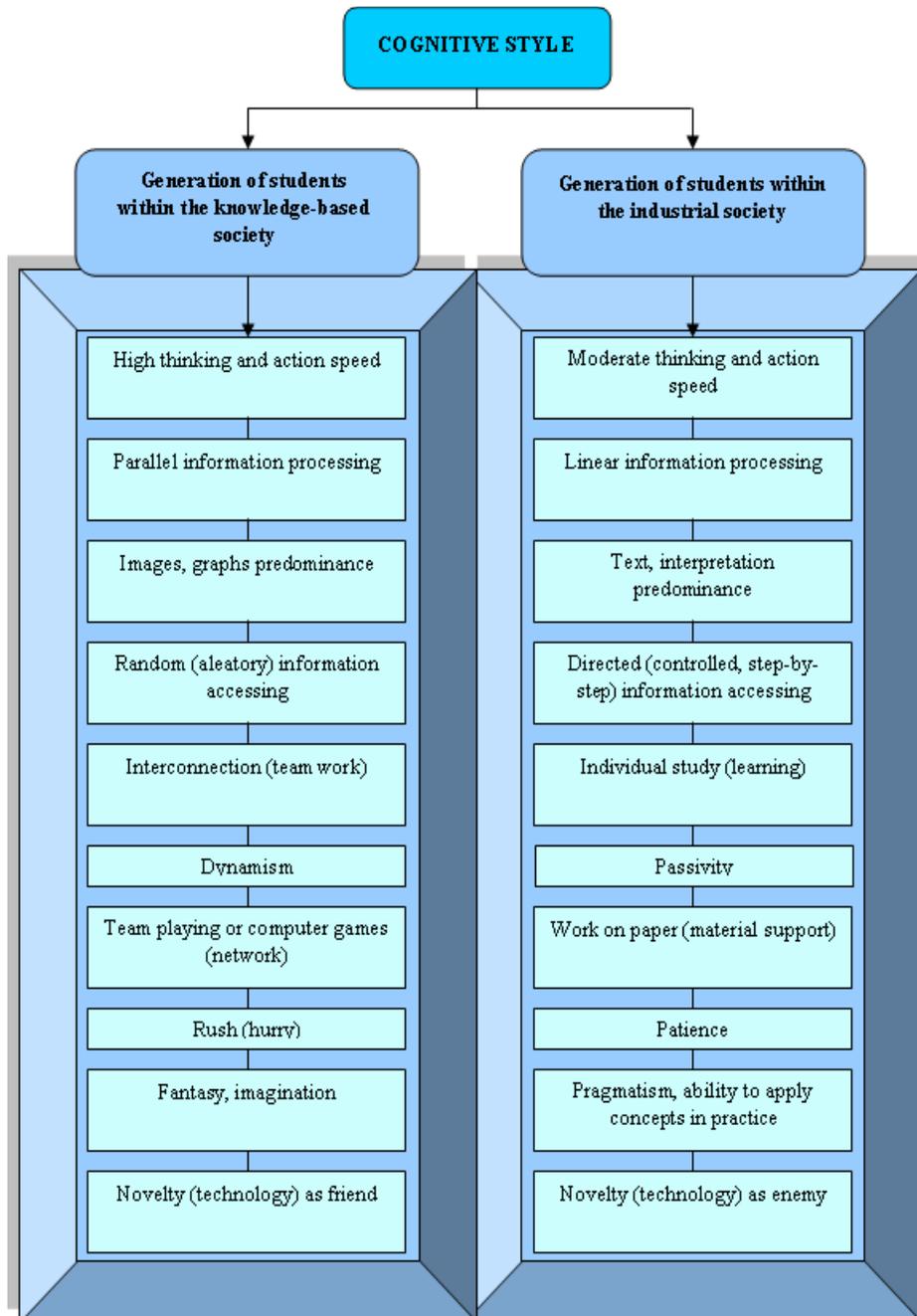
The “key words” in managing services within the knowledge-based society are knowledge, people and networks. Therefore, education (and implicitly educational services) becomes extremely important in the context of the knowledge-based society. This is the reason for trying to briefly disclose in this study some of the trends in delivering services identified through research of literature, as well as based on my personal experience in providing educational services. Since knowledge is assessed throughout people's life (lifelong learning), people's awareness of the need for knowledge should be developed (educated), as well as their skills for the knowledge-based society. Given that information and communication technology plays a major role within the knowledge-based society, it is reasonable to use it for delivering educational services.

2. Developing (educating) students' need for knowledge

The task of developing (educating) the student's need for knowledge is a challenging one because it implies changing the educational practices, its adjustment to new contexts within the knowledge-based society. The generation of learners within the knowledge-based society is different from the preceding one within the industrial society (Figure 1), in the sense that some main cognitive style changes have been observed (Mitchell and Savill-Smith, 2004). For instance, high thinking speed, action speed, interconnection and “friendship” with technology are all changes in the cognitive style of modern students. These changes may be considered in the process of teaching and learning in order to stimulate learners' awareness, interest, and desire to know more and more and to induce them the feeling that they cannot survive as workers within the knowledge-based society without lifelong learning.

Therefore, educational policies and practices should give emphasis to a lifelong learning perspective (Zamfir and Plumb, 2007). The main reason for this is that the spiral of knowledge everlastingly expands due to the application of knowledge to knowledge. Consequently, we may assume that if students are educated to apply knowledge to knowledge in the process of learning as well as in day-to-day life, then this process will become habitual, and their permanent need for knowledge will be encouraged and developed.

Figure 1 Comparative approach of the cognitive style within the knowledge-based society and within the industrial society



(Source: Adapted from Mitchell and Savill-Smith, 2004)

Learners growing up and working within the knowledge-based society are far more experienced and able to process information rapidly than were their predecessors within the industrial society. Therefore, they may be bored and lose interest for continuous knowledge (learning) if their capacities are not exploited and properly stimulated in school, in the process of teaching and learning (Zamfir, 2008b). However, it has been noted (Plumb and Zamfir, 2008) that to some extent curricula still tend to contain theoretical knowledge, which dominates practical learning

and thus changes the educational practices. In this context, applying a learning-oriented approach is a must.

Furthermore, the learning-oriented approach has to consider the cognitive style of the learners within the knowledge-based society. They are intensely using new technologies such as computers, internet, cell phones, simulations and computer games (Mansour and El-Said, 2008: 772). Moreover, the generation of students within the knowledge-based society find modern technology very useful when they search for things of their own interest (Milkova, 2008). As a result, the traditional teaching methods no longer match the current student's needs and behaviour. As teachers cannot change students, the best way is to adjust their pedagogical approach to the students and to create new learning environments supported by artificial intelligence (Prepelita-Raileanu, 2008; Dondon et al., 2008; Paladini and De Carvalho, 2008; Saarinen et al., 2008). These learning environments facilitated by the development of information and communication technology add value when compared to traditional learning environments, and also respond to the learning needs of 21st century students (Saarinen et al., 2008).

Practically, based on my personal experience, I can assert that having in mind the elements which define the cognitive style of students within the knowledge-based society one can educate the students' need for knowledge through various means, such as: assignment of team tasks, appeal to the students' imagination, practising open (free) discussions, avoiding answers to some questions, etc.

With regard to team tasks, instead of individual tasks, these stimulate knowledge sharing and as a result, students may ask themselves new questions starting from the ideas and knowledge shared. Trying to answer these questions in order to solve the team task will require searching the literature, making logical connections, discussing and identifying new aspects of the subject they are studying. As well, when teachers avoid answering to some of the questions posed by the students, the latter will be interested to find it themselves. Appealing to the students' imagination by asking them to imagine different situations, cases or solutions to the problems may contribute to educating their need for knowledge because afterwards they might be interested to know if their imagined solutions were or not discussed in the literature, applied in practice, or if it can actually be applied in the future and how.

3. Developing students' skills for the knowledge-based society

Living, learning and working within the knowledge-based society requires specific skills, emphasising on creativity and innovation, as well as on communication and collaboration. Students should be able to demonstrate creative thinking, to construct knowledge as a means of individual or group expression, to use models and simulations to explore complex systems and issues, to interact and collaborate using a variety of digital environments and media in order to support individual learning and contribute to the learning of others (ISTE, 2007). Technologies that support teacher-student and student-student interaction, whether real time or asynchronous, promote and support collaboration and discussion (Yoder, 2008). People have now more diverse and frequent interaction opportunities than they have ever experienced before, due to the development of the Internet and its communication possibilities such as Email, chat, Web discussion forums, etc. (Woo and Reeves, 2007). This fact could lead to a better teaching-learning process and also to the creation of new and attractive methods for teaching and learning. Educational process could be improved with communication tools that provide synchronous and asynchronous opportunities for interaction and collaboration. Blogs, podcasts, real time interaction, and virtual worlds could be incorporated in education to create a learning environment that strengthens teaching and motivates learners (Yoder, 2008) so as to gain the skills needed within the knowledge-based society.

In the last few years, there has been a growing understanding of the important role of information and communication technologies in education. Various new models of education are evolving in response to the new opportunities (Barak, 2007) that are becoming available by integrating new

technologies and computer applications into the process of teaching and learning. The new educational model is characterized by the interdependence of communicative interaction, new technologies, the development of computer applications, the design of computer-based tasks and focused activity for learners to become critical thinkers and creators of knowledge (Kimber et al., 2007).

Recent educational research from a socio-cognitive perspective has validated students' collaborative engagement with new technologies and heightened understanding of influential factors shaping the effectiveness of peer interactions, learning contexts and computer interfaces for enhancing learning (Kimber et al., 2007). All these changes pose considerable challenges for the educators and business trainers who wish to promote literacy skills (Mitchell and Savill-Smith, 2004).

One significant pedagogical approach gaining credence through research and classroom practice is students' collaborative engagement with problem-solving, computer-based tasks for more effective learning (Kimber et al., 2007). There are some characteristics of the computer applications that contribute to the engagement of the students in the process of learning, such as rules, goals, interaction, outcomes and feedback, challenge, problem solving, etc. (Mitchell and Savill-Smith, 2004). Teachers should focus their efforts to ensure that students are given opportunities to work collaboratively with electronic knowledge-creation tools in their learning process to enhance their learning. When students are encouraged to externalise their mental schemas and clearly communicate their understanding of the interconnectedness of ideas verbally and graphically, then student-designers are effectively engaged in productive, reflective, creative practices (Kimber et al., 2007).

4. Using information and communication technology for delivering educational services

Nowadays educational practices are profoundly changing by integrating information and communication technologies into the process of teaching and learning. Knowledge society and growing demands for highly skilled and educated people are elements that claim for the change of traditional teaching and learning processes. Modern students need to update their knowledge, skills and competences (Beleviciute and Sileikiene, 2006). Therefore, teachers should redesign their courses by adopting new educational methods and appropriate technologies to fully exploit the benefits of web-based learning environments (Lee et al., 2007) and computer applications in education (Zamfir, 2008b). Although some progress is being made, relatively few authentic web-based learning and lifelong learning programs have been developed and implemented at different levels of education (Zamfir, 2008a). One type of changes is related to an integration of various kinds of computer-based learning systems as supplements to conventional teaching methods (Zamfir, 2007).

Many possibilities are available for using information and communication technology for delivering educational services (e.g. PowerPoint presentations, E-mail, Chat, discussion forums, or special software). One of them is computer simulation (which integrates computers, software, virtual networks, people, and knowledge iterative processes) that could be successfully used in economic and managerial education. Some recently conducted studies (Zamfir, 2008c, Zamfir et al., 2009) have confirmed that it is very useful to simulate the activities of a company in order to develop students' competences and skills that they need for their real-life activities. Teachers could integrate into their teaching activity technological tools such as computer simulation, which promote interaction and critical thinking among students, and seem highly motivating and make learning enjoyable for students.

5. Conclusions

Education and implicitly educational services become extremely important in the context of the knowledge-based society. Consequently, we have briefly disclosed some of the trends in delivering services identified through research of literature, as well as based on personal

experience in providing educational services. Since knowledge is assessed throughout people's life (lifelong learning), people's awareness of the need for knowledge should be developed (educated), as well as their skills for the knowledge-based society. Given that information and communication technology plays a major role within the knowledge-based society, it is reasonable to use it for delivering educational services. If students are educated to apply knowledge to knowledge in the process of learning as well as in day-to-day life, then this process will become habitual, and their permanent need for knowledge will be encouraged and developed. In this respect, we have briefly illustrated how information and communication technology could be used to deliver educational services.

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MARKETING AND SALES OF THE BODY SHOPS CONNECTED TO GENERAL MOTOR'S COLLISION

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The product and the services offered by Body Shops consist of work, parts and materials demanded for repair the damaged or cosmetic degraded vehicles. The client of the Body Shops is somewhat unusual in that two parties are likely to be involved. The first party is the vehicles owner. The second party is the insurance company responsible for pay. Both parties may be involved in selecting a repair shop, but ultimately the vehicle owner has the final authority in almost the cases.

Key words: body shop, sales process, target customers, customer perceptions

M: Business Administration and Business Economics;Marketing;Accounting

1. INTRODUCTION

The document which starts the whole process regarding the repair sometimes referred to as the damage appraisal. Effective Body Shops use Marketing and advertising efforts for motive the potential clients. The client is free to have estimates written by other shops and make a selection based on his or her perception regarding the store's ability to meet his or her needs. The estimator's objective is to create a good impression upon the customer throughout the estimate process, resulting in customer's approval to perform the repairs. The approval is documented by creating a repair order for client to sign. The process of marketing and sales must enhance the estimator's ability to close the sale. They might be excellent technicians but in many cases they have not been prepared properly to become business people.

2. THE INVESTIGATION

This research study concluded that many potential customers have a negative perception regarding Body Shops. Effective shops are working to reverse this negative perception. The important factors which are having influence above the imagine are: location, signage, appearance of a shop, office appearance and the personal.

2.1. Location

The location has an important role in the development positive imagine for Body Shops. Dealerships have generally good locations but the Body Shops are normally behind of their facility. This sets "a back end of the business message" to customer. These factors can be overcome by using tall facility facades and large lighted signs or lettering.

2.2. Signage

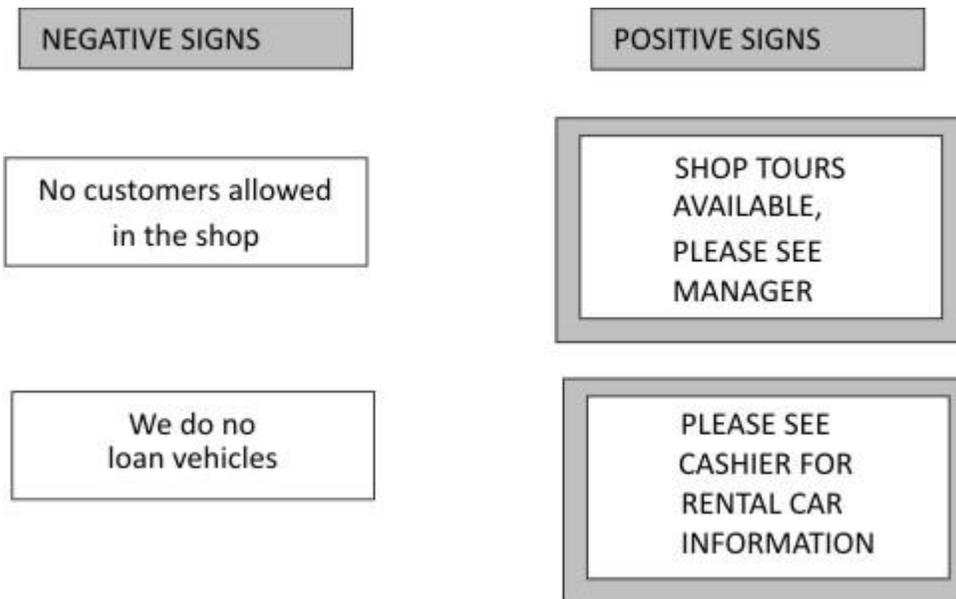
Facility signs should portage an professional imagine. They should be adequate in customer's direction to the proper location for an estimate. These signs must begin on the entrance of the

street and continued to an exactly place on a parking. The location must be reserved exclusive for estimate preparation and must be aesthetically pleasing.

2.3. Office appearance

Once customer is inside the Body Shop, the physical appearance of the reception area and Estimator's office impact the customer's perception. The office should be clean, uncluttered and have an air of professionalism, while being warm enough to make the customer feel comfortable and welcome. The furniture, fixtures and housekeeping send non-verbal messages to the customer. Similar items leave an impression in the customer's mind including desk organization, wall posters and hangings, books and magazines, and file racks.

All of these items should be evaluated for their positive or negative effects on image and how they contribute to the sales process. If they do not contribute in a positive way, they should be eliminated or improved. Wall hangings should include certificates, diplomas, certifications, and credentials of technicians and management. The shop's mission statement, awards, recognition, certificates etc. should also be visible. As a general rule, if it's not framed, it shouldn't be hang. Reading material should be limited to items intended to impact image. These include a portfolio of customer testimonials, before and after photos of previous jobs, thank you letters from customers etc. Signs relative to policies should be in a positive tone. Examples include:



Personnel appearance

As in any sales environment, the personal appearance of the salesperson (in this case, the Estimator) is critical. This is the first opportunity for an individual to impact the shop's image. Clothing standards vary from market to market and may range from shirt and tie, to golf shirt and shorts. The key factor is that the attire separates the Estimators from the other staff members. It should identify him/her as the person with authority. Shirt logos, name tags or badges are strongly recommended. Habits and personal grooming also affect the customer's perception of the shop's image.

Features, advantages & benefits

Highly effective shops developed a list of features, advantages, and benefits (FAB's) offered to customers. Communication of these FAB's is the customer helps deliver the value of the shop's products and services. Examples of FAB's include:

- warranties;
- business hours;
- technician certifications/training;
- equipment;
- rental/loaner cars;
- facilities;
- insurance company relationships;
- storage and towing capabilities.

Features, advantages and benefits (FAB's) are communicated to the customer through various marketing techniques during the sales process. Tools used to convey these FAB's include:

- brochures;
- pamphlets;
- estimate presentation folders;
- signs and displays;
- promotional items;
- verbal and media advertising.

Marketing materials

All printed material should be designed to enhance the Body Shop's image. The message, format and logos should be consistent with FAB's used in the selling process. Examples include:

- warranty certificate;
- special promotion coupons;
- flyers;
- letterhead
- thank you cards/letters;
- invoices;
- note pads;
- purchase orders.

Target customers

The dealership's customer base is a primary target market. These customers have been previously "sold" on the dealership. Other information from dealership's database should be a starting point for marketing efforts. The insurance company database should be developed to include names and addresses of local companies and Agents. Key office and field personnel should also be listed. Potential Body Shop customers include:

- new vehicle buyers;
- used vehicle buyers;
- service customers;
- fleet/commercial accounts.
- insurance agents;
- insurance adjusters;
- tow companies

Special events

The dealership Body Shop should be included in all customer special events. These include new owner receptions and service clinics. The Body Shop should host at least one reception or clinic per year. Guests should include:

- insurance agents;
- insurance adjusters
- insurance company office staff;
- police officers;
- fleet/commercial accounts.
- tow companies;
- dealership General Manager;
- dealership Sales Manager;
- dealership Cashier;

Support for such functions can be solicited from paint companies, equipment vendors, rental car agencies, manufacturers, General Motors Parts, and other suppliers.

2.4. Road to the sale

The sales process is centered on the preparation of the estimate. This process begins with the meeting and greeting of the customer and ends when the customer selects a repair location. Effective Estimators use a systematic method of presentation that includes basic sales techniques. The technical aspect of estimate preparation requires knowledge of repair processes. This knowledge can be acquired through training or through experience as a Technician. Virtually all estimates are prepared electronically utilizing a database supplied by one of several vendors. These databases include flat rate repair times and retail parts prices required to perform the specific job.

When a customer pays a personal visit to a Body Shop, it is important that the estimator follow a set of steps or procedure every time he/she comes into contact with a customer. These pre-

defined steps and procedures insure that every customer is consistently treated properly, and that important points are not overlooked. The “Road to the Sale” will help the sales opportunity become a sales probability, i.e. the estimate becomes a repair order.

Step 1. Friendly meeting & greeting

There is finite amount of estimate opportunities available to Body Shops. Therefore each opportunity should be viewed as a value chance to increase sales. Body Shop Estimators have this responsibility, and should take it seriously.

The first step in the “Road to the Sale” is a friendly meeting and greeting. This can be as simple as offering a smile and a handshake to every customer that enters the door. It is essential that the customer perceive a warm welcome when first entering the Body Shop. This perception will eventually become the catalyst for the Body Shop’s image in the mind of the customer. Key elements that are critical to becoming an effective Body Shop Estimator are:

- extend a sincere feeling of welcome to the customer;
- introduce themselves by name to the customer;
- maintain good eye contact;
- find out the customer’s name and use it;
- smile;
- wear a name tag;
- project a neat and clean physical appearance;
- act in a polite and professional manner.

Less effective Body Shop will neglect to obtain the customer’s name, disregard their own physical appearance, be unavailable to greet the customer at initial arrival, and will respond to the customer unprofessionally.

It is important that the customer is approached in a manner which invokes a feeling of sincerity. It must be clear that the Estimator cares about the situation and wants to help in any way possible.

Step 2. Listen & learn

Estimators neither should nor assume that the customer will elect the Body Shop to perform the repairs simply because he/she chose the shop to write the estimate. Instead, Estimators should listen to the concerns of the customer and identify the customer’s wants and needs. Effective Body Shop Estimators will ask the following questions:

- How did you find out about our Body Shop?
- Which insurance company are you using?
- Are you the claimant or the insured?
- What is the deductible amount?
- Is there vehicle rental coverage?

How long can you do without the vehicle?

Once the estimator determines the customer’s want and needs, FAB’s can be presented to address those needs.

Step 3. Sell features, advantages & benefits (FAB’s)

By presenting a shop’s features, advantages and benefits, the Estimator can enhance the shop’s image. Effective Body Shop Estimators will include the following FAB’s in their sales presentation:

- sheet metal and/or paint warranty literature;
- manufacturer’s consumer guides;
- state-of-the-art equipment;
- alternative transportation;
- training certification.

Step 4. Ask for Business

Once the customer is aware of the reason why he/she should choose the shop, the Estimator should ask for the opportunity to perform the repairs. Effective Body Shop Estimators will ask closing questions such as:

- Could I get your OK to order the repairs parts?
- When would you like for us get started?
- Will you need a rental car?

A more aggressive technique is the assumptive close. Statements that assume the close of the sale include:

- I'll order parts immediately. Please OK the repair order.
- With your OK, I'll call the insurance company now and handle it for you.
- Here are the keys to a loaner car you can use.

Step 5. Follow-up

A percentage of customers will not commit to the repair at the time of estimate preparation. In an effort to secure the close, customer follow-up is a critical step in any sales process. It lets the customer know that the Body Shop values and wants his/her business. Also, it allows the Body Shop a great advantage over its competition.

Customer follow-up activity improves estimate sales. It also shows that management is aware of what is going on and they care about the Estimator's performance and the customer. Effective Body Shop use these follow-up tools for customers:

- thank you cards;
- thank you letters from management;
- phone calls to identify additional needs, restate FAB's and close the sale.

Once Estimators have learned the "Road to the Sale" and are using it properly, they need to incorporate estimate tracking. This will provide each shop with an accurate record of detailed information concerning the estimate process. This will also pinpoint areas that Estimators need to develop in order to compliment their own selling practice.

A good procedure for the Estimator is to follow-up until a buying decision is made. The Estimator should keep a record of estimates written and determine the reasons for any lost sales. Finding out which competitor was awarded the business and why will help Body Shops develop future sales and marketing planes.

2.5. Estimate tracking

Regardless of whether a sale was made, Body Shops should keep a record of all estimates written. Effective Body shops use an Estimate Tracking Log, which serves as a performance indicator to measure the effectiveness of shop's techniques. The Estimate Tracking Log measure the following factors:

- the number of estimates written;
- who the estimates were written for;
- the insurance companies involved;
- the estimate closing ratio;
- the two companies involved;
- the value of the estimates written;
- the reason for job loss.

If completed and used properly, the Estimate Tracking Log will give benchmarks for standards of performance for the Body shop. Computerized estimate tracking systems are also available, and include measures for the year, make and model of vehicles. The manager should collect all of the Estimator's tracking logs for the month and perform the Estimator Performance Summary.

After completing the performance summary, performance trends should be evaluated. This information can be utilized as an internal communication tool in the Body Shop.

2.6. Conclusions

In the process of estimate tracking there are some practices to avoid. Less effective Body Shops typically have the following characteristics:

- charge fees for writing estimates;
- wait for the insurance company to prepare an estimate first;
- assume that new and used vehicle buyers know there is a Body Shop;
- fail to follow-up with every potential customer until a buying decision is made;
- display offensive posters or calendars in areas of office and shop;
- assume that their shop is on all insurance agency recommendation lists

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SUB-SECTION: MARKETING

EVALUATING THE CULTURE-LED REGENERATION

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The aim of the paper is to propose a new approach to urban planning, evaluating the culture-led regeneration processes. In the last few years, the cultural turn in urban planning played a central role in the urban studies. In this way we try to elaborate a more robust perspective interpreting the complex phenomenology emerging from the culture-led regeneration processes. Within the concept of complexity we discuss about the “metabolic process” that are the processes necessary to transform energy, material and information in goods and service functional to the complex urban system life. The approach that will be employed is the MuSIASEM that is based on several novel concept and an innovative methods never applied in this research field.

Key words: Culture led regeneration, complexity, European integration, progressive system, MuSIASEM

JEL codes: R10, R20, Z10

1. Introduction

The issues of cities development trajectories and culture-led local regeneration have become more and more present within the urban studies (see Miles and Paddison, 2005, for a critical review). These emerging phenomena arose in a period of turbulent socio-economic change fuelled by globalization processes. According to these dynamics, virtually all of the cities, that are characterized by advanced levels of industrial development, are experiencing a massive re-shaping of their productive sectors. In this context, culture and creativity are clear examples of sectors characterized by high value added, high incidence of service and other intangible components, and by an interesting socio-economic impact on the local economies. At the European level this issue finds its institutional collocation inside the European research strategies developed by KEA Europe Affair. The year 2009 was designated as the “European Year of Creativity and Innovation”. In that sense the European Commission (E.C., 2009) has drawn attention to the usefulness of culture and creativity in sustaining the emergence of innovation-led economy within the EU integration policies¹⁴²².

Moreover it is widely acknowledge the culture’s contribution at a local level of analysis (OECD, 2005) in improving economic performance of local systems (Santagata, 2002;

¹⁴²² Actually, the culture and creative sector is found (E.C., 2006) to have both a direct, quantifiable socio-economic impact (it contributed to 2,6% of EU GDP in 2003 and accounted for 3.1% of total employed population in EU25 in 2004) and an indirect, non-quantifiable influence on the productivity of economic systems (by underpinning innovation dynamics).

Sacco and Ferilli, 2006; Scott, 2004; Valentino, 2003). The urban policy agenda is gradually including cultural and creative activities as a key driver in urban regeneration processes. As a matter of fact, it seems that culture and creativity are becoming new keywords in the understanding of new urban transformation (Musterd and Ostendorf, 2004). In that sense the “cultural turn” that emerged across the social sciences in recent years (Amin and Thrift, 2007) influences both the urban economic and policy systems (Crociata, 2009). Actually urban planning processes, fuelled by the culture-led regeneration, are moving toward complexity. This contribution aims to provide a new conceptualization of the cultural and creative sector by using an innovative set of semantic and analytical categories.

The paper is structured as follows: in the next section, we cope with the complexity and the relevance of time in the cultural and creative sector. In section 3 we present the MuSIASEM approach for the culture-led regeneration. Section 4 concludes.

2. Toward complexity.

2.1 Cities as a progressive system

A city can be conceptualized as a progressive system (Calafati, 2007) because it represents a sum of heterogeneous agents and a sum of heterogeneous relationships among them, coevolving progressively during the time, showing emergent pattern of development very difficult to predict. Since urban performance trajectories strictly depend on city’s specific “structure”, it is necessary to develop a methodological perspective able to capture the emerging phenomena that originate from the complex match between sustainable urban planning and the culture-led regeneration processes. That is possible by delineating three pertinent levels of description: (i) the structure of the system; (ii) the metabolic processes of the system, i.e. the processes that organize inputs as matter, energy and information into goods and services, functional to the system’s objectives; (iii) the regulation mechanisms of the system.

In this paper we provide a new conceptualization of the cultural and creative sector by using an innovative set of categories derived from the bio-economics theory elaborated by Georgescu-Roegen (1971). When studying a socio-economic process in terms of energy, material and information conversions, there are two different categories of elements which have to be considered in order to be able to perceive/represent the cultural and creative sector in terms of metabolic processes¹⁴²³: “fund categories”¹⁴²⁴ and “flow categories”¹⁴²⁵.

2.2 The time relevance in cultural economics

Another important factor of complexity is the time relevance within the cultural economics studies¹⁴²⁶. A number of works show that time has a cost. The existence of these costs suggests a major feature of cultural activities: they are time intensive in consumption (see Becker 1965, Owen 1969). When time factor is applied to the analysis of demand the same conclusion is always reached: the price of leisure time negatively affects cultural consumption, therefore, these activities can only be described as time-intensive products (see Withers 1980, Zieba 2009).

The theories on the cost of time also attempted to the weak growth of cultural consumption associated with rising income. So, on one hand, higher revenue coincides to

¹⁴²³ See Crociata and Veneri (2009) for an application of these categories.

¹⁴²⁴ Fund elements have to be able to preserve - throughout the duration of the analysis - the same definition of themselves as converters.

¹⁴²⁵ Refer to elements disappearing over the duration of the representation (that enter but do not exit) and/or elements appearing over the duration of the representation (that exit without having entered).

¹⁴²⁶ Cultural economics is a branch of studies that grow up within economic theory (see Throsby, 1994; Towse, 2003).

a higher willingness to pay but, on the other, high revenue implies more working hours and consequently less free time.

A second reason that drives us to make considerations on the time factor concerns the temporal evolution of consumer preferences. There is a sort of progression, so as that the more the time people devote to artistic and cultural activities in their past, the greater the present and future consumption will be (Becker and Stiegler, 1977; Brito and Barros, 2005; McCain, 1979). It should be also noted that the consumption of the arts and culture is characterized not only by the effects stemming from previous experiences but also by the effects arising from social interaction; past consumption and social consumption interact mutually reinforcing each other over time.

3. The MuSIASEM approach for the culture-led regeneration

The MuSIASEM approach (Giampietro, Mayumi and Ramos-Martin, 2009), originally proposed as MSIASM by Giampietro and Mayumi (2000), has been developed in relation to the emerging field of science for governance. In particular it can be seen as an attempt to generate a methodological approach capable of providing a quality control on quantitative analyses applied to the issue of sustainability.

The MuSIASEM approach is radically different from conventional scientific tools. It uses a combination of conceptual tools derived from: (i) Complex System Theory, such as “Complex and progressive system”, “Multi-Purpose Grammars”, “Multi-Scale Integrated Analysis” (hierarchy theory); (ii) the seminal “Fund-Flow model”, proposed by Georgescu-Roegen to implement the concept of Bioeconomics which is associated with the concept of “Societal Metabolism” to be interfaced with “Urban Ecosystem Metabolism” analysis. The main goals which are behind the MuSIASEM approach keep clearly separated the descriptive from the normative aspect. It represents in an integrated way the relevant changes in the performance of an investigated system, using an open set of criteria and indicators which can be defined on different scales and in relation to different narratives¹⁴²⁷.

The MuSIASEM approach analyzes the metabolism of a society in regard to a dynamic budget in terms of “per hour of human activity”. Funds stand for the attributes used to define “*what the system is*” and flow coordinates correspond to “*what the system does*” interacting with its environment. The flow-fund representation is based on *extensive* (additive) variables which define the size of the compartment, and *intensive* variables (ratio) which represent the pace of metabolism. This allows to use the same assessment when referring to a hierarchical structure, i.e. to the whole society and to a given subsector (Giampietro et al. 2009). The total amount of what is consumed in terms of hour of human activity at *level n* (the whole urban system) has to be *congruent* with the flow in the compartment of production at the *sub-level n-1*. The allocation of funds and flows over different compartments across each hierarchical level is useful to establish a relation between the characteristics of the *metabolic rate* between and within compartments. At the level of individuals (*level n-3*) we observe the conversion of *endosomatic*¹⁴²⁸ energy into Human Activity (HA). At this level the population has to be divided in a set of type of individuals (*age class*). Each of this individual type distributes its own endowment of HA within a set of categories: Paid Work (PW), Physiological overhead (PO), Leisure Culture (LC). At this level, the congruence constraint is $HA_i = HA_{PW} + HA_{PO} + HA_{LC}$.

At the upper level (*level n-2*), the household level (HH), the focus moves on the conversion of *exosomatic*¹⁴²⁹ energy associated to categories of HA within the socioeconomic process, with

¹⁴²⁷ Obviously, this implies that MuSIASEM can provide only the analytical input within a process of integrated assessment.

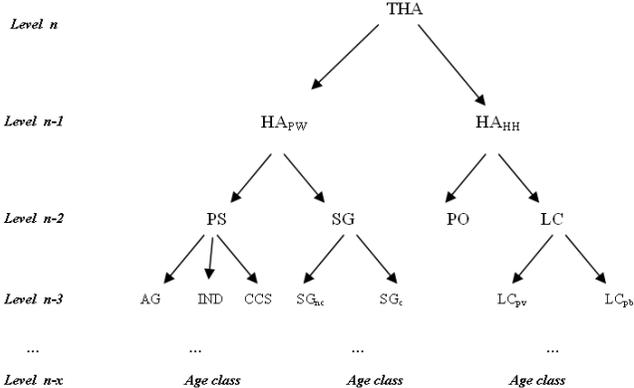
¹⁴²⁸ Information, energy and other material flows metabolized inside the human body for sustaining the physiological activity.

¹⁴²⁹ Information, energy and other material flows converted outside the human body in order to preserve the efficacy of human activity.

reference to the interaction of HH with the rest of the system. On the one hand it means that HH requires an amount of services and products in which working hours, provided by the PW, are embodied. On the other hand HH supplies hours of PW to the society by maintaining and reproducing workers. At the level of economic sectors (*level n-1*) it is necessary to observe the linkage between the PW sector (*Production*) and the HH sector (*Consumption*). The congruence fund constraint is: $THA = HA_{HH} + HA_{PW}$.

This paper aims to investigate the role played by the cultural sector in urban regeneration. From this point of view, we consider the seminal hierarchical structure (Giampietro et al. 2009), focusing the role that culture plays in the socioeconomic system (see fig. 1). Taking into account not only the total population, as it happens in per capita evaluations, but also the demographic structure, this approach allows to analyze the effect that any qualitative change in the cultural sector composition has on the urban socioeconomic system metabolism. In other words, the analysis investigates what happens in this sector in order to try to identify some of the mechanisms taking place at the age class level and vice versa. In this view, it is possible to analyze the socioeconomic characteristics of a culture-led regeneration of the urban system starting from analyzing how household members allocate their time in cultural and creative sector.

Fig.1: Hierarchical time use allocation in urban cultural-led regeneration
Fund category: Total Human Activities (THA)



HA_{PW} = Human Activities PW Sector; HA_{HH} = Human Activities HH Sector; PS= Productive Sector; AG= Agricultural Sector; IND= Industry; CCS= Cultural and Creative Sector; SG= Service and Government; SG_c = Service and Government in the Cultural sector; SG_i = Service and Government in other sectors; LC= Leisure Culture; LC_{pv} = Leisure Culture in Private configuration; LC_{pb} = Leisure Culture in public configuration.

4. Final remarks

Because of the lack of a full-fledged analysis of the deep causal links that make culture-led regeneration so important in the current scenario, it becomes difficult to assess what are the critical conditions that determine whether or not a given urban planning system may be successful. The MuSIASEM approach for the culture-led regeneration allows us to map the allocation of time over different sectors of human activities over different levels. Since our interest concerns the cultural sphere, we intend, in our future works, to effectively measure the hours of human activities spent in producing and consuming cultural and creative “goods” in particular cities of interest. Then we intend to use these data as the “fund category” necessary to construct “intensive variables”, such as income/hour, energy/hour, human capital/hour, etc. These intensive variables are to be used for assessing the contribution of culture-led processes to urban metabolism, through comparisons with other sectors of human activity. This approach could be suitable to evaluate cultural urban performances within the context of international competition deriving from globalization and European integration.

With regard to the feature of the culture that cannot be always consumed in a location distant from where it is produced, this approach is useful to analyze the spatial distribution of the cultural and creative activities within the city borders.

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LA COMMUNICATION PUBLICITAIRE DANS LA COMMUNAUTÉ EUROPÉENNE: STRATÉGIE GLOBALE OU LOCALE?

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The communication at the level of the European Community implies, on one hand, the observance of differences, and on the other hand, the existence of a minimum of common languages, of values, of representations and of shared interests. With signing The Unique Act, the European Community area seemed to fulfill, in the opinion of the supporters of the global marketing, all the necessary conditions for the success of this kind of marketing. But the European Economic Community comprises more cultures, 23 official languages, different legislations and regions with specific peculiarities of consumption. Therefore, the hegemony of an only global advertising communication or of a local advertising communication is not possible.

Mots-clés: globalisation, marque, marketing global, marketing local, culture pub

Cod JEL: M3

Quand on parle de l'Europe et de la communication, il faut essentiellement tenir compte, d'un côté, de l'importance des différences et, de l'autre côté, de la nécessité d'un minimum de langages communs, de symboles, de représentations, de valeurs partagées, de souvenirs, d'intérêts. D'ailleurs, on considère que l'Europe illustre «ce qui est l'enjeu par excellence de la communication, à savoir non pas la gestion des ressemblances, mais au contraire *l'organisation d'une cohabitation respectueuse des différences*. Cet enjeu est évidemment essentiel pour l'Europe qui construit ce projet volontariste: rapprocher des individus que tout sépare et qui ont commencé à coopérer par *le plus facile* – le commerce, l'économie, les intérêts financiers –, et qui aujourd'hui essayent de le faire du point de vue des valeurs. L'Europe est [...] l'exemple, en grandeur nature, de l'importance du respect des distances pour que le rapprochement, donc la communication, soit accepté»¹⁴³⁰.

De nos jours, on affirme d'une manière péremptoire que tout est communication, le terme en question perdant ainsi toute signification précise et désignant des réalités diverses. À ce sens, Philippe Breton amène en discussion, à titre d'exemple, les entreprises où l'«on parle de la *politique de communication* grâce à la quelle celles-ci [les entreprises] pourront *gérer leur image* et mieux contrôler leurs rapports avec l'environnement. La *communication interne* sert, quant à elle, à créer des liens au sein du personnel et à mieux promouvoir les rapports humains»¹⁴³¹. L'auteur mentionné est d'avis que l'on a très souvent tendance à associer, dans une perspective globalement publicitaire, la consommation des objets à un «mieux-être communicatif», mais ce mieux-être communicatif «semble plutôt avoir comme fonction d'éviter une perte que d'obtenir un gain. Il n'est pas un *mieux-être*, mais plutôt un *moins mal-être*»¹⁴³².

¹⁴³⁰ Wolton, D., *INTERNET ET APRÈS? Une théorie critique des nouveaux médias*, Flammarion, Paris, 2000, p. 164-165.

¹⁴³¹ Breton, Ph., *L'utopie de la communication. Le mythe du «village planétaire»*, La Découverte/Poche, Paris, 1997, p. 129.

¹⁴³² *Ibidem*, p. 96.

Le type de communication que les entreprises ou l'intermédiaire de prestataires spécialisés («les agences-conseils en communication») pratiquent directement, c'est *la communication lucrative*, une communication persuasive ayant comme objectif final l'accroissement des profits. On s'accorde à dire que toute communication lucrative vise à vendre un objet et à promouvoir en même temps les valeurs de l'entreprise, regroupant ainsi la communication commerciale et la communication institutionnelle. Ce regroupement constitue «le terme d'un long processus qui a vu les agences de publicité, les services de marketing et les établissements économiques devenir des *entreprises de communication*, c'est-à-dire des entreprises qui utilisent la communication dans le triple but d'améliorer leur fonctionnement interne, de développer leurs ventes et d'asseoir leur légitimité»¹⁴³³.

Quant à la communication lucrative européenne, il faut préciser qu'elle s'est confrontée au choc de la globalisation avant même l'avènement du Grand Marché. Le concept de *globalisation* a été «fabriqué» par les économistes devant la mondialisation des marchés et la concentration industrielle qui a eu comme conséquence la réduction du nombre de marques disponibles. Dans leur opinion, cette globalisation de l'économie mondiale impliquait l'adoption d'un *marketing global* – théorie au sujet de laquelle l'on écrit beaucoup dans les années '80 et dont les partisans considéraient, une fois *l'Acte unique* signé, que l'espace communautaire européen réunissait toutes les conditions nécessaires au succès d'un tel marketing, constituant «un ensemble culturel relativement homogène et un ensemble géographique bien délimité. De plus, de nombreuses firmes comme Head & Shoulders, Martini, Michelin, Pampers ou Rolex vendent déjà à travers l'ensemble de la Communauté des produits ayant les mêmes caractéristiques techniques, le même design, le même nom de marque, le même packaging et le même message publicitaire. Au niveau communautaire, le marketing global est déjà une réalité!»¹⁴³⁴.

Par contre, les adversaires sont d'avis que la Communauté Économique Européenne comprend des cultures, des langues officielles, des législations différentes et des régions possédant chacune des habitudes particulières de consommation. En outre, la majorité des multinationales recourent à une approche *locale*: «Par exemple, le lait corporel Nivea est plus liquide dans les pays du Sud que dans le Nord de l'Europe; le détergent Cif devient, suivant les pays: Viss, Jif ou Vif; et le spot pour la dentifrice Colgate varie d'un pays à l'autre: en Allemagne, il met en scène un dentiste, mais en Italie, il montre des enfants»¹⁴³⁵.

On a, donc, à faire, d'un côté, aux inévitables convergences économiques, soutenues par les adeptes du marketing global, et, de l'autre côté, aux irréductibles différences culturelles, défendues par les tenants du marketing local. Cependant, qu'il soit global ou local, le marketing a essentiellement comme but la maintenance de la croissance en créant de nouveaux marchés. D'ailleurs, certains auteurs soulignent l'idée qu'une corporation doit être compétitive n'importe où dans le monde et que ses clients savent généralement qu'il s'agit d'une compagnie globale bien que celle-ci recoure à une formule concurrentielle locale.

Par conséquent, les stratégies globales ne représentent pas de stratégies standard de marketing des produits reposant sur l'idée que le monde constitue un marché homogène sans frontières. Aussi, ne se résument-elles pas à une présence globale. Si une corporation développe dans un pays une activité tout à fait différente de l'activité exercée dans un autre pays, cela équivaut à la différence imposée par les relations avec les divers concurrents aux niveaux nationaux respectifs¹⁴³⁶. Les propos de Jacques Attali sont révélateurs à ce sens: «La mondialisation ne s'accompagnera pas d'une uniformisation. On passera au contraire de la globalisation du marché à un pluralisme du marché. Même mondiales, les firmes diversifieront leurs produits au gré de la culture de leurs clients et, dans certains cas, camoufleront même leur universalité derrière des confédérations

¹⁴³³ Dacheux, É., *Les stratégies de communication persuasive dans l'Union Européenne*, Éditions l'Harmattan, Paris, 1992, p. 109.

¹⁴³⁴ *Ibidem*, p. 123.

¹⁴³⁵ *Idem*.

¹⁴³⁶ Olivier, S., *Strategii de relații publice*, Polirom, Iași, 2009, p. 153.

d'entreprises locales, créant sans cesse de nouvelles diversités en métissant cultures et attentes»¹⁴³⁷.

En réalité, on peut constater que beaucoup de marques adaptent leur stratégie à la culture de chaque marché par l'intermédiaire d'une agence de publicité «locale», car, tout comme Marieke DeMooij disait, «les produits, c'est un marché global, mais les gens, c'est un marché local»¹⁴³⁸.

Il faut préciser que la signification du mot *global* est différente pour les spécialistes du marketing et pour les conseillers en communication: les premiers comprennent par *global* la finalité de leur stratégie, l'universalité, tandis que les seconds désignent par ce terme les moyens employés, la totalité des techniques de la communication. De cette façon, une agence de communication «globale» est une agence où l'on retrouve tous les secteurs d'activité de la communication lucrative, à savoir la communication corporate, la communication d'entreprise, la communication publicitaire, l'identité de la marque, l'identité du produit, le lobbying, le marketing opérationnel, le merchandising, les relations publiques. De toutes ces activités, l'unique à pouvoir être «globalisée» dans les années quatre-vingt, c'est la communication publicitaire.

Éric Dacheux précise que dans la communication publicitaire globale (le “global advertising”) c'est la marque qui compte au détriment du produit et que seulement une marque européenne ayant nécessairement partout le même mot et occupant sur tous les marchés la même position (à savoir un annonceur implanté dans tous les pays européens) peut reposer sur une communication européenne. Cependant, une telle marque ne réussit pas à communiquer d'emblée d'une manière uniforme dans les 27 États membres car il y a toutes sortes d'obstacles à surmonter.

Bien que les législations européennes restreignent la création publicitaire¹⁴³⁹, les législations concernant ce problème diffèrent encore d'un pays à l'autre, une approche «globale» devenant ainsi difficile. Aussi, les supports publicitaires (la presse, la télévision, l'affichage, etc.) auxquels l'on recourt principalement ne sont-ils pas les mêmes dans chaque État membre, l'inexistence d'un média paneuropéen performant constituant la source de ces différences. Les barrières linguistiques et socio-culturelles s'inscrivent également dans cette direction. La coexistence de 23 langues officielles pour 27 pays, en attendant davantage, illustre la difficulté majeure de la communication en Europe et l'entreprise délicate impliquée par la simple traduction d'un message. On connaît bien le cas de Martini Bianco qui a été obligé de renoncer à l'exportation en Italie de la création de son agence anglaise parce que la traduction du slogan *It's our thing* prenait la forme *Cosa nostra* – le non italien de la mafia. Quant aux barrières culturelles, Éric Dacheux nous offre l'exemple de Dim qui «a dû supprimer en Espagne un plan fixe de son spot paneuropéen pour Diam's, parce que ce plan, représentant un toréador affublé d'un masque de Minotaure, déclenchait l'ire de la gent masculine: en Espagne, un homme cornu est un homme cocu!»¹⁴⁴⁰.

En dépit de ces obstacles, l'élargissement des marchés dans les années '90 et la concentration industrielle favorisent l'apparition des marques internationales qui doivent avoir une personnalité cohérente au niveau mondial. Une communication publicitaire globale s'impose donc, se fondant sur l'idée d'une homogénéisation des pratiques culturelles, des goûts, des besoins, des cultures nationales, bref du consommateur global. D'ailleurs, c'est dès 1961 qu'E. Elinder remarque l'émergence de similarités entre les consommateurs européens qui rend possible et même

¹⁴³⁷ Attali, J., *Fraternités, une nouvelle utopie*, en Cossette, C., *La publicité, déchet culturel*, Les Éditions de l'IQRC, Québec, 2001, p. 121.

¹⁴³⁸ DeMooij, M., *Global Marketing and Advertising*, apud Cossette, C., *op. cit.*, p. 124.

¹⁴³⁹ La législation adoptée au niveau de la Communauté Européenne exerce une influence considérable sur la manière dont la publicité est réglementée dans chaque État membre. Cette législation garantit l'interdiction de la publicité trompeuse et l'existence dans tous les États membres des moyens nécessaires pour régler les problèmes qui pourraient surgir. En outre, certaines règles ont été établies au niveau communautaire en matière de publicité télévisée et de publicité pour les médicaments; <http://sos-net.eu.org/conso/guide2/publici.htm>.

¹⁴⁴⁰ Dacheux, É., *op. cit.*, p. 126.

souhaitable le développement de la publicité standardisée. Tout au long des années '90, le paysage européen est représenté par une mosaïque de marques hétérogènes telles Procter & Gamble, Unilever, Danone, Nestlé, etc.

Un autre argument en faveur de la globalisation de la communication publicitaire c'est l'existence de «cibles transnationales dont les ressemblances psychologiques seraient plus fortes que les différences culturelles», autrement dit «il y a plus de ressemblances entre un cadre de Hambourg et un cadre de Barcelone, qu'entre un chômeur allemand et le PDG de Mercedes»¹⁴⁴¹. Parmi les premières «global advertising» ayant à la base l'idée de l'existence de telles cibles on peut mentionner celle de Benetton dont le slogan *United Colors of Benetton* renvoie, d'un côté, aux couleurs des pulls Benetton et, de l'autre côté, à l'entente entre les peuples. Ce message publicitaire met l'accent sur le fait que tout le monde peut porter le produit fabriqué par l'entreprise Benetton, ce qui veut dire que tout le monde est en fait pareil. L'image des jeunes de tous les pays portant des pulls Benetton renforce cette idée.

Une typologie des «global advertising» européennes est réalisée par Éric Dacheux¹⁴⁴² qui fait la distinction entre les communications pour lesquelles l'Europe constitue le stade ultime de la globalisation et celle qui ont d'emblée une vocation mondiale, les deux types pouvant se diviser en deux:

- les campagnes *rigides* (qui sont exactement les mêmes dans tous les pays, cette «rigidité» s'expliquant soit par l'appel à des valeurs «universelles», telles la fraternité, pour Benetton, soit par le recours à des caractéristiques nationales que tous les pays apprécient, à savoir la mode française pour «Poison» de Dior);
- les campagnes *souples* (qui véhiculent, dans tous les pays visés, le même positionnement et la même promesse, mais en les traduisant dans la langue du pays; c'est le cas des marques Martini ou l'Oréal pour sa gamme de produits Vichy).

Les campagnes peuvent être également élaborées par un seul pays et ensuite internationalisées ou bien conçues, dès le départ, pour l'ensemble de l'Europe.

Cependant, de telles campagnes ne sont pas majoritaires. En outre, les obstacles à surmonter, que nous venons de mentionner, restent encore infranchissables, malgré tout effort. La diversité des législations concernant la publicité freine une législation unique, le décalage horaire permanent entre les pays européens rend impossible l'existence d'un média de masse, les différences de langue et de culture ne peuvent pas disparaître. Aussi, la quête d'authenticité, la sensibilité au prix invalident-elles la stratégie du tout-globalisé. Créer un véritable contact entraîne, comme Nicolas Riou l'a également noté dans son livre *Peur sur la pub*¹⁴⁴³, un langage commun partagé. Le propre de la publicité est de construire un imaginaire autour d'une marque, pour lui donner une dimension émotionnelle, une valeur ajoutée qui dépasse les éléments rationnels liés au produit. Une telle diversité rend pratiquement inconcevable la réussite d'une seule campagne au niveau global.

Le message global existe d'autant moins que la «culture pub» est, à son tour, essentiellement locale. Par exemple, les publicitaires allemands sont connus en général pour le sérieux et le caractère informatif de leurs spots, la publicité française recourt très souvent à l'érotisme, tandis que les messages publicitaires anglais sont en grande partie célèbres pour leur humour spécifiquement britannique. Ces différences au niveau des pratiques publicitaires expliquent pourquoi les goûts en matière de publicité sont très distincts.

Simplifier les différences culturelles des consommateurs et le message signifie pratiquement faire disparaître les services des entreprises de marketing et de publicité, respectivement la créativité de la communication publicitaire. De plus, la peur de se transformer en traducteurs locaux de

¹⁴⁴¹ Dacheux, É., *op. cit.*, p. 127.

¹⁴⁴² *Ibidem*, p. 128-129.

¹⁴⁴³ Riou, N., *Peur sur la pub*, Éditions Eyrolles, 2004.

campagnes globales si répandue dans les agences européennes a été nommée par les managers des réseaux mondiaux le «Syndrome NIH (Non Invented Here)»¹⁴⁴⁴.

Ces réticences face à la communication publicitaire globale sont autant de raisons pour adopter une approche locale au sein des agences européennes, que ce soit une campagne régionale d'une marque nationale, une campagne plurinationale d'une marque internationale ou bien une campagne nationale d'une marque internationale.

Selon un sondage réalisé par l'Institut CSA pour Coca-Cola et publié le 29 janvier 2010, dans le magazine «CB NEWS» en version on line¹⁴⁴⁵, 86 % des Européens se déclarent «plutôt heureux», la France ayant un niveau de bonheur plus élevé que la moyenne (87 %).

À la question «Parmi les marques suivantes, quelle est celle que vous associez le plus au bonheur?», c'est Disney en tête des réponses avec 14 %, suivi par Coca-Cola (10 %) et l'entreprise française Club Med (8 %). Viennent ensuite Google (7 %), Danone (6 %), Apple (5 %), Kinder et McDonald's (4 % chacun).

Une autre étude sur les «marques qui génèrent le plus de passion» vient d'être réalisée le 17 février 2010 par Panelteam¹⁴⁴⁶ auprès de 10 000 Européens. De grandes marques telles Apple, Sony, Coca-Cola, Samsung ou Adidas semblent être en tête du classement européen, mais d'autres, souvent locales, réussissent à s'imposer dans chaque pays. Ainsi, la marque préférée des Italiens est Bauli (alimentaire), suivie de Nutella, celle des Néerlandais est Duwe Egberts (café), les Allemands préfèrent Milka, les Scandinaves, Arla (produits laitiers), les Britanniques Cadbury, Marmite et Sainsbury (distribution) et les Français, «moins gourmands et plus pragmatiques», Sony, Adidas, Samsung, Google et Microsoft.

En guise de conclusion, on peut affirmer que la communication publicitaire dans la Communauté Européenne ne pourrait jamais être uniquement globale ou locale. Tout devient question d'équilibre entre le local et le global, le pragmatisme s'imposant comme nouveau mot d'ordre.

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¹⁴⁴⁴ Cf. Dacheux, É., *op. cit.*, p. 132.

¹⁴⁴⁵ <http://www.cbnews.fr/articles/marques/ces-marques-qui-rendent-les-europeens-heureux>.

¹⁴⁴⁶ <http://www.camilledessayage.com/blog/2010/02/17/en-passant-les-marques-qui-passionnent-les-europeens/>.

CULTURAL RESOURCES, HERITAGE AND THE TRAVEL AND TOURISM COMPETITIVENESS OF THE CENTRAL AND EASTERN EUROPEAN COUNTRIES

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Competitiveness has become one of the common concepts employed in the recent years to approach and describe the sustainable development of the travel and tourism industry. As cultural resources represent one of the supporting pillars of the tourism's sustainable development, development of the cultural tourism could represent one of the directions to be followed in order to increase the competitiveness of the Central and Eastern European countries as tourism destinations. The paper assesses how important are and what is the contribution of the cultural resources and the heritage to the overall competitiveness of the travel and tourism industry and to its performances based on specific data referring to the Central and Eastern European countries.

Keywords: cultural resources, heritage, cultural tourism, competitiveness, Central and Eastern Europe

JEL Classification: L83, M31.

Introduction

The competitiveness of a tourism destination is a complex and relative concept, a part of this complexity being suggested by the definition given to the tourist destinations, seen as places or some form of actual or perceived boundary, such as physical boundaries of an island, political boundaries, or even market-created boundaries (Kotler, Bowen, and Markens, 2006). Competitiveness of tourism destinations and, generally, the overall competitiveness of the travel and tourism industry, became vital for their survival and growth in the international market.

Characteristics of a competitive tourist destination are of a very different nature and form a significantly diversified set of features. Among these are mentioned the ability to increase tourism expenditures, to increasingly attract visitors, to provide tourists with satisfying and memorable experiences in a profitable manner, to contribute to the enhancement of the well-being of destination residents and preservation of the natural resources for the future generations (Brent Richie and Crouch, 2003).

Seen from a macroeconomic perspective, tourism destination competitiveness has a support the three pillars of natural resources, climate and culture (Lumsdon, 1997). Kotler (2006) added other three factors: the existing infrastructure, political stability and currency fluctuation, mentioning also some factors that can decrease the competitiveness, such as violence, natural catastrophes, adverse environment factors and overcrowding. Ejarque has proposed (2005) a set of elements to be considered in analyzing the tourism destinations: the geographical location, environmental and physical conditions, demographical situation, existing tourist attractions, image perceived and image associated with the tourist destination, tourism resources (natural, cultural, activities, infrastructure and services).

Cultural resources have been identified a one of the significant factors, together with the natural beauty and climate, sport, recreation and education facilities, shopping and commercial facilities,

infrastructure, and the cost of living (Tang and Rochananond, 1990) in determining the attractiveness of a country as a tourist destination and, by extension, the competitiveness of the travel and tourism industry.

The content of the cultural resources is defined in a different manner by the authors approaching the subject. Ritchi and Zins (in Tang and Rochananond, 1990) have included (1978) among the cultural and social characteristics language, traditions, gastronomic practices, art, sculpture, music, architectural works, religion, education, dress, leisure behavior, history, museums, and festivals. According to the US Natural Resources Conservation Service, cultural resources are an evidence of the past human activity. These may include pioneer homes, buildings or old roads; structures with unique architecture; prehistoric village sites; historic or prehistoric artifacts or objects; rock inscription; human burial sites; earthworks, such as battlefield entrenchments, prehistoric canals, or mounds. Cultural resources could be tangible and intangible (McKercher, Ho, and du Cros, 2005): tangible resources range from single buildings to entire cities, including existing structures, modified facilities and purpose-built attractions, while intangible resources represent traditions and culture of communities – arts, performance, religion, traditional rites and rituals and the day-to-day activities.

The higher public interest in heritage and the perception of heritage as a mean to stimulate economic activities and development of the local communities and regions have increased the political focus on cultural heritage. Increasingly tourist demands for cultural experiences of various sorts as well as employing cultural heritage to attract tourists to various destinations (Bowitz and Ibenholt, 2009) have given an enhanced position to the cultural resources as a pillar of the travel and tourism competitiveness, respectively to the cultural tourism as a major activity within the industry.

Dallen has observed (1996) that cultural heritage is the essence of tourism in many destination areas worldwide, millions of other people engaging in international and domestic travel to experience heritage of general interest or even of a more personal nature. These phenomena allowed the introduction of the concept of heritage tourism defined as a subgroup of tourism, in which the main motivation for visiting a site is based on the place's heritage characteristics according to the tourists' perception of their own heritage (Poria, Butler, and Airey, 2001). More, the heritage tourism has been approached here as the final stage of the "heritagization" – the social process whose final outcome is the presentation and interpretation (rather than archiving or sustaining) of heritage or even demolishing (Poria and Ashworth, 2009).

Growth of the mass tourism is associated with serious damaging effects on physical and cultural environments: this should lead to a development of tourism capable of sustaining and enabling future generations to benefit from their heritage (Drost, 1996).

As the countries of the Central and Eastern Europe are not a uniform but diverse entities in terms of location, topography, climate, history, culture and economic development, each of these will have to identify its own competitive advantage (Hughes and Allen, 2005). Cultural resources and, within this category the heritage, could represent one of these advantages supporting their competitiveness as tourist destinations and the overall competitiveness of their tourism and travel industries.

Methodological Notes

The main objective to be reached through the present research approach referred to the assessment of the associations between the cultural resources, respectively the heritage, and the overall travel and tourism industry's competitiveness and performances in the case of the selected countries from the Central and Eastern Europe.

To conduct the assessment it was employed a set of data included in The Travel & Tourism Competitiveness Report 2009, issued by the World Economic Forum in Geneva, Switzerland. Ten countries of the Central and Eastern Europe have been selected based on the affiliation to the region and their status as members of the European Union: Bulgaria, Czech Republic, Estonia,

Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

Variables of the research approach have been the following:

- overall travel and tourism competitiveness, as expressed by the specific index;
- performances of the travel and tourism industry and economy: GDP and travel and tourism industry and economy, employment in travel and tourism industry and economy, international visitor arrivals and international tourism receipts;
- number of the World Heritage sites, as a main factor describing the cultural resources competitiveness.

Pearson correlation coefficient has been employed to conduct the measurements and produce the aimed results.

Main Findings

With the exceptions Czech Republic and Poland, cultural resources do not appear as a supporting pillar for the travel and tourism competitiveness in the countries of the Central and Eastern Europe ($r = 0.18$). This may suggest not necessarily a lack of these resources but rather an insufficient or ineffective promotion and, generally, a less effective employment of these resources as critical drivers of their travel and tourism competitiveness.

Impact of the cultural resources on the competitiveness of the travel and tourism industry in the considered countries has been assessed considering the scores expressing the competitiveness of the cultural resources and the performances in terms of the gross domestic product and employment (for the industry and for the economy), international visitor arrivals and receipts at the level of the ten countries (see Table 1).

Measurement of the association between the indicators expressing the performances of the travel and tourism industry and economy and the scores expressing the competitiveness of the cultural resources in the considered countries shows strong relationships between these variables, in the cases of all the variables: the gross domestic product and travel and tourism economy ($r = 0.90$), gross domestic product and travel and tourism industry ($r = 0.85$) and employment and travel and tourism economy ($r = 0.77$), respectively a moderate relationship in the case of the employment and travel and tourism industry ($r = 0.57$).

Table 1. Cultural resources and travel and tourism industry, economy and performances (2009)

Country	TTC	CR	GDPi	EMPi	GDPe	EMPe	IVA	ITR
Czech Republic	4.86	5.41	3607	98.9	20664	5002	93363	6618
Estonia	4.83	2.26	620	17.3	2926	79	4304.8	1035
Slovenia	4.53	2.68	1380	32.8	6261	125	54439	2483
Hungary	4.45	3.92	3755	180.5	9275	261	39125	4728
Slovakia	4.34	2.69	1459	38	9402	223	32905	2013
Latvia	4.31	2.11	425	13.4	1803	56	4489	671
Lithuania	4.30	2.39	432	12.8	2156	63	4625	1153
Bulgaria	4.30	3.13	1478	89.2	5629	336	8204	3130
Poland	4.18	5.08	7157	265	32040	1100	58613	10627
Romania	4.04	2.85	3073	272.8	8289	544	5273	1464

Notes: TTC – Travel and Tourism Competitiveness index; CR – Cultural Resources; GDPi – GDP and travel and tourism industry (US\$ millions, 2009); EMPi – employment and travel and tourism industry (thousand jobs, 2009); GDPe – GDP and travel and tourism economy (US\$ millions, 2009); EMPe – employment and travel and tourism economy (thousand jobs, 2009); IVA – international visitor arrivals (thousands, 2009); ITR – international tourism receipts (US\$ millions, 2008); countries are ranked in the descending order of the TTC index.

Based on these results, it can be concluded that a more effective promotion and employment of the cultural resources available in the considered countries could determine a growth both in

terms of the gross domestic product generated by the travel and tourism industry and economy and the number of new direct or indirect workplaces created.

Association between the number of the international visitor arrivals and the international tourism receipts and the competitiveness of the cultural resources in the considered countries shows very strong relationships between these variables ($r = 0.83$, respectively $r = 0.92$). These results provide a supplementary support of the idea that specific efforts should be made by the considered countries to preserve, promote and employ their cultural resources.

According to the Travel and Tourism Competitiveness Report, number of UNESCO cultural World Heritage sites is one of the variables describing the content of the cultural resources pillar.

Table 2. Cultural resources, heritage and travel and tourism competitiveness in the Central and Eastern Europe

Country	TTC	CR	WHS	WHSs
Czech Republic	4.86	5.41	13	7.00
Estonia	4.83	2.26	4	2.85
Slovenia	4.53	2.68	0	1.00
Hungary	4.45	3.92	7	4.23
Slovakia	4.34	2.69	6	3.77
Latvia	4.31	2.11	3	2.38
Lithuania	4.30	2.39	6	3.77
Bulgaria	4.30	3.13	8	4.69
Poland	4.18	5.08	12	6.54
Romania	4.04	2.85	7	4.23

Notes: TTC – Travel and Tourism Competitiveness index; 14CR – Cultural Resources; WHS – number of World Heritage cultural sites; WHSs – corresponding scores for the World Heritage Sites determined based on the hard data; countries are ranked in the descending order of the TTC index.

The analysis of the relationships between the number of the World Heritage cultural sites and the macroeconomic performances of the travel and tourism industry in the considered countries, allow the observation of the following results:

- there is a strong correlation between the number of the World Heritage cultural sites and the gross domestic product generated at the level of the travel and tourism economy ($r = 0.77$) and industry ($r = 0.72$); registering an increased number of cultural sites on the list of the World Heritage sites, accompanied by an appropriate promotion, will contribute to the increase of the weight in the gross domestic product created by the travel and tourism industry;
- there is a moderate ($r = 0.57$), respectively a strong ($r = 0.77$) correlation between the number of the World Heritage cultural sites and the employment in the travel and tourism industry, respectively economy; again, an increased number of cultural sites registered in the World Heritage list, properly promoted and made available will contribute to the creation of new workplaces both direct, within the industry, and indirect in connected activities and industries;
- finally, there is a rather moderate correlation between the international visitor arrivals ($r = 0.49$), respectively a strong correlation between the international tourism receipts and the number of the registered World Heritage sites in the considered countries ($r = 0.76$); these results support the necessity to conduct marketing campaigns to promote them appropriately and to benefit from their extended cultural heritage.

Conclusions and Future Directions of Research

Cultural resources contribute, surprisingly, in a very poor measure to the overall competitiveness of the considered countries seen as travel and tourism destinations. Knowledge and capacities for

an effective employment of the cultural resources become essential for these countries in their attempts to transform these in critical drivers of their travel and tourism competitiveness.

Focus on particular capitalization of the existing cultural heritage appears to be critical as the relationships between the competitiveness of the cultural resources and the macroeconomic performances of the travel and tourism industry in the considered countries reveal a strong association. A more effective promotion and employment of the cultural resources would determine a growth in terms of the GDP generated and of the number of workplaces created by the travel and tourism industry of these countries. Taking advantage of the available cultural resources, inclusively through the development of the heritage tourism, should be reflected in the specific industry's performances as an increased competitiveness of these resources could determine significant increases in the number of the international visitor arrivals and of the international tourism receipts.

Further directions of research to be followed refer to the identification of a more adequate set of determinants of the cultural resources competitiveness to allow a better measurement of the cultural resources impact over the competitiveness of the travel and tourism industry and conducting a benchmarking analysis of the relationships between the cultural resources, heritage and the travel and tourism competitiveness industry in the considered countries and the most important world tourism destinations.

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SPECIFIC ISSUES REGARDING THE PROCESS OF SELLING HIGH-TECH PRODUCTS

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High technology products are seen by the consumers as being complex and risky to buy and to use. The adoption process of this type of products has a slow rhythm. The producers have to make a lot of effort for convincing the consumers that these products represent the solution for their needs. The consumers' attitude towards new high-tech products is very reserved because they need a lot of information about the aspects they don't know for sure. Although they can access many information sources, it seems that face-to-face presentations give the best results. The possibility to ask questions and be cleared in the same time by a qualified person who knows the product is often preferred when someone wants to buy a high-tech product. That is why the managers from high – tech sector must pay attention at the important role of the sales force and especially the role of salesman. If he gains the trust of the potential consumer, the high-technology product is already half-bought.

Keywords: high technology, adoption process, selling process, consumer, adopters.

Cod JEL lucrare: M31

1. The first adopters of high - tech products

Consumer adoption of technology products continues to be a challenge for marketers. New products fail at a rate of between 33 percent and 90 percent, depending on the industry.¹⁴⁴⁷

Because the technology life-cycles are shorter and the market launch costs are rising, quick identification and successful attraction of that small part of the market willing to take the risk is essential to longer term success.

The process of predicting marketing reactions is complicated, particularly where the product is very different from its predecessors. Where the product is very new in the eyes of both the company and the consumers, marketers do not have the benefit of drawing clear analogies with similar products or past behaviors to determine the rate and manner with which it will diffuse through the market¹⁴⁴⁸.

The term “high-tech market” refers to newly established, rapidly growing markets, which are mainly driven by technological innovations. Since the major investments and marketing decisions

¹⁴⁴⁷ Peter, J.P., Donnelly, H.J.Jr. (2006), *A Preface to Marketing Management*, 10th edition, Boston: McGraw-Hill

¹⁴⁴⁸ McDonald, H., Corkindale, D., Sharp, B. (2003) *Behavioral versus demographic predictors of early adopters: a critical analysis and comparative test*, *Journal of Marketing Theory and Practice*, p.84 - 95

are typically made during the early years of a product's life cycle, sales forecasts are of special importance in the growth stage¹⁴⁴⁹. In this stage errors in sales projections can trigger serious consequences.

Marketing of high technology products and innovations is concerned about identifying the early adopters for these products.

Innovations are usually categorized into one of three classes¹⁴⁵⁰: *evolutionary or "continuous"* where there is any change in the technology or behavior by consumers; *"dynamic continuous"* where there is change in the technology but little change required in consumers' behavior to use the product; *radical or "discontinuous"* where consumers must change behavior.

The model introduced in 1971 by Everett Rogers, divide the adoption consumers into five groups on the basis of the relative timing of their adoption as Innovators, Early Adopters, Early Majority, Late Majority and Laggards.

Of the five groups, the **Innovators** have been the most heavily researched. According to Rogers, Innovators possess: higher education level, higher social status, higher income levels and they are more socially active. So this "cognitive consumer"¹⁴⁵¹ handles large quantities of information, analyses it in terms of their personal beliefs and experiences, and acts rationally within the bounds of their known information. Rogers describe the innovators as having "a desire for the rash, the daring and the risky"¹⁴⁵².

Moore characterized first purchasers of high technology radical innovations as being "techie"¹⁴⁵³. He claims they are people who seek out new things and they are tolerant of any teething problems, provided they are given the opportunity to help fix them.

2. Factors which affect sales in high-technology markets

Golder and Tellis found that the sales of an innovation start to climb rapidly when the price has become, on average, 63% of that at introduction to the market¹⁴⁵⁴.

There are identified five factors that can affect individual buying decisions and, therewith, aggregate sales: *Interpersonal Communication*

Because of the uncertainty inherent in new technologies, consumers are motivated to seek product-related information¹⁴⁵⁵.

Democratization of Innovation

High-tech-based products are often highly priced at the beginning of market penetration and then experience dramatic price decreases in subsequent periods. Some authors believe that the underlying process of market growth is not a diffusion of innovation, but actually a democratization of innovation.

Direct and Indirect Network Effects

Many high-tech products are subject to network effects. The value of such products increases, the more users adopt them. Direct network effects arise in a physical network, where the utility of a product rises directly with the number of adopters. Indirect network effects arise if the value

¹⁴⁴⁹ Decker, R., Gribba-Yukawa, K.(2010) *Sales forecasting in high-technology markets: a utility based approach*, Journal of Product Innovation Management, 27, p.115-129

¹⁴⁵⁰ Robertson, T.S. (1967) *The process of Innovation and diffusion of innovation*, Journal of Marketing, vol.31, p.14-19.

¹⁴⁵¹ Hirschman, E.C. (1986) *Humanistic inquiry in marketing research: philosophy, method and criteria*, Journal of Marketing Research, 23: p.237-249

¹⁴⁵² Rogers, E.M. (1995) *Diffusion of Innovations*, The Free Press, New York, p.264

¹⁴⁵³ Moore, G.A. (1995) *Inside the tornado*, New York, Harper Business

¹⁴⁵⁴ Golder, P.N., Tellis, G.J. (1997) *Will it ever fly? Modeling the takeoff of really new consumer durables*, Marketing Science, vol.16, 3, p.256-270

¹⁴⁵⁵ Mohr, J. (2001) *Marketing of High-Technology Products and Innovations*, Englewood Cliffs, NJ: Prentice-Hall

derived from a product depends on the availability of complementary products and services (e.g. DVD titles for DVD players, MP3 music files for MP3 players).

Forward-Looking Behavior

Forward-looking consumers try to optimize the timing of their purchase by balancing the increased expected utility of getting a better or cheaper product with the loss of utility due to a delayed purchase¹⁴⁵⁶.

Consumer and Firm Heterogeneity

The early market adopters want to gain a certain image by buying high – technology products.

But the mass market consumers are more utilitarian and primarily interested in the product's functionality. With regard to the firm heterogeneity, according to Srinivasan, Haunschild, and Grewal, many markets are characterized by a so-called dual-technology frontier, where the high-technology frontier represents innovations arising from technological opportunities, and the low-technology frontier represents innovations driven by user needs¹⁴⁵⁷.

3. Selling strategies for high tech products

Selling new products is a strategic choice of effort allocation between products; therefore, strategic decisions need to be made by many salespeople.¹⁴⁵⁸

To optimize product launch strategies, it is necessary for managers to understand the typical pattern of new product growth and, more importantly, the impact of a salesperson's characteristics on this growth pattern.

The managers' interest in sales forecasts is likely to diminish after the sales peak, that is, when the market matures and the high-tech product becomes a commodity.

Many consumers are overwhelmed by proliferation of technological advancements. Consumers are not always able to recognize the full advantages of technology innovations. Consumer technology products and services have shorter lifecycles and they are more complex. A salesperson can customize information about a new product or service to help facilitate customer understanding.

Personal selling is a "critically important element in the marketing mix of almost every industrial firm".¹⁴⁵⁹ The value of personal selling stems from the premise that salespeople can facilitate consumers' decision of adoption by implementing the appropriate selling tactics.

Selling tactics based on message adaptation

The selling process can be built having in the center of strategy the customer, the product or the competition.

The first approach, *customer-focused*, highlights a salesperson's attempt to link the benefits of the new product with the unique needs of customer. The customer-focused approach views customer's problems as unique and in need of customized responses¹⁴⁶⁰.

A second approach, *product-focused*, emphasizes the attributes and benefits of the innovative product being offered.

¹⁴⁵⁶ Song, I., Chintagunta, P.K. (2003). *A Micromodel of New Product Adoption with Heterogeneous and Forward-Looking Consumers: Application to the Digital Camera Category*. Quantitative Marketing and Economics 1:371–407.

¹⁴⁵⁷ Srinivasan, R., Haunschild, P., and Grewal, R. (2007). *Vicarious Learning in New Product Introductions in the Early Years of a Converging Marke.*, Management Science 53(1):16–28.

¹⁴⁵⁸ Zoltners, A.A., Sinha, P., Zoltners, G.A. (2001), *The Complete Guide to Accelerating Sales Force Performance*, New York: AMACOM.

¹⁴⁵⁹ Spiro, R.L., Perreault, W.D.Jr. (1979), *Influence Use by Industrial Salesmen: Influence-Strategy Mixes and Situational Determinants*, The Journal of Business 52 (3), 435-455.

¹⁴⁶⁰ DeConnier, R.A., Jobber, D. (1993), *The Counselor Selling Method: Concepts and Constructs*, Journal of Personal Selling and Sales Management, 13, 39-59.

Product-focused tactics focus on a one-way communication that informs or educates the buyer. This selling strategy is aimed at the attributes and performance of the product. Such information may concern aspects of the core product (e.g., quality and satisfaction ratings; performance and safety specifications), peripheral benefits (e.g., warranties; financing options), price (e.g., this item has been discounted), retail outlet (e.g., good return policy), or manufacturer details (e.g., country of origin).

The third approach, *competitive focused*, relates similar customers and competitive products to the innovation.

Because the challenges are viewed as similar to others, the salesperson does not "engage in detailed diagnosis of the buyer's problem, but recommends a set of solutions that have proven successful in similar situations"¹⁴⁶¹.

When appears the intention to use the high-tech product?

In the literature it's presented a model which focuses on the attitudinal determinants of intention to use a specific technology or service.

The Technology Acceptance Model¹⁴⁶² consists of five concepts: perceived ease-of-use, perceived usefulness, attitudes towards use, intention to use, and actual use.

Perceived ease of-use is defined following Davis as "the degree to which a person believes that using a particular system would be free of effort." In essence, perceived ease-of-use reduces uncertainty about the cause-effect relationship involved in the innovations' capacity to solve an individual's problem.

Perceived usefulness is defined as "the degree to which a person believes that using a particular system would enhance his or her performance"¹⁴⁶³. In the context of consumer innovations, usefulness relates to compatibility with the existing values, past experiences, and needs of potential adopters.

Perceived expressiveness is defined as individuals' ability to express their emotions or identity.

Perceived enjoyment refers to "the extent to which the activity of using the computer (technology) is perceived to be enjoyable in its own right, apart from any performance consequences that may be anticipated"¹⁴⁶⁴.

Compared to perceived usefulness, perceived ease of use is more important in determining satisfaction in the consumption process. The ability of the new product to be understood in terms of how it is to be operated and the benefits that it offers have a considerable impact on consumer evaluation. By using the product focused approach, the salesperson encourages direct user-product interface to reduce consumer apprehension about product performance and safety¹⁴⁶⁵.

A customer-focused approach allows the salesperson to uncover latent motives by creating linkages with feelings associated with intrinsic motivation¹⁴⁶⁶ and/or peak experiences. The objective of the sales presentation is to show how the innovation can potentially fulfill unmet needs and to define what is possible and worth having in life (e.g. E-books allow intellectuals greater portability).

¹⁴⁶¹ DelVecchio, S.K., Zemanck, J.E., McIntyre, R.P., Claxton, R.P. (2002), *Buyers' Perceptions of Salesperson Tactical Approaches*, Journal of Personal Selling and Sales Management, 22, 39-49.

¹⁴⁶² Davis, F.D. (1989), *Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology*, MIS Quarterly, 13(3), p.319 - 340.

¹⁴⁶³ Davis, F.D. (1989), *Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology*, MIS Quarterly, 13(3), p.320

¹⁴⁶⁴ Davis, F.D., Bagozzi, R.P., Warshaw, P.R. (1992), *Extrinsic and Intrinsic Motivation to Use Computers in the Workplace*, Journal of Applied Social Psychology, 22 (14), 1111-1132.

¹⁴⁶⁵ Elliott, M.T., Fu, F.Q., *Consumer Acceptance of Technology Products: The Impact of Tactical Selling Approaches*, The Marketing Management Journal, vol.18, Issue 2, Fall 2008, p.47-64

¹⁴⁶⁶ Deci, E.L., Ryan,R.M. (1985), *Intrinsic Motivation and Self-determination in Human Behavior*, New York: Plenum Press.

4. The importance of salesman in high-tech sector

The marketing literature on persuasion indicates that salespeople are viewed as a valuable source of information¹⁴⁶⁷. The influence from salespeople can therefore be used to reduce consumer's uncertainty and facilitate product adoption.

The literature on diffusion of innovation suggests that information about technological innovations can travel through a variety of communication sources to members of a social system¹⁴⁶⁸. That is, a salesperson can customize information about a new product/service to help facilitate customer understanding.

Studies indicate that where consumers are explicitly shown an innovation (e.g., by a friend or salesperson or at tradeshows), perceived compatibility or usefulness is likely to have an immediate effect. Therefore, consumers are able to acclimate and move through the process of mental adoption of the new product. Involvement is a key determinant of how information is processed and attitudes are changed.

During new product launches, salespeople need to understand the innovation and to memorize technological jargon before presenting the product to customers. The ability to process new information in due time represents an important attribute for a successful new product salesperson. Selling new products successfully also demands creativity, agility, energy, and innovation in approaching and persuading customers¹⁴⁶⁹.

It takes the determination and incessant effort of a salesperson to convince skeptical customers that a focal new product is indeed superior and that they should adjust their own behaviors and habits to adopt it¹⁴⁷⁰.

Work experience and salesperson age are both temporal variables¹⁴⁷¹. Learning theory suggests that work experience improves job performance through acquired knowledge and accumulated skills. Salespeople's experience is positively correlated with adaptive selling and performance¹⁴⁷². The explanation could be that experienced salespeople have encountered different types of customers, have been in a variety of selling situations, and have tried multiple selling strategies. Experienced sales people are typically good adaptors and adaptive selling has been proven to be conducive to generating sales.

Unlike work experience, an employee's age is viewed as a factor impeding job performance¹⁴⁷³. Many theorists contend that as people age, their mental and physical abilities decline, and, consequently, job performances will be hindered. Empirically, age has also been shown to be negatively related to ambition, aspirations, and motivation.

Relative to younger workers, older workers "are more reluctant to engage in new skills training and tend to prefer collaborative (versus competitive) tasks"¹⁴⁷⁴. Because understanding new

¹⁴⁶⁷ Swan, J.E., Trawick, I.F. Jr., Rink, D.R., Roberts, J.J. (1988), *Measuring Dimensions of Purchaser Trust of Industrial Salespeople*, Journal of Personal Selling and Sales Management, 8, 1-9.

¹⁴⁶⁸ Rogers, E. M. (1995), *Diffusion of Innovations*, 4th edition, New York: The Free Press.

¹⁴⁶⁹ Atuahene-Gima and Haiyang Li (2006), *The Effects of Formal Controls on Supervisee Trust in the Manager in New Product Selling: Evidence from Young and Inexperienced Salespeople in China*, Journal of Innovation Management, 23 (4), 342–358.

¹⁴⁷⁰ Fu, F.Q. (2009) *Effects of salesperson experience, age and goal setting on new product performance trajectory: a growth curve modeling approach*, Journal of Marketing Theory and Practice, vol17, no.1, p.7-20.

¹⁴⁷¹ Struman, M.C. (2003), *Searching for the Inverted U-Shaped Relationship Between Time and Performance: Meta-Analyses of the Experience/Performance, Tenure/Performance, and Age/Performance Relationships*, Journal of Management, 29 (5), 609–640.

¹⁴⁷² Franke, G.R., Park, J.E. (2007), *Salesperson Adaptive Selling Behavior and Customer Orientation*, Journal of Marketing Research, 43 (4), p. 693–702.

¹⁴⁷³ Rhodes, S.R. (1983), *Age-Related Differences in Work Attitudes and Behavior: A Review and Conceptual Analysis*, Psychological Bulletin, 93 (2), 328–367.

¹⁴⁷⁴ Kanfer, R., Ackerman, P.L. (2004), *Aging, Adult Development, and Work Motivation*, Academy of Management Review, 29 (3), p. 440–458.

technology and maintaining high levels of energy are pivotal to new product success, younger salespeople have the advantage and are more likely to see early sales success than their older coworkers.

Although adults generally lose working memory, attention, and the ability to process novel information over their life span, they tend to accumulate occupational knowledge and job-related experience. Consequently, it is expected that the relationship between age and performance will vary among industries and job demands.

In several sales force management contexts, salespeople's self-set goals have been found to be positively related to sales performance¹⁴⁷⁵. After salespeople set targets, they tend to focus their efforts on these targets.

On one hand, age is an indicator of less energy and greater difficulty in learning new technology and new product features. On the other hand, sales experience accumulated over the years can be a strong advantage in tackling the challenges of selling new products.

Many researchers suggest that gender may influence salespeople's attitudes, motivations and outcomes.

5. Conclusions

The first 15 months after the launch is a critical period of new product success. Obtaining sales early and increasing the number of sales quickly is in the best interest of marketing and product managers, for whom the sales force should be a top ally with regard to achieving goals during this critical time frame.

The salesperson experience has a positive impact, whereas age has a negative impact on new product growth trajectory. Launching a new product involves tremendous uncertainty. Substantial time, energy and effort from salespeople are needed to ensure success.

In consumer markets, the challenge of salespeople is to understand how prospects perceive a new product and develop effective ways of positioning and communicating values associated with the new product.

When consumers first have direct experience and interface with a new technology, a sense of intense curiosity and anticipation can often occur. For example, in any Windows-based systems, software manufacturers are attempting to provide interfaces that are "fun," "cute," and tie into social functioning. This curiosity must be used appropriately by the salesman for presenting the product they sell. Starting from this consumer's attitude, the salesman can draw a selling speech, delivering to the consumer the necessary information.

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¹⁴⁷⁵ Fang, E., Palmatier, R.W., Evans, K.R. (2004), *Goal-Setting Paradoxes? Trade-Offs Between Working Hard and Working Smart: The United States Versus China*, Journal of the Academy of Marketing Science, 32 (2), p.188–202.

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THE SPECIFICITY OF CUSTOMER LOYALTY STRATEGIES USED IN THE TOURISM AND HOSPITALITY INDUSTRY

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Generally speaking, the development of companies marketing objectives has determined major changes into the marketing policies decisions. If several years ago most marketing strategies were oriented towards selecting new clients, creating new clients, increasing the attachment/loyalty of existing customers became lately a priority, but also a very difficult task. In the current context it is more and more difficult for a supplier to diversify his offer relative to the competition from the perspective of physical attributes, and the relationship marketing represents an efficient and necessary way to ensure the customers loyalty and to build a strong partnership with them. Within the article's content it has been included also an analysis of the ways of applying the loyalty strategies among the tourism service providers from Poiana Brașov resort.

Key words: customer satisfaction, relationship marketing, customer loyalty strategies.

The article's JEL code: M3

1. Introduction

A customer loyalty process comprises all measures taken by one company aimed to positively orient the behavioral intentions of current and future customers towards a bidder and/or his offer/services in order to obtain stabilization, respectively a development of the relations with such customers.¹⁴⁷⁶ In such context we approach a business philosophy relatively new, a strategic orientation which stresses the importance of keeping and improving the relations with the current customers, more likely than attracting new ones, respectively the *relationship marketing*.¹⁴⁷⁷ For ensuring the customers' loyalty, the satisfaction is an indispensable premise and for in order to obtain this desideratum achieving or surpassing the customers' expectations is crucial. Customers' loyalty represents a strategic commitment in the tourism industry.¹⁴⁷⁸ The satisfied customer who fails to return or to share his positive consumption experiences with others is valueless from the perspective of touristic organization, and, within this context, identifying the valuable customers which can be transformed into loyal customers represents an efficient measure in order to obtain competition advantages on the market. The research conducted showed the fact that 90% out of the satisfied customers switch the supplier, the connection between satisfaction and loyalty having the lowest intensity within the model of profitability of service provider companies.¹⁴⁷⁹

2. Relationship marketing strategies

The development of a strong and long-lasting relationship with the customers is based on several principles among which the most significant are the general feedback from the customer upon the company, the effective relationships built by the organization with its customers and the barriers

¹⁴⁷⁶ Bruhn, M., *Orientarea spre clienți-Temelia afacerii de succes*, Editura Economică, București, 2001, p.110

¹⁴⁷⁷ Zeithaml, V.,A., Bitner, M.,J., Gremler, D.,D., *Services Marketing- Integrating Customer Focus Across the Firm*, fourth ed., McGraw-Hill International Edition, 2006, p.177.

¹⁴⁷⁸ Bowen, J.,T., Shoemaker, S., *Loyalty : A Strategic Commitment*, Cornell Hotel and Restaurant Administration Quarterly, Vol.44, 2003, p.32.

¹⁴⁷⁹ Heskett, J.,L., Sasser, Jr., W.,E., Schlesinger, L.,A.,*The Service Profit Chain*, quoted in Bowen, J.,T., Shoemaker, S., *Loyalty : A Strategic Commitment*”, Cornell Hotel and Restaurant Administration Quarterly, Vol.44, 2003,p.47-52.

faced by the customer when he decides to break the relationship with the company. Those elements represent the basis for determining the strategies specific for the relationship marketing.¹⁴⁸⁰

1. *Quality-based services*. The strategies used to maintain a customer may provide sustainable success only by ensuring a strong basis for quality, offer value and consumer satisfaction. The organization's main interest shall consist of ensuring the offer competitiveness to respond to the customer's expectations, providing inferior services being impossible to be counteracted by such strategies.

2. *Supplier switching barriers*. The reference literature suggests the existence of a significant number of obstacles which influence the consumer's decision of leaving a supplier, facilitating this way his remembrance.¹⁴⁸¹ We take into consideration the *consumer's inertia* and correspondently, the expression of judgments like "it does not worth the effort" to change the supplier. The greater the efforts of breaking the relationship with the provider, the more stable the customer. *The costs associated with switching supplier* represent real reasons which determine the loyalty process. In this category are included both the nonmonetary (time, effort) and monetary costs and here we identify *initial costs, searching costs, learning costs and contractual costs*. Attracting new customers involves setting reduced costs, while their increase represents a strategy of maintaining the current customers.

3. *Monitoring and evaluating the relationship quality* represents another relationship marketing strategy. The abovementioned switching costs represent constraint measures to which companies often cannot give up.¹⁴⁸² The strategies which encourage the customers to maintain the relations with the supplier are focused on the types of connections which get consolidated in time with the supplier and those may be analyzed on four levels.¹⁴⁸³

The financial relations represent the basis of the relationship with the customer and they are mainly determined by the application of preferential tariffs. In this respect, the most common used instruments are the loyalty programs which allow the collection of points that may be transformed into high quality services, free services, reservations associated to the basic service, etc. In other situations, the customer receives the stability warranty of the negotiated price. These are strategies which need an increased attention paid by the organization whereas they may be easily copied by the competition and thus, they have short-term effects. Secondly, they are efficient only if they are very well structured and determine a real sales increase.

The social relations transform the consumer into a friend of which needs and desires are known in detail. Equally significant are also the social reports that get established between the customers of the same company which may become important elements for creating stable and long-lasting relationships. These are strategies harder to imitate, and their efficiency is proven through a combined application with the financial strategies.

The personalized relations determine two types of strategies: mass and individual personalization, both encouraging the close knowledge of each customer and the proposal of unique solutions adjusted to their needs.

The structural relations are the strategies hardest to imitate, comprising the application of all previously presented strategies and determining the customer's involvement into the service process.

¹⁴⁸⁰ Zeithaml, V.,A., Bitner, M.,J., Gremler, D.,D., *op.cit.*, p.194.

¹⁴⁸¹ Burnham, T.,A., Frels, J.,K., Mahajan, V., *Consumer Switching Costs: A Typology, Antecedents and Consequences*, Journal of the Academy of Marketing Science, Vol.31, No.2, 2003, p.109-126.

¹⁴⁸² Bansal, H.,S., Irving, P.,G., Taylor, S.,F., *A Three-Component Model of Customer Commitment to Service Providers*, Journal of the Academy of Marketing Science, Vol.32, No.3, 2004, p.234-250.

¹⁴⁸³ Berry, Parasuraman,(1991), *Marketing Services*, quoted in Zeithaml, V.,A., Bitner, M.,J., Gremler, D.,D., *op.cit.*, p.196-201.

Ensuring the loyalty involves the operation of a *loyalty circle* which may be identified through the following three functions: process, value and communications.¹⁴⁸⁴ To be noted the fact that, throughout the entire process, there are points where the customer may leave the circle and, thus, the partnership with the supplier. The objective of tourism units, especially of hotels, consists in retaining the customer within the circle, performing in the same time in all three functions previously listed, this representing the key of success of the entire action. *The process* indicates “how the service functions”, and the customer’s feedback comprises all the moments of the service consumption, the interactions with the personnel representing intrinsic components of it. The second component, the creation of *value* comprises two parts, respectively *added value* and *straightening value*. The strategies that aim to ensure the *added value* start from the principle of offering to the customer a wide range of products/services in order to prevent his migration towards competition, in this respect being guaranteed *financial advantages* (low tariffs), *temporal advantages* (time savings), *functional advantages* (the product corresponds to the needs), *experimental advantages* (enhancing the experience by ensuring an increased comfort), *emotional advantages* (acknowledgment and positive experiences) and/or *social advantages* (favorable personal relations with the supplier). Value straightening strategies are meant to rectify the possible errors occurred within the supply process, the most frequent strategies used in this respect being the personnel empowerment to act according to the characteristics of each situation and providing warranties. The last component of the circle is the *communication*, embedding marketing specific actions like database, newsletters and general advertisements. Knowing the customers’ profiles is absolutely necessary in order to inform them upon the needed offers and, in the same time, it is necessary to avoid making promises impossible to keep.

4. *Customers’ claims settlement* represents a critical component within the loyalty policy. The performed analyses highlighted the extremely high percent of the unsatisfied customers, respectively 91%, who do not return to the same unit and, in the same time, the significant percentage, respectively 82% out of them, who change their minds when it comes to quickly settle the manifested dissatisfactions.¹⁴⁸⁵ Approaching these issues involves their settlement as quickly as possible, whereas any delay has negative effects, and also the implementation of an identification system of consumers’ dissatisfactions. Another major aspect is determined by the fact that a significant number of customers fails to manifest their dissatisfactions, the management board being responsible for encouraging the consumers to communicate the possible problems occurred. The methods used in this respect comprise the implementation of free phone lines, the personnel training in order to identify the unsatisfied consumers, the providing of warranties (their invocation represent the result of errors occurred within the supply process), etc.

Another way to raise the percentage of loyal customers consists in reducing the number of claims. In the centre of claims active management is placed the objective to react to the customers’ dissatisfaction in such way so that they should be eliminated and, after the conclusion of the specific processes, the customer’s satisfaction and loyalty should be rebuilt.¹⁴⁸⁶ On the other hand, reducing by half the number of claims determines the doubling of the average rate of one company’s development, and reducing with only 5% the expressed dissatisfactions may lead

¹⁴⁸⁴ Shoemaker, S., Lewis, R.,C., Yesawich., P.,C., *Marketing Leadership in Hospitality and Tourism – Strategies and Tactics for Competitive Advantage*, fourth edition, Pearson Prentice Hall, Upper Saddle River, New Jersey, 2007, p.101-102.

¹⁴⁸⁵ The Technical Research Programs Institute, quoted in Kotler, P., Bowen, J.,T., Makens, J.,C., *Marketing for Hospitality and Tourism*, fourth ed., Pearson Education International, Upper Saddle River, New Jersey, 2006, p. 402.

¹⁴⁸⁶ Bruhn, M., quoted work., p.161.

to a profit increase from 25 to 85%.¹⁴⁸⁷ The concept of zero defections successfully implemented within the production of material goods is not applicable in the field of services due to the intangibility features, the very different level of the expectations from each consumer and, as a consequence, the impossibility to standardize the supplies, etc. A more appropriate concept is that of zero desertions, of those customers who switch a supplier orienting towards the competition's offer.¹⁴⁸⁸ The desertions typology includes the customers migrations towards competitions due to the *price* (the competition's rate level is more advantageous, but, in general, the suppliers try to differentiate on market through the elements associated to the responsibility, trust conferred, empathy, tangible elements management, and the loyal clientage appreciate such characteristics without constantly hunting for "bargains"), *product* (the organization's offers are inferior qualitatively and the innovation decisions and continuous improvement of content and products/services characteristics represent key elements for having success on market), *general services* (untrained and uninformed staff with inappropriate attitude, unkept promises are also reasons that generate the customer's desertion), *market* (bankrupt or restructured organizations), *organizational elements* (change of supplier's trading policy).

The marketing instruments specific for building a strong relationship with the customer are generally focused on three aspects. The first aspect refers to providing of certain financial benefices, category which includes the loyalty programs of airline companies, hotels, etc. throughout which repetitive customers are rewarded. A second set of measures grants social benefices throughout actions of employees to know in detail the customer's needs and preferences in order to individualize and customize the offer. The third option is more complex and aims to consolidate structural relationships with valuable customers by granting both financial and social rewards (waiting rooms, phone lines, special check-in, check-out operations, etc.).

The ways of increasing the customers' loyalty represent the effective methods that are to be applied in order to transform the clientage into loyal customers. From this perspective, we may identify four different options, respectively the *emotional loyalty* which is achieved through the customer's satisfaction and represents the centre of any loyalty measures; the *economic conditioned loyalty*, case in which the customer would realize that switching the supplier would generate unnecessary additional costs (costs of time, information, new relationships initiation, etc.); the *contractual loyalty* which "links" the beneficiary with a producer, brand or trade unit through contract clauses (leasing clauses, for instance) and the *functional technical loyalty* which is possible when there is a certain functional dependence between the basic and the complementary service. The emotional loyalty is crucial in the hotel industry, the performed research proving different emotional attributes, in accordance with the comfort provided and the applied rate level. In case of budget hotels, valences such as comfort, offer content and practical elements are most frequently encountered, in case of medium comfort units we talk about comfort, ways to welcome and feeling of security, while for the luxury units the attention, the relaxation and the degree of sophistication represent the basis for transforming the clientage into loyal customers, the later registering the highest rates of return.¹⁴⁸⁹ Some studies have specified the importance of atmosphere, equipment and ambiance in general, as defining elements for the loyalty solidification, their frequent change generating new, interesting and pleasant experiences for the loyal customers. The contact personnel's training level and attitude are equally important,

¹⁴⁸⁷ Reichheld, F.,F., Sasser Jr, W.,E., *Zero Defections : Quality Comes to Services*, quoted in Hoffman, K.,D., Bateson, J.,E.,G., *Services Marketing: Concepts, Strategies&Cases*, third edition, Thomson Higher Education, Mason, 2006,p.410.

¹⁴⁸⁸ Hoffman, K.,D., Bateson, J.,E.,G.,*quoted work*, p.411.

¹⁴⁸⁹ Barsky, J., Nash, L., *Evoking Emotion: Affective Keys to Hotel Loyalty*, Cornell Hotel and Restaurant Administration Quarterly, Vol.43, 2002, p.39-46.

representing the crucial factors which influence the decision of returning to one hotel.¹⁴⁹⁰ In case of food units, the most significant attributes which converge towards a customer loyal behavior are the products quality, services and atmosphere. Other characteristics, among which we mention the unit's location, quality-price ratio, personnel's behavior, or other emotional attributes (the feeling of familiarity, pleasant memories) are also important when taking the decision to return, but they register secondary influences, their omission within the managerial process having negative consequences.¹⁴⁹¹

Related to the tourists' loyal behavior towards a certain holiday destination, several studies have proven the idea of habit, attachment, feeling of familiarity, doubled by the value perceived through the quality-price ratio, represent essential elements. In case of foreign tourists, the feeling of familiarity is most frequently encountered, being a significant measure of reducing the touristic consumption risks. Furthermore, the loyalty measures taken in the case of ski resorts constituted the subject of international research which highlighted the close relation between the annual number of travels towards such holiday destinations and the tourists' loyal behavior. It has been noticed the fact that providing ski and accommodation service packs at low prices, preferential subscriptions for cable transport, with additional restaurant services, represent measures which may substantially contribute to the increase of annual number of visits. The value perceived of the entire offer and the satisfaction represent essential loyalty attributes. Nourishment services provided through low rate coupons, accommodation services at lower prices for repeated visits, or free increased comfort services represent important measures in this direction as well.¹⁴⁹²

3. The features of loyalty strategies in Poiana Braşov resort

Poiana Braşov resort is located in the center of Romania, 12 Km away from Braşov, being situated at the foot of Postăvarul Mountain (1,030 m altitude), representing the most visited mountain resort in the country. Poiana Braşov is recognized for its characteristics which facilitate the winter sports practice, cable transport facilities and ski slopes being always available for all adventure lovers. The difference of altitude of almost 800 m is very appropriate for ski slopes arrangement (10 different slopes with various degrees of difficulty), slopes which are attended by eight cable transport facilities (two aerial lifts, a cable car line, five platter lifts). The most various ways of entertainment are playing tennis, football, basket, mini-golf, swimming, skating, equitation etc., fields, pools with sauna and a skating rink being especially arranged for this purpose.

The accommodation offer comprises a wide range of touristic structures, their total number being at this time of 36, out of which 15 hotels, 13 boarding houses, 6 touristic villas and 2 complexes of apartments. Related to comfort categories of accommodation units, 66.7% out of these offer a very high comfort degree, respectively four and five stars, the rest of 33.3% being included within the three stars category. The features of accommodation base determine us to state the fact that Poiana Braşov is the most luxurious mountain resort of Romania.

Analyzing the characteristics of tourism services provided by the accommodation units, we noted the lack, almost complete, of loyalty systems applied in the relationships with the tourist clientele. The sole hotel which announces the appliance of tactics specific for the relationship marketing, as a pioneer project, is "Acasă la Dracula" ("House of Dracula") hotel, a four stars hotel which launches the "House of Dracula" card, a customized prepaid card amounting 50 euro/year, valid for one year following its issuance. The benefits offered by the purchase of this card are the followings:

¹⁴⁹⁰ Skogland, I., Siguaw, J.,A., *Are Your Satisfied Customers Loyal?*, Cornell Hotel and Restaurant Administration Quarterly, Vol.45, No.3, 2004, p.221-231.

¹⁴⁹¹ Matilla, A.,S., *Emotional Bonding and Restaurant Loyalty*, Cornell Hotel and Restaurant Administration Quarterly, Vol.42, 2001, p. 73-79.

¹⁴⁹² Clark, J.,S., Maher, J.,K., *If you have their minds, will their bodies follow? Factors effecting customer loyalty in a ski resort setting*, Journal of Vacation Marketing, Vol.13, No.1, 2007, p.59-70.

- 10% discount applied to the standard rate;
- 15% discount at the food services of the “Castel” restaurant, applied to the menu prices, only for the kitchen products, drinks not included, applicable if the card's beneficiary is accompanied by maximum four guests;
- double room at the tariff of a single room, except for the weekends (applicable from Monday to Thursday);
- in case of repeated visits, starting from the second stay, the beneficiary has the possibility to be accommodated in the suite paying the rate of a double room, as permitted by the accommodation spaces;
- the bearers of the card benefit from *early check-in*, starting from 10:00 AM;
- the bearers of the card benefit from *late check-out*, being entitled to maintain the room until 6:00 PM (normally, an additional fee of 50% out of the room's rate is charged);
- free access at the hotel's Cardio Fitness Centre;
- free and secured parking space.

This loyalty offer is supplemented by that of 4 stars Miraj hotel, which provides the customers with a fifth free night stay if the visit covers four nights with half-board service.

In case of the other accommodation structures, the loyalty strategies do not represent a managerial strategic option, starting with the premise, as identified following the discussions with their managers and owners, that the best loyalty option currently considered is that of maintaining a high quality level of tourism services and a proper quality-price ratio. The resort food units are managed under the same principle related to the clientage loyalty problematic and the cable transport excludes such an option as there is well known the monopolistic position held by ANATELEFERIC company within the Poiana Braşov resort.

Without making any other comment, as considered useless, we can state that there is a lack of interest among the tourism service providers from Poiana Braşov in applying the processes specific for the relationship marketing, the implementation and use of certain loyalty strategies being an inexistent preoccupation.

5. Conclusions

The hotel industry cannot afford to neglect elements such as innovations and comfort which are intended to provide exquisite memories to the guests, and the continuous personnel training as well, so that they should be capable to respond to all customers needs. Within the current economic environment, renouncing to loyalty programs or reorienting the corresponding amounts towards other fields represents an incautious decision, with medium and long term negative effects.

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AN OVERVIEW OF WHY SALES JOBS ARE SO REWARDING

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This article focuses on the process of selling and buying in the organizational marketplace. Many factors are driving the world of professional selling toward a relationship-based approach. This transformation has created a challenging, invigorating and rewarding environment in which to pursue a career in selling. Knowledge of the drivers of change in selling, the key success factors required in selling, the activities salespeople perform on the job, and the different kinds of selling jobs available go a long way toward helping a person make a decision if he or she might like to pursue selling as a career path. Successful salespeople always understand the roles that different individuals within the client company play in moving the relationship along, the buying decision process used by their client, and how their clients go about making different types of purchases and how those differences impact the salesperson's approach to the client.

Keywords: autonomy, sales activities, job variety, intrinsic rewards, extrinsic rewards

The article's JEL code: M310

1. Aspects of selling careers

For most professional salespeople, it is precisely the complexity and challenge of their jobs that motivate them to perform at a high level and provide a sense of satisfaction with their choice of careers. A number of satisfaction surveys over the years have found generally high levels of job satisfaction among professional salespeople across a broad cross section of firms and industries. Although these surveys did find some areas of dissatisfaction, that unhappiness tended to focus on the policies and actions of the salesperson's firm or sales manager, not on the nature of the sales job itself. Attractive aspects of selling careers include:

- § Autonomy or the freedom of action and opportunities for personal initiative.
- § Multifaceted and challenging activities as part of the job – sales activities.
- § Financial rewards.
- § Favorable working conditions, often via telecommuting with a virtual office, and with less minute-to-minute direct supervision than most other careers.
- § Excellent opportunities for career development and advancement.

2. High job autonomy

A common complaint among workers in many professions is that they are too closely supervised. They complain about the micromanagement of bosses and about rules and standard operating procedures that constrain their freedom to do their jobs as they see fit. Salespeople, on the other hand spend most of their time working directly with customers with no one around to supervise their every move. They are relatively free to organize their own time and to get the job done in their own way as long as they show good results.

The freedom of a selling career appeals to people who value their independence, who are confident they can cope with most situations they will encounter, and who like to show personal initiative in deciding how to get their job done. However, with this freedom come responsibilities and potential pressures. Salespeople are responsible for managing their existing customer relationships and developing new ones. Although no one closely supervises the salesperson's behavior, management usually keeps close tabs on the results of that behavior: sales volume, quota attainment, expenses, and the like. To be successful, salespeople must be able to manage themselves, to organize time wisely, and to make the right decisions about how to do the job.

3. Sales activities

Most people soon become bored doing routine tasks. Fortunately, boredom is seldom a problem among professional salespeople, as sales positions tend to be high in job variety. Each customer has different needs and problems for which the salesperson can work to develop unique solutions. Those problems are often anything but trivial, and a salesperson must display insight, creativity, and analytical skill to close a sale. Many sales consultants expect creative problem solving to become even more important to sales success in the future. It is difficult to specify the full range of activities in which salespeople engage because they can vary greatly across companies and types of sales jobs.

Sales jobs factors and selected associated activities

- *selling function*: plan selling activities; search out leads; call potential accounts; identify decision makers; prepare sales presentation; overcome objections; introduce new products; call new accounts;
- *working with others*: write up orders; expedite orders; handle back orders; handle shipping problems; find lost orders;
- *servicing the product*: learn about the product; test equipment; supervise installation; train customers; supervise repairs; perform maintenance;
- *managing information*: provide technical information; receive feedback; provide feedback; check with superiors;
- *servicing the account*: stock shelves; set up displays; take inventory for client; handle local advertising;
- *attending conferences and meetings*: attend sales conferences; attend regional sales meetings; work at client conferences; set up product exhibitions; attend periodic training sessions;
- *training and recruiting*: recruit new sales reps; train new salespeople; travel with trainees;
- *entertaining*: entertain clients; take clients to dinner; take clients out for drink; take clients out to lunch; throw parties for clients;
- *traveling*: travel out of town; spend nights on the road; travel in town;
- *distribution*: establish good relations with distributors; sell to distributors; handle credit; collect past due accounts.

One obvious conclusion is that a salesperson's job often involves a wide variety of activities beyond simply calling on customers, making sales presentations, and taking orders. While the first two factors are directly related to selling and order taking, factors 3 and 5 focus on activities involved in servicing customers after a sale is made. Similarly, factors 4, 6, and 7 incorporate a variety of administrative duties, including such things as collecting and communicating information about customers to sales and marketing executives in the company, attending periodic training sessions, and helping to recruit and develop new salespeople. Finally, some salespeople also expend a good deal of effort helping to build distribution channels and maintain reseller support (factor 10).

4. Opportunities for rewards

The internal and external environment is constantly changing. Salespeople must frequently adjust their sales presentations and other activities to shifts in economic and competitive conditions. For many people in the selling profession, variety and challenge are the most rewarding aspects of their jobs. Sales jobs offer great opportunity for developing a sense of accomplishment and opportunities for personal growth. These are important sources of intrinsic rewards and satisfaction - that is, rewards inherent to satisfaction derived from elements of the job or role itself, as opposed to extrinsic rewards, which are rewards bestowed on the salesperson by the company. Selling can be a very lucrative profession in terms of extrinsic rewards as well. More important, the growth of a salesperson's earnings - particularly, the earnings of someone receiving a large proportion of incentive pay - is determined largely by performance, and often no

arbitrary limits are placed on the maximum amount a salesperson can earn. Consequently, a salesperson's compensation can grow faster and reach higher levels than that of personnel in other departments at comparable levels in an organization.

5. Favorable working conditions

If the stereotypes of sales jobs addressed earlier were true, salespeople would be expected to travel extensively, live on big expense accounts, spend much of their time entertaining potential clients, and consequently have little time for home and family life. Such a situation represents a lack of balance between one's work life and family life such that work encroaching on family – *work-family conflict*. Some selling jobs require extensive travel, but the majority of salespeople can secure rewarding positions that allow them to be at home most every night. Indeed, with the increasing use of computer networks, e-mail, video conferencing, and the like, the trend for more than a decade has been for more and more salespeople to telecommute. That is, they work from a remote or virtual office such as out of the home and seldom even travel to their companies' offices.

For all the advantages and attractiveness of telecommuting to the salesperson, as well as the efficiencies and cost-saving aspects to the sales organization, operating out of a virtual office does create a challenge for keeping the sales force fully socialized to the culture of the organization.

6. Moving up in the organization

Given the wealth of knowledge about a firm's customers, competitors, and products - and the experience at building effective relationships - that a sales job can provide, it is not surprising that often CEOs come up through the sales ranks into the executive suite. Although salespeople are sometimes reluctant to give up their high-paying jobs to move into managerial positions, most firms recognize the importance of good managerial talent and reward it appropriately, particularly as a person reaches the top executive levels of the sales organization. Many managerial opportunities are available to successful salespeople at lower levels of the corporate hierarchy as well, most obviously in sales management, product or brand management, and general marketing management. A survey of human resource managers found that sales professionals are among the most sought-after employees.

Promoting top salespeople into management can sometimes cause problems. Successful selling often requires different personal skills and abilities than does successful management. No guarantee exists that a good salesperson will also be a good sales manager. Also, successful salespeople have been known to refuse promotion to managerial positions – because they enjoy selling, or they can make more money in sales than in management, or both. Finally, recent trends toward corporate downsizing, flatter organizational structures, and cross-functional selling teams have changed the number and nature of managerial opportunities available for successful salespeople. As noted earlier, the sales manager of the future is more likely to be a coach or team leader rather than an authority figure isolated in the upper reaches of a corporate hierarchy.

7. Types of selling jobs

Not every salesperson engages in all of the activities listed. Nor does every salesperson devote the same amount of time and effort to the same kinds of activities. The many different types of selling jobs involve widely different tasks and responsibilities, require different types of training and skills, and offer varying levels of compensation and opportunities for personal satisfaction and advancement. And, perhaps most important, different kinds of selling jobs bring different levels and types of opportunities for managing customer relationships. Two broad categories of selling are selling in *business-to-consumer markets* and selling in *business-to-business markets*.

Selling in Business-to-Consumer versus Business-to-Business Markets

In terms of sheer numbers, most salespeople are employed in various kinds of *retail selling*. These jobs involve selling goods and services to end-user consumers for their own personal use.

Thus salespeople here are referred to as selling in the **business-to-consumer (B2C) market**. However, a much greater amount of relationship selling is accounted for by the **business-to-business (B2B) market**, which used to be called industrial selling - the sale of goods and services to non-end-user consumers. Selling in business-to-business markets involves three types of customers:

1. *Sales to resellers*, as when a salesperson sells to a retail store, which in turn resells the goods to its customers.
2. *Sales to business users*, as when a salesperson sells materials or parts to a company, which uses them to produce another product.
3. *Sales to institutions*, as when a salesperson sells to a not-for-profit agency or a government agency.

In some instances, the key success factors and sales activities relevant to both B2C and B2B markets, and in managing the two types of sales forces, are very similar. Success in either type of selling requires interpersonal and communications skills, solid knowledge of the products being sold, an ability to discover the customer's needs and solve his or her problems, and the creativity necessary to show the customer how a particular product or service can help satisfy those needs and problems. Similarly, managers must recruit and train appropriate people for both types of sales jobs, provide them with objectives consistent with the firm's overall marketing or merchandising program, supervise them, motivate them, and evaluate their performance.

But B2C and B2B selling also differ in some important ways. Many of the goods and services sold by B2B salespeople are more expensive and technically complex than those in B2C. Similarly, B2B customers tend to be larger and to engage in extensive decision-making processes involving many people. Consequently, the key success factors and activities involved in selling to business buyers are often quite different from those in retail selling. Furthermore, the decisions made in effectively managing a B2B sales force are broader than those required for a B2C sales force.

Classifying types of B2B sales jobs

Even within the area of B2B selling, many different types of jobs exist requiring different skills. One of the most commonly used, and useful, classification systems for selling jobs is provided below. It identifies four types of B2B selling found across a variety of industries:

1. *Trade servicer*. The sales force's primary responsibility is to increase business from current and potential customers by providing them with merchandising and promotional assistance. The "trade" referred to in the label is the group of resellers such as retailers or distributors with whom this sales force does business.
2. *Missionary seller*. The sales force's primary job is to increase business from current and potential customers by providing them with product information and other personal selling assistance. Missionary salespeople often do not take orders from customers directly but persuade customers to buy their firm's product from distributors or other wholesale suppliers.
3. *Technical seller*. The sales force's primary responsibility is to increase business from current customers and potential customers by providing them with technical and engineering information and assistance. The trend nowadays is for most technical selling to be accomplished through cross-functional selling teams. This is because the complexity of many of the products and associated services involved in technical selling make it difficult for any one salesperson to master all aspects of this sale.
4. *New business seller*. The sales force's primary responsibility is to identify and obtain business from new customers. In relationship selling, this is analogous to a focus on securing and building the customer relationship.

Each type of sales job involves somewhat different activities. The differing nature of each also implies differences in key success factors.

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DESIGN OF EFFECTIVE DISTRIBUTION CHANNELS

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Marketing managers have many decisions to make when designing effective channels to serve consumers. Decisions must be made whether to market directly to the consumer through company-owned or franchised stores or indirectly through combinations of intermediaries such as independent retailers, wholesalers, and agents. Decisions must be made whether to use store retailing, nonstore retailing, or some combination of the two. Decisions must be made about plant and warehouse locations, how products will be delivered to consumers, and who will perform what marketing functions within the channel. In some cases, manufacturers market products in their own stores, but most of them sell through independent retailers and retail chains.

Keywords: commodity, conditions, competition, costs, coverage, competence, control

The article’s JEL code: M310

Introduction

Selling through independent retailers can lead to a conflict in objectives for the two types of marketing institutions. That is, although *manufacturers* are concerned with developing consumer brand loyalty (commitment to and repeated purchase of their brands), *retailers* are concerned with developing consumer store loyalty (commitment to and repeated patronage of their stores). Trade promotions may influence retailers to put up special displays, give more shelf space to a brand, offer lower prices to consumers, and sponsor local advertising of the brand for the manufacturer.

This article highlights the fact that different members of a distribution channel may be concerned primarily with influencing different consumer behaviors. This is an important point; the role of retail management is often overlooked in discussions of marketing and consumer behavior. Retailers affect consumers most directly and perhaps most influentially, for many types of products and most services.

As with the other elements of the marketing mix, the starting point for designing effective channels is an analysis of consumer-product relationships. At least six basic questions must be considered:

- What is the potential annual market demand? That is, given a particular marketing strategy, how many consumers are likely to purchase the product, and how often?
- What is the long-run growth potential of the market?
- What is the geographic dispersion of the market?
- What are the most promising geographic markets to enter?
- Where and how do consumers purchase this and similar types of products?
- What is the likely impact of a particular channel system on consumers? That is, will the system influence consumer affect cognition, and behavior sufficiently to achieve marketing objectives?

Although these questions emphasize that consumers are the focal point in channel design, the answers require an analysis of a variety of other factors. These factors must be analyzed both in terms of their relationships with and impact on the consumer and in terms of their relationships with the other variables.

1. Commodity

Commodity means the nature of the product or service offered to the consumer. Different products and services vary in their tangibility, perishability, bulkiness, degree of standardization, amount of service required, and unit value. These factors influence whether it is effective to market the commodity directly to consumers or indirectly through a number of intermediaries.

Key consumer-related questions in considering the nature of the product or service are (1) what consequences or values the product or service provides the target market, (2) how much time and effort target-market consumers are willing to expend to shop for, locate, and purchase the product, and (3) how often target market consumers purchase the product. Thus, it is the *relationships* among consumers, the commodity, and the channel that are critical rather than analysis of these factors in isolation.

2. Conditions

Conditions refer to the current state of and expected changes in the economic, social, political, and legal environments in which the firm operates. This information is critical in channel design because channels typically involve long-term commitments by the firm that may be difficult to change. Situational analysis of the macroenvironment is critical in channel design to allow response to potential problems and to exploit opportunities.

3. Competition

The size, financial and marketing strengths, and market share of a firm's competitors are major concerns in designing effective marketing strategies. For channel decisions, a key issue is how major competitors distribute products and how their distribution system influences consumers. In some cases, emulating the channels of major competitors in the industry is the only feasible alternative. Many convenience goods require intensive distribution to all available retailers. In other cases, a competitive advantage can be obtained by selecting nontraditional channels.

4. Costs

Although channel strategies seek to provide form, time, place, and possession utilities to influence consumer affect, cognition, and behavior, these strategies are constrained by the cost of distribution. In general, a basic goal is to design a distribution system that facilitates exchanges between the firm and consumers, but does so in a cost-efficient manner. Distribution costs include transportation, order processing, cost of lost business, inventory carrying costs, and materials handling. Thus, costs can be viewed as a constraint on the firm's ability to distribute products and services and to serve and influence consumers. In general, firms seek distribution systems that minimize total distribution costs at a particular level of customer service.

5. Coverage

The term *coverage* has two separate meanings in channel strategy. First is the idea that seldom can every member of a selected target market receive sufficient marketing coverage to bring about an exchange. Because of cost considerations, even major consumer goods companies often cannot afford to distribute their products in outlets that do not serve a relatively large population. Second, coverage refers to the number of outlets in a particular geographic area in which the product or service will be sold. Distribution coverage can be viewed along a continuum ranging from intensive through selective to exclusive distribution. Intensive distribution involves marketing the product in as many outlets as available, selective distribution entails a more limited number, and exclusive distribution involves only one outlet in an area.

6. Competence

A frequently overlooked criterion in designing channels is the firm's *competence* to administer the channels and to perform channel tasks at all levels to ensure effective distribution to the consumer. Both financial strength and marketing skills are crucial, but many production-oriented

firms seriously underestimate the importance of marketing and overestimate their marketing abilities. Further, many manufacturers do not have a sufficiently large product line to develop their own retail stores. Finally, marketing skills effective for one market are not always transferable to other markets. Many global marketing efforts have failed because firms did not adapt their products and marketing strategies to foreign markets. Critics of marketing frequently point out that marketing intermediaries increase the cost of products because the profits these wholesalers and retailers make add to the cost of the product to the consumer. These critics generally do not understand that intermediaries are used because they can perform some marketing functions more efficiently and cheaply than the manufacturer can.

7. Control

An important managerial criterion in designing channels is the *degree of control* desired for effective marketing of the product to the consumer. In general, there is greater control in direct channels because no intermediaries are involved. Franchised channels also involve greater control than indirect channels because the franchiser typically places strong contractual constraints on the franchisee's operations. This control is quite important in delivering the major benefit of franchises to the consumer.

8. Characteristics of intermediaries

A final but extremely important consideration in designing distribution channels concerns the characteristics of the intermediaries that are available and willing to handle the manufacturer's product. If no acceptable intermediaries are available, the firm must market directly, encourage the development of intermediaries, or forgo entering a particular market.

In addition to such factors as the size, financial strength, and marketing skills of intermediaries, *consumer perceptions* of intermediaries can be crucial in channel strategy. Many consumers view discount stores as places to purchase good-quality merchandise but not necessarily prestige items. Manufacturers of prestige products may lower the image of their products by selling them in discount stores. Thus, manufacturers (and retailers) must consider the consumer-store relationships: the relationships among the store environment, consumer affect and cognition, and consumer behavior.

Most channel decisions are essentially strategic: inventories, sales forces, technology investments distributor support programs, and other channel activities involve large financial outlays.

The channel design process consists of four primary steps:

- identify and anticipate end user needs for an array of channel services;
- create a vision of an ideal channel that could provide customers with those services;
- evaluate current channels and all practicable options against this ideal system;
- implement the best practicable option and setup for ongoing channel management.

9. Relationships forms in channels

Channel members can apply their power not only to specific behaviors, but to the establishment of enduring structures for exchange. As a result, channel members interact to coordinate their work in four classes of exchange systems or vertical marketing systems: *transactional, administered, contractual and corporate*.

Transactional channels

In transactional channels the members trade at arm's length. Each firm operates on its own, no significant coordination with its channel partners.

Administered channels

Members of administered channels recognize their participation in a larger system, but they interact without a formal chain of command or a set of rules. Coordination results from an ad hoc division of labor and informal leadership. The leader has no legal legitimate base of power, but mobilizes social and economic resources to coordinate behaviors for competitiveness. The

use of promotional allowances and discounts to load resellers or blitz a market area is quite common but doesn't represent the systematic approach to lead or administer the entire channel.

Contractual channels

Contractual channels are tightly by formal procedures and pledges of ongoing exchange. More narrow in scope than these franchisee systems are authorized wholesalers and dealers.

Under these systems, resellers are allowed to promote that they are authorized by the manufacturer to carry a particular line. In return, the resellers agree to meet specified service standards.

Corporate channels

It is difficult to imagine total integration of all channel functions: delivery, selling, promoting, customer feedback, inventory, ordering, service, and so on. In corporate channels, there are high degrees of vertical integration in the sales and distribution functions. Ownership provides a significant measure of control over channel functions because one's own employees are generally more inclined to take direction than are associates of an independent organization. It can safeguard investments that have no use outside of the relationship. Corporate ownership provides a number of coordination advantages that arise from employees working in close proximity, using common communication standards, and following explicit procedures. Intermediaries can often perform activities cheaper and better than a vertically integrated firm.

Conclusion

Distribution channels are multiform systems at work in the flow of products from producer to user. Their purpose is to deliver needed services, spatial convenience, and time utility to customers. They represent a highly strategic decision arena in that they are expensive to establish, costly to coordinate, and difficult to adapt to new environments. Practically no firm can perform all the complex functions of sorting, assorting, transacting, risking, delivering, promoting, and servicing involved in providing sought channel outputs. Firms specialize in these functions and realize profits by performing them better and more efficiently than manufacturers, buyers, or others in the channel.

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RELATIONS WITH THE PUBLIC VERSUS PUBLIC RELATIONS IN THE LOCAL PUBLIC ADMINISTRATION

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Concomitant with the evolution of society, public relations are socially expressed only together with the explicit articulation of public categories and public organizations, once the individual becomes a citizen whose satisfaction is at the core of the public system's preoccupations, ignoring times long gone when the ordinary citizen and the majority of the public administration representatives couldn't tell apart the concept of public relations from that of relations with the public.

Key words: *citizens, organizational culture, routine*
Cod JEL lucrare: M38

Organizations are blindly linked to very heterogeneous human groups and categories, to other organizations, cultural values, currents of ideas and, of course to politics. They need information on these social partners' expectations, their sympathy and adherence. They also need their messages to reach quickly to the public and be assessed by it. They are responsible for organizing the institutional communication and for building up the strategy and communication policies. Public relations are a filter of communication; they allow through and amplify the circulation of favourable messages, at the same time stopping or buffering the impact of unfavourable ones.¹⁴⁹³

Public relations are one of the methods by which the society adapts to changes and solves conflicts of attitudes, ideas, institutions and opposed persons¹⁴⁹⁴.

In the organization chart and factual relations with citizens, the local public administration institutions focused not too long ago only on the system "relations with the public". Although "relations with the public" concern only the direct communication with the immediate public (citizens, suppliers, visitors, members of subordinate institutions, etc.), getting in contact with at the desk, by phone or on the Internet. Again through "relations with the public" papers are filed for the recipient that is the public institution in discussion. Considering the complexity of local public administration functioning, the relations with the public represent only a component part of public relations.

The public institutions feel the need to communicate when good things happen to them. If they had a spectacular increase of budget incomes as compared to past years, or when they accomplished an elaborate project. Communication is associated with good news. But in times of crisis their tendency is to stay away, this proving to be a big mistake on their part. Public Relations may be regarded as "doctor of crises", the binder that keeps the public close to the organization even in moments not so good. Ignoring this aspect, institutions may fall into a dangerous trap considering the period of the present financial crisis, that of alienating citizens, up to the point of refusal to communicate. Such an attitude has a negative impact by perceiving the institution as not being transparent. Even during crises opportunities must be seized by adapting the communication strategy to the new context. Obviously, the resource of adaptation length lies in the people and their capacity to design and sustain a new mission of the organization, in consonance with the new extra-organizational tendencies. The support of the organizations'

¹⁴⁹³ Prutianu Ș., "Tratat de Comunicare și Negociere în afaceri", Polirom Publishing House, Iași, 2008, p. 282.

¹⁴⁹⁴ Grunig J. E., Hunt T, Managing Public Relations, Detriot, Rinehart and Winston, Philadelphia, 1984, p. 3.

adaptation is of communicational order. The adaptation strategy is, in essence, of communicational category. In this context, the organization's public categories establish and express themselves – the internal and external public, the latter comprising the local public (local community members the respective institution serves). Thus, internal communication becomes more visible than before, the reputation auditing being called for because the crisis is a moment of balance followed by long term decision making.

Even in the public institutions the organizational identity must be created hand in hand with the organizational culture. Swchwebig¹⁴⁹⁵ distinguishes the two concepts by placing culture at a behavioural level and identity at the level of the unconscious. In this perspective, one of the responsibilities of an organization's board is to create and maintain through a proper policy the process of identification with the organization. Partially, the identity is also built up from the relations with the environment and due to internal management. Another very similar concept and often mistaken with the above ones is the concept of organizational climate referring to the visible characteristics of the organizational "atmosphere", visible features for the outsiders even from the first contact with the public institution, for the employees being a rather hard to define ensemble but which may be part of the motivational factors. In the specialty literature the climate was defined as "a relatively lasting quality of the internal environment which is:

a) lived by its members;

b) influencing their behaviour;

c) described by a set of "organizational environment attributes". Thus, climate is a variable prone to creation or alteration in a shorter time as compared to the other two, whose design and management take much longer.¹⁴⁹⁶

The identity of an organization when it is well managed may be a very powerful mean of integrating more regulations and activities essential for the success of the organization. It may also furnish the visual cohesion necessary to secure the fact that all communication actions are coherent to one another and the result is an image compatible with the public institution's specificity. Through an efficient identity management an institution may build the understanding and trust for its diverse categories of public.

The effort of public relations communication create an important bond between the organization's strategy and personality, identity, culture, image and reputation, that is why various instruments are used for conveying identity and subsequently, assessment instruments to make sure that identity was properly communicated. The key to the differences between the types of organizational communication is the fact that it focuses on all public groups and has an internal dimension that contains communication with and among employees. A mission, vision and organizational philosophy related strategy develops, and the mission statement includes these values that couldn't have been extracted from the strategy. The mission statement may be used both for the internal and the external communication.

Public institutions also face communication problems due to the fact that the public system is a rigid one, with beaurocracy affecting all members and the performance of communication is also affected by the size of the institution – the bigger the institution (as number of employees) the harder is to obtain an efficient communication between all levels.

A large dimension public institution, rigid, with a rational organizational culture, tends to look to internal routine and less to non-routine, to improving both internal and external communication, with impact on the relations between the parties involved in the process of communication. Also, in an institution whose aim and organizational identity are misunderstood by all members, communication will suffer. In addition, beaurocracy itself affects the communication performance¹⁴⁹⁷. Organizational identity should be published in the largest sense possible because

¹⁴⁹⁵ Sfez, Lucien, Dictionnaire critique de la communication, PUF, Paris, 1993, p. 580.

¹⁴⁹⁶ Cismaru, D. M., Comunicarea internă în organizații, Tritonic Publishing House, Bucharest, 2008, p. 79.

¹⁴⁹⁷ Pandey Sanjay K, James L Garnett- *Exploring Public Sector Communication Performance: Testing a Model and Drawing Implications*, Rutgers University, Campus at Camden, 2006, p. 41.

the public categories are influenced in several different ways. Practically, the building of identity is the first major step in image building.

The organizational culture, meaning the common integrating culture that stimulates and reevaluates the members' potential, is the place where internal communication represents an important variable for the infusion of values and of the other elements of an organizational culture. It may be, at the same time, an instrument for the design and construction of a system of values which to stimulate performance and capacity to face the influences from outside. The culture of the organization may be seen as an expression of norms and values, representing that pattern of values and norms that distinguish an organization from the other, appointing to what is important for the respective organization¹⁴⁹⁸. Organizations must build themselves an organizational culture which emphasizes open and bi-directional communication with the aim of forming positive relations between employees which would lead to improving and/or building positive relations with the public categories outside the organization¹⁴⁹⁹.

Bluedorn explains that in order to understand and mostly to act in the sense of altering the organizational culture, the time factor must be taken into consideration. The author insists on the fact that the attempt to modify an institution's organizational culture, even of a department to a new creed or a new ideology, is one of the greatest challenges a manager may face; amid all the dimensions of the culture, the temporal one is the most difficult to alter because it stands for the foundation of any culture's values and creeds¹⁵⁰⁰.

Moreover, the public institutions where positive relations develop have as advantages, dedicated employees (public clerks that feel commitment towards the respective public institution) and employees developing positive relations both inside the organization and with the public categories outside the institution.¹⁵⁰¹

At the same time, the organizational perspective makes possible a relevant way to operationally define public information and organizational communication as a priority form of managerial communication. If in the public space public information is legitimated through the norm of social democratism, in the organizational space public information comes as a functional imperative. In other words, "organizational communication is the ensemble of structures and communication processes through which organizations adapt to the external environment changes". In conclusion, in the organizational space, the actors are the organizations themselves. Interests are of an adaptative order and the processes are of communicational nature. In this new context, a new sense and a new possible definition of the public relations become visible, according to the acception of SNSPA: "Public relations constitute an organizational communication strategy, through which organizations become communicant and the fluxes of communication between organizations and the internal and external public categories determining the adaptation of the organizations".

Public institutions must not overlook communication of public relations both due to lower costs and to the role public relations have in building the reputation and in times of crisis reputation is the most valuable asset of an organization. The spreading of its image among the large public depends on the way the public relations activity within the institution is organized, starting from the position of the department in the flow chart and continuing with human, material and financial resources allocated to that field and with the establishment of some strategies and public

¹⁴⁹⁸ Vlăsceanu Mihaela, *Organizațiile și cultura organizării*, Trei Publishing House, Bucharest, 1999.

¹⁴⁹⁹ Schneider, B., Bowen, D., Ehrhart, M., & Holcombe, K. (2000). The climate for service: Evolution of a Construct. In N. Ashkanasy, C. Wilderom, & M. Peterson (Eds.), *Handbook of organizational culture and climate*, Thousand Oaks, CA: Sage, pp. 21-36.

¹⁵⁰⁰ Bluedorn AC. 2000. Time and Organizational Culture. In *Handbook of Organizational Culture and Climate*, Ashkanasy NM, Wilderom CPM, Peterson MF (eds). Sage: Thousand Oaks; 245-260, p. 127

¹⁵⁰¹ Yunna Rhee, *The employee-public-organization chain in relationship management: a case study of a government organization*, University of Maryland, 2004, p. 8.

relations campaigns in agreement with the specific and need of the institution. On the way these institutional level relations are managed, on the importance given by the board of the institution and by the entire personnel to this activity depends the draw-up and implementation of some efficient public relations and communication campaigns, and finally, the creation of a proper image of the institution in the eyes of its public categories. In addition, public relations are indispensable in changes. Any decision must have a related communication plan and crises, by definition, imply changes. As a matter of fact, in all public institutions, the focus of public relations communication will move on from informing to explaining, from “what” they do to “why” they do certain things (for example, organizing public meeting to discuss with the citizens about the streets that are going to be rehabilitated, why those and not others, etc.), perhaps not to the liking of their public and “how” do they prepare to meliorate the situation or maintain a positive direction. As general directions of strategy, public institutions must be more internal communication oriented, both with their own employees and with the unions, but also with the communication with the suppliers which due to the peculiar financial situation are not seldom paid with delay, with the ONG but also with the other public institutions they have relations with. Social normality expresses and results from a society’s capacity to assume and practice social norms, of democratic “norms” of social behaviour. The states of social abnormality are possible when in the social life either the tendencies of social “over-aggregation” manifests itself (through totalitarian type practices, of compressing the space of the individual life free existence), or the tendencies of social “under-aggregation” (by the dissolution of “social tissue” and of public authority, through social anarchy manifestations). It is a fact that, in both cases, the root of social abnormality is of a communicational structure and consists in a communication deficit or in a communication crisis. The communication crisis can only be surpassed (or foreseen) through an optimal public communication strategy. Or, this is exactly the essential role of public relations in the democratic societies, a role concentrated on generating communication fluxes between public institutions and citizens, so as the public institution to recognize and act for the real interests of the citizens and the citizens to gain confidence in the public institutions and clerks. In the above context, the following definition of public relations may be formulated: Public relations are a public communication strategy, through which the acknowledgment of the citizens’ interest and their faith in the public institutions are generated.

In this sense the “stake” of public relations is huge being directly linked to a society’s social health state and a society is healthy when citizens communicate freely with each other and with the public institutions.

The practician in public relations serves as intermediary between the organization he represents and all the public categories of that organization. As a consequence, the public relations practician has responsibilities towards the institution and the different public categories of the organization. He distributes information which gives the public categories the possibility to understand the policies of the institution. This implicit role includes the communicational aspect linked to the ascertaining and influencing the opinions of a group of persons.

As important function of the communication strategy public relations describe the followings¹⁵⁰²:

1. Anticipation, analyzing and interpretation of public opinion, of attitudes and elements that may have a positive or negative impact on the organization’s plans and operations.
2. Counselling the board, on every level, about the decisional politics, the course of events and communication, considering their public effect and the institution’s civil and social responsibilities.
3. Research, coordination and continuous evaluation through action and communication programs in order to obtain the information and support of the public, necessary elements for successfully achieving the objectives of the institution. These programs may include financial

¹⁵⁰² Newsom et al, 2000, apud R. Pricopie, *Relatii publice: evolutie si perspective*, Bucharest: Tritonic, 2005, p. 15.

and marketing techniques, funds raising and governmental relations, with the community and/or with the employees, as well as other types of programs.

4. Plan and implementation of the organizational efforts to influence or modify public policies.

5. Objectives establishing, scheduling, budgeting, recruitment and staff training, developing some activity spaces – in short, administrating the resources necessary for accomplishing the above.

6. Among the necessary knowledge in the public relations professional practice are listed: art of communication, psychology, social psychology, sociology, political sciences, economy, as well as the principles of management and ethics. Specific knowledge and technical abilities are necessary for: study of public opinion, analysis of public related issues, relations with the press, publications, video productions, special events, speeches and presentations. To aid the policies definition and implementation, the public relations practitioner uses a variety of professional communication abilities and has an integrating role, both inside the respective institution and between the organization and the outside space.

In order to realize an efficient communicational process both intra and inter-institutional, the following criteria must be fulfilled:

- **The credibility criterion** – trust and mutual support between administration and population are some desiderates that cannot be accomplished in a week or a month. These take time, are hard to build and are maintained by permanent efforts sustained by positive elements, performed by both parties involved in the communicational process.

- **The sensitivity criterion** – in the public relations work it is very important that orientation be both dependant on the wishes and expectations characteristic of the organization and on those of the partners. It is wrong to focus only on the own goals and development of own programs without considering their impact on the others. The reverse of the medal is not beneficial either, meaning to listen and act only dependant on the others. The public relations work must have as a result the fulfilment of own goals by not harming the discussion partner or any competitor whatsoever.

- **The realism criterion** – any system, through the work of public relations must very well acknowledge its potential, its strong points, as well as the weak ones. The system must lean on strong elements and it must avoid the alleged problems that weak elements should create. The weak elements once identified must constantly and permanently be enforced to become, in turn, strong points able to help the system. There are also cases when these weak elements take too much effort from the whole system to get strong, case in which they should be removed.¹⁵⁰³

For the good development of all the activities within an organization, the internal communication process must function impeccably. Inside any system where the intra-systemic communication flows in good and very good conditions, there is also a positive environment, aspect that has beneficial consequences on the involvement of its component elements in different actions, as well as on the accomplishment of the proposed targets. Each element of the system has a role of image multiplier. When an employee is satisfied with their working conditions (being met both their material and spiritual needs, of self-accomplishment), they will convey/disclose to other persons their experiences, passing on positive things in general, which brought them satisfaction within the system they work in. Czaplewski, B. Schneider and White & Paul present the relations inside the organization as directly responsible for the satisfaction experienced by the clients after coming into contact with the organization.¹⁵⁰⁴ The relation public – organization is given by the bond created between an organization and its public, which result from the behavioural

¹⁵⁰³ Rus, Flaviu Călin, *Relații Publice și Publicitate: metode și instrumente*, Institutul European Publishing House, Iași, 2004, pp. 7-8.

¹⁵⁰⁴ Czaplewski, J. Southwest Airlines: How Internal Marketing Pilots Success. *Marketing Management*, 10(3), 2001, pp. 14-17.

Schneider, B., White, S., & Paul, M. (1998), Linking service climate and customer perceptions of service quality: Test of a causal model. *Journal of Applied Psychology*, 83, pp. 150-163.

consequences (conduct) an organization has on its public, a repeated communication¹⁵⁰⁵ being also needed. We must not overlook the fact that in the case of relations from within the organization the situation is more delicate in the way that employees (as part of the organization) undergo an avalanche of contacts with the organization and when evaluating the quality of the relations, the criteria are different from person to person. Also, as towards the external public, the employees have the tendency to accentuate differently the dimensions and ways of establishing and maintaining the relations between employees. The relation employee – public mainly refers to the individual relational level developing between the employee and the external public. Analyzing this issue, Grunig and Huang¹⁵⁰⁶ identified trust, control reciprocity, satisfaction and commitment as dimensions of this relation.

The most important tactics public institutions under crisis may adopt are transparency and steadiness in communication in order to maintain the public's trust in the decisions taken and also in the fact that each decision follows primarily the interest of the citizen.

Due to the insecure situation generated by the existent crisis in Romania citizens find it more and more difficult to have trust: in the safety of the job, in the evolution of the economy and of the country's currency and in the public institutions, both central and local. Confidence is one of the poorest of resources from the highest political level down to the smallest economic transaction. At the same time, on a market governed by uncertainty confidence is the most precious resource an organization may own, that is why public institutions must rely more on strengthening the relations with the citizens through the system of public relations.

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¹⁵⁰⁵ Yunna Rhee, *The employee-public-organization chain in relationship management: a case study of a government organization*, University of Maryland, 2004, p. 9.

¹⁵⁰⁶ Grunig, J., Huang, Y. (2000). From organizational effectiveness to relationship indicators: Antecedents of relationships, public relations strategies, and relationship outcomes. In J. Ledingham, & S. Bruning (Eds.), *Public relations as relationship management: a relational approach to the study and practice of public relations*, Mahwah, NJ: Lawrence Erlbaum, pp. 23-53.

13. Yunna Rhee, The employee-public-organization chain in relationship management: a case study of a government organization, University of Maryland, 2004

IMPLICATIONS OF CITIZEN PARTICIPATION IN LOCAL PUBLIC ADMINISTRATION UPON CITIZENS' SATISFACTION

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The satisfaction of citizens considering public services depends on the way the authorities identify and offer solutions to fulfil citizen's expectations, which are at least identical or even superior to the services offered in private domain. In addition, the worldwide governments are forced to adapt to the pressure exercised by the changes that appear in the demographic, technologic and economic environment, by the growing expectations of citizens and the necessity of lowering the taxes. As a consequence, the public system is starting to adopt the solutions that the citizens identified for the developing of the public policies, implying and making the community responsible in the act of governing.

Keywords: *social inclusion, exclusion, inequity*
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The citizen participation is the process through which the preoccupations, needs and values of the citizens are incorporated in the decisional process of local public administration. There are two directions of communication (between citizens and administration), with the general purpose of making better decisions (local public administration) sustained by the citizens, on the basis of the attributes their satisfaction develops on.

Both Upson¹⁵⁰⁷ and Schachter plead for the implication of the citizens in the act of governing. The problem they notice is given by the difficulty of implication of the citizens in public affair problems. After Schachter, the indirect benefits associated with the involvement of citizens in the administrative act are: economical development, community reviving, perception of safeness, low mobility of the citizens with low salaries. Stone¹⁵⁰⁸ fights Schachter's ideas through the prism of plural wishes, expectations and opinions of citizens which mainly cannot be transform into efficient results for the governing act. Even though, Schachter himself admits the fact that the same project can be efficient or not, depending on what that community has been waiting for. In conclusion, it is difficult for the leaders of a community to decide which project should be implemented, because the results can be labelled as efficient or not depending on the subjective criteria each individual has. With such a big emphasis on the conformity of the administration's results to the citizens' expectations, Schachter misses the fact that the citizens' expectations can be unrealistic in what efficiency is concerned¹⁵⁰⁹.

Ebdon and Franklin¹⁵¹⁰ claim that the instruction of citizens with respect to fiscal aspects with which they operate in public system, helps them to separate the feasible projects from the unfeasible one. When Upson talks about the implication of citizens in problems of efficiency he distinguishes between "how" and "what" the public administration does. Upson argues that because this two situations interact with each other, the civil servants have to pay attention to

¹⁵⁰⁷ Upson, Lent D, Letters on Public Administration from Dean to His Graduates, Detroit: Citizens Research Council of Michigan, 1954, p. 152

¹⁵⁰⁸ Stone, Deborah, Policy Paradox: The Art of Political Decision Making, New York: W.W. Norton, 1997

¹⁵⁰⁹ Bothe John, Governmental Efficiency in Our Time: Is the "What" Really More Important Than The "How"?, Public Administration Review, Sep/Oct 2007; 67; 5; ABI/INFORM Global, p.813

¹⁵¹⁰ Ebdon, Carol and Aimee L. Franklin, Citizen Participation in Budgeting Theory. Public Administration Review, 2006, 66(3) : 437-45

both aspects: “what administration does and how it does it”.¹⁵¹¹ By comparison, the hypothesis that Schachter supports relies more on “what” administration does and less on “how” it acts. Bothe¹⁵¹² says that it might be possible to obtain better results, if they first of all let citizens know about actions, functions and implications of the activities performed in those public institutions, and only later, after they developed their knowledge in the matter of public system, the citizens can understand “how” the administration works and based on this knowledge they can analyse if the projects they support bring realistic solutions.

The most influential theory that has dominated the research in the domain of social and political participation of the past years is Putnam’s theory on social capital, from 1993, which resumed from another perspective the theory on political culture developed by Almond and Verba. The social capital refers to the characteristics of society, trust, norms and networks of interpersonal relationships, which can better the society’s efficiency, by facilitating common actions. According to Putnam’s¹⁵¹³ theory a civic community (society) (which can be said to detain a social capital to a large extent) would be characterized by the following elements:

1. Civic employment: the citizens participate actively in the public domain, pursuing their interests in the broader context of society acknowledging at the same time, the interests of the others.
2. Political equality: the community is bounded through relationships of cooperation and reciprocity, not through relationships of authority and dependence. People are employed in the process of self-governing, following norms of reciprocity, in the perception of citizens one being able to find the growing satisfaction of the act of governance.
3. Solidarity, trust and tolerance: the citizens are active, equal and they help, respect, trust each other, even if they have different opinions, they are tolerant with their opponents.
4. Associations, which are, in fact, “social structures of cooperation”: the norms and values of civic community are incorporated in distinct social structures and practices.

Putnam’s research on the communities in Italy pointed out the tight connection between the type of community and the degree of social integration: the citizens from less civic communities in the south Italy feel, to a larger extent, alienated, exploited and powerless. The social networks based on trust have bigger chances to overpass the difficulties that come from non-fulfillment of common interests, as a result of opportunistic and isolated actions of the citizens that are not implicated in the mechanisms of collective actions.

Spontaneous cooperation of people is facilitated by social capital, but the production of the social capital is a cycle. In the participation process, people acquire new skills, greater confidence in each other, so that the provision of social capital is recharged. All the forms of social capital grow as they are used, and they decrease if not implemented.

Almon and Verba have considered that it is good to begin with the local community when it comes to participation, because the problems are easier to understand, the government organisms are less distant and the chances of efficient participation are bigger. It is only here that the citizen can develop a feeling of knowledge with respect to the social and political problems¹⁵¹⁴.

The citizens’ disinterest towards the involvement in the process of decision making and their distrust in their capacity of influencing the decisions of the authorities have as effect the emphasis of a dominant position of the public authorities in the structure of a participative administration. In this context, the role of local public authorities implies not only the acceptance

¹⁵¹¹ Upson, Lent D, Letters on Public Administration from Dean to His Graduates, Detroit: Citizens Research Council of Michigan, 1954, p.153

¹⁵¹² Bothe John, Governmental Efficiency in Our Time: Is the “What” Really More Important Than The “How”?, Public Administration Review, Sep/Oct 2007; 67; 5; ABI/INFORM Global, p.814

¹⁵¹³ Putnam Robert D, Making Democracy Work: Civic Traditions in Modern Italy, Princeton, NJ: Princeton University Press

¹⁵¹⁴ Almond G., Sidney V., *Cultura civică, Atitudini politice și democrație în cinci națiuni (Civic Culture, Political Attitudes and Democracy in Five Nations)*, Bucharest, Du Style Publishing House, 1996

of citizen's participation, but also the initiation of some measures for their effective implication in the decisional processes. The disinterest of public authorities considering citizen's participation seems to be a factor at least as important as the passivity of citizens, the relations between the mentioned dimensions being one of reciprocal causality¹⁵¹⁵.

Gretchen¹⁵¹⁶ reveals in his study the lack of an active implication and participation of the final beneficiaries (citizens), demonstrating that this way the structural and operational changes that demand implementation fail to produce the desired effect, or at least it takes longer than expected.

The citizen's participation in the process of making public decision includes not only the specific methods of implication at local level, but also ways of ensuring participation of the entire community in the process. The diversity management becomes an important part of the process of implication of the citizens in the public life.

Integration

"The opportunity of participating equally in the socio-economical life, without losing the distinctive identity (linguistic, cultural) and simultaneously, the contribution to the cultural heritage of society through individual distinctive elements...¹⁵¹⁷,"

If through integration the identity of a group is maintained, being identified modalities by which these would become a part of an entirety; the assimilation has, of course, a negative connotation due to the minorities' loss of identity and the adopting of the majority identity elements. The political integration based only on equality in rights as it derives from the citizenship won't grant equal opportunities and it won't prevent social conflicts either. The participation opportunity implies not only the participation but also its capacity of consolidation. Not to become a symbolic effort the comprehensive integration has to complete the political, socio-economic and cultural participation with the inclusion and consolidation of the capacity.

Social inclusion

The social inclusion is the process through which the persons with a higher risk of poorness and social exclusion gains access to the opportunities and resources needed in order to have a full participation to the normal life of the society they live in. The process implies an active participation in decision making which affects their lives and the guarantee of fundamental rights. Inclusion has an important role because the role of the state is to ensure security, order and prosperity. The state can accomplish this task only if it manages to integrate all the groups of society. The inclusion has an important role because:

- if a group feels rejected from the process of elaboration of policy and from the state's institutions, it will create its own separate institutions;
- the majority will see these institutions and the work agenda of that minority as a threat;
- this situation might generate conflict.

The inclusion implies the participation of minorities in the processes of elaboration of policy and the consolidation of their capacity, for a more efficient participation; it means acknowledgement and adaptation of minority groups. Thus, in what defining of community problems are concerned, the information has to include the definition of everyone's problems and needs, from the viewpoint of each, majority or minority. After the problem has been defined, they are prioritized and included in the work agenda. This process needs to be based on the participation of all the groups of community, reflecting the problems and the needs of the community in general and not only of a particular group. In what the participation of the minority to these processes is concerned, greater attention needs to be paid to the way the minorities are represented. The

¹⁵¹⁵ Comşa, Mircea et al. (2006) Evaluation of Law 52/2003 on decisional transparency in public administration, research report of Metro Media Transilvania, beneficiary InWent,p.35

¹⁵¹⁶ Gretchen K. . Managing the impersonal in a personalized public service. Public Administration and Development 23(2), 2003,pp. 197–209.

¹⁵¹⁷ United Nations Development Programme(2002).The Roma in Central and Eastern Europe.Avoiding the Dependency Trap. <http://roma.undp.sk/>

principle of the majority decision does not have to be determinant for the setting of priorities and of the agenda, neither in continuity in general, nor inside groups.

Thus, local policies need to be adapted to the diversity of the community and at the diversity within each group, as well. The participation of all the groups in the process of elaboration and implementation of local politics ensures their acceptance by the entire community, triggering a feeling of responsibility towards the results obtained. The responsibility of local authorities, in addition to the ensuring of participation of all those affected directly or indirectly by that policy, includes the development of complimentary structures of the policy, the creation of capacities and allocation of resources.

Exclusion and inequities

Social exclusion means limited or blocked access to social systems (labour market, political institutions, access to education, social services etc.). It is a process in which certain individuals are pushed to the margins of society and they are not allowed to fully participate, because of discrimination or due to poorness or lack of elementary competences.

It is important to emphasize that the inequities are characteristic to democracy not only at a level of representation, but also at the participation level: non-dominant ethnic groups, inferior in number or vulnerable ones could not only be neglected, but they also have less power to influence the rules, procedures and policies. If these are not taken into consideration or moderated by special procedures, they can cause later inequities.

On short term, the exclusion of a non-dominant group and of the preferences of this group from the political agenda might seem an efficient and effective solution, but on long term, the win-lose situation will become a loss-loss one as long as the social situation will get unbalanced. The restricted competition for power and resources and the exclusion of different groups from the decision making process sooner or later results in social conflicts, massive migration which effect the entire community, not only the group that is exposed to the exclusion. In such cases the risk of conflict is higher.

There are more values accepted in governing, such as equity, equal treatment, inclusion, social unity, participation. They all are meant to fight against the phenomenon of exclusion. Therefore, good governance is designed to reduce exclusion and promote inclusion, a fundamental principle of democratic states.

Marginalization

According to the Law concerning prevention and fight against social marginalization, social marginalization is defined by peripheral social position of isolation of individuals or groups with limited access to economic, political, educational and communication resources of community, it is manifested by the absence of minimum social conditions of life ¹⁵¹⁸. It is the result of multiple exclusion from different social systems and of segregation. It is a process of socio-economic degradation. It is the total failure of inclusion.

Segregation is illegal separation without consent or expressed desire of the segregated. It means isolation from society by denying access to major social, political or economic institutions. Segregation based on ethnic criteria can lead to both "vertical" and "horizontal" stratification, where different units are separated into their own structures and mutually incompatible.

To be fair, the state and its institutions must be neutral and must not favor one group over another. To ensure participation of all groups in local decision-making process there is a primary need for recognition and awareness of diversity as well as of the way in which the identities overlap and intersect.

Public participation is desirable when it is effective. The management of the participatory process primarily supposes a series of decisions and actions meant to make it possible:

- identifying the most appropriate form of participation for the desired goal, considering the nature of the problem, the size of the group involved;

¹⁵¹⁸ Law no.116 / 2002, art.3

- identification and clear communication of the objective of participation;
- invitations sent in time;
- providing necessary resources for the good development of the process: moderators, operating room, materials to present the problem, etc.

To get the desired result, participation must be first *inclusive*, i.e. the views of those directly and indirectly affected by the resulting public policy should be allowed to transpire. This is especially relevant where the community is distinct ethno-culturally.

Language barriers

Symbols, linguistic structures and rules make the coding mode of the message sent to the listener represent an important barrier in intercultural communication. Beyond the linguistic problem, the level of knowledge of communication language and the vocabulary which the participant has, make the message and its understanding difficult the way it was intended by the others. Ensuring communication in mother tongue is one of the ways of passing that barrier.

Anxiety

Coming into contact with members of other cultures makes them find out that other cultures have different values, that in the same situation the culture guides others differently. Interaction with a stranger is a challenge for any guide considering the behavior, the rules that were as clear as possible in the communication with a person of the same culture are lost, thus leading to anxiety - nervousness. Such an emotional reaction is normal when someone enters an environment that is unfamiliar, considering the fact that one cannot predict the behavior of others.

Stereotypes

Stereotypes are labels that are applied to individuals that are associated with a group of people and share one characteristic. They can be negative, and they function as mechanisms to discourage involvement in community life.

Cultural context

Communication must take into account the differences in codes of conduct and rules of communication that can differ according to culture / different ethnic group, age, social environment. These differences are relevant when they either discourage the participation due to the misunderstanding of the communication meaning and of behaviour, inability of expressing in the same way or have negative and offending effects that certain behaviours can inflict to the others.

However these communication barriers can be overcome. The Public Administration role in this process is to identify the differences among community members, to facilitate mutual understanding and communication between them, to mediate conflict situations.

To meet the needs of citizens, participation must be *transparent*, which is to rely on early communication of information necessary for participants to make decisions. The information must be communicated in a language accessible to a bigger part of the target group. Also, information should be distributed as widely as possible.

Participation should be facilitated in order to allow each participant to express their views, to ensure reaching a conclusion related to the objective of participation. The role of the facilitator or mediator is based on four principles:

- *separating people from their problems*: separation of subjective problems, caused by different perceptions and other inherent obstacles in communication between people, by objectives, by content;
- *focusing on interests beyond the positions of different parts*: finding the real problems, under apparent solutions or symptoms;
- *generating of multiple solutions before reaching an agreement*: identifying alternative solutions to the same problem, to identify the best alternatives or combination;
- *identifying objective criteria for the reached agreement*: objective evaluation of multiple options for taking any kind of decision, when determining priority issues or choosing the best solution from several alternatives.

The participation goal is to reach an agreement, a common understanding on solving a problem of the community or of a part of the community, thereby achieving a higher level of satisfaction of the community members.

The most effective methods of citizen involvement are the direct ones:

- *Regular meetings* between representatives of public authority with the public, both on specific areas of local public policies and with groups of citizens directly affected by specific policy measures (an effective method of citizen involvement is represented by the meetings organized by the local executive with the leaders of associations of owners in the community to identify together the ways of meeting the wishes of the citizens they represent).

- *Public hearings* - to identify problems of public policy brought by citizens.

- *Public debates* aiming to identify the alternatives of public policies approved by citizens and to select alternatives that are viable and/or the evaluation of the impact of implementation of various public policies (consulting citizens living on the streets included in the project of asphaltting and rehabilitation, aiming at surveying the riverants' opinion on the opportunity of the project implementation, on the method of further development of the road ditches, bridges etc.).

- Encouraging *the formation of citizen advisory committees* to identify solutions to the diverse problems of public policies at local level.

International experience shows that in the case of efficient and effective functioning of local authorities through active and direct involvement of citizens, the chances of the development of the town become bigger, but this has also a positive effect on decreasing the level of corruption at the level of local officials and clerks, all these reflecting a significant impact on citizens' satisfaction. Even if there is a legal framework in this regard and even if the transfer of power and financial funds is perfected, they should be supported by the knowledge of the citizens regarding this process and their commitment for local problems of public interest, too. But, the participation of citizens, more likely its effectiveness, is influenced by more factors such as: civic responsibility, knowledge related to the system, possibilities of participation, age as an indicator of political mobility and knowledge, occupation as time constraint, social integration as a network communication, income, education level, consumption of media.

In the case of services, implicitly those of local public administration, the client is part of the provision process. Therefore, there is a need to inform and educate him/her that his/her opinion counts, that depending on his/her options certain public services can develop and reorganize, that the benefits of active and inclusive involvement of citizens in the process of elaborating legislative acts and that of decision making are multiple. This involvement can be conceptualized as a form of partnership between authorities, public institutions and citizens to achieve common goals at the level of community. Citizen involvement is also a way of socialization, of making citizens responsible regarding community problems. Citizen involvement contributes to an atmosphere of cooperation and mutual support necessary for a balanced, sustainable and long-lasting development at local level.

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MARKETING FOR SMALL ENTREPRISES – CASE STUDY POSITIONING OF “PLAFAR” DI LTD

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Bacau health and wellness market has grown to embrace an array of products, including dietary supplements. As a typical “Plafar” store, Plafar DI offers a wide range of natural products, from teas, extracts and creams, to nutritional supplements, cosmetics and biological foods, most of them produced by local companies, as well as imported. Half of Romanian small and medium-sized firms are seriously and severely affected by the economic and financial crisis. Now, like thousand others small companies “Plafar DI”, from Bacau, should use an intelligent marketing positioning in order to survive the crisis.

cod JEL lucrare : M3

Keywords: brand positioning, SME, case study

1. Herbal medicines

Traditional medicine is the sum total of knowledge, skills and practices based on the theories, beliefs and experiences indigenous to different cultures that are used to maintain health, as well as to prevent, diagnose, improve or treat physical and mental illnesses.

Traditional medicine that has been adopted by other populations (outside its indigenous culture) is often termed alternative or complementary medicine.

Herbal medicines include herbs, herbal materials, herbal preparations, and finished herbal products that contain parts of plants or other plant materials as active ingredients¹⁵¹⁹.

Medicinal plants have played a key role in world health. Since its early beginnings human existence has been closely connected to the art of healing. Herbal drugs have been used since ancient times as medicines for the treatment of a range of diseases For a long time the main therapeutic arsenal of the human being were the plants as the most important and easy curative method. For ages the empirical medicine counted on the treasure of the nature, offered by the healing virtues of plants which have been, in their different forms, until the end of the XIX century and the beginning of the XX century, one of the weapons to fight against diseases

In spite of the great advances observed in modern medicine in recent decades, plants still make an important contribution to health care. It is estimated that about 25% of all modern medicines are directly or indirectly derived from higher plants. In some particular cases, such as antitumoral and antimicrobial drugs, about 60% of the medicines currently available on the market and most of those in the late stages of clinical trials are derived from natural products, mainly from higher plants¹⁵²⁰.

During the past decades, public interest in natural therapies, namely herbal medicine, has increased dramatically not only in developing countries but mainly in industrialized countries [reviewed in 1-3]. This has increased the international trade in herbal medicine enormously and

¹⁵¹⁹WHO, Fact sheet N°134, December 2008,

¹⁵²⁰ Calixto J.B., Efficacy, safety, quality control, marketing and regulatory guidelines for herbal medicines (phytotherapeutic agents), Brazilian Journal of Medical and Biological Research, February 2000, Volume 33(2), p. 179-189.

has attracted most of the pharmaceutical companies, including the multinationals. Until a few years ago, only small companies had interest in the marketing of herbal medicines. Currently, most large multinational companies are interested in producing and commercializing herbal drugs. “The green medicine” as it is called the production of different pharmaceutical products from plants, extracts or other pharmaceutical forms based on plants, generated the setting up of some small enterprises to harvest and render profitable, under a certain supervision, this activity. Consumers use herbal products as therapeutic agents for cure of diseases and pathological conditions, as prophylactic agents to prevent diseases over the long term, and as proactive agents to maintain health and wellness. Additional, herbs and phytomedicinals can be used as adjunct therapy, to support conventional pharmaceutical therapies¹⁵²¹.

2. Plafar – main source of herbal medicinal products in Romania

Macroeconomic and environmental factors, such as poverty, industrialization and hectic lifestyles, are transforming the diets of Romanian consumers and threatening to undermine healthy nutrition despite the improvements in the food chain. High deficiency rates of basic nutrients, such as calcium and other minerals, are shaping the popularity of dietary supplements in Romania. In contrast, developed economies in North America and Western Europe are “discovering” the benefits of supplements geared toward a specific health condition, such as joint disease or insomnia, or even toward improving beauty¹⁵²².

In Romania herbal medicinal products are traditionally sourced from “Plafar”. Plafar - is a famous Romanian brand with 80 years on the market a traditional brand with high customer awareness. Plafar become a generic name for a herbal products shop, like Xerox for photocopies, despite existence of the chain of “Societatea Nationala Plafar S.A.” markets and manufactures aromatic, herbal and medicinal plants a company who was founded in 1999 and is based in Bucuresti, Romania. A typical Plafar store offers a wide range of natural products, from teas, extracts and creams, to nutritional supplements, cosmetics and biological foods, most of them produced by local companies, as well as imported. It also sells bio foods, and specific books and magazines.

Last 10 years a large number of “Plafar” cover the supply for herbal products all over the country. Except the units of “Societatea Nationala Plafar S.A.” most stores are results of individual economic initiative, and practically are small companies.

3. General economic context for a small pharma business - Romania

Half of Romanian small and medium-sized firms are seriously and severely affected by the economic and financial crisis. In Romania small businesses do represent a high percentage of the total number of enterprises. Last year, the number of operational Romanian small and medium companies went down to some one million¹⁵²³.

During the early stage of the transition, small and medium enterprises (SMEs) began to grow dramatically, primarily because of the privatization of enterprises in trade and services. The majority of SMEs at that time specialized in trade.

A short review about “plafar” stores talks about 200 small stores¹⁵²⁴, but real number is bigger. Unfortunately statistics not cover real data about such kind of small business selling herbal products.

¹⁵²¹ Blumenthal M., *The Complete German Commission E Monographs: Therapeutic Guide to Herbal Medicines*, ed. American Botanical Council in cooperation with Integrative Medicine Communications, Austin, Tex, 1998, p.10.

¹⁵²² Feldman M, Hudson E, Romania, Saudi Arabia and Vietnam Among Top Future Nutrition Product Markets, *Euromonitor International*, November 2009.

¹⁵²³ Romanian Trade Registry’s National Office

¹⁵²⁴ Culita L., Do you remember Plafar tees?, *Business Magazine*, july 2009

Poor or less educated consumers use herbal products self-medicate with herbal preparations for preventive or therapeutic purposes instead pharmaceutical products, because of small costs or may assume that these products are safe because they are "natural". As a natural result, herbal products are strong attached to the pharma market. Romania lacks a regulatory system for herbal products. Although only limited research on herbs has been published all over the world. There are increasing discussions over the miraculous power of plants, over their properties, the fact that each of us should give more importance to nature

Some products cause adverse effects or have the potential to interact with prescription medications. Yet herbs contain hundreds of components, some of which can cause ill effects directly, while others can interact adversely with pharmaceutical agents.¹⁵²⁵ Few herbal drug manufactures can make claims of their product that have controlled double blind studies proving these claims.

According to market research firm Cegedim Romania in 2009 the domestic medicine market slowed down its growth rate measured in the national currency, by 13.1 %, and amounted to 8.1 billion Lei. In 2008, the medicine sector saw a 17.7 % increase, that is up to 7.16 billion lei. In Euros, the sales of medicines in Romania last year went down by 1.7% , reaching 1.9 billion Euros, as compared to the reported 6.8 % growth in 2008. Cegedim representatives estimate that this year medicine sales expressed in Euros will keep dropping by 2-3%, after the 1.7% decrease in 2009¹⁵²⁶.

Herbal products market is almost unknown in terms of data. Herbal products are included into a wide category: alimentary supplements, who, about specialists estimation¹⁵²⁷ is continual growth. There are some possible explanations for this fact:

- herbal supplements are more popular now than ever before. People are looking for new ways to improve their health, and they are turning to natural remedies rather than pharmaceutical drugs more and more.

- anecdotally, it is thought that herbal products and dietary supplements are popular as a result of a widespread belief that the preparations are natural and, therefore, safe.

- herbal products are affordable. Pharmaceutical products are often very expensive.

4. "Plafar" DI – positioning strategy

Plafar DI is a small and successful family business consists in 2 stores.

None of the owners has previous experience, training or even idea about business. They practiced an adapted training that qualifies each one of them directly operational for the job market (not academic or diploma).

Bacau health and wellness market has grown to embrace an array of products, including dietary supplements, fortified/functional foods and beverages, organic and naturally healthy food and beverages, and nutritional products targeted to specific health conditions and food allergies/intolerances. Plafar DI has understand early this situation and has opened a first store into the Central Place in Bacau – most visited area in town (year 2003).

The market they act – Bacau area¹⁵²⁸, is covered by almost 25 stores. The large majority of them are small companies which are active only in the area where they have been established. Only a mini-chain, from 4 pieces, seems to be a real competitor. Big, powerful player, with national coverage are less important (one single player) from local market. The tendency seems to be increasing competition.

¹⁵²⁵ Zink T., Chaffin J., Herbal 'Health' Products: What Family Physicians Need to Know, *American Family Physician Journal*, October 1998.

¹⁵²⁶ Mediafax announcement, Radio Romania International site, 21.04.2010,

<http://www.rri.ro/art.shtml?lang=1&sec=10&art=31789>

¹⁵²⁷ Dinu. D.I., Alimentary supplements market – 3 times smaller, *Pharma Business*, December 2008

¹⁵²⁸ Plafar DI estimations

From an economic perspective, however, a city (Bacău -175500 inhabitants¹⁵²⁹) does not represent a population within rigid geographical boundaries. To an economist or strategic planner, a city represents an area of dominant influence over markets in adjacent areas. This fact was very good understood and applied from Plafar DI, when opening a second store near to the bus terminal (year 2010).

Plafar “DI” has already experienced some of the problems of small and medium-sized enterprises have already been identified as: limited access to funds, credit markets freeze and a shortage of liquidities, a reduced European fund accessing capacity and high taxation. In order to survive this poor condition and succeed into a very competitive market, “Plafar” DI should develop an efficient and coherent positioning strategy.

This process involve selecting specific attributes with witch is desirable for the company to be associated. Knowing witch attributes, benefits and values consumer use within a given product category constitutes a grand start for brand assessment¹⁵³⁰. A brand position is how it is perceived in the mind of consumers relative to competitor brands (Stanton 1978).¹⁵³¹ An effective position can be defined as one that enables a brand or service to occupy a preferred and unique niche in a customer's mind that is also consistent with the overall marketing strategy¹⁵³²

“Plafar DI” has a relative easy mission because lack of management knowledge of their competitors. A good product policy, in terms of a wide range of products, and a large number of information provided to the consumer are determinant in gaining a significant position.

The information Plafar “DI” provide **is to educate their customers on the proper use of herbal drugs and help guide them towards healthy lifestyle** changes that provide a better sense of well being and overall improved health. Plafar “DI” personnel acts as the attentive sisterly figure who guides patients in selecting the appropriate herbal treatment regimen for their various conditions, respecting next rules:

- the vendor shall have a general knowledge of herbal products.
- the vendor shall have a current, reliable reference.
- the vendor shall be satisfied that the products are safe.
- when counseling, the vendor shall be satisfied that the product(s) will not interfere/interact with the patient’s possible disease state and/or other traditional medications.
- When counseling, the vendor shall be satisfied that the patient understands that the product is not to be used as an alternative to hi/her traditional therapy, unless so directed by his/her physician.
- When counseling, the vendor shall encourage the patient to inform his/her physician of the decision to try new therapy.
- The vendor shall recognize the need for intervention and/or referral to a physician.

The goal of an ad program should not be to communicate, but to occupy a "position" in the prospect's mind.

The main purpose of this process is that of promote a new image of “Plafar” DI, attracting many clients independent of living area, helpful for companies to consolidate their position on the market. Gaining customer loyalty becomes a key objective for “Plafar” DI who decide to adopt a relationship marketing perspective.

¹⁵²⁹ National Institute of Statistics, Department of Bacău

¹⁵³⁰ Vriens M, Hofstede F.T., Linking attributes, benefits and consumer values, Marketing research, Fall 2000, 12,3 ABI/INFORM Global, p.4

¹⁵³¹ Lamb C.W., Dunne P.M , Theoretical developments in marketing, AMA, p.116-117

¹⁵³² Lautman, Martin R., The ABCs of positioning, [Marketing Research](#). Chicago: [Winter 1993](#), Vol.5, p 12

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DISTRIBUTION OF BANKING PRODUCTS AND SERVICES.

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Starting with the '90s, retails banks have faced several challenges. One of them is how to efficiently deliver their products and services to the customers. In fact, the most important challenge of a bank is how to efficiently reach the customer, with the right product or service, at the right time. Today, they can choose between branches, contact centers, ATMs, online channels, portals and web banks. Multichannel banking is, therefore, more relevant than ever. Multichannel banking is more than just offering multiple channels, but offering integrated channels, with the optimal balance of services, prices and offer across channels. Banks should have the ability to deliver the right service at the right time in the right channel. The bank should define exactly how they are going to use each channels, which services and products in which channels, how to mix and integrate the channels and how to support the channels.

Keyword: banking, banking products and services, banking distribution channels, multichannel banking

Cod JEL lucrare: M31

Distribution in banking

A distribution channel is a route to the market for a supplier¹⁵³³. In the case of a bank, the distribution channel is the way the banking product or service takes from the bank to the customer. Most banks have multiple channels to serve their customers. Today, they can choose between branches, contact centers, ATMs and online channels, portals and web banks.

Types of distribution channels

1. Branches. These are the face of the bank and the place where the client meets the bank. The distribution is made by the traditional counter. The bank's president is far away and not always known to customers. However, the client manager is close, he advises, listens to the client, makes clients' financial life easier¹⁵³⁴. According to a survey carried out by Accenture in September 2008¹⁵³⁵, the branch is the most preferred channel for all the interactions that emotionally involve customers, such as buying complex products (76% preference) receiving financial advise (71%) and resolving an issue (59%). 73% of the customers visiting a branch say that they are looking for a personalized contact. In this respect, the branch is a distribution channel where the human factor plays a dominant role.

2. Specialized branches have been created as an alternative for the classic branches. These specialized branches are focused on a certain type of activity such as: operations for individuals, for small business or for corporate clients. Banks have opened such branches in supermarkets or malls. The main reason for establishing such branches was to have a close relationship with these corporate customers and to provide services of interests for their clients. Their primary activities are the consumer loans and basic operations for individuals (payments, foreign exchanges etc.). These branches are accessible all week long (even in Saturdays and Sundays) as long as the

¹⁵³³ Julian Dent – Distribution Channels. Understanding and Managing Channels to Market, Kogan Page, London, 2008.

¹⁵³⁴ EFMAG Magazine No. 220 July/August 2009, Branches- The Client comes for a service to satisfy his needs, http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/220.

¹⁵³⁵ EFMAG Magazine No. 218 March/April 2009, Multichannel Distribution – The interconnected approach http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/218.

supermarkets and malls are open. BRD-GSG, ING Bank were the first banks to open such branches in Romania.

3. In order to better serve certain ranges of clients, banks have also created **corporate branches** or **private banking branches**. These clients require more sophisticated products and services and high standards of quality. Therefore the staff employed in these branches should be seniors in terms of products knowledge and the quality of service delivery.

4. Among the specialized branches, we can also mention: the **mortgage branches** whose focus is on selling mortgage loans. Raiffeisen Bank created such a branch named „Raiffeisen – Casa Ta” as a result of the high demand for mortgage loans and the complexity of these products.

5. Self banking branches were first created by ING. These branches have two areas: one where the customers are served by bank employees (usually 3 or 4 persons) during the normal working hours and one where the customers can use self banking devices. These can be used all day long (24h/24, 7 days/7) and the access to this area is given to all the bank customers who have a debit card. Here, the clients can make deposits, payments, cash withdrawals, invoice payments, repayments of loans installments. BRD-GSG, RBS have also created such self banking branches.

6. Mobile branches were first used by Raiffeisen Banca pentru Locuitorii. The bank did not have a branch network and the products were delivered by the help of sales agents. The bank started a banking caravan which reached the most important cities in Romania. The aim of this caravan was to promote and to sell the bank's products. BRD-GSG has also created a flexible and movable branch. (BRD BLITZ) located mainly in rural areas. In this respect, the branch wanted to reach the rural population (neglected by all others banks). These branches had a rapid installation (2 weeks) and can be easily relocated to another place (if necessary). The opening hours were 2-3 days/week, 3-4 hours/day.

7. Banking cafes were first settled in Romania by Banca Transilvania. The banking cafe is the result of a partnership between a bank and a cafe. The branch that is located in a cafe can offer a full range of products and services (information point which offer leaflets, brochures with the bank's products and services to the existing and potential customers along with financial newspapers and magazines). This concept was later developed by ING, Volksbank, BRD. These banking cafes are in the major cities of Romania (where there is a large business community).

8. Direct mail is another distribution channel for banking products and services. In the same time, direct mail is also a promotional tool. The aim of delivering the banking products and services by mail can be, not only just simply informing the clients about a new product but also convincing the client to buy a certain product. The main advantage of delivering by mail is the fact that the bank can promote its products and services to a certain segment of clients. In this way, the bank can target a certain group of clients in order for the message and products to be tailored accordingly.

9. Automatic teller machines (ATMs) were first introduced in Romania in 1995 and they have evolved ever since. By the end of 2006, the number of ATMs overcame the number of branches. This fact is explained by the difference of operation costs involved by these two distribution channels. ATMs have been rapidly moving from just a cash-dispensing machine to a self-service banking channel. The driving forces of this movement are: firstly, the pursuit of operational efficiency and then, the battle for differentiation in the service being offered.

ATMs can increase the marketing potential by providing services to clients in others places than the bank branches. ATMs are an alternative for crowded desks in branches. Cash withdrawals were moved from the cash desks to the ATMs and this transfer is encouraged by most of the Romanian banks by lower fares for these services. This can reduce the waiting time in branches.

The numbers of ATMs users has increased in Romania. The clients appreciate the user-friendly feature of ATMs , the large number of operations that can be done through ATMs, the speed and the security of these devices and last but not least the theoretically unlimited availability of ATMs. Besides all these, all the transactions are automatic, which reduces the risk of human mistakes in transactions.

9. **EFTPOS (Electronic Funds Transfer at Point of Sale)** is a payment method that can be described as a distribution channel. EFTPOS is a system by which the clients pay the services they acquired just by using a bank card. This system is very used when shopping, travelling, buying tickets.

In a society where time is money, there has been a huge request from the customers for more accessible distribution channels. The computers and the mobile phones were the best choice. As a result the banks have made considerable investments in the development of services that are not based in the branch and which are accessible through the Internet or mobiles phones. The development of electronic distribution channels has resulted in the appearance of a new concept: **the virtual bank**. This is the bank where the contact can be reached by a large variety of distribution channels, but maintaining the same interface and having access to the same services. The client has the possibility of choosing from a large variety of channels: phone, ATM, POS, Internet. As a result,, a new form of banking has appeared. „Martini banking” which signifies the presence of the banking products and services „anywhere and any time”.

10. **Mobile banking** appeared in Romania in 2003. At the beginning, only some services were available: account balance, information about exchange rates etc. At present, all the banks provide mobile banking and the range of services provided is very wide: payments, direct debits, information about the nearest ATM/branch etc.

11. **Call centers** - Raiffeisen Bank was the first bank to start up a call center in Romania in 2004. Up until that moment, the only possibility to contact the bank by phone was through the branches' numbers. The only dedicated phone-line for a bank was the one related to card problems. The client used to pay the price of an ordinary phone call. By means of call centers, the contact with the bank was made through a toll-free phone-line which makes this distribution channel very accessible. Through call centers, all the information is received for free and one client can choose from a large range of services (information about accounts balance, payments, exchanges, applying for a credit etc.) The most important issue is to ensure the security of this service. The client is authenticated for each transaction by certain devices. Nowadays, the call centers are used as a marketing tool. Through it, the bank can start marketing researches, can sell products and services. As the mobile phone is an almost indispensable accessory, incomparably easier to handle than a computer, the phone banking is becoming a more advantageous alternative to Internet banking.

12. **Internet banking**. There is a debate about the impact of technology in services marketing, for example the Internet. The Internet-driven information revolution is widely seen to be transforming the way both business and consumer operate. This is particularly relevant in banking services, where transactions do not require interpersonal interaction. In such cases the Internet becomes a new distribution channel. However in other context the Internet is widely used as an information source or a promotional tool¹⁵³⁶. Internet banking was launched in Romania in 2003. At that time, the bank posted on the Internet information concerning only the bank and the range of products and services provided. Later on, the Internet became a distribution channel by providing an entire range of services: payments, information about account balances. The Internet facilitates payments for services (event the state taxes) by the help of virtual cards. The Internet is also a tool for acquiring new clients by online applications for different products. In terms of clients' preference, the internet is more preferable to other distribution channels by simplicity, availability and customization¹⁵³⁷. The only constraint is the fact that the Internet is not accessible to all the clients.

13. As banking market is highly competitive, the banks have looked for new formats to successfully develop market and deliver its services. Further promising approaches to distribution

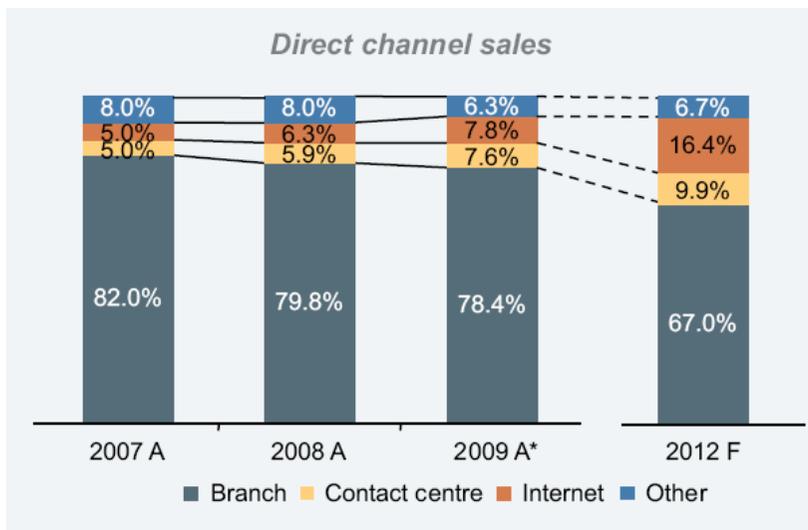
¹⁵³⁶ Gilmore Audrey – Services Marketing and Management, Sage Publication, London 2003

¹⁵³⁷ EFMAG Magazine No. 218 March/April 2009, Multichannel Distribution – The interconnected approach http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/218.

can be found outside banking. In many sectors, a rapidly growing number of **franchise** systems works with self-employed entrepreneurs as franchisees, who sell the franchisor's products or services, benefiting from a standardized sales and marketing concept. In Romania, ING and Volksbank operate through franchises.

Besides, the banks started also to deliver through **sales agents**. The Romanian banks use this distribution channel for specialized services. Raiffeisen Bank, for example, have created teams of sales agents whose sales' focus is on credit cards and loans for SMEs.

According to Finalta/EFMA Multichannel Survey 2009¹⁵³⁸, the proportion of all retail banking sales made through each of the main distribution channels is shown in the following chart:



Source: Finalta/EFMA Multichannel Sales Productivity – November 2009

As we can see from this chart, there is a change on a year-to-year basis in direct channel sales. This is most due to the impact of information and communication technologies on banking. Sales is moving away from branches. Still, the branch remains the dominant channel by sales volume. While its contribution is expected to decline by 2012, banks still believe it will account for nearly two-thirds of sales. The share of retail banks sales from direct channels increased from 12,2 % in 2008 to 15,4 % in 2009. Bankers forecast rapid future growth, estimating that by 2012 direct channels sales will account for a third of all products sold, driven by a doubling of the Internet's sales contribution.

Conclusions

As we could see, most banks operate through various distribution channels. The expectation was that customers would eventually conduct most of their business online or by phone. However, current studies suggest that customers still prefer the branches. Over the last decade, banks have made considerable investments in the development of services that are not based in the branch. (this has led to a dramatic increase in the use of Internet and mobile banking, whilst the role of the ATM has also increased). Multichannel banking is, therefore, more relevant than ever. Multichannel banking is more than just offering multiple channels, but offering integrated channels, with the optimal balance of services, prices and offer across channels. Banks should have the ability to deliver the right service at the right time in the right channel. The bank should define exactly how they are going to use each channels, which services and products in which

¹⁵³⁸ Multichannel Sales Productivity 2009, EFMA/FINALTA Report, November 2009, http://www.efma.com/index.php/our_services/publications_studies_surveys/detail/EN/1/262/1-5I90X.

channels, how to mix and integrate the channels and how to support the channels. To do this, they need to understand customer behavior, channels performance and the channel's operating cost. However, managing and integrating the distribution channels within an increasingly complex and challenging operating environment has become very difficult.

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The present study attempts to reveal the main market values that count for Romanian managers when adopting critical decision. We also want to evaluate if the main orientation of Romanian managers are through relational or transactional marketing. Another research objective was testing the correlation between organizational and demographic variable and the managers market values. The data is collected from a sample of 693 managers from different fields of activity. We cluster the 12 decisional market value in 5 categories. The main findings are: the most important decisional values is customer satisfaction while ethical consideration is neglected. There are present decisional values specific both to relational and transactional marketing orientation in the same company. The managers departments strongly influence the most important decisional market values of the managers.

Keywords: managerial market values, transactional marketing, relational marketing

JEL Classification: M11, M31

Introduction

C'est bien connu que dans les conditions d'une concurrence accrue, la survie et le développement des entreprises de n'est possible que les efforts soutenus des tous les employés de l'entreprise pour la fabrication de produits ou services qui pleinement satisfont les clients. Deshpande et Farley¹⁵⁴⁰ affirment que dans les pays émergents **l'orientation vers la clientèle est fortement corrélée à la performance des entreprises** (chiffre d'affaires et les bénéfices) en comparaison avec les pays développés où l'innovation a le plus important rôle. Le marché roumain est de plus en plus mature et les consommateurs sont plus exigeants et instruits, ainsi que les valeurs de marché des managers ont commencé lentement à se développer. Contrairement à la situation existant pendant le communisme, aujourd'hui n'est pas suffisant pur le manager de se concentrer sur leur produits, mais les services supplémentaires offerts sont importants aussi. Les managers roumains doivent comprendre que la source de revenu d'une entreprise reste à la clientèle.

De même manière, les bonnes relations avec les employés, les distributeurs, les fournisseurs et le publique de l'entreprise, un marketing éthique sont les clés qui assurent le succès à long terme de l'entreprise.

Dans cet article, nous avons examine les plus importantes valeurs concernant le marché dans le processus décisionnelle des managers roumains et les différences selon certaines caractéristiques démographiques et organisationnels. Nous avons recherché aussi si les managers du communisme et leurs valeurs de marché ont changé. D'autre part, nous avons trouvé si les valeurs dépendent du domaine d'activité du manager interrogé.

Pour faciliter l'existence durable d'une entreprise, quelques principes essentiels (valeurs) doit être partagé par les membres de l'organisation. Ils guident la conduite quotidienne des employés et représente la base de la culture organisationnelle.

Les conclusions d'une étude sur un échantillon d'entreprises du Transylvanie¹⁵⁴¹, un pourcentage de 78% employés a déclaré que leur entreprise a un ensemble de valeurs. Toutefois, l'étude révèle

¹⁵³⁹ Cette étude a été réalisée dans le cadre d'un contact de recherche PN II 186/2007, *Le leadership des entreprises roumaines: motivations, valeurs, styles*, financé par CNCIS-UEFISCSU (Unité d'Administration pour Financer l'Enseignement Supérieur et de la Recherche Scientifique Universitaire)

¹⁵⁴⁰ Deshpande R., Farley J. (2004) *Organizational culture, market orientation, innovativeness and firm performance: an international research odyssey*, International Journal of Research Marketing, 2, p. 3-22.

¹⁵⁴¹ Danis (2008) http://danis.ro/romana/Noutati/Provocari_manageriale_si_evolutia_organizatiilor.pdf.

qu'un répondant sur cinq pense que les valeurs ne sont pas connues par les employés. En outre, 33% des répondants pensent que les employés ne croient pas à ces valeurs.

La valeur de marché des managers

L'évolution des valeurs de marché des managers est directement liée avec *les stratégies de marketing implémentées*.

En fonction de la relation entre les ressources des entreprises et la cible visée, la littérature¹⁵⁴² se réfère à l'existence de plusieurs étapes (à partir de l'orientation production, l'orientation produite, l'orientation vente).

Dans la littérature spécialisée et la pratique sont utilisés trois concepts: l'orientation marketing, l'orientation du marché et l'orientation client. Certains auteurs font une distinction claire entre ces termes et des autres les utilisent de façon interchangeable. Pendant les 2 derniers siècles, la stratégie de base est orientée à le réseau de clients, l'attachement à la clientèle rentable à long terme, correspondant à une vision intégrative sur le marketing. Le développement de stratégies de marketing ont suivi chronologiquement deux périodes: le développement extensif et cèle intensif. Une étude réalisée en 2009¹⁵⁴³ montre que *le marketing des entreprises roumain est également transactionnel et relationnel*. Dans la plupart des cas, le marketing transactionnel est accompagné par les pratiques de marketing relationnel qui ont besoin de technologie (marketing de base de données ou de e-marketing) et ils ont comme principal objectif d'attirer de nouveaux clients.

Compte tenu de ces considérations, les valeurs du marché que nous considérons ci-dessous sont les valeurs des managers sur **la satisfaction des clients, relations avec les employés, le publique de l'entreprise, les concurrents, les valeurs éthiques impliqués dans le développement des affaires et la performance de l'entreprise**.

Si les valeurs relatives à la performance des entreprises persistent, nous concluons que l'orientation vers le marketing transactionnel est présente. Toutefois si les autres valeurs emportent (la satisfaction du client, les relations avec les employés, le publique d'entreprise, les concurrents, les valeurs éthiques impliqués dans l'entreprise), la tendance est l'orientée vers le marketing relationnel, actuellement acquise dans les pays plus développés⁵.

Satisfaction de la clientèle

Les recherches effectuées sur les valeurs du marché des managers roumains montrent que la plupart des valeurs du marché formel ne sont pas appliquées dans la conduite des affaires. Une étude menée en 2001 sur le degré d'adoption de marketing par des entreprises locales¹⁵⁴⁴ a révélé que seulement 3% des entreprises étudiées ont une orientation vers le consommateur, et dans la plupart des compagnies roumaines, le marketing était seulement déclaratoire, et non pas opérationnelle. Une autre étude menée en 2007 sur un échantillon des hôpitaux roumains montre qu'ils ont partiellement l'orientation marketing, matérialisés dans les activités de marketing efficace qui semblent être exécuté sur une certaine stratégie. Cette perception des valeurs pragmatiques ont un support fragile idéologique, ce qui signifie marketing perçu n'est pas suffisamment. Cette constatation fait les auteurs d'examiner les résultats de la recherche avec prudence (les sujets étant assez déclaratives à remplir les questionnaires)¹⁵⁴⁵.

Relations avec les employés, distributeurs, fournisseurs, publique

En addition à l'importance accordée aux besoins des clients, les managers doivent développer un réseau des relations saines entre ses employés. Dans un tel contexte où l'énergie positive est

¹⁵⁴² Catană, Gh. A. (2003), *Marketing. Filozofia succesului de piață*, Editura Dacia, Cluj-Napoca.

¹⁵⁴³ Maxim A. (2009), *Contemporary marketing practices in Romania*, Analele Facultății de Științe Economice Oradea, vol.4, Management and Marketing, p.716-719.

¹⁵⁴⁴ Catană, G.A., Catană, D. (1999), *Romanian Cultural Background and its Relevance for Cross-Cultural Management*, Journal for East European Management Studies, Vol.4, Number 1.

¹⁵⁴⁵ Catana G. A., Catana D., Constantinescu-Dobra A., (2007) *Do the Romanian Health Care providers have marketing attitude?* Acta Electrotehnica, vol.48, nr.4, Editura Mediamira, ISSN 1841-3323, p. 133-139.

transmise par l'organisation résulte une augmentation de la productivité, la satisfaction et la créativité et, finalement, la satisfaction du client.

Une étude réalisée par *Hay et WorldatWork* sur un échantillon de 763 organisations dans 66 pays développés montre que 70% des managers ont augmenté l'importance des programmes de motivation pour les employés par rapport à d'autres programmes comme la satisfaction clients et l'innovation.¹⁵⁴⁶

Une autre étude réalisée dans les pays émergents montre que l'orientation vers le public, les employés et les concurrents ont un impact plus important sur le résultat financier et de marketing qu'uniquement l'orientation client. Dans ces pays, les relations avec les actionnaires, les fournisseurs, les distributeurs et les institutions de l'État en particulier, ont une plus grande importance que le prix ou les politiques de promotion.¹⁵⁴⁷

Relations avec les concurrents. Éthique

Les recherches montrent que la transition du communisme à une économie de marché a affecté les valeurs éthiques des managers en Europe de l'Est. Ici domine le scepticisme sur le rôle de l'éthique pour le développement des entreprises.¹⁵⁴⁸ En outre, les managers de ces pays face à la corruption bureaucratique et la plupart des jeunes ont une attitude négative envers le comportement éthique que les anciens managers.^{1549 1550}

En ce qui concerne l'éthique des managers roumain, selon une étude récente³, elle est *une valeur importante pour les managers de la Roumanie*. La plupart des répondants (82,8%) croient que l'éthique est une valeur dans leur propre organisation, mais n'est pas valorisée dans l'environnement des affaires en Roumanie (80,4%). En descendant la hiérarchie, l'importance de l'éthique dans leur propre organisation est plus faible. Ainsi, si 86% de directeurs général estime que l'éthique est évalué ayant une grande ou très grande valeur dans leur organisation, seulement 71% des autres managers partagent le même avis.

La méthodologie de recherche

Les objectifs de la recherche

1. Analyser les plus importantes valeurs de marché des managers roumaines pour prendre la décision et déterminer après leur orientation principale de marketing (transaction ou relationnelle);
2. Analyser la corrélation entre les valeurs de marché des managers roumains et les caractéristiques démographiques de l'organisation;
3. Évaluation la valeur de marché en fonction du département des managers roumains.

L'échantillon: Notre recherche est exploratoire, sur un échantillon de 94 organisations de trois domaines complexes de l'activité: l'exploitation minière et la foresterie, la fabrication et la construction, respectivement, les services. Les répondants sont 94 managers supérieurs (directeur général et entrepreneurs) et autre 599 managers (managers des directions ou de départements).

Les données ont été collectées à travers les 12 variables utilisés dans GLOBE III questionnaires (*Global Leadership and Organizational Behavior Effectiveness*). Les questionnaires demandent aux managers à évaluer l'importance qui doit être accordée à 17 valeurs fondamentales de

¹⁵⁴⁶ Mihai A. (2009) *Managerii recompenseaza performanta angajatilor prin beneficii invizibile*, Ziarul Fiananciar, 01.06.2009

¹⁵⁴⁷ Burgess S., Steenkemp JB (2006) *Marketing renaissance: how research in emerging markets advances marketing science and practice*, International Journal of Research Marketing, 23, p.337-356.

¹⁵⁴⁸ Ahmed M., ChungK., Eichenseher (2003) *Perceptions on ethics and moral judgement: a cross cultural study*, Journal of Business Ethics, 43, p.89-102.

¹⁵⁴⁹ Brouthers L., Lascu D., Werner S. (2008) *Competitive Irrationality in Transitional Economies: Are communist managers less rational?*, Journal of Business Ethics, 83, p. 397-408.

¹⁵⁵⁰ Jafe E., Tsimmerman A. (2005) *Business Ethics in a Transition Economy*, Journal of Business ethics 62, p.87-97.

décision dans leur organisation. Nous avons choisi seulement ce question qui se réfèrent aux valeurs de marché déjà mentionné (12 valeurs): la satisfaction du client, relation avec les employés, le public, les aspects éthiques, mais aussi les problèmes de performance de l'entreprise (rentabilité, le volume des ventes).

Les questions ont la forme suivante: « *Quelle importance devraient avoir la satisfaction de la clientèle dans le processus décisionnel* ». L'importance de chaque valeur décisionnelle (variable) est mesurée sur une échelle de 7 points (1 = aucun, 4 = modéré, 7 = très important que tous les autres). Nous regroupons les questions relatives à une valeur et nous avons obtenu les déjà mentionné 5 catégories (*clusters*).

Nous avons comparé les valeurs obtenues et nous avons établi les corrélations (si elles existe) entre les 5 variables et le type de société (entrepreneurial / non-entrepreneurial), le département de travail et variables démographiques (sexe, âge, éducation).

L'analyse des données a été réalisée à l'aide de soft SPSS 17.

Les résultats

1. Les valeurs de marché des managers roumains important pendent le processus décisionnel

Les résultats de la recherche sont présentés dans les tableaux 1, 2 et 3.

Tableau 1. La moyenne des clusters

Variable	N	Min	Max	Moyenne	Std. D.
Satisfaction du consommateur	692	3.00	7.00	6.0564	.56656
Performance	686	3.00	7.00	5.5121	.78433
Employées	693	1.50	7.00	5.4387	.79571
Public	693	1.00	7.00	5.3218	1.0405
Éthique	693	1.75	7.00	4.6883	.91505

Tableau 2. Le plus important pourcentage dans l'échantillon

Variable	Freq.	%pour 7	% pour 6	% Cumul.
Satisfaction du consommateur	35	5,1	34,8	39,9
Performance	13	1,9	3,6	5,5
Employées	12	1,7	5,1	6,8
Public	31	4,5	47,6	52,1
Éthique	-	0	9,8	9,8

Le tableau 1 présente (ordonné par moyenne) les plus fréquentes valeurs de marche que les managers roumains prennent en compte pour décider.

Le plus important facteur dans la prise de décisions est la satisfaction des consommateurs (avec une moyenne de 6,05 sur 7 possibles). Dans l'ordre des résultats obtenu, la performance de l'organisation suit (avec une moyenne de 5,5), puis les relations avec les employés (5,5) et avec le public (5,6). De tous ces valeurs de marché, la performance de l'entreprise (profitabilité, le volume des ventes, le coût des produits ou services) suggérant une évolution vers le marketing transactionnelles plutôt que relationnel. La dernière place dans la hiérarchie est occupée des valeurs morales: la contribution au bien-être de la nation, de la communauté et environnement mais les considérations éthiques aussi (4,6).

En faisant une analyse *des plus importantes valeurs de marché des managers roumains* pour prendre les décisions (voir le tableau 2), nous constatons que la satisfaction du client est primordiale pour un pourcentage de seulement 5,1% des managers de l'échantillon. Un résultat surprenant est ce que *les relations avec le public de l'entreprise prennent une deuxième place* (4,5%). Ce résultat valide, pour la Roumanie aussi, la recherche déjà mentionnée, menée dans autres pays d'Europe de l'Est. En ce pays les relations avec les distributeurs, fournisseurs, gouvernement local sont plus importants que l'attention à la satisfaction de la clientèle par la valeur ajoutée.

Toutefois, à partir de la dimension culturelle de la société roumaine¹⁵⁵¹: *le collectivisme et la féminité*, ces valeurs représentent plutôt des prémisses pour l'orientation marketing relationnel,

¹⁵⁵¹ Luca, A. (2006), „România, eminentamente feminină”, *Revista de Marketing și comunicare în afaceri, Markmedia*, studiu efectuat de de *Gallup Organization România și Interact*, 08.01.2006

probablement pas pour des raisons de compétitivité sur le long terme. D'autre part, *l'orientation à court terme et le degré élevé de contrôle de l'incertitude* peut faire les managers à se concentrer sur la performance des organisations.

Analysant des valeurs de marché spécifique des managers roumain dans le processus décisionnel, nous concluons qu'il n'existe pas une tendance générale vers le marketing transactionnel ou relationnel, mais, selon le type d'organisation (entrepreneurial, non- entrepreneurial) **NOUS** pouvons élaborer des résultats. Les entrepreneurs considèrent les relations publiques, la performance et les relations avec les employés comme les valeurs les plus importantes pour prendre la décision, tandis que les managers non-entrepreneurs se concentrent plutôt sur l'éthique. La satisfaction des consommateurs est également importante pour les managers de ces deux types de sociétés.

2. Les corrélations entre les valeurs du marché et les variables démographiques et organisationnelles

Tableau 3. Les corrélations entre les valeurs du marché et de l'âge, sexe et de l'éducation formelle des managers roumains

Variable		L'éducation formelle	Sexe	âge
Satisfaction du consommateur	Pearson correlation	-.071	.052	-.041
	Sig. (2-tailed)	.085	.209	.318
	N	592	591	591
Performance	Pearson correlation	-.048	-.087*	-.023
	Sig. (2-tailed)	.246	.034	.575
	N	592	592	592
Employées	Pearson correlation	.062	-.025	-.011
	Sig. (2-tailed)	.133	.537	.781
	N	592	592	592
Public	Pearson correlation	.066	-.015	-.043
	Sig. (2-tailed)	.109	.716	.298
	N	592	592	592
Éthique	Pearson correlation	-.009	-.010	.088*
	Sig. (2-tailed)	.819	.816	.033
	N	592	592	592

L'analyse des corrélations bi variées présentées dans le tableau 3 montre qu'il n'y a *aucune corrélation significative* entre les valeurs du marché et les caractéristiques organisationnelles et démographiques. Il faut toutefois noter la *corrélations moyenne entre la responsabilité éthique et l'âge de manager, la performance de l'organisation et le sexe de manager et finalement, de la satisfaction du client et le nombre d'années d'éducation formelle de manager*. Ainsi, comme les managers sont plus âgés, les valeurs éthiques sont présentes. Ce résultat vient renforcer les conclusions de l'étude mentionnée, réalisée en Europe de l'Est : les managers de l'époque communiste ont une responsabilité éthique plus grande que leurs collègues plus jeunes, qui ont exercé leur poste de direction dans l'économie de marché.

Les hommes se focalisent principalement sur la performance dans la prise de décision. Étonnamment, la corrélation négative entre la satisfaction des consommateurs et le nombre moyen d'années d'éducation formelle des managers souligne le fait que les managers sont de plus en plus éduqués, la satisfaction du client n'est plus une valeur fondamentale. Ils valorisent, en principal, les relations avec le public pour consolider l'image favorable de l'entreprise et les relations avec les employés (probablement avec le but principal de diffuser l'attitude de marketing dans toute l'entreprise).

3. Les départements des managers influence leurs valeurs de marché?

Selon nos attentes, la satisfaction du client est la valeur la plus importante pour les responsables du marketing (42%), suivie de près par les managers administratifs. Simultanément, les relations avec le public d'entreprise et la responsabilité éthiques ne sont pas les plus importantes valeurs dans leur processus décisionnel. Les relations avec les employés sont les plus importantes valeurs par les managers financières (ou comptabilité) (7%) et celles concernant les relations avec le public sont importantes pour les managers impliquées dans la production (5,8%) et les managers administratifs (4,5%).

Directeurs de services administratifs et ceux des départements Ressources Humaines valorisent la performance pour prendre une décision (21,56%, 17,11%).

Les considérations éthiques sont les plus importants dans la prise de décision pour les managers de la production et des ressources humaines (4%).

Conclusion

En conclusion, dans le processus décisionnel, des managers roumains prennent en compte la satisfaction du client tandis que les considérations éthiques sont quasiment inexistantes. On peut dire que les managers roumains sont orientés également vers le marketing transactionnel (des valeurs concernant la performance de l'organisation) et de marketing relationnel (relation avec les consommateurs, le public, les employés).

Il existe une corrélation moyenne entre la performance et le sexe de manager, entre l'éthique et l'âge, et entre l'importance de la satisfaction de la clientèle et le nombre d'années d'éducation formelle des managers.

Le département des managers influence l'importance des valeurs du marché: les directeurs financiers, de production et la performance administrative sont également orientés vers la performance et vers les relations avec les employés et le public tandis que les managers de marketing tiennent compte principalement de la satisfaction des consommateurs.

Le fait que la satisfaction des clients occupe la première place dans la hiérarchie des valeurs de marché montre que, pendant les deux dernières décennies, les managers roumains se sont écoulés de l'orientation des produits vers la vente et puis vers l'orientation marketing.

Établir des limites concrètes entre le marketing transactionnel et relationnel c'est difficile parce que les deux tendances coexistent dans la même entreprise. Dans l'avenir, nous souhaitons élargir notre recherche, en clarifiant les valeurs transactionnelles et relationnelles et les pratiques des organisations roumaines.

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1929, 1973, 2008: BRAND-RELATED ATTITUDES

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This article focuses on the analysis and interpretation of the branding and promotion events that occurred during the so called, Great Depression (1929-1933) and the 1973-1974 Crisis, projected on the decision of the marketing and management specialists of our times. The economic manifestations, such as: the unemployment rate, the decrease of the purchasing power, the crediting related difficulties, etc., specific to all periods of recession, revolve around the consumer and the way he modifies his consumer behavior. The recommendations provided herein invite us to meditate upon the crises from the previous century and to take a critical look at various marketing related attitudes, such as the disregard for rebranding or brand creation and the diminution of the promotion budgets.

Key words: The Great Depression, 1973-1974 Crisis, Brand Strategies

The article's JEL code: M31

1. Introduction

In 1970, in his book entitled *Future Shock*, Alvin Toffler, in disagreement with the specialists of those times, who believed that science and technology were the main causes of the future product standardization, predicted that, with the passing of time, people would suffer because of a paralyzing excess of options, and not because a lack of products that one could choose from [14]. There are too many products, too many societies and too much *marketing noise* [15]. *Consumer Digest* magazine conducted a study which showed that a common family covers between 80 and 85% of its needs with the help of 150 products [16]. 150 brands – this is the new economy.

The brand has gained a crucial place in the history of marketing, for it has enabled us to make a distinction between various products and contributed to the creation of attitudes such as consumer trust and loyalty. Larry Light, a professional in the field of advertising, was interviewed by one of the editors of *The Journal of Advertising Research* about his predictions in relation to the development of marketing over the next three decades. Light's analysis proved to be very revealing: *The marketing battle will be a battle of brands, a competition for brand dominance. Businesses and investors will recognize brands as the company's most valuable assets* [4].

This paper presents the brand in two different hypostases (the 1929 and 1973 crises) and identifies a series of brand attitudes that may help marketers who see the brand as an efficient weapon for communicating with the consumer and adjusting to their new *consumption habits*.

I will position the brand in the two time periods discussed herein. This positioning will be strictly correlated with managerial behavior, for which purpose I will resort to case studies. Finally, I will try to give shape to a series of recommendations for the current crisis, which have as a starting point the analyzed cases.

2. The brands of 1929

The period 1922-1928 represented, for the American and European economies, a period of confidence and contentment with the outstanding results obtained, especially in industry. Economic development was accompanied by prosperity, salaries became bigger and bigger and unemployment almost disappeared. The crediting system facilitated the development of demand and, implicitly, of production. In his desire to increase productivity, imperatively necessary for augmenting demand, in his work entitled *Principles of Scientific Management*, 1911, [11] Frederick W. Taylor stimulated the trend of scientific management, which advocated for

production on assembly lines, with the strict timing of each operation. However, Taylorism enhanced fatigue and led to a decrease in the workers' technical creativity. The "robotizing" Taylorism was the source of the non-rationalization of consumer decisions.

Our consumer was more and more eager to consume, and, because of the normalization, and standardization principles applied to products and services, he would become loyal to the products he liked. Most marketing specialists argue that it is during this period that the packing and the brand start to act as information and pressure instruments on the buyer. They start to promote real or imaginary features of a given product or manufacturer [10]. The exodus of the population to the city, in search for better paid jobs, accelerated urbanization; electrical appliances and the radio become part of the life of ordinary people. Mass-media infiltrates in society via the radio, newspapers, the cinema and even television, leading to the diversification of the communication channels and thus laying the foundations for many of the marketing principles and practices.

In contradiction with all the above mentioned aspects, on October 29, 1929 (the so-called black Thursday) people witnessed the shock of the fall of the share prices at the New York Stock Exchange. The Wall Street Crash was followed by a wave of bankruptcies, account withdrawals and insolvencies. The purchasing power suddenly dropped, companies significantly reduced their activity, and some of them even closed for good. The unemployment rate reached unimaginable values; where the employers kept their employees, they had to reduce their salaries. The product abundance faced a lack of buyers. The poverty caused by the lack of employment and by the diminution of the salaries led to large scale social movements: strikes and demonstrations of the unemployed, hunger marches, actions of the veterans, farmers, etc. [1].

I will proceed to the analysis of some brand related events, in strict correlation with the economic and social context presented above.

Rebranding. In 1930, Pepsi underwent a rebranding process and invested significant amounts for the promotion of the new image [5], also supported by a new shape of the bottle. Coke Cola, its main competitor, invested primarily in repackaging and brought the six-pack on the market. Even if sales dropped, neither of these companies reduced promotion costs.

Reconstruction of the architecture of the brand portfolio. Ivory, the 99.44/100% pure floating soap and the first successful brand of Procter Gamble, resists the pressure of reducing promotion expenses and even manages to sponsor some of the first radio *soap operas*, The O'Neills. Procter Gamble launches, also in this period, the Camay soup, unfortunately in the shadow of the Ivory brand. The company envisages, for the first time in its history, the creation of a brand management team, in charge of a marketing program and of its coordination with sales and production. This was a crucial event in the history of branding [4].

Birth of a brand. In 1931, two years after he had lost his job with Steyr, because of the crisis, Ferdinand Porsche set up his own company, in Stuttgart. This would actually be the beginning of Porsche [6]. The first project dealt with the design of an average class car, but they subsequently returned to the idea of a popular car. Later, Ferdinand would manufacture a high speed vehicle that equaled the *Silver Arrows* during an age when German cars dominated Grand Prix races. A while later, Ferdinand faced new challenges: his car was supposed to carry two adults and three children at a speed of 100 km/h, to consume little fuel, not to have problems during the winter season and not to cost more than 990 Reich mark – a little more expensive than a motorcycle.

Innovation through creativity. Walt Disney stated: *I hope we never lose sight of one thing – it was all started by a mouse* [8]. Mickey Mouse is the name of the first cartoon to have managed to synchronize sounds and image. When the crisis was the primary concern of the entire population, and all the politicians were preoccupied with their anti-crisis programs, Disney launched their first color animated cartoons. Nowadays this is one of the most powerful media and entertainment company in the world.

Non-interruption of the scheduled launches. In 1932, Chrysler launched the Plymouth model and sent a message that was considered, at that time, unorthodoxly honest. The message incorporated

an image of Walter P. Chrysler, supporting his leg on the new Plymouth model, and the slogan: *Look at all Three!* [17]. Chrysler seemed to encourage the public to compare the new model with those of his competitors, Ford and General Motors, before making a decision. This kind of honesty led to record sales for the new model. Chevrolet also scheduled the launch of new models: Chevrolet AC (1929), AE Independence and ½ Ton Pickup (1930). In his turn, Ford did not stay behind and launched, during the depression, Ford Model A (1929), Ford V-8 Model 18 (1932) and 20 other models.

1929. The end of the second wave of company mergers and purchases. After Ford had managed to become a vertically integrated company, being, via the purchase of companies, its own producers of tires and car bodies, General Motors embraced the same type of attitude [12]; Colgate and Palmolive-Peet also decided to merge and to create the Colgate-Palmolive-Peet Company brand.

3. The brands of 1973

The Second World War, like the first one, gave birth to two highly significant periods in the economic history. First, there was the epoch of mass production from the 20s up to the Great Depression and then the period of the consumption society, from the 60s until the 1973 crisis.

In the beginning of the 60s, the Western World saw itself in a light of welfare and abundance. This period of time is characterized by the fact that most of the families earned more than the equivalent value of their psychological and biological costs. Also, just like in the 20s, the market offer increases, putting the companies in the position of studying the preferences, the wishes, the attitudes, the aspirations of the consumer. The return of the mass production, a sort of upgraded Taylorism and Fordism, is the start of a conflict with the limited character of the natural resources and with the possible degradation of the ecological environment.

The 70s were perhaps the worst decade for the economic performance of most industrialized countries since the Great Depression [7]. Although there was no severe economic depression, as witnessed in the 30s, economic growth rates were considerably lower than during the previous decades. As a result, the 70s adversely distinguished itself from the prosperous period between 1945 and 1973.

From an economic perspective, the 1970s were marked by the energy crisis which peaked in 1973. On the 16th of October 1973, The Organization of the Petroleum Exporting Countries (OPEC) announced a decision to raise the posted price of oil by 70%, to \$5.11 a barrel [18], a decision that had as background the end of Bretton Woods agreement and the war between Egypt, Syria and Israel (Yom Kippur War). In the 694 days between 11 January 1973 and 6 December 1974, the New York Stock Exchange's Dow Jones Industrial Average benchmark lost over 45% of its value, making it the seventh-worst bear market in the history of the index.

Again, I will proceed by analyzing some brand related events, in strict correlation with the economic and social context presented above.

Rebranding. In 1971 the Pepsi logo was slightly modified to a more rounded version which was used until 1991 [5]. This is the second time Pepsi uses rebranding to adapt to a new social and economical environment.

Reconstruction of the architecture of the brand portfolio. 1974 is a turning point for the successful Volkswagen brand: Beetle [6]. The increase in the design costs and a weaker dollar resulted in a bigger price (from 1893 dollars in 1970 to 3000 dollars in 1973) which was very not healthy for an economic alternative car. The magic of the brand also lost interest in the consumers' mind [4]. VW tried to transfer the Beetle capital to a new model called Rabbit, which distinguished itself through its simplicity and practical nature (the symbol of the brand was a cute running rabbit). 1974 is also the year of the birth of a myth called Golf [6].

Birth of a brand. In 1974, the term Duracell was formally introduced as a brand. It all began when breakthrough advertising was trying to develop the message that Duracell alkaline batteries lasted much longer than ordinary and inexpensive zinc carbon batteries. A small pink, fluffy

bunny was created, who, powered by Duracell batteries, was able to outlast all others in an array of colorful challenges [3]. The Duracell Bunny made his debut appearance in the US 35 years ago, in a commercial that included a group of drum-banging pink bunnies. The winner was the Duracell Drumming Bunny, the message was loud and clear - powered by the long-lasting Duracell battery, he's unstoppable.

Innovation. On September 25, 1928, Paul V. Galvin and his brother, Joseph, incorporated Motorola's founding company, Galvin Manufacturing Corporation, in Chicago, Illinois, USA. Having a large portfolio in the industry of communications, in 1973, Motorola demonstrated a prototype design for the DynaTAC portable radiotelephone, using cellular radio technology. In 1974, Motorola sold its television business to the Japan-based parent company, Panasonic, to concentrate on cellular radio technology [2].

Non-interruption of the scheduled launches. It was nothing scheduled in the motor industry. As in Western Europe, U.S. automakers were significantly impacted by the 1973 oil embargo and energy crisis. By 1971, the standard engine in a Chevrolet Caprice was a 400-cubic inch (6.5 liter) V8 with a big consumption figure. European and Japanese automakers began to export more compact cars into the US to meet the new demand. This forced the Big Three (General Motors, Ford, and Chrysler) to introduce smaller and fuel-efficient models for domestic sales [7]. The Chrysler Omni or Horizon, Ford Fiesta, Ford Fairmont, and the Chevrolet Chevette all had four-cylinder engines and room for at least four passengers by the late 70s. In the current crisis we find great interest in alternative power source motors such as: electric, hydrogen or solar ones.

The end of the third wave of company mergers and purchases. On the heels of post-World War II prosperity, a prolonged merger wave ensued. During this period, which is sometimes called the *conglomerate merger wave*, numerous established US companies embraced the diversified conglomerate paradigm. In addition, entirely new conglomerates were built from the ground, such as International Telephone & Telegraph (ITT), Ling – Temco - Voight (LTV), and Litton Industries. Diversification became widely accepted because management skills were assumed to be easily transferable among industries [12]. Brands begin to represent enormously valuable pieces of legal property that can influence consumer behavior, be bought and sold, and provide the security of sustained future revenues to their owner [9]. The merger wave gradually ended in the early 70s as the Dow Jones Industrial Average fell by more than a third (e.g. the largest conglomerates fell 86%, and computer and technology stocks fell 77%) and a worldwide energy crisis began. This led to tight money for merger activity and a devaluation of the US dollar [12]. The greatest merger, in time of the 73-74, is the one between Peugeot and Citroën (the birth of PSA).

4. Recommendations for the current crisis

The social and economic context specific to the period of the Great Depression and the 1973 crisis has many common aspects with the reactions to the current crises. Bankruptcies, account withdrawals, insolvencies and the decrease of the purchasing power characterize all analyzed periods. However, it is worth stressing the fact that our consumers did not reduce their expenses to zero; many of them started to thoroughly analyze what a brand really has to offer. They started to seek those products that bring more value to the earned money. The brands that succeeded in doing this, during the Great Depression and the one that took place in the 70s, gained loyalty, affection and long term trust.

The events which took place in the period 1929-1933 and 1973-1974 in association to the presented successful recipes represented the basis for the recommendations below.

Do not put an end to investments in advertising. The most intelligent decision made by the companies during the two periods was to invest in the promotion of their own brand. We must not lose sight of the fact that, by resorting to a new brand, we strive to gain loyalty, affection and trust. If we reduce the marketing budgets, the consumers will feel abandoned and will reorient towards the products of the competition. If all the players in your field give up promotion, it is

wise for you to be the only one that does not take such senseless measures. Thus, you will gain the long term loyalty of your customers.

Resort to advertising agencies or to specialists in the field. As the new consumer seeks to transform all purchases into a good deal, it is crucial for your sale process to achieve an efficient transformation of your message into perceived value. A flawed sale process will lead to wasted resources. Promotion campaigns, together with price decisions and promotion channels must be conceived in such a manner as to obtain the best possible results.

Rebranding. As we are dealing with a new type of consumer, with new consumer habits, we could try to adjust to this new reality by means of a new brand. It is absolutely necessary to question our consumer on the way he perceives our brand at present. Many of the current rebranding strategies focus on simplicity and clarity (e.g. the rebranding of Pepsi).

Reconstruction of the product portfolio. **Say no to price discounts**, focus on a new brand, and, implicitly, on a new product, depending on the positioning of the product in relation to its price. The *luxury industry* (or the industry of premium brands) has numerous rebranding opportunities; this is a strategic course, with beneficial effects as concerns the profit of a business, recommended for lowering a premium brand to an *upper-medium* or medium price level. It is worth mentioning that it is not advisable to return to high prices for the same brand. Consumers will focus on the *average price segment* and, consequently, this is where the battle between the producers will occur. The *low segment* does not have rebranding potential, since the consumers and the services in this segment are primarily motivated by the price and not by a potential emotional connection. **A new brand**, if it relies on innovation and on a potential need. We must keep in mind that recession comes with threats, as well as with opportunities. Ferdinand Porsche started his own business in 1929, when he became unemployed.

Cobranding (combination of the name of two or several brands), in case of takeovers or strategic alliances – this is the only solution for the brands subjected to mergers or acquisitions. Even if the Great Depression and the '73-'74 one represented the end of the second and the third wave in the history of mergers and acquisitions, the current crises showed us that some companies resorted to such strategies (see the cases of Caroli and Campofrio, which would become Caroli Foods Group, the taking over of Rompetrol by the Kazakhs and their desire to change the name of the fuel stations into *Litro, powered by Rompetrol*, the possible takeover of Zapp by Cosmote for the mobile Internet services owned by Zapp, the takeover of Volvo by Geely). Their decisions could not be more uninspired. The companies that resort to this type of strategies lose sight of the fact that this crisis will not last forever. For example, I wonder how Caroli and Campofrio will act when they see that the economic situation is back on the right track and they wish to be independent again. Acquisitions are recommended during this period, as they strengthen

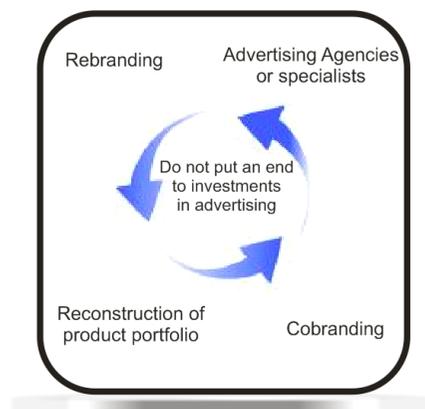


Figure. 1. Brand recommendations, suitable for times of recession

powerful companies and offer a chance to those that have not come with any solutions to the current crises. Anyhow, it is advisable to use cobranding in order to explain your customers what happened with their favorite brand and to aggressively promote the new identity.

Our recommendations are primarily oriented towards those managers who, so far, have not seen the brand as an efficient weapon for communicating with the consumer. I hope that this article will stir the interest of managers and determine them to thoroughly analyze this phenomenon.

5. Conclusions

The lessons learned by those who experienced the Great Depression and the '73-'74 crisis have already been successfully applied in the current economic and social environment. Nevertheless, this research has been limited by the historical positioning of marketing. We started from the premises that history repeats itself and that marketing is, after all, an ahistorical field [13]. Our recommendations are, however, purely subjective and strictly correlated to historical facts. They invite us to meditate upon the recessions from the past century and to take a critical look at attitudes such as the disregard for rebranding or brand creation and the diminution of the promotion budgets. We must keep in mind that recession comes with threats, as well as with opportunities.

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FOCUS-GROUP AND ITS IMPACT IN THE QUESTIONNAIRE OF MARKETING RESEARCH ON THE ROMANIAN CAR MARKET

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Designing a questionnaire is the most profound activity which makes an impact on a research in marketing. The investigation instrument finally determines the quality of this type of research. Never will a market research be able to exceed its questionnaire in point of quality. The present contribution succinctly itemizes a research project for the Romanian car market, emphasizing the importance of focus group, and appends, at the end, the concrete result, applied to the Romanian car market. The first part describes the hypotheses and sets out the objectives of the research, focusing on the market leader, i.e. Automobile Dacia Renault. The second section describes the practical process of designing the questionnaire, with a special stress laid on the impact of focus-group in the final version. The synthesis of focus group is materialized through a number of final remarks on the manner of concretely writing the questionnaire, which was put to practical use on the Romanian car market.

Key words: questionnaire, marketing research, car market, focus group.

JEL Code: M31

1. Introduction

The questionnaire is the most widely used instrument in marketing research, and it is on its quality that the success of such an undertaking depends. Half a century ago, C. A. Moser concluded that any enquiry cannot be better than its questionnaire. This fact hints to the special significance that has to be attached to its instrumental carrying out, i.e. to its materialization through a formalized set of questions, built in order to generate the data needed to achieve the objectives of a marketing research. A multiple-target marketing research can also have recourse to sets of questionnaires: in that situation, association with staggered / overlapping canvassing / poll becomes a methodological necessity. Whether one questionnaire or sets of questionnaires are used, their practical role remains to secure the *conversion of the objectives and hypotheses of a research into adequate questions*, which are then administered, and also getting veracious information from the responders.

2. Hypotheses and specific objectives as reflected in the questionnaire of marketing research in the car market

In general terms, the questionnaire allows to simultaneously achieving several objectives:

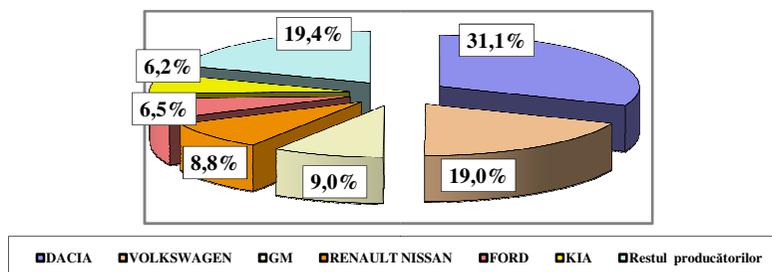
- *it contributes to shaping the structure of the interview*, by ensuring a logical succession of the questions;
- *it secures the standard format and lends uniformity to the manner in which factual information is recorded*, as well as the opinions and attitudes of the responders;
- *it motivates and coherently sustains the responders' cooperation* through the type of the questions used, through the manner the latter were formulated, and through their succession, and even through the general aspect of the questionnaire, in order that the final end of the interview is reached in the best conditions;
- *it serves as a data base concerning the research conducted*;
- *it facilitates scanning, processing and analyzing facts*, through its format, hierarchies and

logical correlations.

The present article tries to give solutions to a question of the type “What specific, fundamentally different aspects must a car market questionnaire respond to?” to begin with, this questionnaire will centre on the market leader, none other than Automobile Dacia Renault, as can be seen in the recently concluded picture of market structure for the year 2009.

The principal competitors on the Romanian car market having a quota above 5%

Graph no. 1.



Data source: www.drpciv.ro

The questionnaire will investigate the degree to which most of the owners of Dacia Renault cars know the market, and also the extent to which they are informed as to the car make they own. The other hypotheses, which concentrate the questionnaire on the detached market leader, namely Dacia Renault, could be detailed starting from the following noticeable facts:

- most of the car owners previously had at least one other car;
- most car owners consider that the cars correspond to their expectations;
- there are no differences between the appreciations of the leader made by male and female responders;
- a number of customers consider the optional equipment as insufficient;
- the majority of the customers prefer petrol / gas as an engine fuel;
- most of the customers are satisfied with the commercial distribution network;
- a relatively small number of car owners are dissatisfied with the servicing conditions.
- most customers consider that the export of components makes the prestige of the Dacia car make increase;
- most of the car owners consider that the *Dacia Asistență* car service is satisfactory.

These hypotheses are quantified, and can be statistically formulated in order to be tested by the agency of the questionnaire.

Consequently, a few approaches can be exemplified, which can contribute to stagger the scales of the various questions of the questionnaire, while ensuring the statistical testing of the hypotheses formulated (where, in the idiom of classical econometry, H_0 defines the null hypothesis and H_1 the alternative hypothesis).

Table no.1

Null hypothesis: H_0	Alternative hypothesis: H_1
1 customer out of 2 knows the performance of the car	H_1 average # 50%
1 customer out of 3 has already owned a car	H_1 average # 33%
2 customers out of 5 would have preferred a domestic car	H_1 average # 40%
1 customer out of 2 considers the price as accessible	H_1 average # 50%
1 customer out of 3 considers the domestic car as similar to an imported car	H_1 average # 33%
4 customers out of 5 considers that their income does not essentially influence their choice	H_1 average # 80%
3 customers out of 5 appreciate the quality/price ratio	H_1 average # 60%
9 customers out of 10 do not see any differences in appreciation between women and men	H_1 average # 90%
4 customers out of 5 consider that the car	H_1 average # 80%
7 customers out of 10 are satisfied with the commercial distribution network	H_1 average #70 %

Delineating and setting up the objectives of the marketing research is a complex process, and its structure in the car market is centred on specific targets, issues, and finally, on concrete objectives.

Setting up the objectives of the marketing research concerning the position of the Dacia Renault car on the Romanian market

Table no. 2

Aspects or targets to be quantified and made into a hierarchy	Problems that have to be answered through the research	The concrete and quantifiable objectives of the market investigator
1. Identifying the manner of purchasing of a Dacia Renault car	1. Which is the most frequent manner of purchasing the car? 2. Which is the most widely used source of funding?	1. Determining the modal value concerning the manner of purchasing a car. 2. Determining the prevalent funding source in purchasing.
2. Quantifying the degree of knowledge about the Dacia Renault car	1. To what extent are the car's variants known? 2. To what extent do the subjects detain information about the types of engines? 3. To what extent do the questioned people consider the car as being polluting? 4. To what extent does the inner space correspond to the expectations? 5. Do the buyers have any proposals for the improvement of the car?	1. Identification of the degree of knowing the car variants 2. Scaling the knowledge of the engine types 3. Scaling the opinions of the car's pollution degree 4. Scaling the opinions of the adequacy of the inner space as to the customers' expectations 5. Identifying the expected improvements.
3. Delimiting the adequacy of the distribution network to the expectations of the potential customers	1. Which is the coverage of the commercial distribution network? 2. Which is the owner's opinion concerning the quality of the services? 3. Which is the buyer's opinion concerning the purchase of a car?	1. Quantifying the coverage of the market by the distribution network 2. Scaling the car owners' opinion of the quality of the services 3. Scaling the buyers' opinion of buying a car
4. The degree of qualitative satisfaction of the demands of the customers through the manufacturer's network	1. Which is the buyer's opinion of the quality of the repair work and the service? 2. What do the customers think of the duration of the repairs? 3. Which is the customer's opinion of the veracity of the repair costs?	1. Scaling the buyers' opinion of the quality of the repair work and car servicing 2. Identification of the prevalent customer opinion of the duration of the repairs 3. Scaling the customers' opinion of the veracity of the repair costs.

3. The process of designing a questionnaire, and the impact of focus-group in the final writing

The stages of the practical design / planning of the questionnaire have been the following : specifying the information needed and the aspects/targets to be quantified and ordered hierarchically, setting up the solution of the stratified poll (strata / layers of customers as natural or legal entities), and the self-administered questionnaire with an anticipated rate of non-response, as a method of collecting data, elaborating the questions (content, type, quality order, pre-coding), using focus-group in a first pilot-analysis of the questionnaire, and the re-planning of its physical characteristics, endorsing the questionnaire by the beneficiary of the research, piloting, pre-testing and revising the questionnaire, as well as preparing the final variant and printing the questionnaire. The impact of the focus-group was bad far the most important factor of re-planning and final writing of the questionnaire, thus clearing most of the problems of writing and revising some peculiar aspects, derived from the specificity of the market. Four *sub-groups of experts* were used (each comprising on average 2-3 members), which appear in the following centralized table abbreviated as S.E. (1= quality/cost, 2 = technical, 3 = psychological = marketing).

Modeling focus-group of the final form concerning the Dacia Renault car in Romania

Table no. 1

Categories of themes	SE 1	SE 2	SE 3	SE 4
1. Knowledge or information possessed about cars generally				
1.1 Utility Car	Utility as to car price	Characteristics concerning the speed of traveling	Motion independence favorable limit-situations	It is useful mainly in work-related, and family holiday trips
1.2 The degree of hazard the car for drivers and pedestrians	None, if rules are observed	Any technical advance brings about hazards	Possibly, but compensated to a small extent by the advantages of use	Very little, or none
1.3 Major critical aspects in car	Assessed comfort/post ratio	Power of the engine and speed of travel	Robustness and endurance in time	Possibility of purchase
1.4. Competition with other solutions of transport	Convenient	Flexible and adapted technological evolutions	Fast and prompt	Modern and easy
2. Evaluation of the interest that the interviewed subjects had in the Dacia Renault cars				
2.1 Identification of information sources	Internet, SIAB, dealers, financial situations	Technical catalogues and specialized magazines (technical specifications)	Friends, acquaintances, colleagues, brochures, etc.	TV ads, internet, radio, car fairs
2.2 Variety of models	Complete assortment	Incomplete; off-road models are in order	Incomplete; a small-tank model would be useful	I think there are enough models
2.3 Diversity of optional equipment	An anti-theft device would be necessary	Parking sensors, side airbags and adjustable steering-wheel	Increased communication and entertainment comfort	Each model with a distinctive additional option
3. Identification of the knowledge and information they had about the quality of the Dacia Renault cars				
3.1 Types of known engines	Small engine = low consumption, plus diesel fuel	Out of the 6 engine variants, the GPL and K4M formulas are preferred	I prefer silent the engine formula (with no diesel fuel variant)	The engine formula should give an image of comfort and economizing
3.2 Fuel consumption	Minimal consumption = low travel costs	Consumption up to 6.5 liters / 100 km	I prefer a special efficiency to an apparent small consumption.	Higher consumption for a good image of its power
3.3 Inner space	Very roomy inside	Rather high, but passable	Generous to its owner	Very roomy for a family
3.4 Flaws noticed at the already manufactured models	Low stability at turn	The Diesel engine formula is far noisier	Visibility affected by the side pillars of the screen	3-4 years' use increase the noise of the car
3.5 Improvements expected the cars	Only in terms economicalness (of efficiency)	Adjustable suspension (load, and on road)	In terms of crash survivability	In terms of adaptation to the road network
3.6 Price, as an important factor in choosing a car	Acceptable and attractive, if compared to other cars	Factor ranking in second place, according to the technical quality	Price can raise problems, if continuing to go down	In point of image, a rise is needed, but not a really major one
4. Determining the buyers' attitude towards the quality of the distribution network:				
4.1 Distribution network A.Fortes and B.Weaknesses	A.Diversity B.Low coverage / high cost	A.Spatial coverage B. Relatively incomplete technical information	A.Close to the public B.Rather high degree of red-tape	Diversity and additional facilities .Interface /communication
4.2 Quality of staff in the distribution network	Training and qualification /cost	High technical abilities	Helpful and accessible	Not yet defined in the image of the brand
4.3 Favourite centers	AMAT	DAPEROM	Any	Delta Plus Trading
5. Determining the buyers' attitude towards the quality of the repair work, and servicing in general				
5.1 Distribution of repair centres	Sufficient proportion to the sales	Reasonable distance in proportion to the consumption	Covering in point of information	Prompt in point of image on an internal plane
5.2 Technical equipment	Efficiency as a ratio cost / profit	Upward trend as real technical solutions	It is permanently improving	Satisfactory
5.3 Satisfaction and insatisfactions in the process repairing and servicing	Costs/prices Quality in time	Promptness and duration in servicing Technical guaranty	Trust in point of impact Bureaucracy in unfolding	Average-level servicing Long waiting time
6. Identifying the profile of the Dacia Renault car buyer				
6.1 Social and demographic characteristics	State sector wage-earners, small wages in private companies	Prevailing: men having an average (minimal) technical training	Average age (30-40 years old) medium (high-school) and higher education	The modal buyer on the Romanian market
6.2 Profile of the Dacia car buyer	Economical, efficient, wishing to achieve	Energetic, on the move	Usually, a family man, equanimous, balanced	Quiet, calm, earnest, sociable.

The impact of the focus-group generated most of the issues conducive to the revising of the questionnaire. It was subsequently reevaluated in proportion to the optimization of the content and

the placement of the questions, and mainly to some essential desiderata of any marketing research, already designated, in practice, by the name of rules of structure-shaping and hierarchy-establishing, as in the classical example provided by the *5 x 20 rule* concerning the significance attributed to the first 20 seconds, 20 words, 20 gestures, 20 looks, and especially the first 20 questions, where what is more important for the research questionnaire will enter.

4. A final remark

On the stratified market of the Romanian cars, Pareto's famous law of the 20/80 ratio could be rephrased like this: a percentage of only 20% of the firms bring approximately 80% of the incomes. In the year 2009, on the Romanian market, only 6 manufacturing car companies held 80.6 % of the sales, while Automobile Dacia Renault represented the leader, which deserved a special research, it being the holder of over 31% of the whole market. The merit of the experts in the sub-groups whose opinions were tuned to account in the focus of the research is most probably special, and it becomes all the more pregnant after the final reading of the questionnaire. We believe that, very much like the Romanian market, pressed by the slow evolution of economy, it is to the experts in the first sub-group that we owe the closest investigation image shaped by the agency of questionnaires, through comparison with the car market under investigation.

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Annex no 1

Final questionnaire

We are currently conducting a study that intends to identify the opinions and attitudes of the buyers of Dacia Renault cars, with respect to that firm's capacity as leader on the domestic car market. So, we ask you to be so kind as to answer the following questions. We assure you that your answers and identity are confidential.

1. What word comes to your mind when you think of the Dacia Renault cars?.....

2. You currently own a Dacia car. Which variant is it?.....

3. What was the reason you chose a Dacia car for?.....

4. Have you previously owned another car?

No	Yes. What make?
----	-----------------

5. How long have you had a Dacia car?

For 5 years	for 4 years	for 3 years	for 2 years	under 1 year
-------------	-------------	-------------	-------------	--------------

6. Have you paid all the car's price?

No (question 7 is continued)

Yes (you go on to question 8)

7. Have you paid the whole price so far?

No	Yes
----	-----

8. Did you borrow money to purchase the car?

No

Yes, from bank

Yes, from CAR (the Mutual Aid Fund)

Yes, from other people

Yes, from other sources (mention the source).....

9. In your opinion, the price of a Dacia car is:

very high	high	Middling	low	very low
-----------	------	----------	-----	----------

10. Do you think that the cars made by Dacia are up to your expectations?

wholly	to a high extent	Middling	to a low extent	at all
--------	------------------	----------	-----------------	--------

11. Do you consider that owning a Dacia car:

Confers a certain social status?

Gives the possibility of fast and secure travel?

Entails considerable costs?

Is an additional concern?

Is a necessity?

12. If you were to purchase one of the versions below, would you arrange them, marking one box according to your preference. Place at the top the choice that best matches your preferences.

	1	2	3	4	5	6
Logan Pick-up						
Logan coupé						
Logan MCV						
Logan Van						
Sandero						
Sandero Stepway						

13. Which do you think the main advantages of the Dacia car? Would you please enumerate and note the order of their importance, starting with 1 for the most important, then 2 for the next, etc.

Advantage	Importance
-----------	------------

14. Which do you think are the main disadvantages of the Dacia car? Would you please enumerate and note the order of their importance, starting with 1 for the most important, then 2 for the next, etc.

Disadvantage	Importance
--------------	------------

15. In general, what improvements do you think should be added to the Dacia cars.....?

16. What are your preferences concerning the engine?

Type of engine	Preference level					
	Very high	High	Middling	Little	Very little	No opinion
Petrol type K7J (1.4 MPI)						
Petrol type K7M (1.6 MPI)						
Petrol type K4M (1.616V)						
Petrol and LPG type K7M 718 MP						
Diesel type K9K (1.5 dCi 70CP)						
Diesel type K9K (1.5 dCi 85CP)						

17. What do you think a Dacia-Renault car is like?

18. The versions of the Dacia-Renault car have more facilities, out of which some are optional (air conditioning, electrically operated windows, ABS, aluminum rims, etc.). Do you consider these cover all the buyers' preferences?

- No (question 19 is continued)
- Yes (you go on to question 20)

19. What special facilities should be added?.....

20. Do you think the Dacia cars are adapted to the requirements of Romanian roads?

Totally agree	Agree	Neither nor	Disagree	Totally disagree
---------------	-------	-------------	----------	------------------

21. Do you feel secure inside a Dacia car?

Totally agree	Agree	Neither nor	Disagree	Totally disagree
---------------	-------	-------------	----------	------------------

the maintenance costs for a Dacia car are:

Very high	High	Moderate	Low	Very low
-----------	------	----------	-----	----------

23. Do you consider that the price of the spare parts is:

Very high	High	Moderate	Low	Very low
-----------	------	----------	-----	----------

24. SC Automobile Dacia SA has a vast distribution network. Do you think it is sufficiently developed?

- No (question 25 is continued)
- Yes (you go on to question 26)

25. What other areas should be covered?.....

26. Automobile Dacia has several distribution centres and showrooms staffed by qualified people. Would you say your opinion concerning the following statements:

Statement	Total agreement	Agreement	Neither-nor	Disagreement	Total disagreement
Purchasing a car is easy					
Exhibiting the models is up to expectations					
The staff is kind and helpful					
The staff is proficient					

27. The Dacia cars made at Mioveni are destined for both the domestic market, and export. Do you think that Dacia is praised on the foreign markets?

No		Yes	
----	--	-----	--

28. The Dacia models are also manufactured in Russia, Iran, Morocco, Brazil. Do you think the cars made at Dacia are:

Much better	Better	Same	A little worse	Much worse
-------------	--------	------	----------------	------------

29. Automobile Dacia is part of Renault Group. Do you think that the cars made at Mioveni, if compared with the similar Renault cars, are:

Much better	Better	Same	A little worse	Much worse
-------------	--------	------	----------------	------------

developed?

No (question 31 is continued)

Yes (you go on to question 32)

31. What other areas should be covered?.....

32. Have you had recourse to the Service Dacia network?

No		Yes	
----	--	-----	--

33. Starting from your own experience, would you say your opinion of the following statements:

Statement	Total agreement	Agreement	Neither-nor	Disagreement	Total disagreement
The quality of the work is at top level					
The equipment of the workshops is at a high technological level					
The duration of the repairs is short					
The costs of the repairs are calculated correctly					

34. The manufacturer gives 36 months' guarantee. Do you consider that period sufficient?

Yes		No	
-----	--	----	--

35. Do you think the variants of the Dacia car are sufficiently well known?

Yes		No	
-----	--	----	--

Characteristics	Extreme (1)	Foarte (2)	Suficient (3)	Nici/mici (4)	Suficient (5)	Foarte (6)	Extrem (7)	Characteristics
Non-polluting								Polluting
Spacious								Lacking room
Low consumption								High consumption
Modern design								Outmoded design
Close to the public								Distant from the public

22. In your opinion,

36. The information on the performance and technical data of the Dacia versions comes from many different sources. Grade each source, starting from 5 points – for the source that wholly identifies your option.

	5	4	3	2	1
Press materials					
Radio					
Television					
Brochures, folders					
Internet					
Other					

37. Dacia is manufactured in five versions. Do you think those cover all the buyers' expectations?

- No (is continued by question 38)
- Yes (you go to question 39)

38. What other versions do you think should be manufactured to cover the buyers' needs?.....

39. A general grade for the Dacia car should be:

1(min)	2	3	4	5	6	7	8	9	10(max)

40. Part of the components needed for making the Logan model in foreign works are made by Automobile Dacia, and exported to those destinations. Do you think that brings further prestige to the Dacia brand?

Totally agree	Agree	Neither-nor	Disagree	Totally disagree
---------------	-------	-------------	----------	------------------

41. The "Dacia Assistance" service is available on a 24h basis. Have you had recourse to the service?

No		Yes	
----	--	-----	--

42. Do you consider that service useful?

Totally agree	Agree	Neither-nor	Disagree	Totally disagree
---------------	-------	-------------	----------	------------------

43. If someone asked your opinion, would you recommend them to buy a car made by Dacia?

No		Yes	
----	--	-----	--

Questions for identifying the subjects of the interview

44. Sex:

Male		Female	
------	--	--------	--

45. Which is the most recent type of formal training you concluded?

- Elementary school
- Vocational school
- High school
- Post-high school training
- Higher education
- Post-graduate training.

46. Your occupation:

- Unskilled worker
- Skilled worker / craftsman
- Service operator / commercial worker
- Technician/foreman/primary school teacher/clerk
- Military /policeman/guard agent
- Businessman/Executive / Manager / Middle medical staff
- Specialist / high education staff
- Student Unemployed Pensioner
- Different. Which one?

47. Your monthly income in lei is comprised between:

600-1500	1501-2500	2501-3500	Over 3500
----------	-----------	-----------	-----------

48. Your age lies in the interval:

18-29 years	30-39 years	40-49 years	50-59 years	Over 60
----------------	----------------	----------------	----------------	---------

49. You live...

In a town		In the country	
-----------	--	----------------	--

Thank you for your cooperation

CRISIS IMAGE MANAGEMENT OF AN ORGANIZATION BY APPLYING APPROACHES PUBLIC RELATIONS

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Any organization may face crises that can affect its normal operation and at the same time can make in danger the reputation enjoyed by the public. These unpleasant events in the life of an organization can be predicted and prevented, but there are times when nothing is known about them before it happens. An effective solution to mitigate and eliminate the negative public reaction is to apply the approaches of public relations.

Keywords: public relations, crisis, communication, organization

Cod JEL: M3

Crisis can be defined as one major event, unpredictable, which may lead to adverse effects. These may affect the organization as a whole, or sector, employees, products, services, financial status and they reputation.

Crisis management is a very complex task involving both predictive capacity crisis, creation of scenarios for keeping control and solve their and the feedback when crisis appear. Their solution is achieved by identifying the causes, important activity for an organization, because researched as a crisis is likely to recur. This may damage the organization's image, and to lower the public credibility.

The purpose of public relations work consists of shaping and maintaining a positive image of organization both the target audience, and within society overall, in which it operates his activity.

Characteristics of the crisis:

- *insufficient information* (nobody knows the exact nature of the problem facing the organization);
- *rumors deteriorated by the appearance information;*
- *losing control of the situation* (the reality is reinterpreted and distorted);
- *panic* (is exacerbated by the absence of immediate solutions to it and have major effects especially the staff);
- *maximum visibility* (can provide the opportunity to restore balance quickly if there is an effective crisis management plan).

Causes of occurrence of image crisis:

- lack of concern of the organization to implement a well defined program of creating its own identity (name, atmosphere, events);
- organization unable to fully control the messages of public space;
- poor communication with the public;
- absence of specialized structures in image management.

Depending on the factors that lead to triggering a crisis in the organization, they can be **classified as:**

- cases (due to internal or external factors, cyclical immediate or structural);
- running time (sudden or slow);
- scale (superficial or deep);
- operating level (operational - affect current business; strategic - affects the development strategies; identity - affects the identity of the organization);

- consequences (affecting staff, customers, partners, public opinion, etc.).

Crisis management plan in an organization:

- identifying potential crisis: the major events (conflicts, accidents, etc..) occurred in the organization lately and predicting how they might affect the future organization;
- determining the target audience, location and its role according to their relevance;
- informing employees about the real situation facing the organization;
- setting people will deal with premiums answers to the press;
- choosing a competent spokesperson;
- develop standard press releases for confirming the events;
- drafting responses to questions that may arise frequently;
- establish channels of information dissemination: briefings, press conferences, radio and television appearances, letters, e-mail;
- establish a plan for the media: identifying contacts persons, phone numbers, providing technical facilities for journalists (faxes, phones, photocopies free, access to computers and the Internet network);
- keeping records of all calls made by mass-media and quickly responsibility to them;
- identify partners in crisis management: police, policemen, firemen, governmental structures, environmental groups, personalities of cultural and political life, humanitarian groups, voluntary associations;
- preparing portfolios press;
- media regularly informed through reliable messaging;
- testing crisis management plans through simulation spontaneous.

Public relations specialists have a key role in resolving a crisis when it mainly affects the organization's external public (consumers - the largest category of public, economic agents acting in the market - suppliers and intermediaries, financial institutions and of the power public, professional associations, etc.).

Public relations activities during the crisis within the organization:

- *Public relations specialist will decide whether they need to establish a press center. Press center will keep all visitors under control without disturbing dealing with the crisis. Depending major crisis to decide whether setting up a press center.*
- *Public relations specialist will maintain continuous contact with reporters, will ensure that they comply with locations that have been approved to visit and will provide as soon as possible all information it considers the company's interest.*
- *Public relations specialist will verify the declarations and together with a representative of management, will help in formulating responses to questions.*
- *Public relations specialist will be responsible for guiding reporters in areas of interest to the public.*
- *Public relations specialist will send information to the press and thus the public, only with the consent of the senior management.*
- *Public relations specialist will maintain close contact with media representatives. It may stay for information from the press and thus can stop the wave of false information.*
- *Public relations specialist will keep records of all the facts were made public and moments when they were made public. This avoids duplication of information and the emergence of conflicting reports.*

In a different vein, to address and remove the crisis, public relations professionals in an organization should implement the following:

- convene crisis management team and election spokesman;
- inform the public through the media;
- to set up a free telephone number that journalists can call 24 hours from 24 to find answers to their questions;
- to transmit information and have appearances on the news and the most powerful programs of TV channels;
- provide photos and videos about the work and conduct of business organization;
- selected photos to be published by the organization in major newspapers;
- make media reach in a short time from onset of the crisis, all the information needed to address issues raised.

In managing a crisis may occur a number of factors that disrupt or prevent proper conduct of this activity. Among these factors are found:

- size, scale and duration of the crisis may not be known at the outset;
- individuals or publics affected by the crisis can be difficult to identify;
- trigger crisis because it can be hard to identify;
- accurate and relevant information about the existence of a crisis are always sought by audiences, especially by those who are directly affected;
- development crisis are the effect of lowering the organization's credibility among audiences that relate;
- crisis produces a behavior governed by emotions for everyone connected with it.

An organization fails to maintain its image during a crisis depending on how they react and handle the situation or issue arising.

Importance for resolving crises is effective rapid decision and efficient communication. Experts in public relations tries to rebuild organization image. Because crises can change public opinion about the organization in a negative image, public relations experts most communicate with the public so organization to regain the place held in public opinion. Communication in such situations more clearly defines the identity and good faith of organization than does communication in positive situations or festive.

Communication with the media in crisis

Most people inform of the media about most the events, favorable or unfavorable, that occur at the level of an organization. Patrick Lagadec argues that the communication problems of an organization facing a crisis takes place on four levels:

- communication within the organization;
- communication with the public organization;
- crisis communication with stakeholders;
- communication with media.

In good times an organization, an imperfect presentation in the media did not immediately affect the functioning of the business organization, but in a time of crisis, any distortion of data related to the organization that will lead to increased status, and thus the loss of public confidence.

Immediately after the onset of the crisis, the move to implement the communication plan in crisis. Public relations specialists will assess the situation and will determine, depending on the magnitude of the event, the media communication techniques will be used.

Most important **communication techniques** used in stress conditions are:

- Press release - aims to inform journalists about the situation and the settlement decisions have been taken. It should contain: the presentation short, the event; specify how and to what extent the organization is responsible for crisis; name of solving the crisis management team; way is expected to solve the problem.
- Press conference - is an effective and rapid means of information and give answers to journalists questions, concerns or attacks from the press.
- Press pack - is one of the most important tools for communication with the media in crisis. This should include: a press release on the crisis, data about the organization, organization history, a list of crisis team members, photos of key team members.

Conclusions:

Crisis management can not be randomly. Rather, it relies on a correct assessment of the factors that cause such a situation, and the formulation of appropriate response strategies, strategies to be prepared and tested before the advent of crisis.

For specialists in public relations existence a major crisis test their ability to cope with a situation which, if not treated properly, can have unfavorable consequences for the organization. Effective crisis resolution image is influenced by how they are perceived crises and techniques and procedures implemented to address them. Some organizations openly communicate by passing difficulties, thereby demonstrating to the public interest, attracting the same time, his sympathy and understanding.

In combat unpleasant events triggered by a crisis, the organization should ensure a constant and consistent message to the press so as to be disposed of suspicions and rumors, to regain credibility and restore public trust.

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DIRECT SALES IN THE CONTEXT OF ROMANIA'S UE INTEGRATION

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More recently, direct sales business is stimulated by the difficult market conditions. While retailers hardly bear fixed costs such as rent, administrative costs and tend to raise prices, customers fall back to products offered by direct sale. In addition, labour market conditions made more and more Romanians (who were left without incomes) to move towards this system. On the other hand, the direct sales field doesn't concern only those who remained without a job, but rather those who want to round their incomes.

Keywords: direct sales, strategy, crisis, costs.

JEL code: M31

Introduction

Direct sales mean selling goods and services directly to consumers through an explanation and/or demonstration, at their home or in the others' house, at work or elsewhere, far from the retail sales location. In many countries the term of "home sale" is used instead of "direct sale".

Usually, direct sales companies operate in two modes:

- From person to person: usually a person who sells makes a presentation to the client and/or his family, after he set an appointment in advance in a certain place and at a certain time.

- Group sales: a customer invites his friends at home, where he makes a presentation for guests.

Direct selling can be defined as a form of communication from one person to another, in which a seller tries to convince potential buyers to buy the products and the services of his firm.¹⁵⁵²

It is therefore a process in which salesmen try to inform and persuade the customers to purchase a product or a service. Direct sales provide the fastest feedback of all promotional activities because of the direct negotiation.

The advantages of direct sales are:¹⁵⁵³

- the ensuring of a more effective individual communication, due to its high flexibility in the communication process, regarding the needs of individual consumers;

- the possibility of minimization of the promotional effort; in most cases sales staff effort materialized in an effective sale of goods or services;

- the ensuring of relevant marketing information for the company management.

Because the direct sales force is the largest expense in the marketing communications it needs proper management; it should have another type of management than other areas of promotion.¹⁵⁵⁴

Direct sales force management should consider the following requirements:¹⁵⁵⁵

- sets targets to be achieved in a given period, in a precise, measurable manner: the sales volume, the market share, the obtained profits etc.;

- determines the optimal sales force size and its correction in time;

- organizes sales staff training programs based on various categories of staff;

- motivates the sales staff in order to increase the efficiency of its business;

- controls and evaluates the performance of sales staff.

¹⁵⁵² Shimp T.A., Lozier M. W. – *"Promotion Management & Marketing Communications"*, Dryden Press, New York, 1996, p. 271.

¹⁵⁵³ Adăscăliței V. – *"Promotional Techniques. Fundamentals"*, "Transilvania" University of Braşov, 1994, p. 98.

¹⁵⁵⁴ Lefter C., Brătucu G. – *"Marketing"*, vol. II, "Transilvania" University of Braşov, 2000, p. 174.

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In many Western countries, through this type of sales, unlike the retail, the customer has a period of 7 days called "cool-of period". During this period, he has the opportunity to consider his decision and compare the quality and the price of goods or services provided by the sales people, having the right to cancel this agreement or to return the product purchased. This aspect makes the customer to have a high confidence in the method of direct selling. In addition, by extending the term of "cool off", by establishing the ethical principles that limit the actions of its members and through cooperation and continuous communication with Consumer Associations, direct sales companies protect the customers. Direct Selling is successfully used for many products: cosmetics, tools, home fitness products and dietary supplements, textiles, alcohol, jewelry etc.

Direct sales industry is rapidly growing as the preferred method of sale and purchase.

As a result of global development, in 1978 World Federation of Direct Selling Associations (World Federation of Direct Selling Association) was founded. The headquarter is in Washington DC, USA and its members are Direct Sales Associations from 52 countries representing a total of 1,300 companies worldwide.

Direct Selling is a proven practical method of purchase for millions of consumers worldwide. First, direct sales offers quality and diversified products to consumers while on the other hand they provides an opportunity to earn income for people from all social classes, without distinction of race, gender, religion, education or experience. Most of the people involved in direct selling business deals with only part-time and temporary.

A special study conducted in the U.S.A., to consider direct sales, shows that the 5 reasons to become a direct selling person are:

Table 1: 5 reasons to become a direct selling person

I like to test product	90.7%
I'm my own boss and I choose my work program	73.1%
I contribute to family income or I obtain additional income for me	63.7%
The more I work, the more I earn	54.3%
I like to sell	48.5%

Direct sales provide an opportunity of business for the person who sells, on the one hand, and offers quality, value, personal and practical service for the consumer, on the other hand. The practice of direct sales gives the opportunity of an extensive selection providing various products and services to customers, continuously increasing worldwide.

The evolution of direct sales in Romania in the period 1999 – 2009

At the end of 1990, after the fall of communist dictatorship, network marketing systems have emerged by entering the local market of individual life insurance agents from Austria (collaborators of Safe Invest Holding), as insurance brokers, in MLM system.

Poor economic conditions, lack of appropriate legislation, the reluctance of people to the responsibility of a business on their own, have greatly hampered the official start of such companies. For 4 to 5 years have entered the market, rather shy, collaborators from Italy, the Netherlands, Austria, Hungary, Germany and the U.S., which tried to build their own networks for various companies (Herbalife, Amway, etc.) distributing cosmetics, cleanliness products, nutrition and health maintenance products. Most of these activities took place at the boundary of law, because none of the supplying companies was registered in Romania.

In 1994 were recorded the first officially MLM companies in Romania (Safe Invest Romania, Romania Saveco, GWC), and several years later also appeared major network marketing companies (Oriflame, California Fitness, Amway, Golden NeoLife Diamonds, Carion, Forever Living Products, AVON, Eurolife etc.). Meanwhile, were set up some local MLM companies, which tried to imitate the success of the those well - known, but without notable results due to lack of capital and management

experience. If in 1998 the number of collaborators was estimated at about 60,000 at the end of 1999 there were approximately 125,000 people directly involved in the system. Only those active persons in the system were taken into account, then MLM distributors.

Currently, more than 10 Network Marketing companies try to develop their market in the context of an economy in full reform, always offering what no other industry in Romania can offer: jobs.

Each collaborator who entered the system had a major opportunity to become master of his own business, to have a secure job and earn money by honest means. Also it has to be noted the media indifference for the promotion of these systems, which can be explained by the ignorance of the truth about Network Marketing and the confusion generated by illegal pyramid selling (as the famous Caritas). If the above information is likely to be inaccurate, this is due to a false understanding of free market competition of the management teams of Network Marketing companies.

The last decade has shown a significant increase of population in Romania who was drawn to the idea of having its own direct sales business. The reason for this dramatic increase is not only the alternative to a job or an additional way of earnings, but the satisfaction of becoming an individual entrepreneur who wins on a profitable activity, in collaboration with partners in its network.

Most of the worldwide suppliers of consumer goods and services, now prefer to present their offer directly to consumers. Precisely this facility is a feature of the direct sales industry, so that over 70 companies are now operating in direct sales and MLM schemes in Romania. In Romania the turnover exceeded 270 million USD in 2007 and the number of the active distributors reached 300,000. These opportunities are designed to be embraced by men, women and families of any social class. One of the advantages of such opportunities is that personal commitment can be partially (outside office hours) or full, being fully flexible in terms of organizing working time. A day, a week or a whole month can be assigned to run an MLM business, according to the wish of every person to earn from the opportunity. The main statistics on the industry of direct sales and MLM systems in Romania refer to:¹⁵⁵⁶

- **Turnover** – in 2008 reached the value of € 300,041,307, an increase of 15% compared to 2007 when it reached € 275,285,253. According to the RODSA statistics (The Romanian Direct Selling Association) in 2009, turnover increased by 10% compared to 2008 due to current financial crisis. Cumulative 10 years, from 1999 to 2008, the turnover exceeded EUR 1.496 million.

Table 2: Turnover in the direct sales industry in Romania in the period 1999 – 2008 (mil. €)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Turnover	35,6	49,84	70,31	92,56	109,47	170	169	228	275, 28	300,04

(Source: <http://www.rodso.ro/rapoarte.htm>)

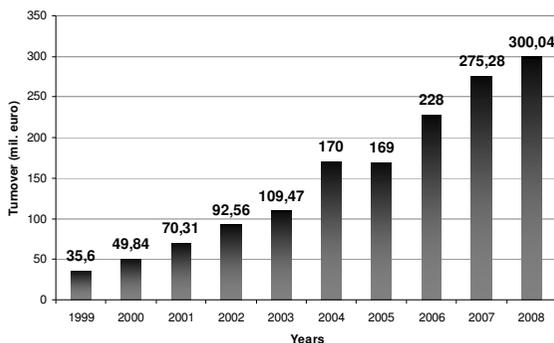


Fig. 1. Turnover in the direct sales industry in Romania during 1999 – 2008 (million €)

(Source: <http://www.rodso.ro/rapoarte.htm>)

- The structure of **direct sales** and **MLM** distributors in Romania:

¹⁵⁵⁶ <http://www.rodso.ro/rapoarte.htm>

Table 3: The number of direct sales and MLM distributors in Romania in the period 2003 – 2008

	2003	2004	2005	2006	2007	2008
The number of direct sales and MLM distributors, of which:	200.000	225.000	250.000	250.000	300.000	340.000
- employees	452	452	590	1.176	1.282	1.107

(Source: <http://www.rodso.ro/rapoarte.htm>)

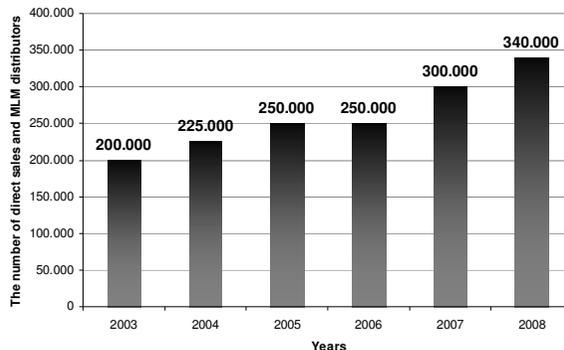


Fig. 2: The number of direct sales and MLM distributors in Romania in the period 2003 – 2008

(Source: <http://www.rodso.ro/rapoarte.htm>)

The range of products distributed in the direct sales industry and MLM systems in Romania in 2007:

- 3% – technical products, machinery, books, etc.;
- 9% – life insurance;
- 11% – household goods;
- 37% – cosmetics;
- 40% – nutritional supplements.

The structure of distributors and customers:

- 30% – active distributors;
- 70% – occasional customers and distributors.

Distributors work:

- 31% – full – time;
- 69% – in part (outside office – hours).

Working method:

- 61% – from person to person;
- 39% – group presentation.

The gender of the distributors who work on the Internet:

- female – 40%;
- male – 60%.

The age structure of distributors:

- 18 to 30 years: 37%;
- 31 to 40 years: 27%;
- 41 to 50 years: 24%;
- over 50 years: 12%.

Conclusions:

Direct selling industry has registered in 11 years of activity a spectacular growth. If in 1999 the total turnover in this sector just passed 35 million in 2009 - the peak year of economic crisis - companies

operating in multi-level-marketing had a total turnover of over 330 million. Between 1999 and 2009, the area has managed to make "the move" of over 1.8 billion euros. For these money work only 1,107 employees the rest of 350,000 being collaborators.

Last year, when the crisis has trampled on the local economy, the direct sales industry grew with 10% compared with 2008, reaching a total turnover that exceeded 330 million. This rising trend has a logical explanation, given that many Romanian have lost their jobs and were forced to look for a way of earnings. For them, the Multi-Level Marketing (MLM) system was a chance to make some revenue. In Romania today, where job hunting has become a real problem, many people had to look for opportunities of earnings. This was enough to increase the number of collaborators, which led to the increase of the turnover. According to data held by RODSA (Romanian Direct Selling Association), today this MLM system has a network of 350,000 direct distributors and more than one million consumers. Three quarters of those involved in this system made gains equal to the monthly minimum wage. There were also people who made performance, gaining \$ 15,000 each month.

The expansion of this type of services on the Romanian market made the major companies in the world to open offices here. If at first were few sellers "from door to door", the products distributed being designed especially for life insurance, now the range has extended, around 70 of such companies working in our country.

Turnover conducted by the industry shows that there is big money spinning: last year, the top three players - Avon, Oriflame and Amway - had total revenues of over 150 million. According to data from RODSA, Avon has managed to achieve in 2008 the performance of a net profit of 18,162,599 euros with only 311 employees, while Amway has reported a profit of 3,434,119 euros, the company's personnel plan showing only 38 work card employees. Ranked in the top three of the earnings achieved in 2008, Oriflame Company had a profit of 3,116,389 euros and a total of 127 workers.

With relatively small initial investment, direct sales companies have growing profits as more consumers turn to vendors for products to increase their income. Moreover, some of them created networks to grow their sales volume and thus increase revenues. There must be made the specification that the money is earned only when they sell products and not promises.

Another reason for the growth of this business is the improvement of legislation. As for Romania, even now the law is unclear, but becoming a European Union member has simplified things somewhat. For example, several years ago were banned the pyramid schemes. This is a good thing, because the MLM companies don't risk anymore to be associated with such practices.

The major problem of companies during the current period is the economic crisis, because it has a negative influence on all activities. The application of innovation in all areas, reducing costs and risks by contracting a franchise or improving the speed and the efficiency through direct sales are the most viable solutions.

The crisis is the forerunner of change.

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NEW TRENDS IN THE ADVERTISING POLICY OF ROMANIAN AND UE COMPANIES

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CEE Marketing Managers use the economic recession to reconsider its approach. A recent survey done among CEE marketing directors (Central and Eastern Europe) showed that recent economic pressure has not only cut short-term budget, but it shows that economic pressure has led to reassessment of their approach to marketing. The biggest challenge the marketers have to face in a recession is the budgetary constraints. In this context more and more managers are considering the integration and the development of direct marketing activities in their organizations.

Keywords: direct marketing, mobile marketing, sms promotion, campaign.

JEL code: M37

Introduction

Promotion seen as a key tool of the marketing mix includes a wide range of activities which has to be closely correlated with other elements of marketing mix, such as product, price and distribution. There is a great diversity of views regarding the criteria of structuring the promotional means, but it seems that the most suggestive and practical are those of referring to:¹⁵⁵⁷

- the intention of persuasion;
- the way of achieving the target goal.

Taking in consideration this point of view, some promotional means such as packaging, brand, price and the image of the point of sale are unpersuasive media; they belong to the other elements of the marketing mix.

In turn, persuasive means of communication can be classified according to the second criterion, namely how to achieve target goals in two big categories:

- means of direct communication (personal) – that means that rely on sales forces and other means of establishing direct relationships, specific direct, marketing with customers;
- indirect communication means (non-personal) – including advertising with its two forms (advertising and free advertising), public relations and sales promotion.

In another reference work in this field¹⁵⁵⁸, promotional methods and techniques are classified into two basic categories, namely:

1. promotional communication techniques, including: advertising, sales promotion, public relations, sales force and direct marketing;
2. continuous communication techniques, including: brand, design, packaging etc.

The strategic way in which they are combined by the firm, the various components of the promotion in order to achieve the given objectives generate the creation of "promotional mix". This, viewed from the perspective of various companies, is structured and sized differently, depending on the nature, extent and diversity of each promotional component. "The differences in the composition of the promotional mix are determined, in general, by the nature of products and services, by the profile of businesses (manufacturing, commercial, of services), by the characteristics and trends in markets where they operate, by the specific purchasing and consumption behaviours."¹⁵⁵⁹

¹⁵⁵⁷ Adăscăliţei V. – "Promotional Techniques. Fundamentals", "Transilvania" University of Braşov, 1994, p. 22.

¹⁵⁵⁸ Popescu I. C. – "Marketing Communication", Uranus Publishing House, Bucharest, 2003, p. 25.

¹⁵⁵⁹ Florescu C. & collective – "Marketing", "Marketer" Academic Group Publishing House, Bucharest, 1992, p. 415.

Direct marketing – a specific way of making marketing

The biggest challenge the marketers have to face in a recession is the budgetary constraints.

A study made by Linea Directa Communications in 2009 shows that Romania is among the last states regarding the preference for direct marketing. These two trends, that of overcoming the importance of direct marketing over other marketing instruments and to ignore from the start that strategy, ranked Romania on the last place among European countries, the other countries investigated being Hungary, Poland, Czech Republic and Slovakia.

Most of the companies (in the study were considered only those companies which attained annual revenues of over one million euros) directs to the direct marketing activities a smaller percentage of 10% of marketing budget, the average of a marketing budget in Romania being at the most 250,000 euros. This is because direct marketing is not yet part of the organizational culture of most companies, although the effectiveness of direct marketing has been demonstrated for some time for other international business environments.

The current financial crisis could restore the direct marketing position in Romania by doubling its allocated share from an average of 4% to an average of 8% for 2010. One Hit Mail officials gave for comparison the Hungary, with an average of 12% allocated to direct marketing and the United States, where it exceeds 50% of a marketing budget. The highly personalized direct communication with the client, the pursuit of real and optimized database that can provide real and effective information to the organization, all these attributes or benefits of direct marketing will begin to gain ground in the old situation of world crisis in which the power of purchase is decimated, Romania not being an exception.

The impact of financial crisis on direct marketing practices

According to a survey made in the summer of 2009, in the CEE region, by Linea Directa Communications (part of Studio Moderna Group, one of the largest direct marketing, call – center and fast-growing company; the group covers 19 CEE markets and ensure the provision of services in 22 international languages), companies with small marketing budgets dominate the study, budgets under 250,000 euros being reported especially in Hungary (89.4%), Russia (88.6%) and Romania (85.4%).¹⁵⁶⁰ Budgets that exceed 1 million euros are in small percentages in the Czech Republic (5.4%), Slovakia (4.9%), Poland (4.5%) and Slovenia (4.3%).

In 2009, the biggest reductions of the marketing budgets were made in Russia (28.6%) and in Romania (22.7%), the companies reaching a 30% reduction of the budget. Similar budgets with those from 2008 were registered in Hungary (44.4%), Slovenia (43.9%) and Poland (43.4%). On the other hand, there are companies that have invested in marketing communication – Russia (19.6%), Poland (19.2%) or Slovenia (16.2%).

From 30 to 70% of this money is spent for internet promotion (banners, blogs, social networks etc.), catalogues, mass marketing (TV, newspapers, radio), and for organizing events and fairs. The smaller budgets (more than 30% of marketing budgets) are allocated for sending SMS for mobile marketing, telemarketing, direct mail and email.

The most used communication channels are the Internet (banners, blogs, social networks etc.), e-mail, distribution catalogues, fairs and events.

These data indicate that companies are focused on marketing activities that can be measured in order to become effective, but not too much. There are less popular channels, such as telemarketing, mobile marketing that are not used so much. The advantages of these channels consist not only in direct interaction with customers but also in the use of a wide range of services. Thus, telemarketing is an important tool not only for increasing sales but also for testing new offers and for market research in order to measure customer satisfaction. Telemarketing can be used also to generate sales opportunities,

¹⁵⁶⁰ <http://www.iaa.ro/Articole/Analize/Impactul-crizei-financiare-asupra-practicilor-de-marketing-in-europa-centrala-si-de-est/3153.html>

to establish business meetings or to provide customers with specific information about a particular product or service.

According to the survey, companies organize marketing campaigns in order to increase the number of customers, to increase their loyalty and to maximize the profit obtained from the existing customers through additional sales. Also, companies take into account the creation of databases, used later in their communication campaign, to create an awareness, but also for a brand or product repositioning.

For direct marketing companies, 2009 has meant the continuation of the collaboration started in previous years, but also the development of new projects with large and medium companies.

In the CEE region is increasingly speaking about the services outsourcing as a cost saving measure:

- *the Czech Republic recorded the highest percentage of companies that outsourced direct marketing activities (74.4%), followed by Poland (61.5%) and Romania (36.5%);*

- *84.8% of companies don't outsource services in Hungary, 74.6% from Slovakia, 68.6% from Slovenia and 46.7% from Russia these companies don't use the outsourcing of direct marketing activities because they have internal resources to do these operations or they can't afford them because they have low communication budgets; there are also companies that don't have enough information about outsourcing, about the meaning of this term (outsourcing) and its benefits.*

The most outsourced direct marketing activities are really the new communication channels such as Internet promotion (banners, Google Adwords, blogging, social networking), training events and fairs, as well as mass marketing (TV, Billboard newspapers), direct mailing and distribution catalogues.

The study was conducted in 7 countries: Czech Republic, Hungary, Poland, Romania, Russia, Slovenia and Slovakia. Managers from different industries such as IT, finance, FMCG, pharma, automotive, retail, telecommunications, tourism and utilities participated at this study.

The trends on the Romanian direct marketing market – SMS promotional campaigns

SMS promotional campaigns have stood in 2009 under the sign of the cost and resource efficiency. However, this kind of communication has grown not only in the number of new brands involved, but also in the value of prizes awarded, in the number of contributions and in terms of costs involved.

The reason for this increase was that in a year of crisis the actual results materialized in sales and their rapid and accurate quantification yielded a high return on investment. This is one conclusion of monitoring the SMS promotions market in 2009, by Voxline Communications Company, founded in 1998 with French capital, benefiting from the very beginning of technical support and Western European know – how in telecommunications services with value – added solutions and in the interactive services.

In over 10 years of activity on the Romanian market Voxline recorded numerous premiers of which three can be mentioned: in 2002 was the first alternative telecommunications operator which created services of SMS and voice mobile support; in 2004, the Voxline developed the application of the first mobile marketing campaign in Romania, for Chipita brand; in 2005 became the first operator of value added services which obtained ISO 9001:2000 certification issued by TUV Thuringen.

The services offered by Voxline Communications cover a wide range of mobile marketing applications (campaigns of sending and receiving SMS messages, mobile advergimes) call center (normal numbers and green numbers), Web applications (promotion sites, flash advergimes) micropayment services through mobile telephony and value added services (televotes, contests, digital content). Among the customers for which Voxline Communications has conducted campaigns over time are important players in the local market, such as Quadrant Amroq Beverages (Pepsi), Star Foods (Lays), JTI (Winston), Unilever (Dove, Cif & Domestos), Chipita Romania, URBB (Carlsberg, Tuborg), Western Union, Duracell, Braun, Dr. Oetker (Ristorante Pizza, Pudding) Fabryo (Savana), Wrigley, Charm, LG Prod 94 (Stalinskaya, Wembley), Porsche Romania.

One of the reasons for which the SMS promotions were increasing in 2009 is that the restriction of marketing and advertising budgets has led to concrete results orientation and Mobile Marketing remains one of the tools that offer the possibility of achieving the brands objectives having a personal character

and a multiple applicability and being on hand. Last year, the interest towards direct marketing activities increased a lot, being targeted especially to boost sales and the participation mechanisms via SMS have been very well received by buyers.

The evolution of SMS Promotions in 2009:

Communications Voxline monitored during 2009 over 60 marketing SMS campaigns, made by 35 companies, similar number with the promotions conducted in 2008.

In 2009 brands have invested increasingly more in the consumer viewing experience with the brand, adding dedicated websites to traditional SMS promotions. Thus, 55% of campaigns have been accompanied by such sites, on which the consumer behaviour didn't resume only to the registration; there were various ways of retaining the consumers on the sites, such as: games, auctions, user-generated content, RSS feeds from blogs etc. Most times, these additional activities were rewarded with additional prizes. However, the interest for the cost reduction determined 44% of promotions to use only the component registration via SMS. Some brands that used only the SMS channel for registration, had avoided the printing of unique codes on products, asking the customers to send the number of payment ticket or the brand's name, or the answer to a question. In 2009 the specialists observed the use of the same phone number for more simultaneous promotion of the same brand.

The year 2009 brought a real growth among campaigns conducted for food (both in number of campaigns and the number of companies), alcoholic beverages, as well as for cigarettes. However, collapse was observed in the number of companies in the electronics/appliances, cosmetics/detergents and construction domains. It was also noted the first campaign which offered the possibility of registration through mobile site and the fact that some brands have been returned to the classic coupon promotions or instead of participation through SMS, either as an alternative to registrations via SMS/Web/call centers. Although it was considered a year of crisis, there were companies that have developed sms promotions for the first time in 2009. These were: Albalact (Zuzu), AGRANA (Pearl), Macon Deva, SOLLERS PPD (J&B), Carolli Prod 2000 (Carolli), Nordic Import Export Co. (Rio Mare), Cotnari (Grasa Cotnari), United Euro Distributions (Murfatlar), Ringier (TvMania), the same number of new companies registered in the monitoring of 2008, year of growth. In terms of awards, in 2009 they exceeded the value registered in 2008, reaching the value of accumulated awards of approximately 25 million EUR (VAT included). In terms of traffic generated by the campaigns, it can be estimated a total of over 20 million SMS, the most numerous participations being on cigarettes and soft drinks.

The value of the sms promotions market, reported only to the number of sent messages, plus the average cost of making applications and the average cost of monthly subscription has exceeded in 2009 1 million euros, the highest annual amount recorded for such actions using mobile marketing.

Some companies which made SMS promotions for the first time in 2008, have repeated these promotions in 2009: Colgate - Palmolive, Petrom and Cris Tim. Poiana ("Choose Poiana!") was the promotion with more than one way of registration: SMS, Web, mail, e-mail. Murfatlar used the registration through call center, primarily for Romtelecom network users and other fixed networks. The company with most promotions (7) belonged to the Dr. Oetker brand. The brands with the biggest budget for awards were Murfatlar, Kent, Winston, Coca Cola and Pepsi (which, in total, have almost 50% of the prize budget).

Estimates for 2010:

In 2010 it is estimated that the brands known for their dynamism (Pepsi, Coca Cola, some brands of cigarettes, some alcohol brands) will continue to innovate the methods of registration to promotions, creating a bridge between the registration and the consumer experience with the on any channel. The year 2009 was distinguished by the introduction of new ways of registration, based on mobile phone:

the registration through a mobile site. It is estimated that in 2010 will be at least 5 brands that will also use this channel for registration to promotions.

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INSURANCE CONSULTANTS ATTITUDE TOWARDS RELATIONSHIP MARKETING ELEMENTS

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This paper aims to investigate how the insurance consultants apply the relationship marketing specific elements in their relationship with customers. "How to establish and, especially, how to maintain the relationship between supplier and consumer of insurance services?" represents the investigated problem. Obstacles in attracting clients, in gaining and maintaining confidence, in communicating with them represent the grounds for that particular subject. It features an analysis of the relationship between supplier and consumer of insurance services.

Keywords: relationship marketing, insurance market, insurance sales agents

M31

1. Introduction

Because of the specific area of insurance products, which involve signing a contract for one year for non-life insurance and at least 5 years for life insurance, the relationship between insurance consultant and client is by definition a medium or long term one. Also, the fact that in insurance domain, the transaction is spread out in several stages, through the insurance premium which the customer must pay, makes it even more necessary to maintain and develop the relationship between the two sides. Customer confidence in the insurance consultant and also in the insurance company is important both before signing the contract, and especially after this stage of the relationship, as customer's money is at stake. Also, the impact of the current crisis on the insurance field is reflected in the relationship between insurance agent and his clients. Failure to pay premiums, trying to find different reasons and different staged accidents to get the compensation are elements that increase the difficulty of maintaining and developing relationships. Similarly, in a time of economical crisis, the consultant has developed a pushy attitude that creates a negative image among customers, leading to the emergence of another factor influencing the relationship.

2. Purpose and research objectives. Methodology

Performance of insurance consultant on the market depends on investments that he makes in customer relationship. Investments that the insurance agent must make to create, maintain and develop relationships with clients are of several types: the time to prepare for each phase of the sales process, training, time spent communicating with customers, all knowledge in this area.

But, whatever investment you make in different stages, they have no value if the consultants don't prove their involvement. It is the most important method by which they can win their customers.

The aim of this study was to analyze the relationship between agent and client in the insurance market, in terms of agents.

Study objectives were:

- identifying specific elements of the relationship between consultant and client in different stages of the sales process;
- identifying the role of obtaining customer confidence in the relationship between consultant and client;

- identifying the role of consultant involvement in the relationship between him and the customer. The method used to achieve these goals has been the investigation. Population considered for the investigation was the consultants of an insurance firm operating on the Romanian market. The instrument used was a questionnaire that the consultants had to complete before their meetings. The final sample consisted of 122 consultants. In terms of experience in insurance, 33.6% of consultants had experience of less than 10 months, 29.5% of them had experienced between 10 to 24 months and 36.9% of consultants had more than 24 months experience in insurance.

3. Results

3.1 Specific elements of the relationship between consultant and client

The results regarding the specific elements of the relationship between consultant and client are presented in the following tables. Each table presents the results obtain for one of the three categories of consultants in terms of their experience in insurance.

<i>Consultants with experience of less than 10 months in insurance</i>	
Need identification stage	- there is a higher proportion of consultants, respectively 75.6%, compared to 65.8% overall sample, that sustain they never decide what products to offer based on their beliefs, not on the client's needs.
Presentation of Solutions stage	- there is a higher proportion of consultants, respectively 36.6% versus 29.5% overall sample, that sustain they often attempt to influence a customer by information rather than by pressure; - there is a higher proportion of consultants, respectively 85.4% vs. 76% overall sample, that sustain they always give the product according to clients needs; - there is a higher proportion of consultants, namely 48.8% versus 40.5% overall sample, that sustain they rarely try to sell a customer everything they can to persuade, even if they believe that is more than a wise customer would buy; - there is a higher proportion of consultants , namely 17.1% versus 9.1% overall sample, that sustain they always describe a „pink picture” of the products to make them sound better.
Completion of sale stage	- there is a higher proportion of consultants, 51.2% versus 42.6% overall sample, that sustain they never prefer to sell as much, without considering the customer's satisfaction.
After-Sales Phase	- there is registered a larger proportion, 39% versus 23% overall sample, that sustain they always contact customers after signing a contract only for sending wishes for various occasions (birthdays, New Year).

<i>Consultants with insurance experience of 10 to 24 months</i>	
Need identification stage	- there is registered a larger proportion, 25% to 20.5% overall sample, that sustain they often identify their customers needs by asking questions; - there is a larger proportion, namely 16.7% versus 9.2% overall sample, that sustain they always decide what products to offer based on their beliefs, not on the client's needs.
Stage presentation solutions	- there is registered a larger proportion, 69.4% versus 62.3% overall sample, that sustain they never put pressure on a client to buy when they are not sure that the product is suitable for that client; - there is a larger proportion, respectively 69.4% versus 63.1% overall sample, that claim they always try to influence a customer by information rather than by pressure.

<i>Consultants with insurance experience of 10 to 24 months</i>	
After-Sales Phase	<ul style="list-style-type: none"> - there is registered a larger proportion, 13.9% versus 9.8% overall sample, that say they often prefer to sell as much, regardless of customer satisfaction; - there is registered a larger proportion, namely 63.9% versus 53.7 % overall sample, that say they rarely spend more time trying to convince a customer to buy than attempting to understand his needs.

<i>Consultants with more than 24 months experience in insurance</i>	
Need identification stage	- there is a higher proportion of consultants, 32.6% versus 20.8% overall sample, that say they rarely decide what products to offer based on their beliefs, not the client's needs.
Presentation of Solutions stage	<ul style="list-style-type: none"> - there is a higher proportion of consultants, 9.1% versus 4.1% overall sample, that sustain they never give to a customer the product according to its needs; - there is a higher proportion of consultants, namely 56.8% versus 45.5% overall sample, that say they never try to sell a customer all they can persuade, even if it considers that that's more than a wise customer would buy; - there is a higher proportion of consultants, 45.5% versus 38% overall sample, that sat they never describe a „pink picture” of the products to make them sound better.
After-Sales Phase	<ul style="list-style-type: none"> - there is registered a larger proportion of consultants, 24.4% versus 17.2% overall sample, that sustain they rarely contact the clients after signing the contract; - there is registered a larger proportion, namely 48.9% versus 36.9% overall sample, that sustain they often contact customers only after signing a contract for the transmission of greetings for various occasions (birthdays, New Year).

3.2 The role of trust and involvement

The results regarding the role of trust and involvement in the relationship between consultant and client are presented in the following tables. Each table presents the results obtain for one of the three categories of consultants in terms of their experience in insurance.

<i>Consultants with experience of less than 10 months in insurance</i>	
The role of customers confidence	<ul style="list-style-type: none"> - there is a greater proportion of consultants, namely 26.8% versus 14.9% overall sample, that sustain they are in agreement with the fact that customer confidence is very important until the contract is signed; - there is a greater proportion of consultants, 34.1% compared to 23.8% overall sample, that sustain they agree with the fact that presenting only the products advantages can make the client suspicious; - there is a greater proportion of consultants, 63.4% compared to 52.5% overall sample, that sustain they totally agree with the fact that calculating the solutions in front of the clients can make them have more confidence.
The role of consultant involvement	- there is a greater proportion of consultants, 39% respectively 30.3% overall sample, that sustain they agree with the fact that greater involvement on their part leads to a better relationship with the customer.

<i>Consultants with insurance experience of 10 to 24 months</i>
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<i>Consultants with insurance experience of 10 to 24 months</i>	
The role of customers confidence	<ul style="list-style-type: none"> - there is a greater proportion, namely 19.4% versus 12.3% overall sample, that sustain they agree with the statement that earning customer confidence is the key to a good relationship with him; - there is a greater proportion of consultants, respectively 22.2% versus 13.2% overall sample, that declare to agree with the fact that in all actions they carry out the aim is to preserve their customers trust.
The role of consultant involvement	<ul style="list-style-type: none"> - there is a greater proportion, namely 41.7% versus 30.3% overall sample, that say they agree with the fact that greater involvement on their part leads to a better relationship with the client. - there is a greater proportion, namely 19.4% versus 13.1% overall sample, that declare to disagree with the fact that most times, too much involvement from their part gives the impression of aggression; - there is a greater proportion, namely 44.4% versus 28.7% overall sample, that sustain they agree with the fact that the use of computer applications during the meetings with the client would demonstrate a greater involvement from their part.

<i>Consultants with more than 24 months experience in insurance</i>	
The role of customers confidence	<ul style="list-style-type: none"> - there is a greater proportion, namely 88.9% versus 83.6% overall sample, that sustain they totally agree with the statement that earning customer confidence is the key to good relations with him; - there is a greater proportion, namely 86.7% versus 81.8% overall sample, that sustain they totally agree with the fact that in all actions they carry out the aim is to preserve their customers trust; - there is a higher proportion, respectively 56.8% versus 40.5% overall sample, that declare to totally disagree with the fact that customer confidence is very important until the contract is signed; - there is a greater proportion of consultants, namely 11.1% versus 4.9% overall sample, that sustain they totally disagree with the fact that the presenting only the benefits, without specifying customer requirements can awaken his suspicion; - there is a greater proportion, respectively 28.9% versus 23% overall sample, that declare to agree with the statement that calculating solutions in front of customers would increase their confidence.
The role of consultant involvement	<ul style="list-style-type: none"> - there is a greater proportion, namely 75.6% versus 64.8% overall sample, that sustain they totally agree with the fact that greater involvement on their part leads to a better relationship with the client; - there is a higher proportion, respectively 17.8% versus 11.5% overall sample, that sustain they totally disagree with the fact that most times, too much involvement from their part gives to the client the impression of aggression.

4. Conclusions

The first objective sought to obtain information on specific elements of the relationship between adviser and client, depending on the stage of the sales process. The results show that during the stage of identifying needs, most insurance consultants always identify customer needs by asking questions. Most consultants do not ever give products by their own beliefs, but based on customer's needs.

Regarding the stage of presentation of solutions, most consultants do not ever pressure the customer into buying the product. Most argue that consultants always provide the product according to customer needs and always try to influence a customer to buy based on the information and not by pressure.

Almost half of the consultants don't ever try to sell to a customer everything they can to persuade him to buy, even if they think it would be more than a wise customer would buy. Most consultants do not ever describe „in pink” products that sound better, or rarely do so.

Regarding post-sales, most consultants maintain contact with the customer after they sign the contract, but over half of them contact customers only to send "well wishes" on several occasions after signing contract.

The second objective sought to obtain information on the role of trust in the relationship with the client. Over 80% of insurance consultants consider winning the confidence of the client as a key element of establishing a good relationship with him. Therefore, most of them seek to maintain customer confidence throughout all actions that take place in relationship with them. Many consultants consider gaining customer trust as a condition for recommendation to other potential customers. But in terms of confidence importance during the sales process, more than half of consultants believe that customer confidence is only important to sign a contract.

Most consultants attach great importance to gain confidence through the methods of presenting solutions. They consider that presenting only the benefits, without specifying customer requirements, customer may arouse suspicion („too good to be true”). More than 70% of consultants argue that they would increase customer confidence if the solutions would be calculated in front of him.

The third objective sought to obtain information on the role of involvement. Regarding the consultant involvement in the relationship, most of them consider that a high involvement from their part leads to a better relationship with the client. However, just over half of them consider that, often, too much involvement from their part gives the impression of aggression. Computer software used during the meeting with the client is considered a demonstration of their involvement in the relationship. As regards to the involvement of clients more than 80% of consultants considered that their involvement is not sufficient for a good relationship with the client, but client's involvement is also needed.

In achieving these objectives limits have been identified also. One of these was the possibility that respondents had the impression to be evaluated when they received the questionnaire and the possibility that they had responded as they ought to, not like they act in reality. Another limit was realizing the investigation only in one insurance company; therefore the results are presented at company level and not at market level.

At this stage, attention was paid to consultants and their attitude towards relationship marketing. The next step is to realize this study in several insurance companies to reach the level of the insurance market. Also, the next step involves analyzing the applicability of relational marketing in terms of consumer insurance.

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ADVERGAMES: CHARACTERISTICS, LIMITATIONS AND POTENTIAL

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Advergaming represents a new advertising concept that uses Internet technology to implement viral marketing campaigns. Despite the potential of this interactive advertising method, very few academic studies have been initiated to investigate the characteristics of advergaming, and their influence on consumers' perceptions and behaviour. Using secondary data, this paper attempts to evaluate the characteristics of effective advergaming, and to analyse the effect of advergaming on players' perceptions and behaviour.

Keywords: online advertising, advergaming, effectiveness

Code JEL: M37 - Advertising

Introduction

Advergaming can be defined as online games that incorporate marketing content. Initially, many companies have placed their brands or logos in the virtual environment of computer games launched by specialised gaming firms. However, this form of advergaming is rather static and ineffective, since the player is concentrated on the task required by the game and might not acknowledge the brand image displayed in the background. This limitation has encouraged the firms to create their own advergaming, which are developed around a theme or a character directly related with their products and/or brands. In order to ensure a large diffusion of these games, they were made freely available on the Internet. The facilities offered by the Internet platform have increased the interactivity of the game, and have added a viral marketing dimension.

The interest in advergaming has substantially increased in the last 5 years, because of its perceived advantages (FreshGames, 2002; WebResource 2004):

- low-cost marketing in comparison with the traditional advertising channels, such as TV and radio;
- a captured audience that can transmit valuable personal information about their demographic profile, behaviour, needs, attitudes and preferences;
- customer retention: the average time spent in an advergaming is 7 to 30 minutes, which cannot be reached in the case of a classical TV advertisement.
- viral marketing – 81% of the players will email their friends to try a good game.

All these data demonstrate the huge potential of advergaming (Rodgers, 2004). However, despite the hype created by this new advertising method, most of the information describing or debating advergaming is professionally-oriented, often written in an advertising style (DeCollibus, 2002; Hartsock, 2004; Intrapromote, 2004). Very few academic studies have been initiated to investigate the characteristics of advergaming, and their influence on consumers' perceptions and behaviour (Hernandez, Chapa, Minor, Maldonado, & Barranzuela, 2004; Nelson, 2002).

Background

Studies conducted in the US have discovered that games are extremely popular among all categories of online users. A study conducted by Jupiter Media found that in December 2003, 84.6 million people visited online gaming sites (D5 Games, 2004). This number is projected to reach 104 million by 2007.

The preconception that only kids or teenagers are interested in interactive games is contradicted by the findings: in US 66% of the most frequent game players are over 18 years old, and 40% of them over 35 years old, with the average age of a player being 28 year old (D5 Games, 2004).

Another study conducted during December 2003 – January 2004 in the US, has identified the women over 40 years old as a major segment interested in online gaming (Arkadium, 2004). The female game-players over 40 spend the most hours per week playing games (9.1 hours or 41% of their online time in comparison with only 6.1 hours per week, or 26% of their online time for men). These women were also more likely to play online games every day than men or teens of either gender. The reasons for playing online games vary depending on the gender. The main reason of women is to relieve or eliminate stress, while the men are mainly attracted by the competitive factor of Internet gaming. The women prefer word and puzzle games, while men are more interested in sport, combat or casino games (Arkadium, 2004).

The placement of products or brand names in movies or TV shows is a relatively old technique, but the studies regarding their influence on consumer perceptions and behaviour are inconclusive (Gould, Pola, & Grabner-Krauter, 2000; Russell, 2002). The advergaming present a few distinct characteristics that can eventually enhance their marketing effect:

- the advergaming are selected by the player himself/herself, and are not forced upon an unwilling viewer;
- the player interacts with advergaming adopting an active stance, in comparison with the passive attitude of the TV audience;
- advergaming incite the players to share the gaming experience with their friends or family.

From a marketing point of view, the advergaming attempt to capture the attention of players, and then to transmit to them, in an indirect way, suggestions that aim to modify their perceptions regarding an enterprise, brand, or product. The psychological fundament of this process is the inducement and the use of the 'state of flow'. This concept is used by psychologists to describe a mental state in which the attention is highly concentrated on a specific process, the environmental information is screened out, and the person experiences a harmonious flow of its present experience (Csikszentmihalyi, 1991). The state of flow is known to create a state of well being, as well as increased perception and learning capacity. This state of flow can be induced by any activity that is very interesting for a person: watching a movie, reading a book, or playing a game. In fact, the ludic activity is considered as one of the best inducers of the flow state for children, and often also for adults.

The interaction with Internet applications can also induce the state of flow in specific circumstances (King, 2003), the most successful web sites offering interactive experiences, and not only content. The state of flow can be created online if the following essential conditions are combined: user motivation, user telepresence, and interactivity of the Internet application. On the other hand, the existence and the maintenance of the state of flow is a dynamic process, that depends on the relation between the capabilities of the user – or player in the case of an advergaming - and the level of difficulty proposed by the game. Figure 1 demonstrates the three possible scenarios of the interaction between an Internet user and an advergaming.

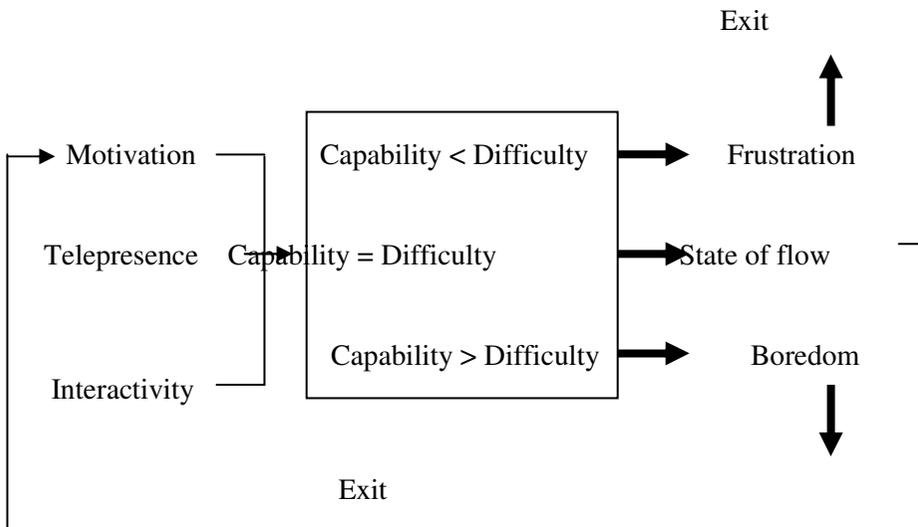


Figure 1. The inducement of the state of flow online

Once induced, the maintenance of the state of flow requires a constantly evolving challenge for the player, because his/her level of capability is likely to improve after playing the game a few times. This raises the problem of including in the advergame a progressive level of difficulty, that can represent a dynamic challenge for players.

If the features of the game are interesting enough and the playing experience provides satisfaction, the player will be inclined to send information about the available game to friends or relatives, participating directly to the spread of the advergames campaign. This action can be reinforced by creating complex games that require multiple participants.

As any other marketing communication tools, the advergame characteristics will have to correspond to: (1) the personality of the advertised brand, (2) the profile of the targeted audience, (3) the characteristics of the medium – in this case the Internet, (4) the strategic objectives of the communication campaign and (5) the corporate image of the company.

The difficulty to concomitantly evaluate these complex variables is probably the reason for a low rationalisation of the advergame development in the professional literature. The creation of an efficient advergame is still considered predominantly as a creative work, that it is difficult to describe in a formal, precise manner.

The characteristics of an efficient advergame

Considering the specific effect of advergames on online players, the following characteristics are considered necessary for an effective advergame:

1. accessibility: facility to identify the hyperlink between the firm/product site and the game, free access or required registration, specialised software required, downloading time;
2. difficulty of understanding: existence of explicit instructions/rules, and the facility of understanding these rules;
3. competitive level: number of players, the display of score lists, multiple level of difficulty;
4. relevance for the firm, brand or product: type of product advertised, type of game, advertising elements associated with the game;
5. capacity to induce and maintain the state of flow: multiple levels of difficulty, the possibility offered to players to choose a specific level of difficulty;
6. viral marketing: communication with friends and family members is encouraged.

An objective evaluation of the advergame relevance for the firm/brand/product advertised is difficult at this stage, because it is necessary to define a number of quantifiable criteria that can describe and assess the personality of a brand. The same type of problem is related with evaluating the capacity of the game to induce and maintain a state of flow. In this case, an experiential approach is more suitable, although the two variables defined for this characteristic are equally relevant, being derived from the relation between the capability of the online player, and the capacity of the advergame to propose an appropriate and dynamic level of challenge.

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ON-LINE COMMUNICATION BY SOCIALIZATION SITES

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Socialization online sites have become important landmarks for people all around the world and of all ages, especially for youth. Users of such services can socialize with people they know or with unknown, people located in the vicinity or at different distances, even on different continents.

In other words, social online sites help people to interact with others of their kind, to know people who have the same passions as they have. The access to such sites is free and the members can build profiles (which include data on name, age, hobbies or favorite books and movies) and can share photos, music or videos with the others. A friend is, in the language of the socialization sites, any user who has a link to his/her profile page. Users can send messages or can leave comments on other profiles. In some cases, people who meet on such sites decide to meet also in the real life.

Keywords: internet, on-line, socialization sites, privacy

JEL code: L86

1. Developing online marketing through Web 2.0

During the current period of time there are organizing software and procedures that control the interpersonal exchange of information in socialization networking sites, text messaging, instant messaging, blogs, role-play online games and online education. All these applications can be grouped under the term "social media", a concept that describes the social interaction software based on Web 2.0 - seen more as a software platform, where the user controls / create his own data, information, usually offering them to others through collaborative tools.

Web 2.0 is nothing but the web today, which changes daily grows and includes services and people. The most important features are: achieving common networks (MySpace, Facebook and others), the presence of many small businesses, online search for partners, making new friends¹⁵⁶¹. Blogs, wikis, podcasts, and text comments are the most important forms through which the web content has evolved a lot. Basically, it has become accessible for anyone to reveal his thoughts on the Internet. Blogs have also spread to the companies and today there appeared not only the personal and business agendas but also the political blogs. On the list of news, the blog is one of them, other services addressed to the community occurring also: the sharing of images (Flickr), joint news pages (Digg), social networking market (iWiW, myVIP) and the list is constantly expanding. Moreover, there are discussions about the next generation of web - 3.0, already. It involves the transforming of the Web into a huge database, the artificial intelligence development and the creating of a new-human web, the creating of semantic networking computers connected to the Internet which can combine information based on logical connections¹⁵⁶².

¹⁵⁶¹ <http://aseweb20.wetpaint.com>

¹⁵⁶² <http://www.blogcity.ro>

Turning to the current stage, we can say that the single direction and traditional media was changed step by step as the result of some activities: in addition to horizontal, general search engines, there also appeared vertical search engines (engines specialized in certain areas search information), and Google has brought the both together (Universal Search).

A description of Web 2.0 might be the following¹⁵⁶³:

- includes a very wide range of applications and services using the web as a unitary organized platform for communication;
- is built on an architecture that encourages the active participation of users;
- allows easy interaction between users who have similar interests;
- enables users to generate content, share it with others, meaning a greater interactivity;
- facilitates the public access to databases;
- has the ability to connect various applications or services and to aggregate data from various sources - RSS, blogs;
- “talks” about: the socialization of information - a concept about applications and people, the emergence of collaborative tools like wikis, social networking platforms like MySpace, Hi5, LinkedIn and Second Life, blogs, data structures and communication documents, collections of bookmarks (like del.icio.us or digg), videos (YouTube) or images (flickr) etc.;
- syndication - RSS and tags structures: tree-classification removal and the application of labels, so that something is not strictly a descendant of another, but may belong to several categories;
- the improving of the users’ experience;
- democratization of content and distribution (user-created content and freely distributed);
- uses the power of Internet communities.

Video and Web 2.0 technologies help to improve collaboration between people and companies in the current context of increasing interactivity and globalization of labor. Most of the companies plan to prepare networks for implementation of video applications and innovative online collaboration. With the adoption of more wide-scale video and Web 2.0 technologies, companies are becoming increasingly interested in using video communications for the expansion of commercial activities, attracting more customers, improving collaboration between employees and implementation of environmental media.

Technologies such as blogs, wikis, telepresence and web conferencing, help companies to keep pace with the very dynamic changes in the field of IT applications and services. The main issue for investment in commercial video and Web 2.0 tools is to address growing customer demand for innovative products and services. Another factor considered for installing the video is, as pointed out above, the concern for the environmental issues.

In the current era of dynamic employees, informed and collaborative interaction characterized by increasing global importance, the horizontalizing of the organizational structures and interactivity, companies must use communication tools in an innovative way for increasing the degree of adaptability to dynamic change market.

Equally interesting is the fact that the U.S. companies which wish to use, in the next few years, videoconferencing technology are, in the same time, according to assessments of profitability during a fiscal year - companies with the greatest potential for development fast. Moreover, it is estimated that in the coming years, the fast-growing companies in Europe and in countries with emerging economies will implement Web 2.0 technology-based tools.

2. Concept and evolution of the socialization sites

Socialization networking sites are web-based services that allow individuals to construct a public or semi-public profile within a limited system, to devise a list of other users who are connected to their friends list and see what others in the system do. Nature and typology of these connections may vary from one site to another, but what makes the socialization sites unique is not that they allow individuals to know strangers, but that they allow users to compile and make public their network socialization (friends). The results may

¹⁵⁶³ idem

be the links between individuals which, in other circumstances, would not occur. Also, on many socialization sites, the participants are not looking, in particular, to become acquainted with others, but to connect with people they already know.

After recording on a socialization networking site, users are asked to identify those they are related to in the system. Labeling depends on the site: “friends”, “contacts”, “fans”, most socialization networking sites requiring bidirectional confirmation of friendship. Public display of friendship is a crucial component of these types of sites. Friends’ lists contain links to each profile, allowing users to navigate the network structure by clicking the lists of friends. Most sites offer users a social mechanism by which they can leave messages on friends’ profiles also. Moreover, these sites usually have a feature of “Private Messaging” similar to the webmail.

Experts believe that the history of these sites began with the advent SixDegrees.com. It was auto characterized as a means of knowledge and communication, but despite the success enjoyed (million users), it was closed in 2000. As its creators say, the time for such services hasn’t come yet¹⁵⁶⁴.

The next milestone was in 2002, Friendster - a site that initially proposed itself to help users to know, in the event of love affairs, their friends’ friends, who would be some more suitable pairs than the strangers. Friendster enjoyed a very big successful, quickly attracting hundreds of thousands of users, but technical problems, and the ease with which administrators were wiping fake accounts (for example, parodies of celebrities) led to a mass withdrawal of users. Friendster however remains very popular in countries like Philippines and Indonesia. Instead, former Friendster users have shifted to other similar services; MySpace is among the main beneficiaries.

On Hi5 (founded in 2002), users can create an online profile, which can show information such as interests, age and hometown and upload user pictures where other users can post (submit) comments. Hi5 also allows you to create personal photo albums and set up a music player in the profile.

In 2004, “The Facebook” was founded, originally as an academic network with the name “thefacebook.com” being later extended to companies like Apple and Microsoft¹⁵⁶⁵. In May 2007, Facebook launched a platform to interact with other websites. Likewise, there were released many applications by means of which users can send different messages. In a few months, after the launch of Facebook, there had been initiated an application against spam also.

The growing user-generated content sites focused on media sharing and have started to implement features of “social networking” becoming, in turn, socialization sites. There are Flickr (for photos), Last.FM (music listening), YouTube (video sharing) as examples¹⁵⁶⁶.

The idea of development of communication systems based on socialization sites is, also, operated by the U.S. emergency management (FEMA) which wants to use the Twitter microblog network sites or the Facebook socialization networking site in order to communicate in case of emergency (when the conventional communication networks will be broken), so that people can send information to the authorities, and may correspond better with those in areas at risk or already affected by various disasters or catastrophes¹⁵⁶⁷.

3. Extending socialization sites worldwide and in Romania

According to www.wall-street.ro the worldwide number of users of socialization networking sites has grown explosively in 2009, and their influence has been confirmed at every big event, benefiting from continuous Internet access through smart phones¹⁵⁶⁸. For example, Facebook announced in early April 2010, that he crossed the threshold of 400 million users, after six years of existence (a year ago with

¹⁵⁶⁴ Ana Soviany, www.revista22.ro, November 2008

¹⁵⁶⁵ <http://ro.wikipedia.org/wiki>

¹⁵⁶⁶ <http://aseweb20.wetpaint.com>

¹⁵⁶⁷ <http://neomania.ro>, November 2009

¹⁵⁶⁸ Cristina Negru, www.wall-street.ro, December 2009

record 200 million visitors), and Twitter has a number of users increased from 5.57 million in September 2008 to over 58 million people in early 2010¹⁵⁶⁹.

Moreover, Google recently competes with the social networks by adding to its email service, Gmail, functions that allow the users to change the status of their friends and share content online. These sites status updates may include content provided by the users' contacts on other Google sites, such as YouTube and Picasa. Currently, email service users can post short messages similar to those on Facebook or Twitter attached through Gmail's chat. Along with the status update feature sites, Gmail has a number of elements which together could provide an alternative to Facebook¹⁵⁷⁰.

In terms of age of users, according to a report by research company Pew Research Center released in autumn 2009¹⁵⁷¹, approximately three quarters (73%) of adolescents (12-17 years) and an almost equal number (72%) of young adults (18-29 years) use socialization networking sites like Facebook or MySpace. Among socialization networking sites, the study shows that Facebook is the leading destination for adults older than 18 years (73%). MySpace is on the second position with 48%, followed by LinkedIn, with 14%. The results also show that young people aged between 18 and 29 years use connectivity and mobile terminals, 66% of whom being users of laptops.

In our country, according to a November 2009 study by market research company Mercury Research, of the 44% of Internet users in urban areas, which states that are members of social networks, more than one third (36%) use Hi5. This is followed by Facebook with 16% and remotely Flixter (6%), LinkedIn (2%) and Twitter (2%)¹⁵⁷².

Young Internet users, aged between 18 and 24, are most active, both as membership in social networks and the frequency of access to personal accounts. Only 20% of young people between 18 and 24 have at least one account in socializing networks, the opposite being represented by the people over 45 years, 80% of them not belonging to any communities.

Unlike members of other social networks, Hi5 members are more open to new friends or groups, the average number of "friends" network being over 140, while 17% belong to a group of this network.

As frequency of access, over half of Hi5 and Facebook members access their personal account at least once a week, the young people being the most active numbers. For example, 70% of hi5 members aged between 18 and 24 connects at least once a week, unlike the third of those between 25 and 34 that connect with the same frequency. A similar situation is encountered on Facebook as well, where 74% of young people between 18 and 24 access their account at least once a week, unlike 45% people aged between 25 and 34 years.

4. European initiatives for the privacy on socialization networking sites

Sites for socialization networking are an emerging social and economic phenomenon, attracting 41.7 million users in Europe and changing the way we interact with others on the web. The using of socialization networks increased last year by 35% in Europe and is expected to increase by over 100% to 107.4 million users by 2012¹⁵⁷³.

According to an EU study, 50% of young Europeans internet broadcast personal information may remain permanently online and be viewed by anyone¹⁵⁷⁴. For the socialization networks to continue to grow young users must feel safe when expanding their networks or sharing any personal information but sometimes, they risk to be blackmailed and harassed. In most cases, the cause is the lack of information on the availability of personal data: users do not know who can see data on personal profiles published or how they may limit access.

¹⁵⁶⁹ idem

¹⁵⁷⁰ www.zf.ro, February 2010

¹⁵⁷¹ George Varban, www.wall-street.ro, February 2010

¹⁵⁷² The Center for Innovation in Education, *Hi5: The Most Popular Socialization Network in Romania*, 2009, Bucharest: TEHNE – The Center for Development and Innovation in Education, www.elearning.ro

¹⁵⁷³ European Consumers Center Romania, <http://www.eccromania.ro/noutati>

¹⁵⁷⁴ www.euractiv.ro/uniunea-europeana/articles, February 2010

For this reason, the European Commission imposed the 23 companies that joined in 2009 to document “Principles for safer social networking” measures to ensure the protection of children using socialization sites in the network¹⁵⁷⁵. Their objective is to improve child safety and combat online harassment; so that most of the companies have given them the chance to protect themselves against risks by facilitating online transactions for changing privacy settings, blocking access to certain users or to delete comments and undesirable content.

The companies involved intend to limit these risks by¹⁵⁷⁶:

- providing a button to “report abuse” usable and accessible, enabling users to report any inappropriate contact or behavior of another user by the push of a button;
- ensuring that all profiles and online contact lists of the website users who are registered as minors are automatically set to "private." This will make it more difficult to contact the young person with bad intentions;
- ensuring that profiles of the users under 18 years can not be searched (on the Web sites or search engines);
- ensuring that the privacy options are clear and accessible at all times, so that users can easily realize whether everyone or only their friends can see what they post online;
- preventing minors from using their services. If a socialization networking site is addressed to the teenagers over 13 years, it would be difficult for anyone under that age to register on that site.

Earlier this year, the Commission published a report on the implementation of the “Principles for social networks more secure”¹⁵⁷⁷. The report concludes that, of the 23 sites, 19 offer safety advice and information specifically directed to children and/or adolescents. The report also shows that most companies give the children the opportunity to protect themselves against possible risks of being online and to use a safe approach to confidentiality.

However, the European Commission believes that there are more to be done in order to protect online privacy. Less than half of companies that manage social networking (40%) prepared profiles of users under 18 to be visible, by default, only to their friends and only one third of them have unmet requests for help from users.

Changes towards improving the use of socialization networking sites are taking place because of the initiative of independent organizations such as the Electronic Privacy Information Center, Electronic Frontier Foundation and American Civil Liberties Union as well¹⁵⁷⁸.

Also, companies like Facebook (one of the largest socialization networking sites) have implemented changes based on user settings, which cause the publication of more of their personal information. The effect was the one of making complaints by those organizations that have expressed their concern about the possibility of people to express their personal data or pictures without intending to do so. Although Facebook said it had changed the settings to help users be more precise about how and where their information is published, after complaints, the site’s officials said they would simplify the process of restriction of information for the friends list outwardly.

Conclusions:

Social networking sites which are addressed primarily at young audiences are well positioned in the Internet industry through the use of technologies that help companies keep pace with change very dynamic field of software and IT services. But, as many would benefit these means of communication, we can not overlook the risks, of which the largest is even endangering someone’s life.

¹⁵⁷⁵ European Parliament, <http://www.europarl.europa.eu/news/public>, February 2010

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COMPLAINING BEHAVIOUR. AN EXPLORATORY RESEARCH

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Abstract: Nowadays company's profitability and viability depend considerably by the way that this company administrates its clients' satisfaction and especially dissatisfied experiences. The dissatisfied clients will tell to other clients about their negative experience, they will change their attitude about the product or service; they will register their complaint that will affect in a negative way the company's image and the company's products' perception. The authors of this article want to contribute to the improvement of the complaining behavior of the dissatisfied clients, considering the fact that in our country researchers in this area are modest. In this purpose it was developed a pilot survey which objectives were referring to building a socio-demographical profile of the consumer that register complaining.

Key words : Complaints, complaining behaviour, dissatisfaction, consumers' rights

JEL Classification : M31

Introduction

The management of consumers' complaints represents an important aspect of the marketing activity of any organization. A major difficulty that these companies might have consists in understanding the way in which their clients respond to dissatisfaction.

Exploratory research developed had as purpose the identification of some demographic variables that are influencing the complaining behavior, such as age, monthly income and the socio-professional category.

The assumptions from which this research starts consist in the fact that there are demographic differences among those who file a complaint and those who don't do this when they are dissatisfied with a product, service or commercial unit.

In Romania were conducted few studies concerning the consumers' complaints behaviour. Accordingly, the main purpose of this study consists in a better understanding of how dissatisfied consumers react. For this reason, the pilot survey carried out for gathering information has the character of an exploratory research, without any pretension of generalizing the results.

Literature review

Complaining behaviour occurs after the acquisition and consumption of a product or a service when the consumer is dissatisfied (Bearden & Teel 1983; Folkes, Koletsky and Graham 1987). According to the non-confirmation paradigm, developed by Oliver in 1980, a consumer will be dissatisfied when the perceived performance of the product is below his expectations formed before the purchase.

Jacoby and Jaccard (1981) define the complaining behaviour as being “an action made by an individual in order to communicate a negative aspect concerning a product or a service either to the producing or distributing company or to a third organization“.

Day et al. (1981) suggests in one of their studies that the consumer’s dissatisfaction may have important implications such as changing the attitude towards the brand or boycotting the selling points.

The complaints are a response to dissatisfaction and their attainment highly depends on the dissatisfaction’s intensity (Yi 1990). While the dissatisfaction is a mainly affective response, the complaining behaviour is a rather cognitive response. The factors influencing the complaints behaviour are closely related to the individual predisposition to complain, to the opportunity of filing a complaint, to the procedure of filing a complaint or the consumer’s lack of information.

The research conducted in the field highlighted the associations between the complaining behaviour on one hand, and the gender of the dissatisfied consumers who file complaints (Duhaime and Ash 1980), different personal and situational factors (Day 1984), the socio-professional category and the income (Jacoby and Jaccard 1981), the life style, the values and demographical characteristics (Morgansky and Buckley 1986), on the other hand.

With regard to consumer’s reaction to dissatisfaction, most research paid particular attention to the complaining behaviour as a consequence of his dissatisfaction (Andreassen 2001, Ved 1991). It is estimated that there are many types of consumer’s responses to dissatisfaction, namely: taking no action, changing the product / brand, switching the supplier, filing a complaint to the seller, producer or a third person/institution, telling other people about the product that dissatisfied him (Goodwin, Ross 1990).

The complaining behaviour, as a reaction to dissatisfaction, varies considerably from one consumer to another. Most often, consumers take no action in order to reduce or eliminate the problems encountered on the market. Day and Bodur showed that most of the dissatisfaction cases for which no action was taken occur in the case of perishable goods (49.6%), followed by durable goods (29.4%) and services (23.2 %).

The results of different studies have led to the conclusion that a large number of dissatisfied consumers do not file a complaint (Davidow, Dacin 1997, Jeffery ş.a. 1995, Valenzuela ş.a. 2002). This lack of action could have a negative impact for both marketers and consumers. First, by not expressing the dissatisfaction, the consumers are deprived of obtaining a recovery of this unpleasant experience for them. Second, the limited actions of the consumers do nothing but hide the problems of the market that the company should correct. Additionally, the company sees the consumer’s complaints as an important source of information for making some decisions about creating more competitive products.

There are studies that have attempted to establish profiles of the consumers who complain the dissatisfaction and have tried to find answers to questions like: “What types of consumers are willing to file complaints?”, “What are the differences between the consumers that file complaints and those who compliment?”, etc. (Cordoş 2003, Dong-Geun, 2003, Lau ş.a. 2001).

When establishing such profiles, the authors considered especially the demographic variables such as income, occupation, education, age, marital status, social integration, mobility, etc. According to Robinson and Berl, consumers who file complaints are generally young, have a relatively higher income and were not loyal to a brand even when they were satisfied. Also, it is appreciated that the complaints are filed only by those dissatisfied consumers who have enough resources to do this and have high expectations regarding their resolution.

Regarding the relationship between the complaints behavior and the product’s characteristics, some authors (Keng 1995) concluded that it is more likely to file a complaint for products that do not demonstrate their performance, and this may have a negative impact on the company’s image. It was also demonstrated that there is a direct link between the product’s price and the complaining behavior:

the higher the price for a product, the higher probability for a dissatisfied consumer to file a complaint (Keng ş.a. 1995).

In one of their studies, Gronhaug and Zaltman (1981) describe three patterns of the complaining behavior, called the resources, learning and personality patterns. The resources pattern takes into account the access to time, money and power as determinants of the complaining behavior; the learning model suggests that the complaints will be filled by experienced and better educated consumers as they know their rights better, regarding the personality model, the consumers who file complaints are more aggressive and more confident in themselves than those who do not file a complaint.

Research Methodology

A pilot survey was conducted in a shopping center, on a sample of 112 people, inhabitants of Alba Iulia. In the survey's questionnaire was included a "filter" question, placed at the beginning, which sought to exclude from the sample the ones who were not dissatisfied with the product or service: "Have you ever been dissatisfied with a product or service?" With the help of closed and mixed questions there were obtained information on the complaining behaviour of those included in the sample.

Research's hypotheses were formulated in this shape:

- (1) H_0 : statistically gender influences insignificant the measure in which the dissatisfied clients are register their complaints;
- (2) H_0 : statistically monthly income influences in a significant way the measure in which the dissatisfied clients are recording their complaints.

Results

Of the 112 questioned subjects, 6 persons (respectively 5,53%) said that they have never been dissatisfied with a purchased product or service.

Considering the dissatisfied clients, 70,80% had no ulterior action, and the difference of 29,20% recorded a complaint. It is important to underline that those consumers that recorded a complaint they are not doing this each time when they are unsatisfied, but they have done it at least one time.

As it can be observed from the table below (Table no. 1), among those that recorded a claim 62% are men, and among those that had no action 56% are women.

Table no. 1. Complaining behavior depending on investigated persons' gender

Investigated persons' gender	Complain	
	Yes	No
Women	38%	56%
Men	62%	44%
Total	100%	100%

Source: realized by author based on research data

Null hypothesis " H_0 : statistically gender influences insignificant the measure in which the dissatisfied clients are register their complaints " was verified using X^2 Test. For 1 degree of freedom and 0,05 significance level, the calculated value for X^2 (X^2 calculated = 2,623) was situated under the level of X^2 theoretic (X^2 theoretic = 3, 841), so the null hypothesis is accepted. In conclusion, statistically there are no significant differences between women and men regarding the complaining behavior.

From the data presented in the table bellow (Table no. 2) it can be observed that the ones that are not recording complaints are with modest monthly incomes (49,30% of all), while the dissatisfied consumers that are recording complaints have monthly income above the average (48,50% of all).

Null hypothesis “ H_0 : statistically monthly income influences in a significant way the measure in which the dissatisfied clients are recording their complaints” was verified using X^2 Test. The calculated value for X^2 was 16,87 and it is higher than the theoretical value of X^2 for 2 degrees of freedom and a 0,05 significance level. In conclusion the null hypothesis is not accepted, so the complaining behavior is significantly depending on the consumers’ monthly income.

Table no.2. Complaining behavior depending on the investigated subjects’ income category

Income category (personal, monthly average)	Complain	
	Yes	No
Bellow 1000 lei	19,3%	49,3%
1001-2000 lei	32,2%	37,3%
Above 2000 lei	48,5%	13,4%
Total	100%	100%

Source: realized by author based on research data

Private entrepreneurs, high education level persons and clerks that are recording their claims when they are dissatisfied in a bigger measure than the rest of the socio-professional categories. One possible explanation of this result could be that the persons that are included in these socio-professional categories know better their rights as consumers.

Considering the age, claiming behavior is specific to the people with the age bellow 40 years old. The dissatisfied consumers that have above 60 years are recording complaints in a small measure.

The lack of trust regarding the problem solving is the main raison for which the most of the investigated subjects are not recording complaints when they are dissatisfied. As well, the ones that are not recording complaints do not record them because of their lack of time (34,66%) or appreciate that the product represented for them a small importance (12%) (Figure no. 1).

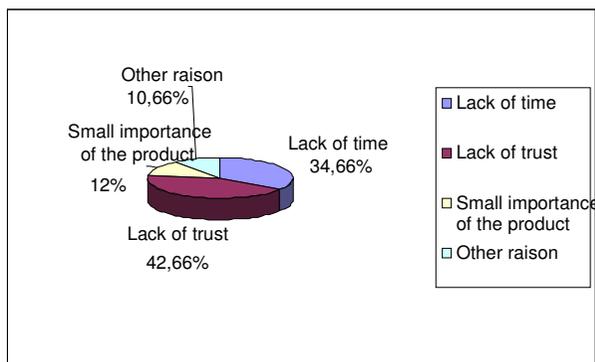


Figure no. 1. Weight of the persons that are not recording complaints depending on the reason for which they are not recording complaints

Source: realized by author based on research data

Among the subjects that had recorded the majority (45,33%) had addressed to the distributor/selling point from where they purchased the product related to which they were dissatisfied and the smaller part of them (20%) directly to the producer (Figure no. 3).

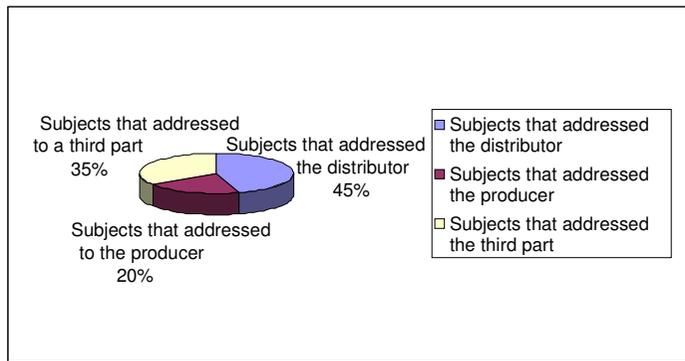


Figure no. 2. Weight of consumers that recorded complaints depending on the recording point
 Source: realized by author based on research data

From the total of 75 unsatisfied consumers that have recorded complaints, the biggest part of them registered their complains related to long term using products (respectively 50%) and for services (29%). In case of unsatisfied clients related to the perishable products, had been recorded complaints by 21% of the subjects investigated.

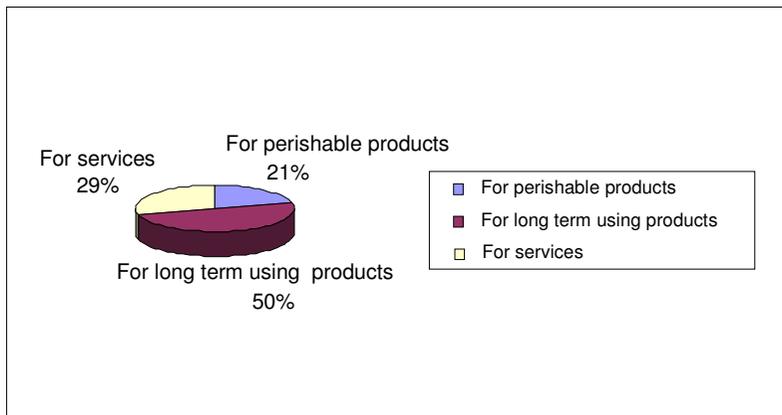


Figure no. 3. Weight of registered complaints depending on the products category
 Source: realized by author based on research data

The dissatisfied consumers that had recorded complaints and were solved (their number representing 43% of the total subjects that recorded complaints) intend in a big measure to repeat the purchase, while the ones that were dissatisfied and did not recorded their complaints do not intend to repeat the purchase.

Conclusions

The exploratory research developed allowed to made some conclusions.

First of all, complaining behavior is influenced by demographical variables like gender, monthly income, age and socio-professional category. Statistically there are not significant differences between the women’s complaining behavior and the men’s complaining behavior, but statistically there are significant differences between the complaining behaviors of the subjects belonging to different monthly income category.

The subjects that are recording their complaints when they are dissatisfied by a product or a services are usually young with high education level.

In the second place, the main raisons for which part of the dissatisfied consumers do not record their complaints is related to the lack of time and to the lack of trust that their problems will be solved.

In the third place, consumers recorded their complaints first at the selling point where they purchased the products and less to a third part.

Generally the complaints were made for long term using products and services and less for perishable products;

The dissatisfied consumers that recorded a complaint and this was solved are willing to repeat the purchase unlike the ones that were dissatisfied and did not had any action.

The conclusions resulting after the exploratory research are underlying the importance of future studies, especially due to the managerial implications of complaining behavior researches. In this way, the companies which want to increase the number of dissatisfied consumers who complain should facilitate this and also should assure them that their problems will be solved. Also, these companies should focus on dissatisfied consumers who complain to identify those socio-demographic characteristics that make them to have a positive attitude regarding complaining behavior.

Limits

The main limit of this study consists in that of the fact that the results cannot be generalized because the inquiry developed has the characteristics of the pilot survey and the sample is statistically unrepresentative.

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MARKETING MANAGEMENT – WHAT DO WE REALLY WANT TO SAY?

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Article focuses on identifying the marketing management concept specificity. The starting point was that of finding definitions that give us a clear idea about its features. Further, we identified opportunities to supplement these definitions in order to contribute to a better understanding of the concept.

Keywords: marketing management, definition, structural interface

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1.Premises

A question that has dominated and still dominates the marketing literature is linked to the extent that the marketing management concept is similar to marketing concept. Starting from the marketing concept as it has been defined along more than 70 years, many authors have attempted to provide relevant answers to this question by developing common approaches for identifying significant differences between the two concepts. To this end, the most prominent authors of the marketing literature, and not only focused their attention on the fundamentals of marketing concept in order to identify to what extent these fundamentals can be integrated in the specific framework of marketing management.

Interestingly, however, is to see if the definitions of marketing management somehow only replace the term of marketing with one of marketing management, content and significance of this latter concept overlapping with the specific marketing concept. From this perspective, examining a range of definitions of marketing management, we identified two lines of theorizing, which creates, in turn, opportunities for further development of analyzed field.

2.Marketing management – can we find uniformity?

Despite the many discrepancies on the demarcation of marketing management concept, literature does not abound in theoretical efforts. Thus, analyzing a total of 16 definitions of marketing management, we concluded that the definition of this concept either tends to overlap on known definitions on marketing, either to really describe a new concept.

In the first category of definitions of marketing management, are positioned those which are extremely close to the concept of marketing, thus is difficult, from our point of view, to refer to the existence of relevant elements of differentiation between the two concepts:

- *“process of achieving marketing objectives through the integration of the activities in the creation, promotion, pricing and distribution of products able to satisfy consumer needs, and through obtaining and using the best available information and engaging material, financial and human resources in an efficient and effective manner”¹⁵⁷⁹;*

¹⁵⁷⁹ Hass, R.W., Wotruba, TR., - *Marketing Management: Concepts, Practice and Cases*, Business Publications Inc, pp. 11, 1983.

- “marketing management seeks to provide an integrated and coordinated marketing mix by combining the 4P in a unified and satisfactory whole”¹⁵⁸⁰;
- “marketing management lies in setting marketing objectives - based on company resources and market opportunities -, planning and execution of the activities to ensure achieving the objectives. Based on these elements, marketing management satisfies consumer in an acceptable manner by society, concomitant with the profitable growth of the organization”¹⁵⁸¹;
- “that part of the organization responsible for formulating and implementing marketing programs to meet the needs of market segments and achieve organizational objectives”¹⁵⁸²;
- “marketing management is the process of environmental scanning, analysis of market opportunities, development and substantiation of marketing strategies and effective implementation and monitoring of marketing practices”¹⁵⁸³;
- “a specific organizational culture, a set of beliefs and shared values, centered around the importance of the consumer in the organization strategic and operational steps”¹⁵⁸⁴;
- “marketing management is the process of planning, organization, implementation and control of marketing activities to facilitate effective and efficient exchange”¹⁵⁸⁵;
- “marketing management is the process of analysis, planning, implementation, coordination and supervision of programs involving developing, pricing, promotion and distribution of products, services and ideas designed to create and maintain beneficial exchanges with market targets in order to achieve organizational objectives”¹⁵⁸⁶;
- “analysis, planning, implementation and monitoring of programs designed to create, build and maintain beneficial exchanges with target buyers in order to achieve organizational objectives”¹⁵⁸⁷;
- “planning of marketing activities, manage the implementation of marketing plans and operational control of these plans”¹⁵⁸⁸;
- “art and science to identify and maintain target markets, generate an increase in customers number by creating, communicating, and delivering superior value”¹⁵⁸⁹;
- “marketing management is the business function that identifies unmet needs and wants, defines and quantifies their magnitude and potential profitability, determine which market segments can be satisfied, decide on product, service and the best program to meet the chosen segments, and calls on the entire organization to serve consumer”¹⁵⁹⁰;

¹⁵⁸⁰ Lazer, W., Culley, J.D., - *Marketing Management: Foundations and Practice*, Houghton Mifflin Company, pp.33, 1983.

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- *“the process of analysis, planning, implementation, coordination and supervision of programs involving the design of price, promotion and distribution of products, services and ideas designed to establish and maintain beneficial exchanges with target markets in order to achieve organizational objectives”*¹⁵⁹¹;

- *“development, implementation, and management of programs designed to generate implementation intentions”*¹⁵⁹².

As noted, most definitions of marketing management concept have common points: consumer orientation and develop profitable relationships with them, foundation and operational marketing mix as a medium of exchange relationship, involving all functional areas of the organization in customer relationship management as a means of achieving long term objectives of the organization - but the most important issues relate to mention of the four core activities - analyzing, planning, implementing and controlling marketing activities. Unfortunately, however, is difficult to identify those specific features that isolate the marketing management concept itself in relation to the marketing concept. Terms used in these definitions and significance of these terms do not lead to identifying a clear concept of marketing management. Rather it is an overlap of meanings, which creates the conditions for the occurrence of confusion between two terms.

It seems, however, that a number of other authors succeed, at least through the definitions, to create the conditions necessary to identify the specificity of the concept of marketing management.

Thus, two Australians, Miller and Layton offered a very succinct definition of marketing management, considering that this concept is essentially *“the vehicle used in business to enable the marketing concept”*¹⁵⁹³. Far from being exhaustive, the definition given by the two authors considers that marketing management is the manner of incorporation and implementation of marketing concept in practice, still not understanding very clearly what would be this vehicle. At the same time, however, the merit of this definition is that marketing management is not defined in relation to classical concepts associated with marketing, but placing it in a new level, thus preparing a new basis for a possible specific approaching of the concept.

In the same direction falls the definition offered by Stanton, whereby *“marketing management is the manner of implementing the concept of marketing in action, to increase consumer satisfaction and to maximize the profit”*¹⁵⁹⁴. And in terms of this definition, we can see that the concept of marketing management is not specifically defined in the context of traditional marketing elements, but again outsourced. Instead the concept of “vehicle”, used by Miller and Layton, we deal with the “manner of implementation”.

In 2003, Valerica Olteanu defined marketing management as a concept that *“deals with the processes and relationships generated by incorporating marketing, seen first as philosophy (optic, vision), run across your organization, and secondly as a set practical activities undertaken in the specific function”*¹⁵⁹⁵. The definition offered by the literature in Romania is that in consent with theories of marketing management which support the view that this is a process that is associated with the process of incorporation of marketing approach at the organizations level, focusing first on operational dimension - the marketing department, and second on strategic dimension and culture - at the corporate level. In our view, this definition is clearly showing key element of marketing management, namely the process of incorporation of marketing at the organizational level.

If some of the authors mentioned above have guessed, by definitions, that the concept of marketing management is “outside” marketing, the latter definition explicitly specifies the level or location where the marketing management process occurs. From this perspective, it seems logical to consider that

¹⁵⁹¹ Mullins, J., Walker, O., - *Marketing Management: A Strategic, Decision-Making Approach*, 5/e, McGraw-Hill, 2005.

¹⁵⁹² Jain, S.C. - *Marketing Planning & Strategy*, Cincinnati, Thomson Learning, 2000.

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define and customize this concept is rather associated with the item of organizational structure, rather than the fundamental elements found in the definitions of marketing concept.

3.Our two theoretical hypotheses – marketing management as structural interface

Taking as a starting point made above details, we will try to issue a series of assumptions associated manner in which the concept of marketing management must be defined. These will constitute, in our view, some guidelines in identifying the features of the concept.

In the first phase to create the conceptual foundation of marketing management, we consider it to be associated with specific organizational structure of modern company and, of course, related to the trends for the organization of marketing activities.

From this perspective, it is known that modern organizational structure is composed of the following levels:

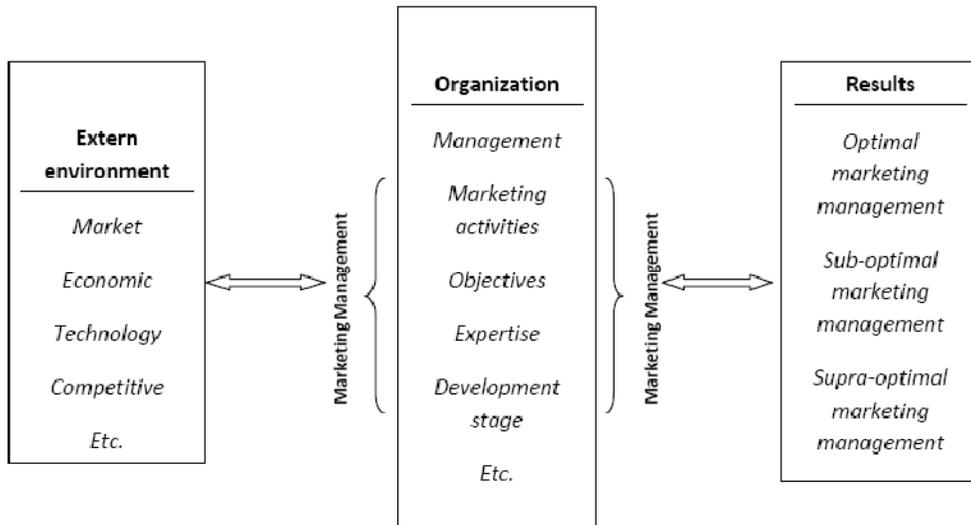
- the corporate, responsible for designing corporate strategic plan;
- the division responsible for plans relating to the allocation of funds for each business unit in its structure;
- the business unit responsible for developing the strategic plan needed to generate profitable results;
- the product level (product, brand), responsible for developing marketing plan for achieving the objectives on the targeted product market.

In this structural context, marketing management should be addressed, in our opinion, the manner in which marketing activities, the strategic and operational or tactical, are placed at these levels. There is also a logical, proven over time, that strategic and tactical activities of marketing have their place and role in all of these levels. For example, strategic steps are associated with higher organizational levels, while the operational or tactical ones are associated with lower organizational levels. Given these issues, we give a first hypothesis necessary in definition of marketing management:

H1 Marketing management, as a concept, is associated with how the marketing activities, both strategic and tactical ones, are placed at the four organizational levels: corporate, division, strategic unit, product / line / brand.

This first assumption is, however, generating other hypotheses. One aspect to be mentioned is related to the effectiveness of the structural placement. A good definition of any concept must ensure, in addition, possibilities for understanding it and putting it in practice. From this standpoint, it makes sense to intervene in the definition with more guiding elements which confer additional specificity. In other words, where exactly do we put marketing activities and what is their exact role in achieving maximum efficiency. The answer to this question is more complex, in our opinion. Modern marketing environment, with its unprecedented dynamism assumes no precise standards in conducting marketing activities, which are intended to safeguard the best results. Only if we look at the low rate of success of new products to market, we understand the difficulty of finding standard actions, and further the standards in structuring marketing activities. Therefore, we believe that marketing management as a concept, and as a system of positioning marketing activities to the external environment, will be also associated with a external context, and with a internal one. External context can be detailed by means of components, among which we mention: market conditions, competitive context, technological context, societal context etc. Internal context is associated with organizational realities, and may be further detailed as follows: overall management context, cultural background, stage of development of the organization, goals setting, expertise, etc. Given these clarifications, we believe that marketing management as a concept have to be implemented, further, in a broader context, namely the relationship environment-organization, being necessary to delineate its specifics, especially that associated with the conditions of efficiency and effectiveness. To be more explicit, we propose the following graphic expression of the relationship marketing management - organization - external environment.

Figure 1 Marketing management as structural interface



From the above figure we can see that marketing management can be considered a structural interface in relation organization - environment, that interface ensuring, with marketing activities, the success or failure. As a result, we propose the following hypothesis:

H2 Marketing management, as a concept, is associated with features of organization-environment relationship, being a structural interface of this relationship, still in the conditions of lack of guaranteed standards on how the process ensures efficiency in the external environment.

These two assumptions, far from being considered sufficient in the process of defining a concept, provides, in terms of authors, two key elements in understanding the significance of marketing management: strategic and tactical placement of activities in modern organizational structure and structural interface between the organization and environment. From this point, can be drawn, of course, a number of other questions: What is the placement of marketing activities in the organizational structure to ensure maximum economic efficiency?, what kind of relationship would be established between different hierarchical levels?, which means a optimal, over-optimal or sub-optimal marketing management? etc.

Conclusions

Motivation for this article was to identify the features of a concept that does not have a stand-alone place in marketing literature, and still wakes up some controversy. Studying a series of definitions of it, we concluded that there are real possibilities for supplementing them, giving dimensions of the concept that we have seemed obvious but which have not been explicitly mentioned. Thus, in addition to any theoretical valences of the two assumptions, which are a result of theoretical analysis, we believe these may be useful in future empirical approaches to study marketing management process.

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THE IMPACT OF THE ECONOMIC CRISIS UPON ROMANIAN CONSUMER BEHAVIOUR

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Article examines changes in consumer behaviour occurred due to economic crisis. The article explores the changes that have occurred between late 2008 and early 2010 compared with the period from 2003 to 2008 and try to show new patterns developed by consumers arising from the crisis and developing in this context of ways of adapting for the Romanian retailers. The article also brings into attention strategies developed by shoppers for adapting to the crisis and opportunities for growing within the crisis context for the retail sector.

Keywords: Consumer behaviour, economic crises, retail, Consumers attitudes.

JEL Classification: M31.

Introduction

In 2008, Romanians state of mind could be characterized by effervescence, growth, more optimism, initiative, consumption. At present, we can speak of uncertainty, frustration, disorientation, vulnerability, stagnation, reserve, a wait-and-see attitude.

This psychological shock was largely generated by the “first-time” crisis, which took the Romanians by surprise, as they had no similar experience after 1990. The shock was even greater since the crisis followed a period of growth and enthusiasm, characterized by high consumption appetite. Moreover, the media “buzz” stimulated and maintained the “crisis psychosis”. Up until last year everything was going well: the economy was growing, laws had been passed that encouraged growth, and therefore, there was a basis, which, at present, is no longer available.

The experience of the crisis in Romania

The way Romanians experience and perceive the effects of the crisis is strongly influenced by the *line of business, the income level and age*.

On the one hand, regarding the *middle and upper income segments*, the effects of the crisis are felt much more on emotional level. The changes in the consumption and buying behaviour are not major yet and not strongly perceivable in concrete terms. Romanians are much more careful, aware, prepared to take measures. On the other hand, concerning the middle to low income segments, the crisis is quite strongly felt, including in the family budget, inducing major changes in the buying and consumption behavior. Their frame of mind could be described as including fear, insecurity, anxiety, stress, powerlessness

Employees in the *private sector* are more aware of and closer to the effects of the crisis, and sense greater psychological pressure and stronger adverse effects on their finances. *Government employees* are slightly more relaxed, on account of not being in close contact with clearly defined business indicators, hence not perceiving so strongly the impact of failure to achieve them, they don't feel

“directly” responsible for the effects of their work. Moreover, most of them don’t perceive clearly as yet the danger of bankruptcies or of dramatic salary cuts, staff cuts etc.

The crisis has provided *stagnation or reduction of income* (primarily bonuses, commissions that added to the family budget), *delayed salary payments*, *devaluation of the national currency in relation to the EUR and increase of prices* of many basic products (e.g. utilities, FMCG) and *lock-down of the loans market* (banks have stopped granting loans, the new loans are expensive and with rigid conditions). People work more for poorer results than last year and face expense cuts policy (phone calls, company car, other consumables) and staff restructuring.

Especially concerning the low income segment, difficulties in paying their debts of any kind have significantly grown (loan repayments, utility bills). Also, there have been an increase in loan repayment values. Daily basket is more expensive than last year. The crisis has blocked investments, as people have given up projects for which they required financing by the bank (purchase of a home / land / home renovation / buying a car etc.). They avoid to make plans - typical for Romanians is short term vision, “here and now”, which has become more apparent than in the previous years (they plan only from one month to the next). They envisage ADAPTING “ON THE FLY” to the new challenges, rather than planning and forecasting (on account of the uncertainty regarding the future). Moreover, there is increased pressure and stress at work *especially regarding the middle to upper income segment*.

Crisis perception

The presence of the crisis is a certainty for all, though the intensity with which its effects are felt differently between income categories, activity line and age. *Romanians with medium-high and high income* feel the crisis more on emotional level - “on the lookout”, more mindful of what happens with their money - rather than in their consumption behavior, while *the medium to low income segment* was visibly affected by the crisis, which has reduced their financial stability and the comfort of everyday life.

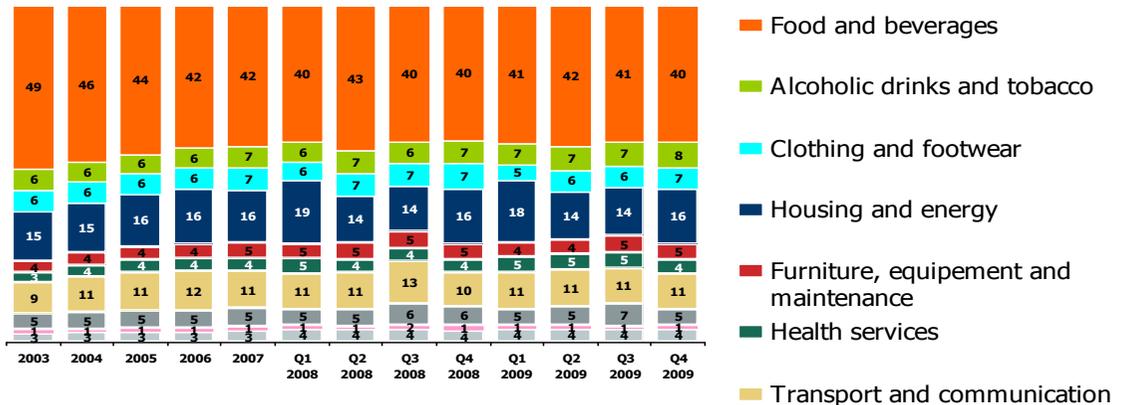
A significant part of the working people have had their financial situation affected by the crisis, primarily as a result of a drop in additional income (bonuses, commissions etc.) and secondarily due to delays in salary payments.

The consumers’ attitude regarding the evolution of the crisis vacillates between *uncertainty and skepticism*. Most romanians believe that the crisis will last more than 2 years. Within the next 6 month they don’t expect an improvement of their family’s financial situation, and hope that it won’t be worse than at present.

Whilst last year, without the crisis, *the main concerns* were to provide the required amounts of money for a decent living (meaning enhanced comfort) and to cover the inflation rate (which threatened their investments and earnings), this year the influence of the crisis on the quality of life is the main fear. The people’s fears are much more basic, they are related to the family’s stability and security: *impossibility to repay their debts and a drop in the quality of life, job loss, and price increase* (the reason for the first two fears).

In this context, *the need for security and control has become much stronger*. People are much more reluctant to take risks and the emotional connection with the family and the concern for their children have increased significantly.

Fig. 1. Distribution of households' expenditures Romania



Source: National Institute of Statistics, Household Budget Distribution

Changes In Shopping Behavior

People are not very confident in the manufacturers' ability to adapt to the crisis without impacting the consumers negatively. Many Romanians believe that, on account of the crisis, the manufacturers will increase the prices of FMCG products. This perception (strengthened by concrete examples of price increases) explains why Romanians now *pay increased attention to the price when choosing the products as well as the shops*.

Whilst on account of the crisis *the interest for additional services provided by shops has dropped dramatically, the diversity of products is still a key selection criterion* (convenience and time saving are as important as the price), which justifies the consumers' choice for modern retail.

On declarative level, Romanians *are tempted by products in big packs* because they are more economical or have a better price. On the other hand, the crisis represents a growth opportunity for small packs because – whilst being more expensive – they enable better control of the budget, especially for middle to low segment.

The crisis has brought about a *more rigorous control of spontaneous shopping and diminished interest for "indulgence"*. Consequently, most Romanians stick to buying only the necessary products.

As the price has become more important, implicitly *promotions have a greater influence on the buying decision regarding everyday products*. Attractive promotions would determine many consumers to choose another product than their regular (switching behavior).

Consumers would be tempted to try *newly launched products*. On the other hand, as people have become more price sensitive and more open to promotions, a new product at an attractive price may become a tempting option especially for the medium to low segment.

In the first quarter of 2009, the *FMCG market increased by 18% in value*, driven by the growth of average price and higher quantities per trip. *Essential Food* products were the most influenced by the price increase, but with no negative impact towards household consumption – constant volume over the last period. *Supermarkets and Small Traditional Stores* seems to be the most affected – due to the fact that price became more important for consumers. Households living in Moldavia are more sensitive to the price growth, while families with children up to 14 years old don't modify their consumption behavior and constantly buy more volumes. *Basic Hygienic categories* were purchased more frequently but in higher quantities per trip – also due to increase preference for bigger economic packages.

Strategies for adapting to the crisis

Consumers' strategies for adapting to the crisis should be analyzed separately for low, middle and upper income categories.

- *Concerning middle to low and low income segments: the crisis has reduced their comfort and quality of life.* They try to cope with the crisis by adopting various strategies:

- Reduce the purchased quantities of products;
- The shopping list has become much more important, for better control of purchased products (they buy what they need and only as much as they need);
- They choose cheaper products within each category (milk);
- They change their consumption habits in order to save money (energy, laundry washing, cosmetics);
- They reduce the buying frequency or even eliminate completely some non-essential products;
- They pay more attention to the special offers presented in the hypermarkets' leaflets;
- Visits to shops are strictly functional (no leisure trips);
- Greater investments and durables - delayed projects.

- *Concerning middle to upper & upper income segments:*

- The consumption behavior has not changed significantly;
- The most affected areas are: savings (they cannot save as much money as they did last year) and holidays (they choose cheaper destinations);
- They try not to buy excessive quantities or to adjust the purchases to what they actually need but: they have not eliminated product categories and have not chosen cheaper products within each category, and the brand is still important.

Opportunities for growing within the crisis context

In the crisis context, *price has certainly become more important.* We may thus assume that modern retail, which offers good prices, will be the consumers' first choice. An *increased tendency to minimize risk* and *increased need for control* can be noticed, on the one hand, by choosing *small packs*, which enable a better budget management, and on the other, by *unconventional communication*, respectively, the increased importance of word of mouth or, in general, of messages that induce confidence and reduce uncertainty (e.g. testimonials).

Family, especially children, have become more important; children are priority no.1 and for them the parents are willing to invest even in times of crisis. Therefore, the *products for children* will be the last ones affected. Whilst the price of essential products has increased the most, the consumption of this category has been the least affected, and therefore, the *promotions for essential products* are the most attractive.

People from the medium to low and low segment are the most price sensitive. The strategies in this respect imply *undermining of brand loyalty* in the low segment, and, at the same time, *a new product with a good price* has good chances to win consumers. People with high income are still inertial in their consumption habits and then, their loyalty towards brands and products is less affected.

For the categories of products that are the first to be eliminated by the consumers in their efforts to reduce expenditures, it is necessary for the manufacturers to design strategies to prove to their consumers that they stand by them in these tough times. *The offers in the tourism sector* are an example of adaptation to crisis conditions. Their success is to be proven over the next months. Also, there is increased potential for *products that enable saving*, reduction of expenses related to utilities – e.g. detergent with increased washing power, hence requires less electricity.

Pastimes that require small investments, or in home entertainment, will grow. There is growth potential for *product categories for home entertaining* (snacks, beer), big packs for parties or picnics, etc. *In on trade* the budget allocated per visit will be reduced, resulting in the growth of budget products or brands. At the same time, the interest for *open air events* may increase, as an alternative to going to

bars, pubs or restaurants, which involve greater spending – e.g. beer festival, it is important for the producers to be there to have their products tried.

We can also mention that, on account of the crisis interest for social topics has been reduced significantly and therefore *CSR campaigns* will probably be less impacting and will attract attention to a lesser extent.

Conclusions

Romanians experience and perceive the effects of the crisis according to variables among which the income level is highly important. Romanian consumer behaviour has been analyzed accordingly. The crisis has reduced the comfort and quality of life of middle to low and low income segments, and thus they adapt using strategies like reduce the purchased quantities of products, they buy what they need and only as much as they need, they choose cheaper products within each category, etc. The consumption behavior has not changed significantly concerning middle to upper & upper income segments, the most affected areas being savings and holidays. Opportunities for growing within the crisis context should be based on the fact that In the crisis context, price has certainly become more important.

As main expectations regarding consumption over the next 6 months, we may assert that durables and car purchases have been the most affected in the first quarter of this year on account of reduced allocated budgets, while holidays, investments in leisure and clothing are the categories of purchases that will continue to be the most affected by the crisis. Utilities and food are the categories that are expected to grow the most.

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MARKET ORIENTATION: A HOLISTIC APPROCH OF THE IMPLEMENTATION PROCESS

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This paper is a conceptual one and is based on an extensive analyze of the literature in the field about market orientation during the last 20 years. The purpose of the paper is to highlight the way in which researchers' studies focused on different aspects of the concept during years and thus, to establish the stages that the analyzed concept underwent within its evolution. At the same time, we tried to synthesize the most important findings of the empirical researches on this subject since 1990 in order to emphasize what is market orientation. Therefore, the model of analysis is rather descriptive than normative, focusing on the most important findings of the empirical researches of the period we refer to. At the end of the paper, there is a presentation of a series of conclusions regarding the way in which the process of implementation of market orientation has to be approached taking in to account the new type of environment characterized by volatility and complexity.

Key words: market orientation, holistic approach, implementation process

JEL Code: M31, M14

Introduction

In marketing literature there is a large agreement about the roots of market orientation. Thus, it is considered that this concept has its origins in a managerial philosophy known as the concept of marketing.

The first who used the denomination "concept of marketing" was McKitterick (1959). During the same year, Felton described it as being the latest fashion in business. The definition of the concept of marketing evolved through the contribution of many researchers. Thus, Felton (1959) defined it as corporative declaration integrating the functions of marketing and harmonizing them with the other corporative functions for the purpose of achieving a basic goal – long-term profit. In 1972, McNamara placed the client in a central position defining the concept of marketing as a managerial philosophy client-oriented based. He acknowledged the important role of marketing in disseminating market information to all departments of the organization. In 1997, Kotler brought into attention competition in order to define the concept of marketing and he stated that the key of achieving the organizational goals consisted in being more efficient than the competitors regarding the functions of marketing and channeling them towards determining and satisfying consumers' desires. Since 1950, the concept of marketing has been praised, criticized, talked about and finally, as some specialists emphasize, rehabilitated under a new name: market orientation (Raaij, 2001).

From our research we identified the first use of the denomination of market orientation in 1988, in an article published in Harvard Business Review. But this denomination started to be used on a large scale beginning with 1990, after the publication of two important papers in *The Journal of Marketing*. These present the results of some researches made by two distinctive teams of researchers: Narver and Slater; Kohli and Jarowski. In one of these papers the term *market orientation* is used as implementation of the concept of marketing (Kohli and Jaworski, 1990). Thus, a new perspective over the concept of marketing has imposed which led to a new specialized body of literature around this perspective.

The methodology of research

In order to achieve the propose of our research, within the first stage, we identified and picked up over 60 articles published during 1990-2008, on market orientation topic.

Considering the great number of texts identified and chosen but also the diversity of research issues and perspectives, our approach may seem unrealistic and hard to accomplish. Still, our purpose is not to compare these works but to seize the manner in which they complete each other for the extension of market orientation concept.

In order to facilitate the process of analysis, we used classification. The texts were ranged according to the declared purpose of the research. This criterion was preferred because we considered that a classification according to the purpose of the research will allow us to notice if there is a concentration of the researches and if this exists to determine which are the stages of the concept during its evolution. The classes resulted are: Class A: The definition, the construct and the measurement of market orientation; Class B: The identification of the antecedents and consequences of the market orientation; class C: The implementation of the market orientation; Class D: Other purposes. The analysis of the texts was made for each class using hermeneutic spiral. Thus, the analysis started from a small number of works, relevant for the specialized body of literature and adding step by step other works with other points of view.

The establishment of the conceptual identity of market orientation

Since 1990 several perspectives of defining the market orientation concept were described: (1.) cultural perspective (Narver and Slater, 1990); (2.) behavioral perspective (Kohli and Jarwoski, 1990); (3.) strategic perspective (Rueckert, 1992); (4.) client orientation perspective (Deshpande, 1993; Day, 1994); (5.) strategic actions perspective (Lado, Olivares, and Riviera, 1998); (6.) value chain perspective (Baker, 1999; Simpson, 2001; Grunert, 2002). As the number of perspectives increased within the specialized literature, a great number of definitions occurred for this concept.

Market orientation is a business philosophy whose final purpose is to create the superior value for the client (Narver and Slater, 1990).

We use the term market orientation to illustrate the implementation of the concept of marketing within the organization (Kohli and Jaworsk, 1990).

Market orientation within a business unit is the degree at which the business unit gets and uses information about the clients, develops a strategy leading to the clients' needs and implements the strategy having thus, the capacity of responding to the clients' needs and desires (Rueckert, 1992).

Market orientation represents the implementation of a particular business philosophy – the concept of marketing (Deng and Dart, 1994).

Market orientation is a strategy leading to obtaining the durable competitive advantage (Rivera, 1995).

Considering the variety of definitions, researchers proposed various constructions of market orientation. Approaching market orientation from a cultural point of view, Narver and Slater (1990) identified three components of the concept: client orientation, competition orientation and inter-functional coordination. Client orientation is considered the basic component of the market orientation. The two researchers state that when consumers' needs are identified and understood superior value can be built, communicated and delivered. According to the second component, the organization must identify which are the strengths and weaknesses of the main competitors, the goals they pursue and what strategies they adopted in order to reach them.

Approaching the concept from a behavioral point of view, Kholi and Jawroski (1990) identified, in their turn, three components of the market orientation: gathering information about the consumers' needs, desires and demands and about other components of the environment in which the organization operates; the disseminating of information gathered to all functional departments within the organization; the response of the organization based on the information gathered.

In marketing literature, there have been proposed several scales of measurement for market orientation illustrating these constructions. Two of them were adopted and used by many other researchers:

MKTOR (Narver and Slater, 1990) and MARKOR (Jarowski Kohli and Kumar, 1993). In 1990, Narver and Slater presented MKTOR, a scale of measuring market orientation containing 15 items that reflected the three components of their construction: client orientation, competition orientation and interfunctional orientation. In 1993, Kahli, Jaworski and Kumar introduced a scale of alternative measuring MARKOR containing 20 items reflecting the three components proposed by these authors: gathering information from the market, dissemination of the market information within the organization, the response of the organization to market information. A consistent part of the works that followed during the years represented syntheses, extensions or rejections of the two scales of measurement.

In the first half of the '90s the researchers were concerned with finding answers to the following questions: What is market orientation? What are the constitutive elements of the concept? How can market orientation be measured?

The identification of the antecedents and the consequences of market orientation

The degree of market orientation depends on the presence or absence of some internal factors of the company, factors that have been labeled by specialized literature as antecedents of market orientation. Many researchers identified and tested empirically more categories of factors that can intensify or inhibit the development of market orientation within the organization.

In a comprehensive study Kirca, Jayachandran and Bearden (2005) showed that only interdepartmental connection and top management emphasis were significantly related to market orientation. Hammond, Webster and Harmon (2006), as well, thought that top management emphasis is directly related to market orientation stating that top management emphasis represents antecedents of market orientation playing a critical role in maintaining it within the organization. The importance of top management in attaining and maintaining a certain level of market orientation is confirmed in Day's study (1994), as well.

Top management risk aversion is another factor that may diminish market orientation. Thus, researchers demonstrated empirically that the higher the risk aversion, the lower the market orientation degree (Jaworski and Kohli, 1993; Van der Velden, 2004; Hafer and Gresham, 2008).

The connection between departments, the extension of formal and informal contacts between employees of various departments, intensifies market orientation as they lead to a better transmission of market information within the organization. Kohli and Jaworski (1990) emphasized that the low interest for other departments ideas and the lack of interdepartmental connection diminish the company's capacity for a proper response.

Formalization and centralization are organizational characteristics that inhibit market orientation. Thus, formalization involves the establishing of roles, procedures and authority through rules and reduces dissemination and usage of market information and accordingly, market orientation. Similarly, limited commissioning of the authority in decision-making process has a negative effect on market orientation (Matsuno and Ozsomer, 202).

A market-oriented payment system practice motivates those actions of the employees that increase market orientation. Market-oriented training determines employees' awareness for clients' needs and stimulates market orientation (Rueckert, 1992). Kica, Jayachandran and Bearden (2005) demonstrated that market orientation may be implemented successfully even in the case of centralized structures if there is a good interdepartment connection, there are suitable rewarding payment systems and market-oriented training programmers are developed stimulating, thus, those market orientation characteristic actions.

Kohli and Jaworski (1990) pointed out that market orientation generates a cost. Due to this reason, Day (1994) thinks it is essential that all consequences regarding market orientation, from top to bottom of the organization, be evaluated critically by the manager.

The relation between market orientation and organizational performance was explored within many researching studies, in different contexts and different methodologies. In 2002, Woller identified in a

study, 48 researches which analyzed the relation between market orientation and organizational performance measured as: profitability, sales, market share, innovation process success and pointed out that 44 of these concluded that there is positive relation between market orientation and organizational performance. Recent literature on market orientation suggests the fact that one of the keys for understanding this phenomenon is the positive effect that it has on the innovation process (Atuahene-Gima, 1995, 1996; Xuereb, 1997, Han, 1998, Hurley and Hult, 1998). Slater and Narver (1996) thought that innovation is the central competence for creating superior value that moulds the relation between market orientation and organizational performance. Quin (1986) appreciated that innovative businesses have a strong market orientation component. Going further, Narver and Slater (1996) said that innovation and the successful product is more likely to appear if the business is market oriented. Thus, there was empirically demonstrated that market orientation increases the company's ability to create and implement new ideas, products or processes (Hult and Ketchen, 2001) and the performance of the new products in terms of market share, sales, turnover and profitability (Im and Workman, 2004). According to our analysis, we recorded that during 1995-2005 although there were papers proposing new definitions, constructions and scales of measurement a great deal of researchers focused on finding reliable answers at the following questions: What are the stimulating or inhibiting factors for market orientation? What are the effects of market orientation? How does market orientation affect the organization?

The implementation process

Until 1995, the problem of implementation was approached only by few general studies, which did not provide a systematic model of implementation. Generally, the problem of implementation is seen as interventions recommended to practitioners willing to implement market orientation.

In 1998, Narver, Slater and Tietje, approaching market orientation as organizational learning, proposed two implementation strategies called: programmatic approach and market-back approach. In 1998, Lando, Olivares and Rivera thought that taking into account the promising results of their study, a future research direction would be the development of an intervention plan to grow company's market orientation. They suggest that market orientation measurement scale they developed should be used before (as a diagnosis instrument) and after (as an evaluation instrument) using the interventions. In 2003, Lichtenthal and Iyer approached the market orientation implementation process establishing the place and the role assigned to the marketing department within this process. In 2008, Ulrich and Smallwood described a series of steps that should be taken for the construction of a market orientation organizational culture from outside towards inside. Considering that the process of implementation of market orientation is a process of organizational change, in 2008, we proposed a methodological framework for implementing market orientation that comprises some stages the management should cover in order that the company could become more market-oriented. Without underestimating the importance of the proposed interventions, our analysis points out that the problem of implementation is still insufficiently discussed about in specialized literature. The questions of practitioners about how an organization can become more market oriented are questions for which market orientation theory provides only partial and variable answers.

A new perspective of approaching market orientation

As we emphasized during the past 20 years, researchers presented different perspectives of approaching market orientation. The great number of different perspectives conducted of a great number of definitions for this concept. Some researches consider that this suggest an unclear understanding of this phenomenon. For example, Dreher (1993) thinks that from a concept point of view, there is a certain ambiguity regarding the nature of market orientation phenomenon. Is it a business philosophy or a set of current activities? Is it an organizational culture or a behavioral set? Is it a competitive strategy or a set of managerial practices? Gabel (1995) as well, thinks that the field of the concept is not clearly and correctly confined. From our point of view, this debate regarding the definition of the market

orientation concept comes out of the fact that it was explored within the frame of other fields. We consider, also, that these perspectives are more complementary rather than divergent. ***This emphasizes the interdisciplinary and complex nature of the concept.*** Still, each perspective offers only partial and very different answers to managers' questions regarding the market orientation implementation process. For instance, Jaworski and Kohli (1993), presented the implementation process as a set of interventions within the organization which should increase the degree of market orientation: senior management stronger involvement, a better interdepartmental connection and a decrease of interdepartmental conflicts, reconfiguration of organizational systems (organizational structure, rewarding systems). On the other hand, Rueckert (1992) thought the following interventions: adapting the recruitment and selection systems, adapting the training systems, adapting rewording and compensation systems. In some ways these interventions are completing each other; still these don't provide a systematic model of market orientation implementation. For developing such a model researchers should adopt a holistic perspective: market orientation as a business model. Such a perspective will allow the development of the implementation model having in mind the entire organization. This is very important if we take into account the fact that the implementation process is actually a change process that unsure the transition of the organization from the usual way of doing business to a new logic of doing business (a new business model). In the process of implementation in some cases it could be major changes that will affect an important part of the organization as in some cases it could be some minor changes that will affect only some organizational variables.

Conclusions

Definitely, market orientation has represented one of the most important and exciting fields of research in the last 20 years. Since 1990 an entire specialized literature has evolved around two important works published in the *Journal of Marketing* by Narver and Slater; Kohli and Jaworski

Even if the researchers were concerned with the problem of concrete measures for implementing market orientation since the half of the '90s, the matter has not been enough exploited within specialized literature. We do not refer to the lack of propositions for interventions that should increase market orientation degree, but we refer to the lack of complete models that could provide managers answers to the following questions: Where do we start from? (The diagnosis of the company's present situation) – Where do we go to? (The establishment of the changes that should take place within the organization) – How do we get there? (The strategy of market orientation implementation and concrete actions programs) – Where did we get? (The evaluation of the implementation process).

We noticed that specialized literature provides a series of partial answers to these questions and the answers vary on a great extent. In conclusion, we think that at present, market orientation concept finds itself at the stage of implementation and that in the future, researchers should focus on the development of such models to assist the practicing specialists in market orientation implementation. Also, we consider that such models should be developed taking into account a holistic perspective of the organization: market orientation as a business model

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EMAIL MARKETING CAMPAIGNS: THE EASIEST PATH FROM ORGANIZATIONS TO CONSUMERS – AN EXPLORATORY ASSESSMENT

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The email is a valuable marketing tool for conveying short, simple messages that call for action on behalf of the recipient. Usually companies develop email marketing campaigns for attracting new customers, persuading the existing customers to buy again, encourage customer loyalty, announce or remind about special offers or events. For an email marketing campaign to be efficient, it is wanted a greater number of responses from those in the target.

The paper assesses in an exploratory manner the frequency in using the email accounts, the level of exposure to email marketing campaigns as well as the type of information wanted to be received by the Romanian users.

Keywords: email marketing, online marketing, Romanian consumer.

JEL Classification: M31

Introduction

Over the past few years, the tremendous technological development managed to break time and space barriers, but in the same time raise another one, very difficult to pass: the relationship one. The communication challenges rise at the very heart of what should actually represent a favorable relationship climate: living in a multicultural environment and following the globalization trends. The first that have to face it are the companies in their process of creating, developing and maintaining relationships with their “star” stakeholder: the customer (Pop, Petrescu, 2008).

The question is how to address effectively and efficiently customers belonging to different cultural backgrounds, looking for light-speed transactions, and respecting their privacy needs, while gathering valuable information and trying to keep in touch. The marketing tools that seem to have the best offer in terms of CRM are the online ones (Wang et. al, 2009). The reasons range from the low implementation costs when compared to other methods, to great accessibility opportunities, effective managing solutions and confidentiality tools such as online secured privacy policies.

As a consumer, surely no day goes without coming across to at least one of them. The most known are websites, e-mail marketing, blogs, RSS, forums, newsletters, instant messaging, social networks, search engines, etc. Used by companies, all these have in common one thing: creating and managing a relationship with both existing and potential customers (Vegheș, Pantea, 2009). The greatest advantage is that the Internet offers a relatively inexpensive ticket for a big entrance on a vast, continuously increasing market, while also giving a diversified choice of multimedia instruments that could be used in order to reach the audience (Pop, 2006).

In 2006, e-mail marketing won the first place for the most effective tool in increasing demand during holidays in retail business, according to WebTrends, leaving search engine marketing and search engine optimization on the second and, respectively third place. In addition, research shows that the tool is used by 80% of retailers regularly as the main customer relationship management instrument. As a result, investments in marketing for the holidays had their biggest increase in e-mail marketing with 52%, followed closely by 46% in search engine marketing and 38% in search engine optimization. However, the online glamour around some of the e-marketing tools is starting to fade away, as the media power slowly shifted from the company to the consumer, making room for more “pull” oriented

approaches, rather than “push” ones. This is one of the reasons why online banner ads experienced the greatest decrease in spending with 17% (Pantea, Vegheş, 2009).

Literature Review

The email represents the result of the natural evolution of the mailing. Email marketing is used in order to inform potential consumers and current clients by the use of the internet and it is the most popularly used element of the web (Gay, Charlesworth, Esen, 2007). The email or the electronic mail is one of the most efficient tools from the direct marketing’s arsenal on the internet, from the investment’s profitability point of view. The results regarded by an email marketing campaign is achieving sales from 5 to 15% of the cases, as compared with 0,5 to 2% in the case of the banners.

There are two forms of email communications:

Email communication initiated by the consumer: due to the presence on the companies’ websites of a contact page, the organizations offer their potential and / or current clients the opportunity to get in touch with them. The client sends an email where he explains the problems or complaints that he has concerning the product he has bought, or asks for details regarding a certain product. The company will answer also by email in the shortest time. The email is the cheapest web solution of the customer relationship management strategy (eCRM). Its main disadvantage is that it does not offer the opportunity to communicate with the client in real time.

An important aspect is related to the companies’ capacity to manage their clients’ replies to emails. It is imposed that when receiving the message, an email of confirmation to be sent immediately, and the clients’ requirements to be redirected to the responsible departments in the organization.

Email communication initiated by the company: the email is a valuable tool for sending short messages that call for action on behalf of the recipient. The companies usually develop email marketing campaigns with the purpose of maintaining current customers, build buyer’s loyalty, improve the relationship between the client and the seller, announce or remind the clients about different offers or special events they can attend. In order for such a campaign to be efficient, the messages should be addressed to a target, so that the rate of response is high. Usually there are inserted links to a “landing page” (a web page where it is driven the person who click on the link inserted in the email, which offers additional information concerning the products presented in the message). The email is the most spread internet application, which can be used strategically in direct marketing reasoning and in the bilateral communication with the target.

The main advantages of email communication are:

- the informational content and the relationship sender - recipient – the beneficiary can receive complex information (images, audio, video files or documents) rapidly and conveniently. He can read them whenever he wants, without incurring problems such as when using phone communication, where even though there is fast communication, there can be the case when the interlocutor can not talk at the moment of calling or does not understand well the message due to the circumstances he finds himself in. It can also be attached a short presentation movie where the product is presented and its features or there can be added representative pictures about the object of the direct email campaign;

- in most cases, the feedback is more consistent than phone calls or mailing, because the interlocutor can reply whenever he wants, however he wants and whatever he wants;

- probably the costs are the most important advantages to be taken into consideration, both by the organization and the beneficiary of the communication. They are lower then any other existing communication mean. That is why the beneficiary of the communication will have the reasoning to answer, since in most of the cases, he does not incur any additional costs;

- segmentation and targeting – both strategic components receive a special significance when using the email. Thus, the campaigns can be easily customized according to the consumers’ particularities;

- the results of an email marketing campaign can be easily measured with by using special software, which generate reports based on the number of emails opened by the recipients.

When implementing an email marketing campaign it is important to follow seven stages: determine the objectives of the campaign, develop the mailing list, the content, the landing page, test the content and the technology, send the emails and measure the results obtained (Charlesworth, 2009).

When the company inserts links to the landing page, the soft reports how many times those links were accessed. The main advantages of including links in the sent message are, on one hand the increase of traffic on the website, as well as the registered persons.

The electronic message should be developed starting from the current positioning of the organization (including its products / services / brands) and to materialize into an attractive offer for potential consumers (Vegheş, 2003).

The email is a valuable marketing tool for conveying short, simple messages that call for action on behalf of the recipient. Usually companies develop email marketing campaigns for attracting new customers, persuading the existing customers to buy again, encourage customer loyalty, announce or remind about special offers or events etc. For an email marketing campaign to be efficient, it is wanted a greater number of responses from those in the target.

The difference between the email marketing and newsletter is that the email marketing calls for immediate action from the recipient while the newsletters are meant to develop a long-term relationship between the sender and recipient. Newsletters are intended to offer the readers added value; they are more personal and informative.

The newsletter is a periodical message sent online to the company's database of subscribers who have previously agreed to receive it. It usually contains one or more of the following tools: an article / interview / editorial, case study, news, special offers / promotions, new projects / up-coming events, contests, polls or other resources.

When planning the online marketing strategy, the online marketing tools should not be treated separately. For instance, the newsletters sent by email can be promoted on the website and vice-versa. Combining different instruments offered by the internet in a single strategy can improve the rate of its success.

Methodological notes

The specific objectives to be reached through the present exploratory research approach referred to the main aspects concerning the email marketing campaigns and the use of this tool by the consumers: the frequency in using the email account, the level of exposure to receiving commercial messages and the type of information wanted to be received by the public. Questions concerning the email marketing campaigns had represented only a specialized part inside of a consistent questionnaire approaching all the tools consumers are exposed through the online marketing campaigns conducted on the market. Data have been collected online in February-April 2010.

The sample has included 153 respondents (65 male and 88 females), aged 18 to 29, from Bucharest. The focus was on this category, called in the marketing literature as the Generation Y, which is motivated by the significantly higher penetration and, respectively usage of the internet and, particularly of the email services.

Major findings of the research

Nowadays, the use of the email has become compulsory and the results of the survey come to attest the fact that each of the respondents owns at least one active email account (by an active email account it is understood that the respondent checks at least once a day that email account).

Most of the respondents have two active email accounts (45.1%), 23.5% of them own just one active email account, 20.9% check daily at least three email accounts, 11 of the respondents have four email accounts and 5 of the respondents have recognized they check more that five email account each day.

It is important to mention the fact that out of the investigated sample, 89.5% of the respondents have one up to three email accounts. Regarding the remaining percent, it should be mentioned that 6 males as

compared to 5 women own four email accounts, and 4 males as compared to just one woman have more than 5 email accounts to check daily (table 1).

Table 1. Number of active email accounts owned at the level of the investigated sample

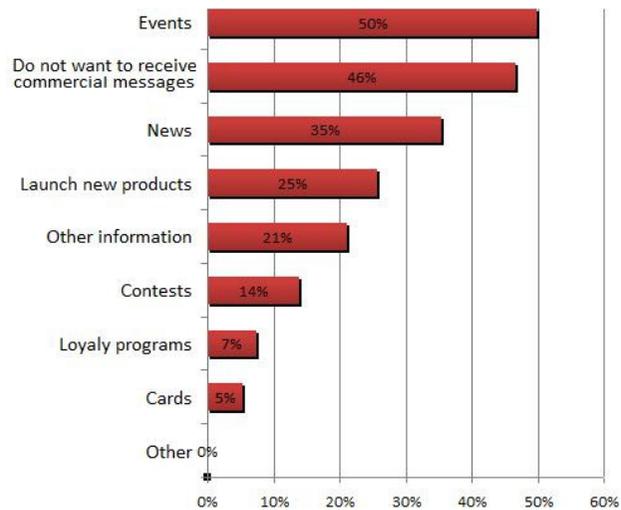
Number of active email accounts	Male	Women	Total
1	14	22	36
2	29	40	69
3	12	20	32
4	6	5	11
above 5	4	1	5
Total	65	88	153

Each day, 63.4% of the respondents receive one up to four commercial emails. These messages promote different products, services, brands or events; 9.15% of them receive five or six emails and only 5.88% receive more than seven commercial messages. However, surprisingly enough, 21.57% of the people interviewed, a number of 33 persons, stated that they do not receive any commercial messages (table 2).

Table 2. The average number of commercial messages received by email per day correlated to the number of active email accounts owned

Number of active email accounts	Average number of commercial messages received					
	none	1-2 emails	3-4 emails	5-6 emails	7-9 emails	more than 10 emails
1	14	14	7	0	0	1
2	13	32	13	5	2	4
3	1	10	13	7	1	0
4	4	2	3	1	1	0
more than 5	1	1	2	1	0	0
Total	33	59	38	14	4	5

In what concerns the information that the investigated sample would like to receive by email, daily, most of them mentioned that they would like to be kept updated to the events the companies are organizing (50%), to find out new things about the organizations (35%) and to know information about the new products that are ready to be launched on the market (25%). The consumers are also interested in the contests initiated by the companies (14%), their loyalty programs (7%) or are interested in receiving cards from the companies (5%), for different occasions. It is important to highlight that a number of 71 respondents (46% of the respondents), would not want to receive any commercial emails, fact that suggests that they prefer to search for the information they need to know and do not want to be disturbed with this type of emails.



Conclusions and Limits of the research

It is difficult to draw conclusions about the development and employment of the email marketing campaigns after an exploratory research approach conducted at the level of a rather specific group of consumers. The results of the study are significantly limited by the nature of the sample and this should be one of the further improvements to be made in terms of the research methodology. Another important limit of the study is represented by the orientation of the questions towards the obvious aspects of the existence and employment of the email marketing campaigns.

Still, there are several facts that have been observed based on the results provided by this exploratory approach:

- the majority of the respondents own and check daily two email accounts;
- more than 60% of the investigated sample receive daily one up to four commercial messages;
- the type of information considered to be of interest and wanted to be received by email by the Romanian 18-29 years old respondents are the organization's events, news related to the company, the launch of new products, other type of information, contests organized, details about the loyalty programs and different cards for different occasions;
- about half of the respondents do not prefer to receive commercial messages, but they want to search for the information they need themselves.

Further directions of research to be considered refer to the:

- expanding the dimension of the investigated population through getting out from Bucharest and covering the whole country (including the urban and rural areas), respectively through extending the demographic profile of the sample covering not only the group aged 18-29, but also consumers from other categories (at least members of the active population);
- increasing the complexity of the information generated through the research by introducing supplementary questions about the format of the message received by email, the elements that should be or not found in the commercial message or related to the amount of information that would convince the receiver to buy or contact the organization that developed the campaign.

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PRICING STRATEGY USED AS A TOOL FOR BUILDING CUSTOMER SATISFACTION IN THE RETAIL SECTOR

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The purpose of this article is to highlight the importance of pricing strategy in the retail sector and the power of their influence on consumer behavior. Merchants should consider the price generates perceptions and can influence consumer behavior and buying customers. They must also understand how to participate in the price of consumer satisfaction.

Keywords: Consumer behaviour, price strategy, retail, price satisfaction, price fairness.

JEL Classification: M31.

Introduction

The competition in retail trade is a complex phenomenon. Retailers are running into competition using the whole arsenal of the marketing strategies at the level of marketing mix, tempting the customer with an attractive set of products, competitive prices, suitable places and a lot of other services and promotional activities.

Therefore, the companies choose the service stocks which helps at the maximization of profits, depending on the types of consumer, they expect to attempt and their rational belief, regarding the rival's actions. Price strategy in retail trade becomes a key element in this multi-dimensional package. Price becomes one of the most important elements of the retail marketing mix. Lately, the complexity and the speed with which the merchants develop raise the influence upon the final prices of the products that they have.

Traders usually use various pricing tools and promotion policies to attract new customers and increase customer loyalty. Surprising is that pricing strategies have proved to be a fruitful research area for marketers. Marketing scientists have offered both theoretical and empirical estimates showing that for all types of consumers different price policies are likely to attract.¹⁵⁹⁶ Although well known reasons why a consumer selects a store, we know relatively little about how retailers choose pricing strategies because of the complexity of such a decision should take into account both consumer preferences and current and anticipated actions of rivals.

Price strategy and retail performance

Price perception has a significant impact on consumer satisfaction¹⁵⁹⁷, which determines performance in retail sales and consumer loyalty. Different dimensions of price perception and potentially can lead to customer satisfaction in addition to simple product price level. In a retail context, additional dimensions

¹⁵⁹⁶ Rajiv Lal, Ram Rao,(1997) *Supermarket Competition: The Case of Every Day Low Pricing*, Marketing Science, 16, (1), 60-80.

¹⁵⁹⁷ Varki, S. and Colgate, M. (2001), *The role of price perceptions in an integrated model of behavioral intentions*, Journal of Service Research, 3(3), 232-240.

include, for example, value for money and price fairness, convenience and price perception and mental processing the price¹⁵⁹⁸.

However, not only generally important to explore the power relationship between these dimensions and satisfaction, optimal strategy, but it is essential to identify asymmetric effects in these relationships. For example, based on opponent-process theory assumes that some dimensions of price perception, such as price fairness, are mandatory requirements. If these demands are not met, customers will become very unhappy, however, their fulfillment will not actually increase satisfaction. In contrast, a good performance in other dimensions may not come by itself.

Underperformance in these dimensions could lead to dissatisfaction, but a good performance will increase satisfaction significantly. Low performance could not lead to dissatisfaction, but a good one rise notably the satisfaction. Knowing these asymmetric effects is extremely important because it helps retail managers to allocate resources to different performance dimensions. Retailers must be aware that price requirements must be met to a basic level and that their value must be fulfilled.

A modern price policy must protect consumer perception on choosing the best place to buy for their family. Consumers face prices that's hard to pay tend to buy elsewhere. Many consumers get confused by the pricing policy without having an understanding and only reacting to competition, prices or marginal goals. Even if some consumers are capable of saying why they are confused in retail trade environmental, the study done by the Wharton Business School indicates that consumers rely on three references points when they decide what they think is a fair retail price:

1. How much does the object cost in the past?
2. How much the rivals ask for same object?
3. Their perception about selling costs of the same objects

Considering other areas for business improvement, development and implementation of strategic pricing schemes can produce higher repercussions compared with the of loss control efforts. Teachers at Wharton, Z. John Zhang and Jagmohan S. Raju had made an important statistic in a recent research paper: a 1% reduction in fixed costs improves profitability by 2.3%; a 1% increase in volume will result in a 3.3% increase in profit; a 1% reduction in variable costs will prompt a 7.8% rise in profit; but a 1% hike in pricing can boost profitability by 11%.¹⁵⁹⁹

So far, satisfaction of the retail price has not been addressed in detail in the international marketing literature. Only a few researchers have discussed issues related to service satisfaction price.¹⁶⁰⁰ Therefore a satisfaction price definition has been derived for many common projections of client's contentment.

Price satisfaction: a definition

Therefore, a definition of price satisfaction is derived from the more common projections of customer satisfaction. Satisfaction seen in the context of retail sales is an emotional reaction to his or her individual evaluation of an overall set of experiments conducted by encouraging dealer. The satisfaction is "the function of knowledge and affect". By merging the two definitions, price satisfaction can be defined as an emotional reaction resulting from the interaction of cognitive and affective mental processes that are caused and enabled by specific experiences with different dimensions of price perception. After defining the satisfaction price it is necessary to clarify the relation between this and similar constructions latent variables, especially image price and attitude price. Price satisfaction is

¹⁵⁹⁸ Zielke, Stephan (2006): *Dimensionality and Impact of Retail Price Images*, Proceedings of the 35th EMAC Conference, European Marketing Academy (EMAC), Athens, Greece.

¹⁵⁹⁹ Raju, Jagmohan S. and Zhang, Z. John. (2003) "Choosing the Wrong Pricing Strategy Can Be a Costly Mistake." Knowledge@Wharton.

¹⁶⁰⁰ Matzler K., Renzl B. & Rothenberger S. (2006). *Measuring the Relative Importance of Service Dimensions in the Formation of Price Satisfaction and Service Satisfaction: A Case Study in the Hotel Industry*, Scandinavian Journal of Hospitality and Tourism, 6 (3), 179-196,

different from image price and attitude satisfaction price because the result is the peculiar shopping, buying or experiencing, which is not necessary to complain about an image or attitude.

However, different relationships exist between these structures. Satisfaction through a shopping trip may influence attitudes towards the store price image. But customers can derive the expected price, which is taken as a price comparison in the process of building the satisfaction.¹⁶⁰¹

In the literature, price perception is often measured in one dimension as an antecedent of overall satisfaction. However, research on retail price image illustrates the price perception by each customer sizes. It is therefore possible to treat these dimensions of price perception as antecedents of a single dimension of price satisfaction and overall satisfaction¹⁶⁰². Such multidimensional analysis is advantageous because it offers greater diagnostic potential for improvement if you have unsatisfied customers¹⁶⁰³.

In addition, customers often evaluate their satisfaction after shopping at an attributive level, a finding that also related to the price of satisfaction.

Consequently, the impact of different dimensions of perception of price satisfaction on price formation will be explored. International literature does not offer any tool for analyzing price retail satisfaction for a scale with more products. However, research on retail price image provides important suggestions on the dimensions of price perception are potentially relevant to price formation of satisfaction. Six dimensions of satisfaction can be derived from the image perceived in terms of consumer prices:

- Value for money is often defined as a result of price matching and quality evaluation. On a more abstract level, the result of a careful balancing trade between the utilities from product stores and stores duties. (“Reasonable prices”, ”offers good value for money”, “service or good for the price is economical”).

- The perception of price level (“low prices“). Of course, the perception of price level is somewhat correlated with value for money and some researchers even treat the perception of price as an indicator of value, “the general prices compared with competitors. However, in this study, value and price level are treated as different dimensions of price perception. A connoisseur can assess value for money in a wine shop as good, although he perceives as higher prices compared with those of supermarkets.

- Fairness price. How fair is a price or not? More precisely, price adjustment is perceived as fair? Most clients consider a price increase for snow shovels after a snowstorm, increasing the price of lamb meat and eggs in Easter or price increase during the holiday season as unfair , while price growth in wholesale trade to protect profit acceptable.

Consequently, customers can charge the same price, right or wrong, depending on the context.

- The price perceptibility is the ease with which prices are found in the store. It is strongly related to price labeling, which has a significant impact on customer satisfaction.

- The prices processability refers to the ease of processing the price, especially when comparing price with other products in the store. Shelf may have a strong influence on this dimension (eg, processability is supported if the marks are national private brands almost equivalent value for money).

- Special Offers relates to products offered at reduced prices temporarily. Special offers are important promoters of satisfaction. Customers wishing to receive information on these bids. Therefore, relevant advertising price is also a dimension of price perception.

Traditionally, the price is established depending on the cost of goods sold. Such a practice is no longer accepted in the current context of economy.

Thus, the retailers must take into consideration, in the formation of the price, other elements, such as the type of the commercialized goods, the store image, the consumer’s buying and consume behavior, the supplier’s price policy, the technical and functional quality and the legislation.

¹⁶⁰¹ Oliver, Richard L. 1980. *A Cognitive Model of the Antecedents and Consequences of Satisfaction Decisions*. Journal of Marketing Research 17 (9): 460-469.

¹⁶⁰³ Mittal, V., W. T. Ross, et al. (1998). *The Asymmetric Impact of Negative and Positive Attribute-Level Performance on Overall Satisfaction and Repurchase Intentions.*, Journal of Marketing 62(1), 33-47.

The commercialized goods, either alimentary or not, can be divided into four categories according to the effort consumers make in order to obtain them and according to the frequency in which they do it.¹⁶⁰⁴

There will be obtained categories, such as:

- a) Household goods;
- b) Tradable goods;
- c) Specialties
- d) Goods without interest on / Unwanted goods

Household goods are goods with a high buying frequency and for which the consumers make a minimum effort. Thanks to the frequency in which these products are found in the market and magazines, the consumer doesn't have to assign a very long period of time to purchase them.

The consumer is not involved too much in the search for price offers for this type of product, the price not being a very important element for them. Therefore, the price for these products is similar in all stores.

The negotiable goods are those goods for which the consumer has to compare price offers, taking into consideration the quality, the presentation of the product, the services attached to the product and also the assistance that is given through the acquisition. These products ask for a higher implication and effort from the consumer, being products that are purchased not so often and for which a higher price can be established.

The retailer must get involved into activities that can add value to these products, such as the packing or presentation mode, technical assistance etc to justify a higher price and to win the consumer.

The specialties are products for which the consumer is willing to make a higher effort in the search for it and also to pay a higher price. The price for these products isn't mainly important for the client, the retailer having more liberty in choosing the price, but has to choose wisely the products that he commercializes and to put effort in their sustain.

Unwanted goods are products whose existence is known or not, but consumers don't want to purchase. For these products, a sustained marketing effort is required, especially from the promotional part. The price established by the retailer must be attractive enough to push the product towards the consumer.

The image of the store influences directly the price asked by the retailers. The stores that want to transmit and maintain the image of a superior quality will practice higher prices that are meant to preserve the image and financially support it, the higher prices covering the costs for image investments.

The merchants who want to create an image of the small prices have to closely define their product categories and client flow to be able to maintain the profit margin.

The intensity of the competition is also another factor that influences the price strategy that retailers choose. When the competition is powerful, merchants only have a small liberty margin in the price establishment. Also, in the situation of a powerful competition, the retailer must perceive and understand quickly the changes made in the competitor's price strategies and react promptly.

The retailer establishes the price and depending on other objectives or strategies that he already has established. Thus, the price can support the company's image, can help at the entrance on new markets or reaching a target market share, the fast turnover of a category of products or the obtain of an established profit margin.

Legislation is a very important factor in the price establishment policy. The state can exert a powerful influence over the merchants through the ban of agreements over the price made by distributors, through the establishment of a minimum or maximum price for certain products, through the ban of loss sales, etc.

¹⁶⁰⁴ Vrânceanu, Diana Maria 2005 *Strategii de preț în comerțul cu amănuntul*, Revista de comerț, 6, (8), 21-28

This year it is being tried to introduce a code of good practices in the retail agroalimentary industry. Through the implementation of this code, in the product price there will be no longer included the 15 taxes imposed by the retailers, such as shelf tax. The Government hopes that in this way, the Romanian products will be more „present” in stores, and expects a decrease in prices between 20% and 30%.

Price strategies and price tactics

There are many outside influences that affect profitability and even survival of the retailer. Pricing correctly is a crucial step to achieve and maximize profit and to ensure consumer loyalty and repurchase. Many pricing strategies are used and each is based on a special set of circumstances and criteria. These are some of the more popular pricing strategies.

Strategies used by retailers depending on the price evolution:

- a) Fixed prices strategy for a long period of time that presumes the implementation on a long term of constant prices. This strategy bets on economies created through the simplification of product management and also the development of a tight connection with the consumers. But in the conditions of a powerful competition it is a strategy that is tough to support and imposes over the retailer the abnegation of some services offered at the sale's place, downsizing and the tough negotiation of contracts with the suppliers.
- b) Variable price strategy presumes the regular appeal to the sales promoting strategy through sales so that in short periods of time, the price is changed. The initially prices, before the discount are bigger than those established in the fixed prices strategy for a long period of time, but those obtained after the discount are smaller. Among the benefits of this strategy are: approach of different sectors of consumers, consumer's attracted with a grown sensitivity to price, the intensification of the in-store consumer flow and the consumer's loyalty strengthening.

Price strategies depending on the competition:

- a) The low price strategy is practiced by stores who don't have other advantages or competitive instruments apart from the other competitors, who don't offer post-sale services, who have a small range of sentiments, the accent being put on products with a high turnover.
- b) The same level prices with the competition strategy imply the practice of prices at a similar level with that of the competitors. The retailers who practice such a strategy are differenced from their competitors through the sentiments, in store and post-sale services.
- c) The high price strategy is practiced by the merchants when either there isn't a high competition or when they have powerful advantages over their competitors, such as a very good position, a high variety of sentiments, in store and post-sale services or a very good image. Such a strategy is adopted by merchants that aim the top of Maslow's pyramid towards the consumers who aren't so sensitive to price, but to quality, stile, prestige, self accomplishment.

Retailer's strategies depending on the structure of the assortments:

- a) The unitary price strategy. The retailer establishes a price for each product and next to it is being shown the price of a standard unit. This strategy can be used only for products that can be measured using standard measurement units.
- b) The brand level strategy. This strategy implies the establishment of prices at the level of each brand, the profit margin being established depending on the power of the brand and the contribution that that can bring to the profit.
- c) The product price-leveled strategy. This strategy implies the fact that the retailer has to establish a very low number of prices for the products from the same category and the classification of those below those prices. Thus, it can be established a price for a category that can cover the profit margin for all or two or three price levels depending on the quality and marginal cost of the products in that category.

Conclusions

Globalization and free development of economies and industries of all kinds enable new ways for retailers to develop, but born as many problems. Social pressures and new competition and extremely

sophisticated traders, are forcing merchants of any size to develop and to implement proactive pricing strategies.

As a mechanism, which generates strategies like the ones treated in this paper needs more than an organizational commitment and a purchase order, it needs a consultative approach to create a comprehensive pricing strategy made for the unique needs and objectives of each dealer.

Constant measurement should be in place with a long-term pricing strategy that incorporates feedbacks from the consumers. Over time, as you learn the system and exploit the opportunities to build an system that creates value for the customers and, consequently, satisfaction, profits will explode.

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LES PARTICULARITES DU PROCESSUS DECISIONNEL D'ACHAT SUR LE MARCHE D'ASSURANCES¹⁶⁰⁵

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For understanding insurance services' consumer behavior, it is necessary to study the particularities of the decision-making process on the insurance market. This paper aims to present the main characteristics of the different stages of the decision-making process: from those that precede the purchase of insurance to the post purchase behavior.

*Keywords: consumer behavior, decision-making process, insurance market
comportement du consommateur, processus décisionnel d'achat, marché d'assurances*

JEL Code: M31, G22

Introduction

Dans le secteur des assurances les objectifs des sociétés d'assurance sont de maximiser les bénéfices de la société d'assurance et d'optimiser la qualité de la relation client pour déterminer les clients de rester fideles à la société d'assurance. Pour pouvoir réaliser ces objectifs les sociétés d'assurance doivent identifier les meilleurs marchés cible et découvrir des modèles de comportement des assurés. Pour cela s'impose l'étude du comportement du consommateur des services d'assurance.

L'étude du comportement du consommateur des services d'assurance c'est une démarche complexe qui suppose l'identification des caractéristiques particulières des assurés potentiels, l'étude des particularités des processus décisionnels d'achat pour les divers types d'assurances et l'étude des facteurs qui influencent le comportement du consommateur des services d'assurance.

Dans cette étude on fait une esquisse des principales caractéristiques du processus décisionnel d'achat sur le marché d'assurance et des facteurs qui l'influencent.

Les principales étapes du processus décisionnel d'achat pour les acheteurs individuels sont: la reconnaissance du problème, la recherche d'information, l'évaluation des alternatives, la décision d'achat et le comportement post-achat (voir la Figure 1).

¹⁶⁰⁵ This work was supported by CNCSIS – UEFISCSU, project number 915 / 2009 PNII – IDEI 1773/2008.



Figure 1. Les principales étapes du processus décisionnel d'achat pour les acheteurs individuels

1. L'apparition du besoin d'assurance

L'apparition du besoin de s'assurer et la reconnaissance de l'existence de ce besoin constituent le point de départ du processus décisionnel d'achat d'une police d'assurance.

Le besoin d'assurance se trouve parmi les besoins fondamentaux d'une personne, en se situant sur la deuxième position dans l'hierarchie des besoins d'Abraham Maslow, après les besoins physiologiques qui se trouvent sur le premier niveau et avant les besoins sociaux d'appartenance et d'amour (troisième niveau), les besoins de respect (quatrième niveau) et les besoins d'accomplissement du soi qui sont placés sur le dernier niveau de l'hierarchie (voir la Figure 2).

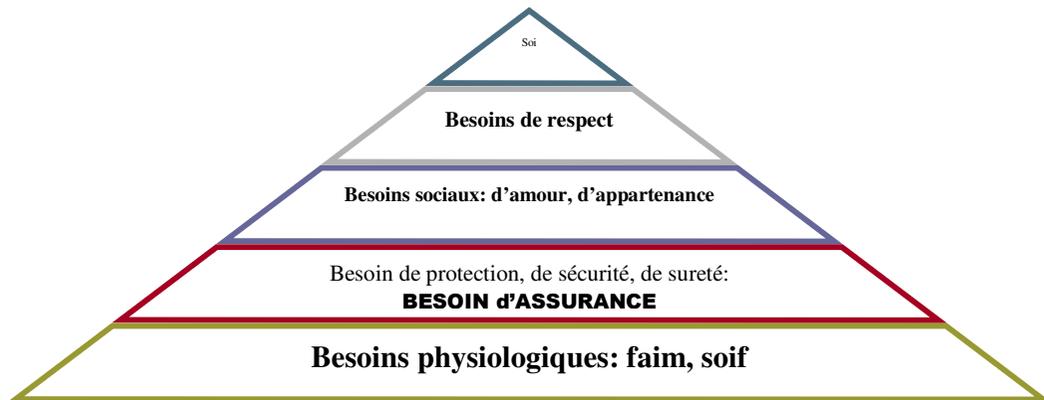


Figure 2. Le positionnement du besoin d'assurance dans l'hierarchie des besoins de Maslow

L'apparition du besoin peut être engendrée par des stimuli internes ou externes.

Il y a une grande diversité des stimuli externes qui agissent sur le potentiel assuré. Parmi les facteurs exogènes qui influencent le potentiel assuré on peut distinguer trois catégories importantes: (1) les facteurs du macro-environnement, (2) les facteurs liés à l'activité de marketing de la société d'assurance, (3) les facteurs exogènes liés aux particularités sociologiques des consommateurs des services d'assurance (voir la Figure 3).

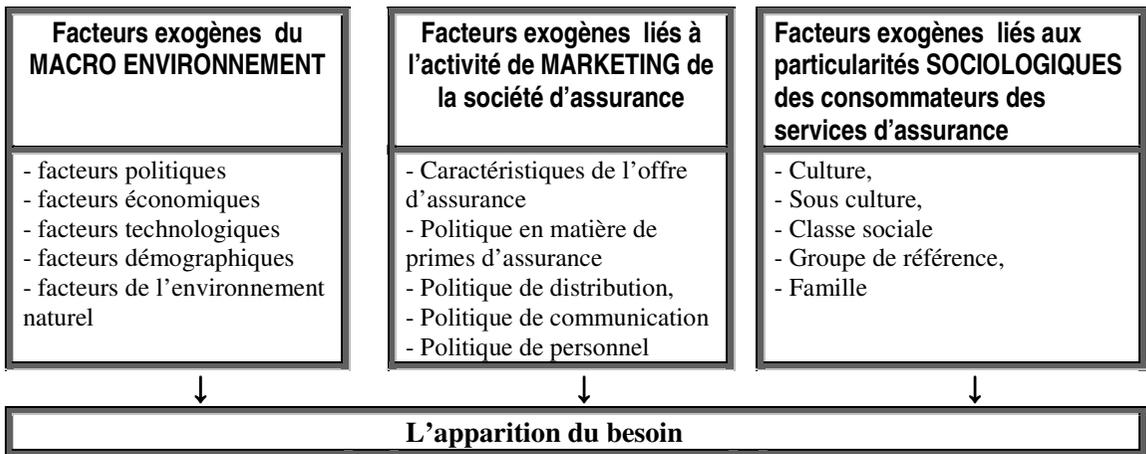


Figure 3. Facteurs externes qui influencent l'apparition du besoin d'acheter une assurance

Un rôle important dans l'apparition du besoin d'acheter une assurance est joué par les facteurs liés aux particularités personnelles du consommateur des services d'assurance: l'âge et l'étape du cycle de vie, l'occupation et la position économique. En Roumanie la demande d'assurance n'a pas un caractère uniforme, elle est concentrée dans les aires géographiques qui ont un potentiel économique élevé et dans les segments de population avec des revenus supérieurs à la moyenne. Dans la situation actuelle de crise économique les facteurs liés à la position économique du potentiel assuré sont d'autant plus importants.

Les actes du consommateur des services d'assurance sont influencés en grande mesure par une série des facteurs endogènes: la perception des assurés potentiels vis à vis les assurances et les sociétés d'assurance, le processus d'apprentissage (qui est basé sur l'expérience antérieure de l'assuré), les attitudes face aux assurances et aux sociétés d'assurance, les motivations et la personnalité du consommateur (voir la Figure 4).

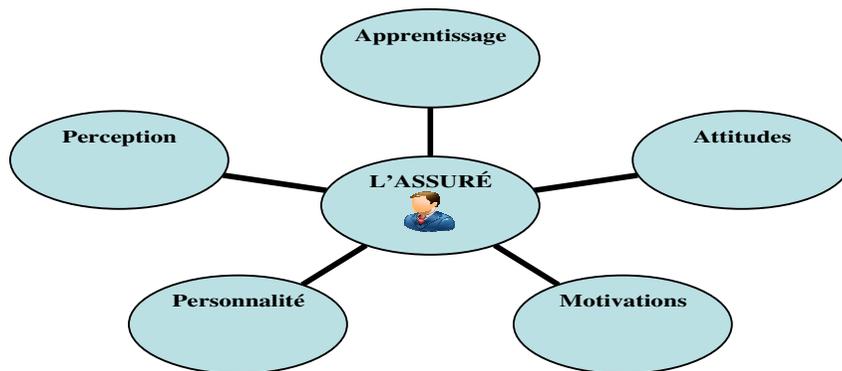


Figure 4. Facteurs endogènes qui influencent les actes du consommateur des services d'assurance

La reconnaissance du besoin de s'assurer peut être engendrée par plusieurs situations. Parmi les situations les plus fréquentes qui peuvent être rencontrés sur le marché des assurances on peut énumérer les suivantes:

- le besoin d'assurance peut apparaître comme besoin dérivé de l'acquisition d'un autre produit / service. Par exemple: l'acquisition d'une voiture peut conduire au besoin d'acheter une assurance RCA obligatoire ou CASCO, l'acquisition d'une maison/appartement peut déterminer une personne de

conclure un contrat d'assurance habitation et de s'assurer contre une série des risques : tremblement de terre, inondations, vol etc.

- le besoin de renouvellement d'un contrat d'assurance expiré. Par exemple une personne constate que son contrat d'assurance habitation est en train d'arriver à l'échéance et il décide de chercher des informations sur le marché pour pouvoir conclure une nouvelle assurance. Sur le marché des assurances l'achat répété est le résultat du processus d'apprentissage. La théorie de l'apprentissage instrumental nous montre que les personnes assurées apprennent à utiliser des comportements qui produisent des effets positifs et à éviter les comportements qui ont des résultats négatifs. Le conditionnement instrumental apparaît lorsqu'on donne une « motivation » suite de la réponse à un certain stimulus; cette motivation peut être positive ou négative. Par exemple, on a une motivation positive dans le cas d'une personne qui a une assurance CASCO et qui a reçu sans retards des dédommagements après un accident auto. Dans ce cas il est très probable que la personne renouvèlera son contrat d'assurance CASCO à la même société.

- le besoin d'assurance peut apparaître à l'aide de l'agent / courtier d'assurance. Souvent dans le cas des assurances de vie l'apparition du besoin est provoquée par les actes de l'intermédiaire.

- le besoin d'assurance peut apparaître à la suite de l'apparition des nouveaux risques.

- le besoin d'assurance peut apparaître à cause d'une offre vue sur l'Internet.

2. La recherche d'information en matière des assurances

La recherche d'information peut être accidentelle ou délibérée et l'accès aux informations peut être soit externe, soit interne. Les sources d'informations peuvent être classifiées en :

- sources liées à l'expérience propre: l'expérience obtenue à la suite de la relation antérieure avec la société d'assurance,

- sources personnelles (famille, collègues, amis etc.): les études ont montré que dans le cas des polices d'assurances les opinions des membres de famille, les opinions des leaders de groupes de référence jouent un rôle important dans la décision d'achat et dans le choix de la société d'assurance,

- sources commerciales - agents d'assurance, courtiers d'assurance, catalogues, brochures, sites Internet etc. et

- sources publiques - revues, journaux etc.

Le processus de recherche d'information est influencé par plusieurs facteurs: le risque perçu, l'implication du potentiel assuré, l'expertise du consommateur et les sources d'information.

Les potentiels assurés cherchent des informations concernant: les produits d'assurances existants sur le marché roumain, les risques assurés par ceux-ci, les primes à payer, le taux de dédommagement, la durée d'un contrat d'assurance et la réputation des sociétés d'assurances, leur compétence, leur crédibilité en utilisant des sources d'information commerciales (annonces publicitaires etc.) ou indépendantes (discussions avec les membres de la famille, avec les collègues etc.), standardisées ou personnalisées.

Une source importante d'information sur le marché d'assurance est l'agent d'assurance. L'agent d'assurance exerce son activité en vertu d'un mandat délivré par une société d'assurances. Les agents d'assurances analysent les risques de leurs clients, conseillent les clients sur les opportunités d'assurance, placent les risques auprès de leurs compagnies d'assurance, suivent la gestion des contrats et assistent leurs clients en cas de sinistre, de l'ouverture jusqu'à l'indemnisation.

Une autre source importante d'information sur le marché d'assurance est le courtier d'assurances qui exerce son activité en dehors de tout lien d'exclusivité contractuelle avec une ou plusieurs compagnies d'assurances et qui agit pour le compte de ses clients.

Une source moderne d'information qui est de plus en plus utilisée est l'Internet. En naviguant sur l'Internet le consommateur peut trouver facilement des informations concernant les types d'assurances et les offres des sociétés d'assurances.

À la suite de la recherche d'informations le consommateur établit un ensemble évoqué, qui inclut les alternatives prises en compte pour être évaluées. Il fait son choix en tenant compte de cet ensemble.

3. L'évaluation des alternatives

L'évaluation des alternatives dépend de l'expérience du consommateur. L'évaluation est réalisée en fonction des croyances et des attitudes de l'individu.

Elle est réalisée en fonction de certains attributs et de leur importance dans la décision d'achat.

Il y a trois étapes de l'évaluation des alternatives:

(1) le consommateur potentiel identifie les attributs (les critères) pris en considération pour évaluer les alternatives. Sur le marché des assurances il y a plusieurs critères qui sont importants dans la prise de la décision d'achat d'une police d'assurance. Les critères sont différents en fonction du type d'assurance. Parmi les critères utilisés on a: la notoriété de la société d'assurance, la réputation de la compagnie, la confiance inspirée par la société d'assurance, la qualité de la relation à long terme entre la société et l'assuré, le niveau de la prime d'assurance, la modalité de paiement de la prime, les facilités au paiement de la prime, la proximité du réseau de distribution des services d'assurance, l'amabilité du personnel, la compatibilité du potentiel assuré avec l'agent d'assurance etc.

(2) il détermine l'importance des attributs (des critères) et

(3) il établit un modèle d'évaluation. Il y a deux catégories de modèles d'évaluation: le modèle compensatoire linéaire de formation des attitudes et les modèles non compensatoires. Les principaux modèles non compensatoires sont: le modèle conjonctif, le modèle disjonctif et le modèle lexicographique.

Les études ont montré que facteur le plus important dans le choix de l'assurance obligatoire RCA est la prime d'assurance.

4. La décision

Il y a des facteurs qui peuvent influencer la décision: les attitudes d'autrui et les facteurs situationnels imprévus.

Le consommateur a trois décisions possibles :

(1) il prend la décision d'achat et il choisit le type d'assurance, la marque de la société d'assurance, le moment de l'achat, la prime à payer, les modalités de paiement etc.

(2) il décide de modifier la décision d'achat et dans ce cas on a un nouveau processus décisionnel ;

(3) il abandonne la décision d'achat. Ce choix dépend du risque perçu par le consommateur (risque fonctionnel, financier, social, psychologique etc.).

5. Le comportement post-achat

Si le consommateur décide d'acheter la police d'assurance l'étude du processus décisionnel d'achat ne s'arrête pas à la décision d'achat, mais il doit continuer parce que pour comprendre le comportement du consommateur il faut étudier la satisfaction ou l'insatisfaction du client de la société d'assurance et ses actions post-achat.

La satisfaction du consommateur dépend de la comparaison entre ses attentes et la performance perçue de la police d'assurance. Les attentes se forment en fonction des messages de la société d'assurance: si les performances du produit sont présentées dans une optique trop favorable, exagérée, alors il peut apparaître un écart. Le résultat probable est un client mécontent.

Une étude qualitative réalisée par interview semi-dirigé sur 59 personnes assurées dans les mois octobre et novembre 2009 a montré que la plupart des assurés sont satisfaits par leurs sociétés d'assurance et par les polices d'assurances achetées. Un nombre réduit des sujets interviewés se déclarent mécontents. Leurs insatisfactions portent sur: les retards dans le paiement des dédommagements, la manque d'initiative de la part des sociétés d'assurance, la perception qu'il n'y a pas une liaison étroite entre la prime payée et le risque couvert.

Les actions post-achat des assurés sont déterminées par le niveau de satisfaction. Le client content renouvelle sa police d'assurance et il conseillera à d'autres personnes de le faire elles aussi. Le client mécontent peut abandonner la société d'assurance ou il peut lui faire de la publicité négative.

Entre la satisfaction, la fidélisation de l'assuré et la rentabilité de la compagnie d'assurance il y a une étroite liaison et le rôle de l'activité de marketing est de créer une forte fidélité de la clientèle envers la compagnie d'assurance

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ROMANIAN DEMOGRAPHIC FACTORS AND THE INVESTMENTS ON CAPITAL MARKET

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The growing interest for investments in capital markets creates the need for studies focused on monitoring and analysing demographic environment in which the investors operate. Its analysis may represent a starting point for finding out opportunities and threats brought by environment for the evolution of Financial Investment Services Companies in Romania. Our paper starts from the assumption that the behaviour of the investor in financial services is influenced by the demographic factors. We focus on some of them, in a descriptive manner. Specifically, they are: monthly net average incomes, gender, age, employment rate and education level of the population. This study also presents a short case of a Financial Investment Services Company named Target Capital.

Keywords: demographic environment, capital market, Financial Investments Company

JEL classification: G23

Capital market in Romania

At the present moment there are two market operators, authorized by the National Securities Commission in Romania: 1. the Bucharest Stock Exchange (BSE, www.bvb.ro) and Sibiu Monetary Financial and Commodities Exchange (Sibex; www.sibex.ro). The Bucharest Stock Exchange was re-established in 1995, with the state support, going through several transformations. It represents the platform of the regular market (issuers present on it are taken in account by Bloomberg in computing the Romanian stock market capitalization), regular market for the derivatives and Rasdaq market. There are 99 companies listed on the regular market and 1.447 companies on Rasdaq (Analysis report, Listing Sibex, 2010). Sibex was founded in 1994, based upon exclusively private initiative, as the most important regular market of financial derivative instruments (options, futures and CFD's). Starting with January 2010, Sibex operates as a regular market for the spot transactions, as well.

Based upon the regulations provided by Law 297 /2004, Financial Investment Services Companies were created, playing the intermediary role. At this moment, there are 69 of intermediaries in Romania, out of which 3 have their headquarters abroad (see <http://www.bvb.ro/intermediaries/ssifuri.aspx>).

If between 1995-1998, the number of intermediaries has increased, after 1998, market concentration took place, leading to a reduction in their number. Certainly, the number of intermediaries grows in the growing phases of business cycle, as the number of new companies listed on the stock market increase and decreases along with new law constraints regulating the capital market and the descending phases of business cycle.

Intermediaries that functioned until 2001, focused especially on selling stocks received by population through the mass privatization process. Now, their main operations concern the transaction on Bucharest Stock Exchange, and on Sibiu Monetary Financial and Commodities Exchange.

Trends in Romanian demographic environment

Capital market investments reflect the propensity of individuals/households towards saving. As known, saving behaviour changes during the life cycle of an individual. Typically, young people are incited towards consuming their income and investing especially in the development of human capital. The medium-aged have a saving and investment based behaviour (material goods, shares). The elder, usually, do not save nor invest after retirement. Exemption from this pattern is the people who accumulated considerable incomes, are familiar with financial investments and benefit from a secure retirement.

According to the data provided by the National Statistics Institute, at July 1st 2008, the Romanian population was 21,504,442, out of which 10,5 mil. (48,7%) male and 11,0 mil. (51,3%) female. Between 2005-2008, negative growth and population migration caused the decrease of population by almost 119,4 thousand. The age-structure of the population shows a specific demographic ageing process. reflected, especially by the decrease of birth rate. This led to an absolute and relative decrease of the young population (aged 0-14) and an increase of the elder population (60+). Compared to July 1st 2005, in 2008 the young population decreased from 15,6% to 15,2%, and the old population increased from 19,2% to 19,6%. Compared to the mid 2005, the adult population (aged 15-59) represents 65,2%, decreased by 52,1 thousand persons.

In the adult population, the age group 30-34 and 50-59 increased while the age groups 15-19, 25-29, 45-49 decreased. These evolutions outline the age and gender disproportions in the population structure. As a result, the main trend in Romanian population is ageing. (Romania in cifre, 2009)

For the Romanian stock market operators, the most interesting segment is the over 18 - employed one. Two are the main reasons: 1. The Romanian legislation doesn't allow people under 18 to trade shares on the market (than trough a legal representative), 2. The elementary logic shows that if one doesn't earn money, cannot invest. Assuming the employed population remained constant since 2007 (when it was 9,353,000), the number of investors on the stock market represents only 1,01% (94,511 accounts, according to the Investor Compensation Fund). A study performed by The Money Channel (Frenciu, 2007) concluded that the Romanian Stock market had a huge potential, because the investors in this market represented only 0,5% out of the entire population. This potential would be bigger if the stock market would consider not only the threats but also the opportunities brought by the changes in the population structure. Mainly it is about the fact that the elder consume less and, at least in Romania, try to leave an inheritance (why not, in shares) to the descendants. Of course there are other demographic trends, with potential effects on the stock market (increase of the education or women employment rate).

Theoretical approaches of the demographic environment impact on the stock market development

International field literature offers opinions on the way in which demographic factors affect the global economy (World Economic Outlook, 2004), and on wealth and gains from investments on capital market distribution (Gale/Pence, 2006).

The Romanian field literature rarely focuses on the impact of the demographic trends on the stock market, and when it does, it approaches these trends as a component of the consumer behaviour (Olteanu, Vlad, 2007).

This paper, from a descriptive perspective, we argue that consumer behaviour in financial investment is influenced by several demographic factors, such as: age group, gender, occupation, average monthly income.

Research methodology

In carrying out this work we used *secondary sources* of information: field books, articles published in newspapers and magazines, studies conducted by the National Institute of Statistics and data provided by Target Capital Investments Company. Should be mentioned the difficulties encountered due to the relatively small number of papers published on this subject, and constraints imposed by the owners of specific data (as, for instance, the value investors' portfolios.)

Preliminary findings

Table 1 data helps us understand that regions with a large number of Financial Investment Services Companies are characterized by higher monthly net average incomes. On the first place is Bucharest and Ilfov county with 1670 and 1492 Lei/month average net income. Cluj county ranks 4 with an average income of 1365, the remaining counties having at least one head quarter of an investment

company, are in the first part of the deck. According to National Institute of Statistics, population incomes increased steadily starting with 2003 until 2006, with permanent differences between those made by men (higher incomes) and women (see <http://www.insse.ro/cms/files/statistics/Statistics%202008/rom/21.htm> 20teritoriala%). This may be one explanation for the difference between accounts opened by men (56.56%) and, respectively, women (43.44%) in 2009 (according to Target Capital Investment Company).

Table 1. Top Romanian counties based on average monthly incomes (RON, 2006)

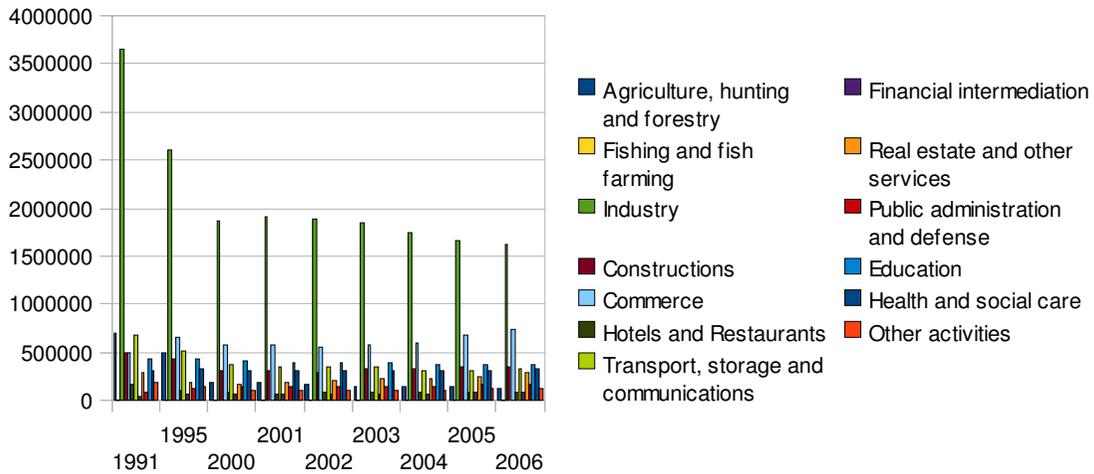
Crt. no.	Region	Average incomes	Crt. no.	Region	Average incomes	Crt. no.	Region	Average incomes
1	Bucuresti	1670	15	Prahova	1168	29	Braila	1002
2	Ilfov	1492	16	Galati	1156	30	Caras-Severin	1001
3	Sibiu	1365	17	Dolj	1156	31	Calarasi	1001
4	Cluj	1346	18	Buzau	1085	32	Ialomita	995
5	Gorj	1338	19	Tulcea	1076	33	Alba	995
6	Constanta	1224	20	Valcea	1057	34	Suceava	987
7	Iasi	1223	21	Bistrita-Nasaud	1055	35	Bihor	979
8	Timis	1222	22	Dambovita	1049	36	Vrancea	971
9	Olt	1218	23	Salaj	1046	37	Neamt	962
10	Mehedinti	1217	24	Arad	1037	38	Covasna	955
11	Brasov	1197	25	Hunedoara	1034	39	Maramures	926
12	Arges	1192	26	Mures	1023	40	Vaslui	925
13	Giurgiu	1185	27	Satu Mare	1014	41	Teleorman	917
14	Bacau	1185	28	Botosani	1003	42	Harghita	852

Note: Based on data provided by http://www.infoportal.ro/informatii_universitati.html

Most Financial Investment Services Companies headquarters are located in Bucharest (56.5%), Cluj - Napoca (7.25%), Ploiesti and Craiova (each with 4.35%), Targu Mures and Brasov (both 2.9%) and Arad, Constanta, Focsani, Galati, Miercurea Ciuc, Ramnicu Valcea, Satu Mare, Sibiu, Suceava and Timisoara (with 1.45% each; see <http://www.bvb.ro/Intermediaries/SSIFuri.aspx>).

Occupation rate of active population is another demographic factor influencing the volume and dynamics of capital market investments. The data on which we built Graph 1 allows us to conclude that along with increasing the employment rate in financial intermediaries and banking, increased the number of Financial Investment Services Companies, too.

Graph 1. Employed Civilian population, by sectors of national economy



Note: Based on data provided by INSSE ([http://www. Insse.ro/cms/files/statistics/statistics% 202008/rom/13.htm](http://www.Insse.ro/cms/files/statistics/statistics%202008/rom/13.htm) 20teritoriala%)

The data in Table 2 shows that in Romania 24 cities have universities, most of which are in Bucharest (36), followed by Iasi (10), Timisoara (9) and Cluj Napoca (4). Comparing this data with those representing the Financial Investment Services Companies numbers, we notice that 9 in the first 12 university centres have also investment intermediaries' headquarters, meaning that the education level is another factor that may influence the stock market.

Table 2. Academic centres in Romania

Cities	No. Of Universities	Cities	No. Of Universities
Bucuresti	36	Bacau	2
Iasi	10	Galati	2
Timisoara	9	Pitesti	2
Cluj-Napoca	8	Alba Iulia	1
Sibiu	5	Deva	1
Oradea	4	Petrosani	1
Targu-Mures	4	Ploiesti	1
Baia Mare	3	Resita	1
Brasov	3	Roman	1
Constanta	3	Suceava	1
Craiova	3	Targoviste	1
Arad	2	Targu Jiu	1

Note: According to data provided by http://www.infoportal.ro/informatii_universitati.html

Short case study

Target capital is a financial investments company with Romanian capital. It has been established in 1995, under the name Aura S.A. Since 2003, this company works under the name Target Capital. On 11.05.2009 the share capital was RON 2.5 million divided into 250,000 shares with a nominal value of RON 10 each. The company provides brokerage and consulting services specialized in capital markets, with offices in two other cities outside of Cluj. In January 2010, we performed a study on demographic characteristics of investors who have an open account at Target Capital. Table 3 and Table 4 summarize the results of it.

Table 3: Investors gender (Target Capital Financial Investments Company)

	Stock market investors (%)	
	2007	2008
Women	45.06	44.64
	43.44	
Men	54.94	55.36
	56.59	

Note: After processing the existing data in Target Capital Financial Investments Company

Table 4: Investors demographic characteristics (Target Capital Financial Investments Company, 2009)

	Age groups (%)		
	< 35 years	35-60 years	> 60 years
Women	7.03	6.93	7.58
	24.84	24.82	24.43
	13.2	12.89	11.3
Men	11.04	12.41	14.02
	29.59	29.23	30.06
	14.34	13.72	12.48

Note: After processing the existing data in the Target Capital Financial Investments Company

A conclusion is that women were more influenced by the economic crisis started in 2007, in terms of capital market investment. Their share fell with 1.62% during 2007-2009. In 2009, most of the investors on the capital market in Romania were men, older than 60 years.

Conclusion

Demographic trends impact the capital market activity volume and dynamics. This is why the stock exchange companies should be interested, through their marketing departments, in discovering the opportunities, but also the treats brought by these trends. On this basis, they could alter their offer portfolio, so that the various changes in the demographics can be granted.

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THE ROLE OF MARKETING IN THE EDUCATION'S PROCESS

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Over time, marketing has become a propelling factor in any field of human activity, being also a primary tool in achieving the objectives of an organization. Identifying the main strategies in correlation with the marketing mix and its application on easy terms is a premise for each organization to achieve their targets. The essential objectives of the study are: 1). presenting the main functions of education, the role of marketing in education, 2) highlighting the main features of the education market in Romania; 3). presentation of the main strategies used by educational institutions in Romania; 4). application of marketing mix in education.

Keywords: marketing, marketing mix, education, strategy.

Cod JEL lucrare: M31

The functions and the role of educational marketing

Philip Kotler, regarded by many specialists in this field, “the father of modern marketing”, believes that, in general terms, marketing must be seen as “human activity orientated in the direction of satisfy the needs and wishes through exchange processes.”¹⁶⁰⁶ The single term, "marketing" means a combination of methods, techniques and tools which analyze the market, explores the market's factors in order to adapt supply and it can represents a new optic regarding the reality of life, the practice, is more precisely a new way of life. Based on the variety of definitions of marketing concept and extend it in areas of activity is emerging the concept of “non-profit marketing.” Non-profit marketing concerns different fields, so that, together with social marketing, green marketing, health marketing, cultural and sports marketing can be also the educational marketing. The educational marketing aims “the marketing application service”¹⁶⁰⁷ and enjoys the attention of regarding the individual training objectives.

The role of educational marketing is to:

- investigate the market, its definition and understanding and identifying potential consumers of goods and services;
- providing appropriate products and services to customer's needs at the time, place and right price;
- providing customers with optimal, quality and reputation educational services;
- attracting consumers by targeting their needs and aspirations intuition.

The educational marketing has several functions, namely:

- research of the market by trying to find the main consumers of education;
- marketing's policies linking the main requirements of the education market;
- adapting education's services to the needs, expectations and demands of consumers for products and educational services;
- promoting optimal efficient management, using materials and information resources in order to achieve the main objectives set.

The education market in Romania has the following characteristics:

¹⁶⁰⁶ vezi Philip Kotler, „Principles of Marketing”, Third Edition, Prentice Hall Inc. Englewood Cliffs, N.J. 1986, p.4.

¹⁶⁰⁷ A. Novak, „Marketingul educațional –Cercetări de marketing privind satisfacerea cererii de educație”, Teză de doctorat, ASE, București,p.20.

- Is a complex market which is facing two distinct segments, such as supply and demand.
- The offer is unique (a place in the classroom, a teacher, a certain hour of the day, etc.).
- The demand for products and educational services may be small or too high, or vary irregularly.
- Education-services market depends on the number of consumers of information, which may be, on the one hand, environmental agents in the economy, and secondly those who attend educational training.

Concrete marketing strategies for educational institutions

Strategy is a plan that an organization should use to successfully meet the objectives and proper use of elements of a marketing strategy enables long-term development of organization's business environment. A firm, and hence an educational institution can develop activities that take one or more of the following policy options¹⁶⁰⁸: it can penetrate existing markets with existing services, they can develop services through the introduction of services on existing markets, can expand the market by attracting new customer segments, or it can diversify their activity by offering new products in new markets.

The educational marketing mix

A reputed educational specialist, MJ Baker appreciated that the marketing mix "is one of the oldest and most useful marketing concepts"¹⁶⁰⁹. The concept of "marketing mix" occupies the central place in the concerns of an organization and it is able to successfully meet market objectives pursued. Marketing mix is an effective tool in guiding the work of an organization, more specifically, is the key "to open all the gates of success."

There is some controversy about the number of typical components that make up the marketing mix: product, price, promotion and placement. They are often called the four P, which correspond to the four C's customer: the call, its cost, convenience in purchasing and communication. Although interesting, these proposals come from prestigious personalities of the field: Valerie Zeithmal, Mary Jo Bitner, Adrian Payne, Christopher Lovelock, Peter Eiglier, etc. and they are not yet sufficiently convincing. They reflect the efforts by each author in part towards highlighting features of the area. Thus, for a better knowledge and understanding of marketing education we have used the model, "4P" because it gives the most important tool for marketing mix analysis in education.

Product policy

We all wonder about the product and try to find out what is a product. Ph. Kotler defines the product as, "something that can be offered to the market for attention, acquisition, use or consumption in order to satisfy a desire or a need"¹⁶¹⁰. This product category includes intangible items, services, people, places, organizations and ideas. Product policy in the field of education includes many actions and through them the educational institutions makes their goals, performs their activities that are based on choosing effective strategies used to adopt the necessary measures in education.

Defining educational product can be viewed from two viewpoints. First, the product can be represented by pupils or students who are actually "placed" to the traders on the labor market. Secondly, the product can be described as a wide range of services provided by schools, colleges or universities, to the pupils or students. The services provided are lectures, seminars, applied activities, specifically, may include all activities carried out by teachers in the education process.

In all the fields are new trends and changes occurring. And also can occur new knowledge in education, the new generations of students, emphasizing the idea that nothing disappears, everything turns and evolves. "The life" of a product in education is not limited, and it enriches and develops gradually. The consumers want products that can offer certain quality standards, which have an absolute or relative novelty, and which are performing. For this reason, the organizations should work towards continuous improvement of the product.

Price policy

¹⁶⁰⁸ Vezi Valerică Olteanu, „Marketingul serviciilor. Ediția aII-a”, Capitolul 6, p.159.

¹⁶⁰⁹ Vezi Michael J. Baker, „Marketing”, Ed. S.C. Știință și Tehnică S.A., București, 1996, p.64.

¹⁶¹⁰ Philip Kotler, „Principiile Marketingului”, Editura Teora, București, 1998, p.653.

In the economic literature, the price is the sum of all the values that “the consumers” offered in exchange to have or use the product or service.¹⁶¹¹ The price is a complex variable, and is influencing the variable of product, promotion and placement. In education "price" means the students or school fees that they must pay. According to the definition of DEX, the fee is the amount of money payable to an institution in exchange for services rendered or of certain rights. The issue of training fees in education services has led a number of concerns of specialists in the field.

In the literature review are outlined six steps, that should be should by covered by an educational institution when sets the fees:

- carefully determining market targets;
- to analyze the structure and dynamics of demand;
- to identify the costs and services;
- to identify and analyze major competitors' prices;
- to use a method for defining and determining the prices;
- establish the final price efficiently and correctly.

A series of internal and external factors, are guiding decisions of educational institutions in setting fees (tariffs). The key factors are: marketing objectives, marketing strategy, costs, organization-setting fees, demand, the prices and offers of competitors, economic conditions, legal framework, the government measures, etc.

The student is the one, who pays a fee in order to acquire knowledge and information provided by any educational institution. He changes the value (money) to another value (benefits of using the product). The claim, “Essential is the value, not the price” (Robert T. Lindgren), explains, metaphorically, that what is valuable is invaluable. The value is observed best in education. The school forms people with great potential, with special moral capacity. To pay a price for being a true man is impossible. Indeed, “Essential is the value, not the price.”

Distribution policy

In the field of education the distribution process refers to:

- the information offices, where the messages are received and where the student gets explicit information. These information offices are even the secretariats schools;
- placing graduates in enterprises. According to some polls, due to economic instability and weaknesses of the educational system, about 40% of graduates are intending to leave the country to achieve professional. Of course, immigration would bring them the salary that in Romania would probably never have.

Is urgently needed an in-depth reform of the entire education system. The Romanian education should be oriented towards the organization, a process that may trigger mechanisms such modern Romanian society to move towards modernization and a rising trend.

Promotion Policy

Promotion, as part of the marketing mix, expresses “the combination of action and media that attracts potential buyers to the selling points in order to meet their needs and desires and thus increasing the efficiency of economic activity of the producing company.”¹⁶¹² Promotion has a primary role, namely, in informing the market and the consumer. An effective promotion can create a prestigious image of the company in the minds of potential consumers. For this reason, to convince customers that the products or services offered by an organization are of a superior quality than the competitive products and services, are used promotional instruments in conjunction with an effective communication between manufacturer and customer.

In field of education are identified three major types of promotion:

- advertising, using television, radio, press;

¹⁶¹¹ Philip Kotler, „Principiile Marketingului”, Editura Teora, București, 1998, p. 773.

¹⁶¹² D. Patriche, „Marketing industrial”, Editura Expert, București, 1994, p.215.

-public relations: outdoor events, organizing exhibitions, symposiums, scientific communication sessions;

-A special place occupies the printed publicity like: brochures, letters, Christmas cards. There are also objects like: pens, pencils, bags, key rings, badges, garments which have printed the name and emblem of the educational institution.

To highlight the role of education in the life of a student from a Romanian University was made a questionnaire that was distributed to students of that institution.

Analysis and interpretation of questionnaire results led to the following conclusions:

-The image is formed and we can say it tends to be favorable. The students of this university appreciate the fact that the university's labs are equipped with powerful computers and they agree with the interior of the university.

-In this study, the activity of teachers is generally favorable. The University's professors show their interest in both the educational process and the students' problems.

-On classroom conduct, summarizes information received from students, is a clear fact that the documentation is determined to be favorable.

-Is very important the work of university teaching staff, and also the work of non-teaching staff. The university's information office, specifically the university secretariat provides clear and timely information required by students.

In the future, this university has to adopt a strategy to attract potential students. Students should be aware of the benefits brought by instruction and educational activities of university in their life.

"Everybody as "consumers" of science (or technical) should be aware not only with what is new and effective in this area, but also with what is valid and beneficial to a man"¹⁶¹³. The school of tomorrow doesn't want to be a school of intelligences, or technology. The future school will teach the pupil or the student how to cope with various demands of life. The teachers should continuously contribute to educating and training young generation in the spirit of passion for everything new and valuable in science, culture, education, technique.

Conclusion

Today marketing is often present around us. Throughout this paper we have tried to emphasize the main aspects that refer to the application of marketing in education, in relation to the marketing mix. Educational marketing mix is a combination of four variables (product, price, distribution and promotion) that are also presented in the paper, with clear connections highlighting the role of marketing in education. Using marketing mix elements can accurately determine and implement the main objectives of the organization. Location and function of each component in all marketing mix clearly stand out the main practical issues relating to educational marketing.

The education, seen as a complex way of actions made and applied in a continuous way by educational managers is focusing on modeling communication skills of the consumers of educational services, training and promoting them.

The quality of education depends to a large extent to the quality teaching education conditions, to the quality of teachers involved in this continuous and complex process like education.

Education's consumers are represented in education by students or pupils. They want to satisfy their various needs of knowledge, information, affirmation, and for that they must take part to the education process. The pupils or students motivated by the feeling of creativity are "buying" educational products offered by schools. The teachers wine the needs of pupils or students with information that are offered throw teaching.

An important aspect that must be mentioned is the one relating to marketing policy which has a decisive role in education. The marketing policy adopted in the general education system is trying to adapt education to the work of economic dynamism in the contemporary context. An education reform should

¹⁶¹³ vezi Constatntin Cucuș, „Pedagogie. Ediția aII-a revăzută și adăugită”, Editura Polirom, București, 2006, p. 215.

take into account both the requirements outlined as internal marketing as well as the external marketing in education.

Student-teacher relationship in the learning process is a prerequisite of interactive marketing education. The teachers who have teaching skills, pedagogical tact and the receptive, attentive students with a capacity to assimilate new and valuable knowledge are the two basic ingredients of educational marketing. The lack of education makes it impossible to conduct the process. In conclusion, the process of education should be regarded as an essential factor for economic and social development.

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RELATIONSHIP MARKETING RESEARCH TAILORED TO SUPPORT SALES MANAGEMENT. CASE STUDY: AN INTERNATIONAL EXPRESS LOGISTICS COMPANY IN ROMANIA

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Within current economy context, complexities and particularities most companies are constantly seeking to maximize effectiveness and efficiency of their business. As sales force represents for most organizations their “spearheads” and direct contact with the market, its management can be a source for customer satisfaction and overall efficiency. Relationship marketing research with all its particularities and dimensions, if tailored appropriately can explicitly pinpoint major sources of customer satisfaction and dissatisfaction. Focus of contemporary relationship marketing is the customer viewed across lifetime as a profit source and partner rather than on short term for singular transactions. Research findings help the organization better manage its sales force and generate customer satisfaction, retention and loyalty and maximize profits while achieving superior efficiency.

Keywords: relationship marketing, sales management, customer satisfaction, research, efficiency.

Cod JEL article: M31

Introduction

Contemporary *relationship marketing* approach is in direct relation with *customer satisfaction*, in today's economy where most companies focus on building sustainable competitive advantages by developing close and cooperative relationships with a limited set of suppliers, customers and various channel members. Through these relationships firms create value by differentiating their offering and/or lowering their costs¹⁶¹⁴.

This new relationship marketing paradigm consists of placing emphasis of marketing activities on establishing, developing, and maintaining cooperative, long-term relationships¹⁶¹⁵ and thus using this approach to generate competitive advantage for the company. Relationship marketing has implications on all marketing activities from research, to marketing programs and campaigns and to selling activities, as Gummesson vividly describes new marketing concept consists of an *interaction of networks and relationships*¹⁶¹⁶. This paper focuses on its research implications vis-à-vis customer satisfaction in relationship with personal sales and sales force management.

Relationship research is a cardinal dimension for contemporary marketing and sales practice. It surveys behavior of all actors involved in the network which is established in the relationship marketing context. There is a major shift of this research approach where the emphasis moves from customer needs to relationship partner analysis.

1614 Berling, R., The Emerging Approach in Business Strategy: Building a Relationship Advantage, *BusinessHorizon* 36 (4), 1993, pp.16-27.

1615 Gummesson, E., Implementation Requires a Relationship Marketing Paradigm, *Journal of the Academy of Marketing Science*, 2 Summer, 1998, pp.242-249.

1616 Gummesson, E., *Implementation Requires a Relationship Marketing Paradigm*, *Journal of the Academy of Marketing Science*, 26 Summer, 1998, pp.242-249.

Firms' sales force play a key role in the formation of long term buyer-seller relationships. As the primary link between the buying and selling firms, they have a considerable influence on the buyer's perceptions. This perception of seller's reliability and its service offering value plays a key role influencing the buyer organization to continue business relationship. High-class performing sales force which have managed to establish and develop solid relationship with partners based on trust, support and mutuality are a source for long term value generation to their companies. There are researches today that show that buyers often have greater loyalty to salespeople than they have to their companies¹⁶¹⁷.

1. Managerial dimension of relationship marketing

The *management dimension* of relationship marketing, encloses a wide range of decisions that impacts the company and its customers. These relations can be structured according to their nature, as follows:¹⁶¹⁸

- a) relations regarding the contract: precontractual relations, contractual relations, and post contractual relations;
- b) relations vis-à-vis information demand and offer: available information for customers, information requested by customers;
- c) relations generated by the reaction of the customers towards the service offering: satisfaction; enthusiasm; complaint; and formal objections;
- d) relations generated by the multiplication effect of satisfied / unsatisfied customers on potential customers.

Decision making process has to be adapted to this kind of relationships in order to ensure continuity for the overall enterprise economic pursuit. If the first kind of relations (a) represents the *formal frame* of the cooperation and belongs to the tasks of the sales department, all other relations (b, c and d) are rather *informal* in their nature and are the responsibility of the marketing department.

2. Sales management. Relationship approach

Scholars as Wotruba¹⁶¹⁹ suggests that nature of personal selling, like the one of marketing, as described by distinguished professor Kotler, has evolved through the four different stages, namely: production, sales, marketing, and partnering. Each of these eras of sales has different objective, orientation, tasks and responsibilities for their salespeople ranging from transactions and short-term focus in production stage to relationships and long-term orientation in partnering stage. Consequently to each of these stage sales force fulfills different roles and pursues different activities that requires different skills, knowledge and abilities. Moreover the nature of sales management has evolved accordingly as reaction to the changing in nature of selling activities, market pressures and type of relationship among organizations. Focus of this paper is for partnering era of the personal sales and sales management stage corresponding to relationship marketing orientation.

Partnering salespeople work closely with their customers to create value, via tailored solutions that are profitable to both partners. Salespeople are engaging in relational exchanges on a day to day basis channeling additional consulting, support and information among partners. The objective of salespeople is to develop long-term relationship with the customers that imply commitment and aim to "increase the pie" rather than divide it. Sales force has to achieve a deep understanding of customer needs and particularities and to persuade them of their superior offering proposition. A crucial aspect of the partner relationship is played by trust and commitment developed by seller's sales reps, who are to

1617 Barton, A. W., Bradford, K. D., *Selling and Sales Management: A Relationship Marketing Perspective*, Journal of the Academy of Marketing Science, Spring, 1999, pp.241- 254.

1618 Pop, N. Al., Pelău, C., *Dimensions of relationship marketing in the Romanian banking sector. Case study: BRD Express*, Marketing Management, nr 4, Editura Economica, București, 2006.

1619 Wotruba, Th., *The Evolution of Personal Selling*, *Journal of Personal Selling and Sales Management*, No.11 (Summer), 1991, pp.1-12.

develop it both internally within their own organization and externally with the buyer's organization, so as to openly exchange information and innovative solutions between two sides.

There are three major differences between partnering roles of sales people versus other roles¹⁶²⁰, as follows: (1) the focus on interpersonal communications- managing conflict versus influencing purchase decisions; (2) the salesperson's objective-building and maintaining the relationship with the customer versus maximizing short-term sales; and (3) the unit of analysis- the sales team versus the individual salesperson. Conflict is inherent to market interactions due to different objectives of the two actors, however the partner sales rep aims to manage the conflict so as to accrue benefits to the overall relationship and value it so as to strengthen overall relationship and increase commitment for both sides. Secondly, generating long term profits for both partners rather than pursue one time transaction has direct implications on sales management implemented by the seller company (way how sales agents and sales teams are recruited, evaluated and compensated). Lastly, it is important to emphasize the need for implementing sales team as these complex partnerships cannot be managed by individuals. Mostly are needed cross-functional sales team within their selling centers as corresponding to the cross-functional buying-teams in the buying centers of partner's company across different levels of management. As such, sales rep assigned to a customer will become *relationship manager* who is responsible to manage the activities of the entire sales team rather than personal activities and agenda.

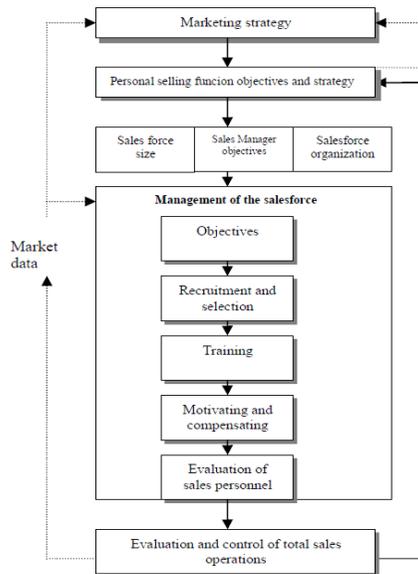
Figure 1, best describes direct relation between overall marketing strategy and sales function within an enterprise, marketing strategy providing objectives for sales and sales metrics. Some of the most common measures are percent of sales quota achieved, number of new customers, number of sales closings, average gross profit per customer, and sales expense to total sales.¹⁶²¹ Jobber illustrates how market data validated and refined are used in formulating overall marketing strategy initially and providing an evaluation and control support in the end analysis. All of the phases from setting the objectives, to hiring and recruitment, training, motivation and compensation and evaluations are being executed under the same umbrella.

Structure of the department and function is to be setted according the efforts employed for the relationship management with the customers. Within all functional departments there are created new jobs and new taks and different functions for each. Sales and marketing department, research personnel can be splitted, and customer databases competences are required for valuing marketing data and linking them with the sales policies implementation

1620 Barton, A. W., Bradford, K. D., *Selling and Sales Management: A Relationship Marketing Perspective*, Journal of the Academy of Marketing Science, Spring, 1999, pp.241- 254.

1621 Kotler, P. - Rackham, N. -Krishnaswamy, S., *Ending the War Between Sales and Marketing*, Harvard Business Review, 2006.

Figure 1. Marketing strategy and management of personal selling



Source: Jobber, D., Lancaster, G., *Selling and Sales Management*, 7th Edition, Pearson Education, Prentice Hall, Essex, 2006, p.33.

A key position to be created in the relationship era is the *relationship manager*, who is to assign and deploy people and resources according to customers' importance for company (principal customer, permanent customer, occasional customer etc.). Duties and tasks of the salesforce (sales reps, service personnel, call centre officers), which is in permanent contact with the customers are permanent updated with the expectations of the different partners.

3. Case study: an international express logistics company on Romanian market

3.1. Relationship marketing research. Aims, instruments and primary findings

The main objective of the research was to measure the satisfaction of corporate clients (accounts that buy services for more than 100,000 EUR per year) of a multinational company that operates in more than 220 countries and territories on the Romanian market. Satisfaction related findings enable company to better manage its salesforce towards strengthening partnership with key accounts through superb salesforce design, high level of commitment and execution. Thus, using primary data and field research we have distributed a questionnaire to all 60 corporate clients (accounts that buy services for more than 100,000 EUR per year) of a major international express logistics company that operates in Romania. The rate response was a high of 88% due to excellent relationships that were built in time. Out of the 53 companies that have responded to the questionnaire, 30% are operating in the automotive industry, 9.4% in other production area and the rest in areas such as commerce, textile, software and electronics.

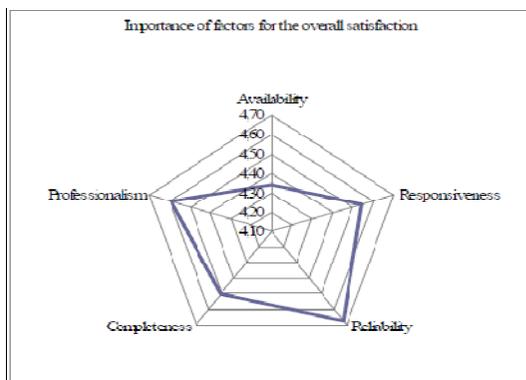
The questionnaire comprises of three sections. The first section is designed to collect firmographic data followed by the second, that addresses 37 important aspects of satisfaction using a 5 point Likert scale¹⁶²². The questionnaire ends with a section that is designed to measure the importance of several factors that influence the overall satisfaction of the client with the services received. The elements we identified to have an impact of the overall satisfaction are: availability (the degree to which the company can be accessed), responsiveness (the degree to which company staff reacts promptly and appropriately), reliability (the degree to which parcels are delivered without damage and on time),

¹⁶²² Malhotra, N., *Marketing Research*, 6 ed., Prentice Hall, Upper Saddle River, New Jersey, 2010, p. 390.

completeness (the degree to which all components of the service are finished) and professionalism (the degree to which carrier company uses suitable, professional behaviors, while working with me such as politeness, respect, consideration, truthfulness and friendliness).

The following chart is going to reveal relative importance of each of the 5 factors as perceived by customer, as follows:

Figure 2. Importance of factors for the overall satisfaction



Source: own research

It is worth underlying that after reliability, factors as professionalism and responsiveness are the among top three ones, which further enhances the relational view of partnership importance mediated though intelligent, innovative and salesforce which proves initiative. This finding becomes even more important in the light of service performance level findings which show that only a quarter (24%) of respondents considering the service offering very high, very few of them viewed it very low (4%), while most of them consider service rather average and/or superior, indicating a large potential pool for expanding relationships and mutual gains in the future.

Nevertheless, when questioned regarding overall interactions with the sales force and sales support of the researched company, major accounts were positive, 62% of them indicating that. Only 1,9% were negative about company staff exchanges and most of the exchanges being into the neutral and medium areas pointing towards future improvement potential.

3.2. Conclusions. Managerial implications and pursuits

Mostly, sales force has to initiate and encourage open dialogue and contact fostering the overall business relationship. A new set of policies and measures has to be implemented in this regard focusing on sales teams already existent, which is a major strength as underlined by literature for modern and innovative sales. Joint collaboration with financial and operation departments is to be further expanded in order to increase speed and professionalism for customers feedback and rate of solved calls, information requests, and complaints raised. Constant contact with the customer is to be maintained in different and diversers manners according to the situation and request: via direct contact and meeting, telesales, and web technologies (emails, CRM software) on a frequent basis.

Some of the research findings regarding key interactions topics further reveals that: 2/3 assert that staff is prompt and proffessional with feedback when asked about services and tariffs; customer claims management is viewed prompt and professional only by 40% of the questioned accounts; 44% views customer service as reliable and speedy, while relatively half of partners consider team's attitude and attention given to their issues as very positive and professional. These later findings additionally emphasize potential for relationship development and expansion with the existing large accounts. A key role for the sales force is to careffully listen major objections, complaints and even to stimulate customer to adress those openly as a source of continual improvement and trust development among the partners. The corporate accounts managers will act as a *relationship manager* and supervise

periodically service performance with operation department, financial terms with key customers and act as a liaison of the account and its staff to deliver outstanding performance and superior value every time.

Romanian logistics market is currently going through rapid changes as sales environment in general, thus as international experiences proves constant innovative solutions of individuals and teams are key for constant growth. Personal initiative is to be encouraged and appropriately compensated by management through intelligent periodical stimulus package.

A professional sales today has to be skilled and proficient in a very wide range of competencies native intelligence, creativity¹⁶²³ and relational capacities and traits being among most important ones. Such factors are to be considered both when management select and recruits new personal, and when stimulate and motivate existing one.

As shown by Magrath¹⁶²⁴ a key factor for the B2B market, is to constantly learn all aspects of customer operations in the light of partnership development. Most relevant aspects to be learned are those related to priorities, pressures and new and innovative ways that company salesforce can involve in solving customers problems related to logistics, shippings, operations and even non-direct related needs in a pro-actively manner. Today sales forces play a vital role because partnerships created are more solid and last longer if these professionals promote their solutions and attempt to match their offering to future customer needs and oftentimes buyers are more loyal to individual relationship manager than to the offering company, migrating after the professional.

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THE COMPETITIVE POSITIONING OF THE SME'S ON THE MARKET

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Having in view at the same time the possibilities identified for the development of the competitiveness of the Romanian SMEs in order to face the new challenges and the use of the opportunities to operate on the inner market as well as the one on the level of the European Union, the strategy has in view a series of measures and actions that are connected to a series of priorities. These priorities and related actions were established on basis of the present-day situation of the SMEs carried out by the ANIMMC. According to the position of the SMEs on the market, these can choose different types of marketing strategies with the aim of attaining in a certain period of time of the objectives established and at the same time their consolidation on the market.

Key-words: SME's, competitive, integration, marketing strategies.

Cod JEL lucrare: M31

Introduction

The market of the SMEs has a distinct and complex character. The objectives and motivations of the SMEs are significantly different from those of the large companies, their objective strategies ranging from their wish to develop till the simple ensuring of the incomes of stable cash-flow. Frequently, in the case of the SMEs, the need to solve current problems – solving clients' requests and maintaining competitiveness – shadows the strategic „image” perspective. The providers have to concentrate upon adapting their products and services to these special needs and to support the SMEs to identify their essential problems they have to cope with.

According to a study ordered by the Cisco Systems and carried out in the month of October 2005 by the marketstudy company Caleman parkes, because of the large number of competing companies¹⁶²⁵ – SMEs on the European market, it isn't surprising at all that these type of companies state as their prime priority the preserving of their competition position they presently hold.

Having in view that the problems of competitiveness are generated by the small enterprises as well as by the large ones, the lack of resources may seriously hinder the capacity of the SMEs to face the competitive pressures. The wish to counter and avoid competitiveness, is really to be considered the permanent reason of “insomnia” of the SMIs, being considered to be the main catalyst of investments in technologies in the present as well as in the near future.

One of the aspects of foremost importance for the SMEs is the choice of the products or services that may assure maximum commercial advantages.

1. The SME's in the present-day integrationist trend

The attentive analysis of the issues of the SME's in Romania in the preaccession period allows a series of conclusions of generalising character.

First of all we note the continuous fragileness of the positions of the SMEs on internal as well as on international level, compared to the large enterprises. The whole activity of the ANIMMC shows the process of improving awareness of some support measures for the SMEs, for there is the danger of their disloyal elimination from the market, this fact bringing about a very serious social and economic impact. The thorough and very diverse activity of the ANIMMC, activity that in fact is the result of the

¹⁶²⁵ Tehnologiile „fierbinţi” ajută IMM-urile din Europa să „conducă jocul” –CISCO 2005
http://www.cisco.com/web/RO/pdfs/imm/06_SMB_Technology_Byline.pdf

threats the SME's are confronted with, is, by itself, a measure of this reaction, of this threatening that makes it necessary.

Moreover, the activity of the Agency unfolds in the general framework of the Chart of Lisbon, therefore the problem of the SMEs is not a Romanian problem, but a European one, and what is more, we may state that it is a problem of the extension of the EU. Generalizing it is a problem of any integrationist phenomenon, and inclusively that of the process of globalization. The mechanisms by which the competitive position of the SMEs is continuously, systematically and objectively raised, in competition with the large enterprises, are the following:

- the scale economies. This refers to the well known phenomenon, but whose complex effects and dynamics for long periods are, probably scarcely studied, through which the mass product is competitively favoured in front of the product processed in small quantities.

As long as we discuss the theme of the scale economies only in the terms of the quantity and of the unit price, the phenomenon has a direct, mathematical explanation. Thus, the independent costs of the production volume (research-development, promotion, marketing) being the same, no matter of the quantity processed – the share of these costs in the unit price decreases as the production increases, because they are distributed at a larger number of products.

The approach may be extrapolated: a small or a middle size entrepreneur has generally the possibility to optimize his production by the short-term optimizing methods, by adapting the labour force to the fix existing capital. Even if he has the necessary knowledge for the procession optimizing for long-term, through establishing of the ideal relationship between the costs with the labour force and those with fixed capital, he usually doesn't have the necessary liquidities to make these procedures operational, especially from the point of view of enlarging the fixed capital and cannot obtain these liquidities but only through cost generating credits and supplementary risks.

From our notes it is clear that the scale effect may be extrapolated on-goingly to economic and extra-economic phenomena, deforming the competition equity as the result of the competition depends less and less on the relative merit of the competitors but more and more on the dimension of the resources they have at their disposal.

For example, one of the factors entirely associated with the initiative, that is, the risk, is also subject to a scale effect: the implication of the same volume of capital in an enterprise with the same risk factor may be discouraging for a small entrepreneur, who risks his entire capital into that enterprise, and the attraction for a large one, who risks only a small percentage out of his available capital.

We may also speak about a whole series of scale phenomena, economical or extra-economical, in which the size favours success: scale propriety, scale notoriety, scale net-work- communication a.s.o.. It is about situations in which the entity spoken about – propriety, notoriety, communication – has reached such dimensions that it self-generates and maintains itself without effort.

Scale phenomena and particularly scale economies should be regarded with discrimination from the perspective of competition and competitiveness. On the one hand, they normally represent the result of accumulating in time that had been generated by a superior competitiveness, under the conditions of a loyal competition. On the other hand, at the moment of analysis they decorrelate the economic result of labour and initiative, favouring the owner of large capital compared to the small and middle size entrepreneur.

- asymmetries – These can be material asymmetries- the bigger economic power of the enterprise, that makes it more attractive as a client, more feared of as a competitor a.s.o. – then the institutional asymmetries- the increased lobby capacity of the large companies etc – and maybe the most important ones the information asymmetries. All these systematically disfavour the SMEs in the so-called free competition on the market.

All these disfavour systematically the SMEs in competition with the large enterprises, leading to what we call perfect competition to naturally transform into monopolist competition, this later on into oligopoly competition and than into monopoly, that is – into the situation where there is no more

competition between the producers, but a competition between the unique producer and the consumer himself.

2. The market strategy of the enterprise

The necessity of adapting the company to the social-economic environment in which he unfolds his activity, represents an important condition for the development of an efficient activity.

This capacity of adaptation measured by the synergy of the enterprise depends on the material, human and financial power that it possesses as well as on the way it is carried out compared to the market. Every action of the enterprise finally is the result of the encounter between some needs of consume with the knowledge to satisfy them at the best-ever known level, thus, practically, out of the direct confrontation of the demand with the offer. In order to accomplish this aspect it is of outmost importance for the enterprise to carry out two very important things:

- to study and understand the market it acts on
- to adapt its activity in such a way that it can be able to put into value the best market offered opportunities (avoiding at the same time the possible dangers).

In order to carry out these things it is necessary to have a strategic vision over one's own activity, a vision that is more and more imposed by the new situations in which he develops his activity. It is about the analysis of evolution in time and space of the inner resources of the enterprise (organising, technical and human) as well as of the external ones to it (competition in the field of providers-suppliers and of the clients, the modification of technologies, the modification of the leadership a.s.o.) The identification and materialization of the major objectives of the enterprise, around a strategical vision, as well as the strengthening of the position on the market, the growth of the turnover, the improvement of the efficiency performances, a.s.o. - represent objectives of marketing policy of any economic organization.¹⁶²⁶

3. The importance of positioning as a strategical option

The positioning is a basic element of the strategic planning of marketing, because any decision referring to positioning has direct and immediate implications over the whole marketing mix and at foremost it represents a communication strategy.

Positioning is a competitive strategy that places it in the contextual frame of the international marketing essence. Positioning should be competitive because the firstmost requirement is the differentiation among competitors on basis of a competitive advantage. This advantage may be obtained to the extent in which the enterprise grants its clients a superior value compared to that of the competition.¹⁶²⁷

In order to properly solve the specific problems of each aspect of positionin on the target markets, the SMEs have to use the relevant criteria and variables step by step in several successive phases. For some of the SMEs the choice of position is relatively easy. Others may face difficulties and end up by being positioned on the same positions with other competitors. In such situations, the strategies have to identify and create a portfolio of competitive advantages attractive for the target market and later to communicate them and to let them be known in a convincing manner. From this point of view, that of competitiveness, the process of positioning includes three phases, respectively:

- the identification of the possible competitive advantages of the enterprise or brand (product).
- deciding over those that have to be stressed
- the concretization (exact stating) of the concept of positioning

These phases focused on the competitive differentiation may be included in a larger process that allows the highlighting of the aspects that facilitated the approach focused on the competitive advantage.

¹⁶²⁶ C. Florescu (coordonator), Op.cit., p.276, http://www.langhel.ase.ro/Cap_5.pdf

¹⁶²⁷ Victor, Danciu., Marketing strategic competitiv., Editura:economica-2004

Conclusions

According to the position of the SMEs on the market, these may express their option for different types of marketing strategies towards which they should face to. These marketing strategies have in view a wholeness of „long-term” actions that move human resources as well as financial, material ones of the SMEs in order to attain in a given period of time the traced objectives and implicitly their consolidation on the market. It is implemented with tactics, techniques and of a very well determined instrumentation.

The marketing strategies have a pronounced diversity and are classified according to multiple criteria. The applying of a strategic variant or another stays at the choice of the management team of the SMEs. It is important to express option for a proper “recipe” for the possibilities of the enterprise and of the given moment. Because the non-adequate application of a strategy may destroy the whole structure of the business built with toil and sacrifices, sometimes for whole long years.

The strategic axis of an enterprise can be modified from one phase to an other. But when the company takes action in a turbulent surrounding, where unforeseen events may happen which do not comply with the usual risk calculus, the strategic alternance becomes a common fact.

These strategies investigate and find the ways of placing the offer of the small and middle size enterprises, in accordance with the necessities, preferences and perceptions of the envisaged groups of clients, with the demands of the target market as a whole that also include the competitors with their resources, experience, the components and competitive advantages of the company which they use in order to take the selected position.

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STUDY ON THE DYNAMICS OF FOOD CONTAMINATION IN INDUSTRIALIZED AREA

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The paper approaches the food contaminations with chemical substances in industrialised area (in an area intensely polluted with heavy metals). We firstly studied accumulation in several types of vegetable matter and secondly, the evolution in time of cations mentioned in the paper. As a work method, we used flame and graphite furnace atomic absorption spectrophotometry as well as stripping methods.

Keywords: food contamination, food safety, polluted area,

JEL cod: Q53

1. General aspects

Heavy metal pollution of the environment has lately been in the spotlight due to the extremely complex issues raised by this phenomenon, as most heavy metals are not soluble in water or if they are, the respective chemical species become compound with organic or inorganic binding agents, which radically influences their toxicity [1].

Inorganic noxious substances influence the growing and development of plants, the process of photosynthesis and the water absorption regime.

Physiological processes are ways of testing the interference pollution-normal development, preceding foliaceous symptomatology [2].

Soil charging with heavy metals led to their acidification and to the debasification of the absorbed complex. At the same time the degradation of organic matter quality occurs through an increase in the fulvic acid content (aggressive towards humic acids) and which, together with heavy metals, form compounds highly mobile and accessible to vegetation [3].

The global effect of the mentioned processes is the decrease of soil fertility and the worsening of nutrition conditions for plants. Consequently, mineral nutrition of plants becomes unbalanced. These nutrition unbalances are due to general unfavourable nutrition conditions (acid reaction, low content of phosphorous, calcium and magnesium) and to the passive absorption of polluting agents from air and soil, which are noxious to vegetal tissues. As a result, there is a slower growing process; vegetation withers sooner, fructification disappears thus leading to a production decrease [4].

The paper intends to approach this pollution aspect, respectively the contamination and dynamics of heavy metals in the vegetable matter from an industrial area. The research was conducted in the area of Zlatna, where heavy metals (Pb, Cd, Cu, Zn) are very active polluting agents, which in time have degraded agricultural and forest ecosystems, as a result of copper metallurgy from the ironworks of Ampelum Zlatna [5].

2. Experimental Part

Samples were gathered from four different areas and in several stages, taking into account the maturation degree of the studied plants, as follows:

Areas under study:

TA1 – Pătrânjeni, la 1 Km away from the polluting source, South, downstream of Ampoi river, air currents V→E (Calea Motilor Street);

TA2 - Valea Morilor (V. Morilor Street, 19), 1,5 Km away from the source, North, between two hills on the Valea Morilor river (affluent of Ampoi), favouring currents S →N;

TA3 – Stadionului Street (16), 2 km away from the source, upstream towards West, favouring iar currents E →V(obs. Samples were gathered from the confluence of rivers Valea Morilor and Ampoi);

TA4 –Tudor Vladimirescu Street (the Morarus), 500 m away from the source, favouring currents S→E

2.1. Method and equipment

In order to obtain exact results, comparable to those of the specialty literature, in determining metal cations from soil, water and vegetable matter samples, we aimed at studying and applying modern methods of analysis[6]. We took comparative measurements through the three methods: flame atomic absorption spectrophotometry, graphite furnace atomic absorption spectrophotometry[7] and accumulation-dissolution methods [8].

Vegetable Matter Processing in View of Determining Heavy Metals

Vegetable Matter Preparation in view of Mineralization

Analysed plants were gathered during the entire vegetation period, at certain time spans (in relation to the growing periods). The sample size was of approximately 500 g fresh material.

The material was ground and dried at the room temperature in appropriate conditions so that it should not become contaminated with other substances.

The sample was subsequently ground and passed through a sieve with a 1 mm whole dimension and stored in sealed and labelled plastic boxes till the moment of analysis (the same as with the soil).

Vegetable Matter Mineralization

Through this method we determine the Pb, Cd, Zn or Cu content from leaves, fruits (grapes, apples, etc), cereals (corn beans, wheat beans) etc.

Method principle: in order to determine the Pb, Cd, Zn or Cu content, the biological material underwent wet mineralization or calcination. In the obtained solution, heavy metals were dosed through atomic absorption spectrophotometry or through other methods [8].

a) Wet mineralization was performed using a mixture of nitric acid, perchloric acid and sulphuric acid.

The organic substance from the vegetable matter was oxidised at high temperature using a mixture of HNO₃:HClO₄: H₂SO₄ in proportion of 2:1:0,2 (volume)

We weighed 1 g of fine vegetable material ground in a pestle mortar to which, in a Berzelius glass, we added 5 ml of oxidating mixture: HNO₃:HClO₄:H₂SO₄ of proportion 2:1:0,2.

The sample was left to rest for 24 hours after which it was evaporated dry, on a sand bath.

The samples were cooled and mixed with 5ml HCl conc., to a dry evaporation (yellowish). The samples were placed in a 50 ml rated balloon flask with a solution of HCl 0,5 N (or with distilled water where we added 2 ml HCl conc.)

The elements from the obtained extract were dosed using the atomic absorption spectrophotometer.

b) Dry Mineralization (through calcination)

The organic substance from the vegetable material is oxidised by the air oxygen in calcination in an electric furnace at a constant temperature of 450⁰C. The obtained residue formed of oxides and carbonates becomes soluble with 2 ml HCl 6,5 N, is passed to a 50 ml rated balloon flask, the blue stripe is filtered through filter paper and the balloon flask is brought to a sign with distilled water. The elements from the obtained extract were dosed using atomic absorption spectrophotometry.

Mineralization through calcination has the advantage that it eliminates sample contamination by adding reagents. This method is recommended for the biological material that contains a high quantity of organic matter [9].

Observation

As, for comparison, we also used the graphite furnace atomic absorption spectrophotometric method, (GFAAS) samples were subsequently solubilized with HNO₃ 0,5 M in order to avoid heavy metal losses as metal chlorides in the graphite furnace [10], when HCl is used for solubilization.

The obtained extract is aspirated in AAS flame using a particular lamp for the dosed element. A blank sample (in order to verify the reagents' pureness) and a set of standards are prepared for each element under the same conditions.

3. Results and discussions

Results were registered on a period of 4 months encompassing all development phases of the studied plants. The analytical data on which we worked for Cu in vegetable matter are: spectral line $\lambda = 324, 7$; Φ (slit) = 0, 5; strength of current = 10mA; flame type air-acetylene; device sensitivity 0, 07 ppm.

The obtained results were compared to the maximum allowed limits, which must not exceed 10 ppm for vegetation.

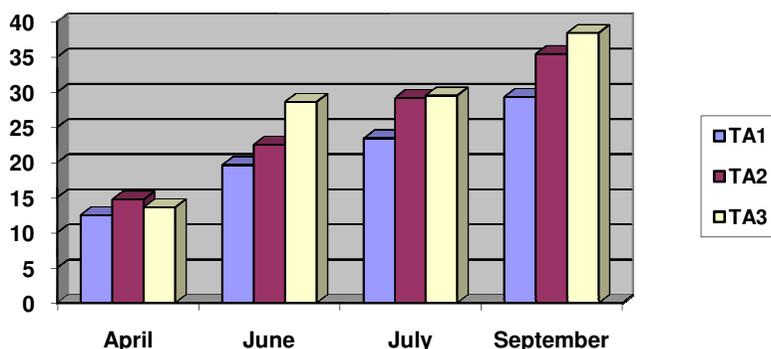


Fig.1. The dynamics of Cu²⁺ ion accumulation in spring onion (bulbs)

The evolution of cation content highlighted an increasing assimilation of the element studied, spaced out in different phases of vegetation, with extremely high values for the samples taken from the land TA2 , 1,5 km from the source, under the influence of currents S →N . High values can also be noted in the samples taken from land TA3, upstream towards West, air currents E →V, 2 km away from the source of pollution,.

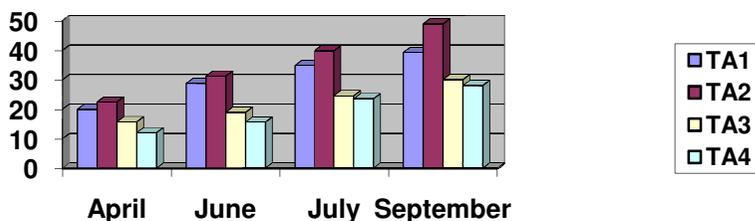


Fig. 2. The dynamics of Cu²⁺ accumulation in spring onion leaves

Green plants or their organs in photosynthetic activity accumulate larger quantities of heavy metals, which are better retained in leaves.

Besides the different accumulation in the plant's bulb or leaves, one can also notice an accumulation difference influenced by the soil of the agricultural land from where the samples were taken. The samples gathered from land TA2 registered the highest values.

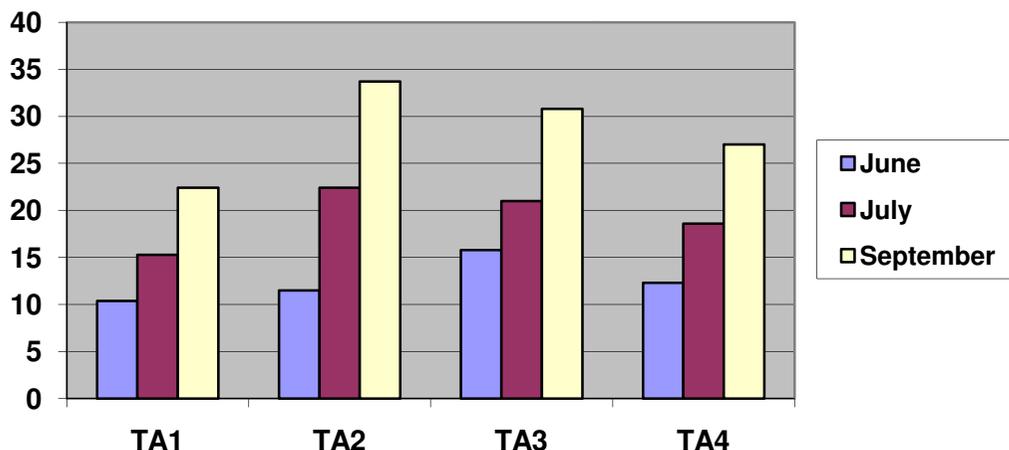


Fig. 3. The evolution of Cu²⁺ accumulation in the potatoes gathered from the four studied agricultural lands.

With potatoes, the accumulation dynamics was studied during a period of three months (June, July and September); the highest accumulation was registered in the first period of vegetation. Comparing the four agricultural lands, one can notice that the samples taken from the agricultural land TA2 registered the highest values for the copper.

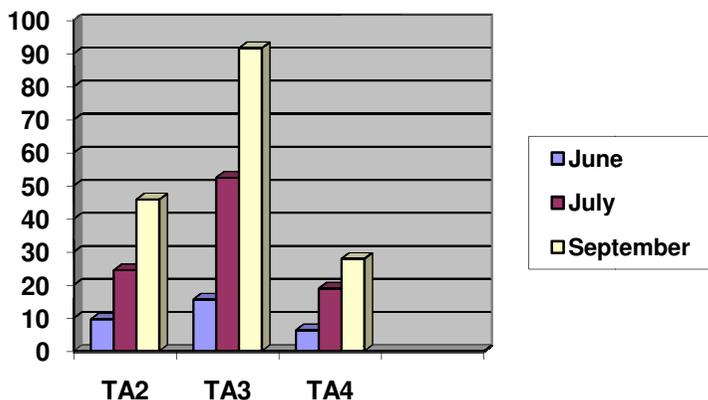


Fig. 4. The evolution of Cu²⁺ accumulation in the cabbage grown on three of the four agricultural lands studied

Of all studied vegetable matters, cabbage has the highest heavy metal accumulation potential. As it results from the presented diagrams, the most favourable area for copper accumulation is the agricultural land

TA3 located 2 km upstream from the source of pollution, favouring air currents E → V.

Conclusions

Compared to the MAL (maximum allowed limit), which is of 10 ppm, one can notice exceeding values, much above this limit, 4 times higher in the case of onion (bulbs), 5 times for onion leaves, 3 times for the potato and 9 times for the cabbage. The process of heavy metal accumulation in plants differs after the soil contamination level, the element's nature and the analysed vegetable species or organ; this phenomenon is intensified by excessive acidity and mobile aluminium accumulations [11].

Natural acidity activated by the effect of polluting emissions becomes phytotoxic as a result of excessive mobile aluminium solubilization, a disturbing element for the vegetation growing on these soils. Mobile aluminium is a toxic element, which limits agricultural production in all acid soils or in soils that have become acid through pollution. When soils become acid at the level of an intense acid reaction, this toxic effect of mobile Al must be removed through agrochemical processes. The mobile aluminium content from the soils under research is differentiated and put in connection to the reaction status, and thus to that of the H^+ ion activity.

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BUILDING PATIENT LOYALTY USING ONLINE TOOLS

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The aim of the paper is to present the online tools used by private healthcare organizations in order to generate patient loyalty. The research emphasizes a comparative analyze between the Romanian and other European countries private healthcare organizations referring to online tools used by these organizations on their websites to generate patient loyalty.

Keywords: healthcare marketing, patient loyalty, online tools, relationship marketing

JEL: M31, I11,

Healthcare marketing saw from a relationship marketing approach

Even if it was not easily accepted in the field of healthcare services, the importance of marketing is more and more recognized nowadays by the organizations activating in the field. Due to ethical aspects involved in the healthcare delivery process, to the special characteristics of this market, the particular profile of the consumer of healthcare services and, also, probably because of the twisted understanding of the marketing role in the life of an organization, the marketing orientation of hospitals is no older than about two decades.

The deep analyze in the field of healthcare services emphasize not only its complexity, but also its interdisciplinary feature under many aspects, and also reveals a particular field of study with many particular features, we may call it a sensible field. Its complexity is discovered by the multitude of perspectives view it can be looked from. It is a place where many fields of interest are intersecting, both economic and social.

In order to achieve their objectives, the healthcare organizations should follow and adapt to uncontrollable factors, which are building actually the macroeconomic environment of the organization¹⁶²⁸:

- demographic environment: explosive increase in population at global level, segmentation by age, educational groups;
- economic environment: income distribution, savings, debt, possibilities to obtain the required resources regarding activity performance;
- ecological environment: high toxicity, noise pollution or pollution of the environment with toxic substances;
- technological environment: acceleration of pace of technological change, the infinity of innovation possibilities, the increasing number of technological regulations etc.;
- political environment: laws and regulations regarding the organization and distribution of medical care from one country to another and
- cultural environment: beliefs, values and behavior norms.

Besides these major factors, there are also forces that can be influenced by the organization and which are part of the marketing environment: customers, competitors, suppliers and communication channels.

¹⁶²⁸ Bratucu, G. (2003) Marketing sanitar, in Florescu C., Malcomete, P., Pop, N. Al. (coord), Dictionar explicativ de marketing, Ed. Economica, 2003, pp. 432-433

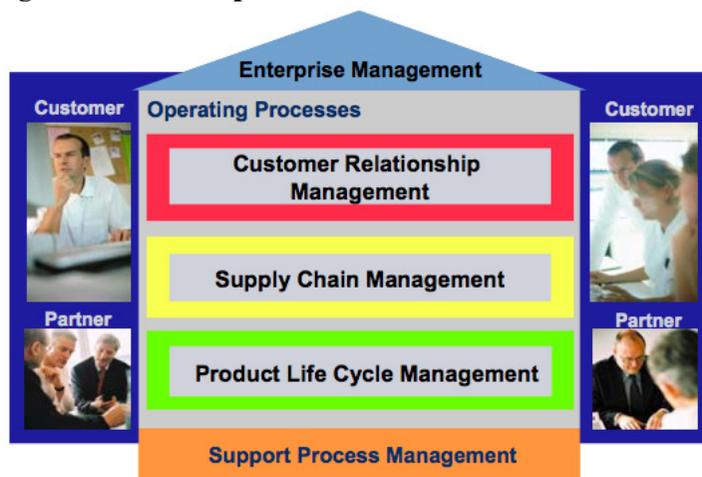
In Romania, the development of the healthcare services market after 1990 led to the growth of the marketing role into the life of healthcare organizations. The new perspective got after 1990 by Romanians leads to a new vision of the Romanian population regarding the healthcare services. Under the influence of major factors like liberalization, privatization and globalization, the healthcare services sector is involved in a process characterized by an accentuated dynamic. As results of this process, the competition has grown especially when talking about the private sector of healthcare services field, there are demographic and social changes at the population level, the technologic impact in the medical sector is huge, the new companies' perspective regarding the employees' healthcare led to a new kind of customer in this field – the organizations. (Rădulescu, 2008).

Customer relationship management is focused on the idea of situating the client in the center of the company's culture and activity (Țarcă, 2010). In such a context, the healthcare organizations are more and more concerned about finding efficient ways to keep the existing customers and to create and maintain their loyalty. This thing is possible only by developing long-term and mutual relationships between the organization and its clients, and this vision opens the perspective of approaching relationship marketing in a strategic manner.

Nowadays, a private hospital is a commercial enterprise which has to face fierce competition and in order to operate successfully on the market, its products and services should be perceived as a solution for the patient's problems and in return he is willing to pay for it. In general, we consider that a University Medical Center should be also an institute for research and development and should include training and specialization programs for resident doctors.

All the business operations are part of a life cycle which is made of several phases that are forming a process by repeating themselves. (Figure 1 – Customer Relationship Management is as integrated part of the CRM). The process of Customer Relationship Management consists of the following sub-processes: understanding the customer, selling to the customer and taking care of the customer, in short: Understand, Sell, Care. CRM is not about the disease process in the foreground, but especially about the well-being, the state of health of the patient, his/her relations with relatives and friends. This process will contribute more and more to the efficiency of the organisation. Factors as: customer service, a better productivity, cost savings, reduced medical errors, improved health outcomes are the main objectives of the private sector. These major objectors are better attained valuing CRM approach.

Figure 1. The organization of the processes in the Siemens Medical Solutions enterprise



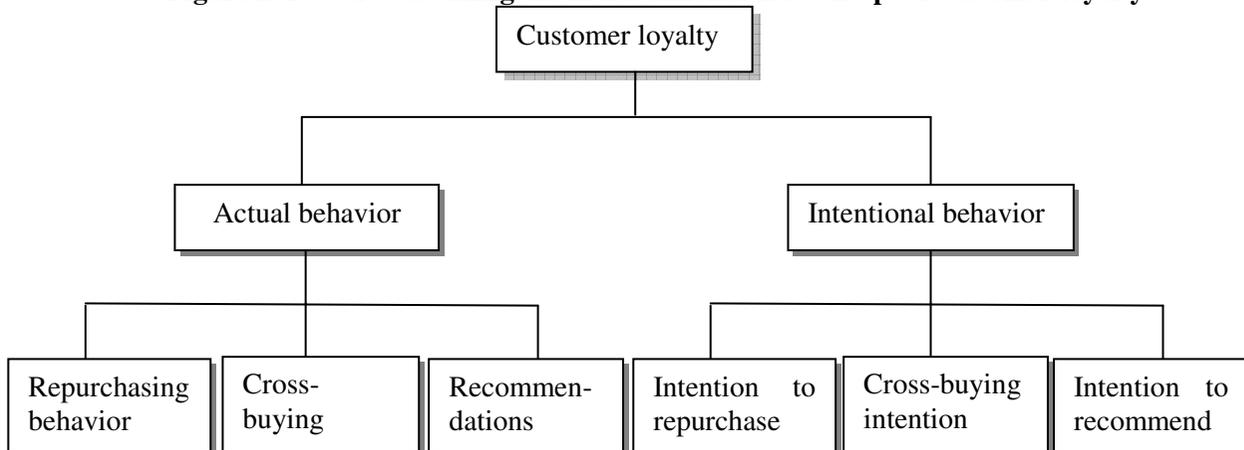
Source: Walter, J., Mang, H. – Medical Process Management, Siemens Healthcare Sector, Universität Erlangen-Nürnberg, 2008, p. 23

Customer satisfaction is a decisive factor that generates customer loyalty (Bruhn, 2001).

Customer loyalty is the sum of measures took by a company in order to influence in a positive way the behavioral intentions of its actual and potential customers regarding company's offer, aiming to create, establish and develop long-time relations with these customers (Diller, 1996, Meyer/Oeverman, 1998, Bruhn, 2001).

Also, it is generally recognized that the concept of customer loyalty implies two dimensions: the dimension of the actual behavior and the dimension of the intentional behavior (Meyer/Oevermann, 1995, Bruhn 2001). From this point of view, the concept of customer loyalty is a multi-dimensional one based on the variables presented in Figure 2 as factors sustaining this concept (Homburg/Bruhn, 1999, Bruhn, 2001).

Figure 2. Factors sustaining the multi-dimensional concept of customer loyalty



Source: Bruhn, M., *Orientarea spre clienți – temelia afacerii de succes*, Editura Economică, București, 2001, p. 109

Based on holism theory (Gk. Holas = whole), which says that the whole always has priority more than the total sum of individual parts, holistic marketing requires development and implementation of marketing programs, processes and measures with a wide spectrum and correlated with each other (Pop/Fotea/Mihoc/Pop 2009). The four pillars of the holistic marketing approach: relationship marketing, integrated marketing, omnipresent within the organization and socially responsible marketing (Kotler/Koller 2008) are reflected in a particular and very profound way in the healthcare marketing field.

Romanian private healthcare services – a statistic preview

According to the data revealed in a study made public by the Mednet Marketing Research Center, the market referring to the private healthcare services had a growth of 56% percents comparatively to the year 2008, targeting a value of 104 million Euros. Also, the same study revealed that the most important criteria used in the process of choosing a private medical clinic are:

- medical equipment;
- waiting time to get a consultation;
- availability of consultation;
- reputation of the medical staff;
- cost of the services;
- general appearance of the buildings and cabinets;
- reputation of the clinic.

Another study made public in 2010 by Companiesandmarkets.com says that the market of private healthcare services in Romania is characterized as with one of the faster development in the Center and Eastern European countries.

A quick analyze of the data included in Romania's statistical yearbook 2008 referring to the sanitary units shows that the number of the private sanitary units are increasing year by year starting with the year 2000 (Table 1).

Table 1: Number of sanitary units having private majority

<i>TYPE OF SANITARY UNITS</i>	2000	2001	2002	2003	2004	2005	2006	2007
<i>Hospitals</i>	3	4	5	5	9	11	17	22
<i>Hospital and specialized ambulatories</i>	-	-	-	-	-	4	5	9
<i>Polyclinics</i>	163	140	161	168	204	219	232	241
<i>Dispensaries</i>	-	-	-	-	-	1	1	2
<i>Health care centers</i>	-	-	-	-	-	1	1	1
<i>Balneary sanatoria</i>	-	-	-	-	-	1	1	1
<i>Diagnosis and curative centers</i>	-	-	-	-	-	15	19	20
<i>Health specialized centers</i>	46	60	87	113	112	131	115	130
<i>General practitioner offices</i>	4698	5220	5758	2483	1021	833	938	992
<i>Family doctors offices</i>	-	-	-	-	1875	2007	2065	2524
<i>Medical civil societies</i>						45	41	50
<i>Health specialized offices</i>	-	-	-	3962	4313	4577	5501	6937
<i>Total of the units mentioned above</i>	4910	5424	6011	6731	7534	7845	8936	10929

Source: Statistical yearbook of Romania, 2008

We excluded from this table the dentist offices, pharmacies and pharmaceutical point and some other units related with these and considered as not being relevant for our study.

As shown in the table above, the number of hospitals having private majority doubled in 2007 (22 hospitals) comparing with 2005 (11 hospitals). Also, for the type of units mentioned in this statistic, the number of total units increased in 2007 with about 39% comparing with the year 2005, and with about 22% comparing with the year 2006.

Research Methodology

Based on observation, in this research we investigated the websites of 10 private hospitals in Romania and 10 private hospitals located in other European countries, in order to underline the online tools the private hospitals use to generate patient loyalty. Also, we were interested to compare, from this point of view, the situation regarding the Romanian private hospitals' websites and those from the other countries. Individual private hospitals having active websites as of April 2010 were considered as the population for the study.

The framework of the research was designed based on the classification of customer loyalty tools in three categories: loyalty tools focused on interaction, loyalty tools focused on satisfaction and loyalty tools aiming to prevent customer migration (Homburg/Bruhn 1999, Bruhn 2001). We identified 22 tools used on hospitals' websites aiming to generate patients' loyalty.

The results of the study may be concluded as follows:

- in Romania there are no private university hospitals;
- the possibility of collecting data is mainly through recommendations made by family doctors, Customer Care Service (appointments, complaints), feedback (online form);
- in general, only few companies have a forum where customers can discuss their personal experiences; negative mouth-to-mouth propaganda;
- the price is an essential factor in taking a decision by Romanian customers. The price information is present on 8 of the 10 Romanian websites we analyzed, but only on one website of the 10 non-Romanian hospitals' websites;
- the foreign companies do not have a specialized department of Customer Complaint Management or, at least, it is not mentioned on their websites;
- only four of all analysed private companies have a research department and organize medical conferences;
- online appointment is made in the most of Romanian companies (but not in the foreign ones);
- the most used online loyalty tools focused on interaction are: developing products in collaboration with other institutions (networking), generating customers database using the webpage, and the presence on the website of the telephone numbers for special services;
- referring to the online loyalty tools focused on satisfaction, the most used are the section presenting advices and medical news, and the photos presenting the buildings and the cabinets. Most of the Romanian hospitals offer the possibility to make online appointments, but only one of the foreign hospitals' website we analyzed offers this possibility;
- Romanian hospitals use more online loyalty tools aiming to prevent customer migration than the foreign hospitals. Anyway, the most used tools in this category are those referring to the information about the medical equipments used and the information describing doctors' reputation;
- comparing the Romanian private hospitals with foreign ones it can be observed that later ones are oriented more to a wider range of patients, including the ones who are looking for methods of relaxation and maintenance of the state of health;
- in Romania, private hospitals are fulfilling the functions of the public ones offering sometimes high tech medical devices in order to perform accurate diagnosis, which because of the limited allocated budget by the state to the public sector (Romanian hospitals), these would not afford to acquire them;

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DOES POSITIONING HAVE A PLACE IN THE MINDS OF OUR STUDENTS?

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Positioning is one of the most powerful marketing concepts. At the beginning, the meaning of positioning was rather limited, focusing on the concept of reputation. Then it became "the place a brand occupies in the mind of its target audience". Under this meaning, many companies have implemented the concept of positioning as a part of their everyday marketing activities. Nowadays, positioning is being used as a tool for explaining how consumers relate to foreign countries. The concept of positioning is simply too important to be ignored, but does it have a place in our students minds? This paper aims to determine whether we have an evolution or an involution in this matter.

Keywords: marketing, positioning, marketing research.

Cod JEL: M3

Conceptual framework

The concept of positioning is strongly linked with the process of trade. The exchange of goods and/or services between two or more merchants has taken place since the beginnings of civilization, as opposed to marketing which is considered to be a 20th century science. The explanation of this paradox is rather simple. Positioning was one of the marketing elements that had been used since the early days of trade. However, back then its meaning was rather limited, focusing on the concept of "reputation". All the merchants wanted to have a good reputation and to stand out with something: the best products, the widest range of goods, the most famous/important clients. Nevertheless, it's impossible to conclude that the ancient merchants were using the concept of positioning, as those actions were not part of a thoroughly planned and constantly implemented marketing activity.

Further on, at the beginning of the 20th century, marketing emerged as a science due to the accumulated social and economic progress generated by 19 centuries of turmoil. However, we can clearly conclude that this isn't the birthday of positioning. This concept is not typical of the first two stages in marketing's evolution, namely the orientation towards production (1900-1930) and the orientation towards sales (1930-1950). This is due to the fact that the concept of positioning cannot support a theory who's doesn't put the consumer on the first place. Therefore, the concept of positioning is typical of the orientation towards marketing (1950-1990), thus setting its birthday in the second half of the 20th century.

The word "positioning" was introduced by Jack Trout, an advertising executive, in his 1969 article published by "Industrial Marketing" and "Advertising Age". A few years later, in 1972, he teamed up with Al Ries, another advertising executive, in order to write an article called "Positioning cuts through chaos in marketplace", also published by "Advertising Age"¹⁶²⁹. This was only the beginning of their lifelong struggle aimed at establishing positioning as one of the most important concepts in marketing.

¹⁶²⁹ Enis, Ben, Cox, Keith - "Marketing classics: a selection of influential articles", Ed. Allyn and Bacon Inc., U.S.A., 1988, pages 410 & 420.

Their first struggle was about the meaning of positioning. Usually, when a new concept appears, there is more than one opinion about its content.

For instance, Alpert and Gatty considered that positioning is the differentiation of brands by studying the ways in which their consumers differ as well as how consumer perceptions of various brands differ¹⁶³⁰. Their approach is wrong because positioning is not presented as a process which unfurls in the mind of the consumer and its result is a classification of brands. Further on, Houston and Hanieski thought that positioning can be most easily described as a promotional strategy which attempts to place a brand along one or a number of dimensions relative to other brands in the same generic class. No matter what dimensions are employed, positioning is essentially a strategy used by the marketer in an attempt to find a niche for his brand¹⁶³¹. This is clearly a narrow definition concerning positioning. This concept has a strong influence on every P in the marketing mix, which means that it's much more than just a promotional strategy. Positioning is a key element not only when looking for a market niche, but especially when confronted with strong competition. From the management standpoint, Biggadike believed that positioning is a decision to serve a particular segment with a program tailored to those specific customer needs¹⁶³². Unfortunately, we can identify here a confusion between targeting and positioning.

Nevertheless, after a few decades of debate the Ries & Trout definition of positioning was unanimously accepted. The story goes like this: a company identifies a set of different needs in the marketplace, targets those needs that it can satisfy in a superior way, and then selects and communicates a position which is relevant, effective and consistent with the company's offering and image. Positioning is the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market. The result of positioning is the successful creation of a "customer-focused value proposition", a cogent reason why the target market should consider buying the product¹⁶³³. If a company does a poor job of positioning, the unavoidable result will be a generalized confusion. On the other hand, if a company does an excellent job of positioning, then the rest of its marketing planning should come along smoothly.

Their second struggle was about implementing the concept of positioning in the daily business practices of every organization. This is yet to be realized. Nowadays, there are still organizations which go straight from identifying the need to marketing mix, without considering and choosing from the number of positioning alternatives. There is also the other side of the coin. There are already many organizations which use positioning as a weapon to undermine the competition and hypnotize the consumers. All the successes and failures that were recorded on the business stage can be easily explained using the positioning paradigm. Even the fact that many authors have written books about positioning using plenty of practical examples is, in my opinion, enough of a reason to be optimistic about the future of positioning. There is still work to be done in order to clarify the role and ease the implementation of positioning in every organization. There is also a need for improved marketing research methodology for positioning studies. A good progress in this area has been made by Marco Vriens and Frenkel Ter Hofstede¹⁶³⁴.

Nowadays, positioning is being used as a tool for explaining how consumers relate to foreign countries. Before even considering this, we must ask ourselves: is really positioning a concept that can be applied

¹⁶³⁰ Alpert, Lewis, Gatty, Ronald – "Product positioning by behavioral life-styles", published in "Journal of Marketing", U.S.A., 1969, page 65.

¹⁶³¹ Houston, Franklin S., Hanieski, John F. - "Pooled Marketing and Positioning", published in "Journal of Advertising", U.S.A., 1976, page 38.

¹⁶³² Biggadike, Ralph E. - "The contributions of Marketing to Strategic Management", published in "The Academy of Management Review", U.S.A., 1981, page 624.

¹⁶³³ Kotler, Philip, Keller, Kevin – "Marketing management", Pearson Prentice Hall, Upper Saddle River, New Jersey, 2006, page 310.

¹⁶³⁴ Vriens, Marco, Ter Hofstede, Frenkel - „Linking attributes, benefits, and consumer values", published in "Marketing Research", U.S.A., 2000, page 4-10.

to nations? Not only that the answer is yes, but it's very important for any country to make a coordinated effort regarding its position in the public's mind. The international image of a country is the central element which determines the position it occupies in the mind of the public. A country acquires a position in the mind of a person very much like any other product does. During its life, a person uses a multitude of sources in order to accumulate information about a country. Upon interpreting this information flow, a person builds and constantly updates the image of that country. This position is very important, as it will determine the person's future attitude towards that country and everything related to it¹⁶³⁵.

My research

We undertake this research for the second year in a row. One could ask which is the force that drive us to start this research series? The answer is quite simple: it is our opinion that the Marketing Faculty's syllabus should incorporate positioning and give it a place worthy of its importance. Unfortunately, at the moment positioning is barely mentioned throughout the core marketing courses. Our goal is to measure the results of this situation and to analyze them from a multiannual perspective. In order to guarantee the validity of our findings, we chose a full research. Thus, all the 3rd year students were asked to fill in a questionnaire concerning the positioning concept.

First of all, we wanted to see whether our students know the meaning of positioning or not. We're not doing that by accident. Previous research have shown a lack of knowledge on this matter. Besides that, if all the students would know what positioning means, there would be no need for further study regarding this concept. Thus, we discovered that only 23% of the students don't know the meaning of positioning. We believe this result to be encouraging, having in mind that an impressive 77% are familiar with the concept. We are further encouraged by the slight improvement of the results, when compared with the 2009 percentages. Still, the results show the need for an in depth study regarding positioning.

Second of all, we wanted to see whether our students know how to measure positioning or not. If a student knows what positioning means and how to measure it, there is no need to further study this concept. The results are surprising, to say the least. Thus, we discovered that 83% of the students are unaware of the fact that we can do this by using a positioning map. Is it possible for someone to know the meaning of a concept, without knowing how to measure it? We believe this is possible only when students receive less than the minimum amount of information about a concept. This paradox will be eliminated when students will undertake a thorough study concerning positioning. An additional concern is that the results are poorer than the 2009 percentages.

Third of all, we wanted to see whether the students know which is the positioning's place in the strategic marketing planning process or not. If a student knows what a concept means, how to measure it and where to insert it in the overall picture, there is no need to further study that concept. Unfortunately, the results are disastrous. Only 16% of the students know the correct answer to this question. Equally disastrous is the fact that the results are poorer than the 2009 percentages. This situation is a more than enough reason to accept the need for a distinct place for positioning in the marketing faculty's syllabus.

Last but not least, we wanted to see whether the students themselves perceive the need to further study the concept of positioning or not. When students receive less than the minimum amount of information about a concept, most of them become aware of their lack of knowledge. Thus, we discovered that only 5% of the students think they don't need further training on this subject. 44% of the students want to know more about positioning, by making it a chapter in the marketing introductory course. The rest of 51% believe that the presence of a "Positioning" course in the marketing faculty's syllabus is highly

¹⁶³⁵ Popescu, Andrei - "Re-positioning Russia towards the Eastern European countries", published in "Proceedings of the 6th International Interuniversity Scientific Conference: Russia and modern world, problems of political development", Russia, 2010, page 119.

desirable. We believe that these percentages speak for themselves. More than half of the students are aware of their lack of knowledge and are seeking additional training concerning positioning.

Based on this research, we conclude that students need to further study the concept of positioning. It is our belief that this need should be addressed sooner rather than later in order to fulfill our main objective of delivering skilled practitioners.

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LE CADRE LÉGISLATIF DE L'AUDIOVISUEL EN ROUMANIE ET DANS L'UNION EUROPÉENNE

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Romania's adherence to the European Union implied the previous and entire acceptance of the Community acquis in force on 31st of December 1999. Our country didn't request any period of transition or of derogation in this meaning, being among the first states from East Europe that regulated the audio-visual department, after the occidental model. In order to harmonize the Romanian legislation with the European standards, The National Council of the Audio-Visual Department adopted and transposed a whole range of acts and decisions that we will try to synthesize in our paper.

Mots-clés: acquis communautaire, réglementations sur l'audiovisuel, loi de la publicité, le Conseil National de l'Audiovisuel, transpositions des directives

Cod JEL: M3

L'Union Européenne a démontré pas mal de fois que la communication joue un rôle essentiel dans sa construction, bien que l'on revienne presque toujours au problème de vivre ensemble sans appartenir à la même culture. Cependant, on considère que cette culture représente le reflet fidèle de la personnalité de chaque individu, qui naît de l'enculturation, mais aussi de « l'acculturation », c'est-à-dire du contact avec les autres cultures. Malgré sa difficulté, la communication entre les représentants des cultures diverses aboutit souvent à l'émergence d'une réalité commune, la seule à pouvoir garantir la cohésion des sociétés pluriculturelles. Pareillement à ces sociétés, l'Union Européenne doit une certaine cohésion à ses habitants qui partagent une réalité commune par l'intermédiaire de la communication¹⁶³⁶.

Au niveau institutionnel, le développement de la politique de communication de l'Union, c'est une tâche de la Commission Européenne dont l'organe spécialisé, « La Direction générale audiovisuel, information, communication, culture » (DG X), met l'accent sur la distinction entre l'information et la communication. On a constaté quand même que la politique informative ne réussit pas à convaincre les Européens que les actions entreprises bénéficient à l'ensemble de la Communauté. Cet échec explique les raisons pour lesquelles l'information européenne a été confiée aux médias et la Commission a dû développer une communication audiovisuelle.

Les instruments de la politique audiovisuelle sont les documents adoptés en vertu de l'article 151(4) du *Traité instituant la Communauté Européenne* (1992). Ces instruments visent particulièrement les aspects culturels, afin de respecter et de promouvoir la diversité des cultures européennes.

Le poids de l'audiovisuel devient d'autant plus fort qu'il correspond à la fois à l'emploi d'une « stratégie d'image » et à la stratégie économique de la Communauté. Le secteur de l'audiovisuel combine, donc, de manière propre et unitaire, les aspects culturels, sociaux et économiques. Par conséquent, le point de départ de toute analyse de la politique générale applicable à l'audiovisuel doit être la reconnaissance du

¹⁶³⁶ Dacheux, É. – *Les stratégies de communication persuasive dans l'Union Européenne*, L'Harmattan, Paris, 1994, p. 72-73.

rôle important joué par ce secteur dans notre société, mais aussi le besoin d'assurer un équilibre entre le marché libre et la protection de l'intérêt général.

Le développement de la politique audiovisuelle de l'Union Européenne a deux objectifs fondamentaux¹⁶³⁷, qui sont poursuivis en prenant en considération la dimension culturelle du secteur audiovisuel:

- établir et assurer l'activité d'un espace européen authentique pour les services audiovisuels;
- consolider l'industrie des programmes européens.

L'action de l'Union Européenne dans le secteur audiovisuel repose pour l'essentiel sur deux piliers: un pilier législatif visant à organiser la circulation des émissions de télévision dans l'espace européen (**La Directive «Télévision sans Frontières»**) et un pilier financier consacré au soutien du secteur audiovisuel et conçu pour faciliter la circulation des créations européennes (**Le programme MEDIA**¹⁶³⁸) – deux modes d'action, normatif et incitatif, visant à défendre des créations cinématographique et audiovisuelle européennes ainsi que la promotion de la circulation de ces œuvres au sein de l'Union comme à l'extérieur. L'Union a su donc exercer une influence positive, aussi bien au niveau de l'encadrement que du développement. Instrument de référence en matière de réglementation de la télévision en Europe pendant plus de quinze ans, la *Directive TSF* a contribué à la diversité et à la croissance de ce secteur, en réconciliant à la fois objectifs culturels et économiques. Cependant, l'ère du numérique et de la convergence, mais aussi l'apparition des nouveaux services de médias audiovisuels ont imposé la redéfinition du cadre réglementaire européen. La nouvelle directive proposée, **«Services de médias audiovisuels»**, traduit *la nécessité d'étendre le champ d'application de la réglementation en vigueur à l'ensemble des services de contenu audiovisuel, indépendamment de la technologie ou de la plateforme de distribution utilisée*¹⁶³⁹.

Pour adhérer à l'Union Européenne, la Roumanie a entièrement accepté l'acquis communautaire en vigueur le 31 décembre 1999 et n'a sollicité aucune période de transition ou de dérogation, étant à même de mettre intégralement en pratique, à la date de son adhésion, cet acquis. En fait, la Roumanie a été parmi les premiers pays de l'Europe de l'Est à se doter d'une réglementation de l'audiovisuel et d'un organe de régulation modernes, selon le modèle occidental¹⁶⁴⁰.

En vue d'harmoniser la législation roumaine sur les règlements et les normes de l'Union Européenne, le Conseil National de l'Audiovisuel (CNA) a adopté et transposé toute une série d'actes et de décisions. Ce conseil représente l'autorité publique autonome et le garant de l'intérêt public dans le domaine de la communication audiovisuelle.

Dans le cadre institué par la Loi sur l'audiovisuel, le CNA assure *le respect de l'expression pluraliste d'idées et d'opinions dans les programmes transmis par les radiodiffuseurs situés sous la juridiction roumaine; le pluralisme des sources d'information et la libre concurrence dans le domaine de l'audiovisuel; un rapport d'équilibre entre les services nationaux de radiodiffusion et les services locaux, régionaux ou thématiques; la protection des mineurs; la défense de la dignité humaine; la*

¹⁶³⁷ Pascal, I., Vlad, M. – *Cultura și politica în domeniul audiovizualului*, Centrul de Resurse Juridice, București, 2004, p.13-14.

¹⁶³⁸ Les programmes **MEDIA I** (1990-1995) et **II** (1996-2000), malgré les moyens d'intervention relativement modestes, ont eu un bilan positif. **La nouvelle version de MEDIA** est structurée autour de **MEDIA Plus** et **MEDIA Formation** (2001-2005, prolongée jusqu'au 31 décembre 2006). **MEDIA Plus** soutient financièrement des actions de développement, de distribution et de promotion, tandis que **MEDIA Formation** vise au renforcement de la formation dans les domaines de l'écriture, de la gestion financière et commerciale, et des nouvelles technologies. **MEDIA 2007**, un programme unique regroupant le volet concernant le développement, la distribution et la promotion, et celui relatif à la formation, a débuté en 2007 et finira en 2013; http://www.robert-schuman.eu/question_europe.php?num=qe-48#ancre_25.

¹⁶³⁹ http://www.robert-schuman.eu/question_europe.php?num=qe-48#ancre_25.

¹⁶⁴⁰ [http://www.coe.int/t/dg4/cultureheritage/Source/Policies/Reviews/CC-CULT\(99\)33A_FR.pdf](http://www.coe.int/t/dg4/cultureheritage/Source/Policies/Reviews/CC-CULT(99)33A_FR.pdf).

*protection de la culture et de la langue roumaines, mais aussi de la culture et des langues des minorités nationales; la transparence des moyens de communication en masse dans le secteur audiovisuel*¹⁶⁴¹.

Dans ses rapports, la Commission Européenne mentionne les progrès enregistrés par la Roumanie, au cours des années, concernant le **Chapitre 20: «Culture et politiques audiovisuelles»**.

Quant aux politiques audiovisuelles, la Convention Européenne sur la Télévision Transfrontalière a été ratifiée et son Protocole d'amendement a été signé en février 2003. L'autorité de réglementation dans ce domaine, le CNA, a continué à adopter des décisions afin de mettre en pratique la Loi sur l'audiovisuel. Suite à l'adoption de cette loi en juillet 2002, la législation roumaine est en grande partie alignée sur l'acquis. Les amendements d'ordre techniques qui devraient être apportés à la Loi sur l'audiovisuel visent particulièrement la juridiction et les restrictions de retransmission.

La Roumanie a également continué à renforcer ses capacités administratives dans le domaine de l'audiovisuel pour assurer l'implémentation prévisible, transparente et efficiente du cadre législatif relatif aux politiques audiovisuelles.

La ratification de la Convention Européenne sur la Télévision Transfrontalière et l'adoption d'un nombre considérable de décisions en vertu de la Loi sur l'audiovisuel représentent des progrès importants enregistrés par la Roumanie dans le domaine de l'audiovisuel et mentionnés dans les différents rapports de pays.

La continuation de la transposition de la *Directive TSF* a été possible grâce aux décisions adoptées par le CNA, décisions concernant la liberté de retransmission, la publicité et le télé-achat, le droit à la réponse, la promotion des créations audiovisuelles et la délivrance de la licence audiovisuelle.

Suite à l'adoption de la Loi no. 504/2002 sur l'audiovisuel, à la promulgation par le Conseil de l'Europe de la Loi concernant la ratification de la Convention Européenne sur la Télévision Transfrontalière et au Protocole portant amendement à cette convention, la Roumanie accomplit les conditions prévues pour pouvoir participer au **Programme Media Plus** (2001-2005) – programme d'encouragement au développement, à la distribution et à la promotion des œuvres européennes.

Ce programme vise à améliorer la compétitivité dans l'industrie audiovisuelle européenne par une série de mesures se rapportant à la formation professionnelle, le développement de projets de production, la distribution et la promotion des productions cinématographiques et des programmes audio-visuels¹⁶⁴².

La position du CNA en tant qu'autorité indépendante a été renforcée aussi par le déroulement du **Projet PHARE RO 0107.02** (2002-2004): **«L'adoption et l'implémentation de l'acquis dans le domaine de l'audiovisuel – l'amélioration de l'élaboration des politiques et le développement des capacités administratives»**¹⁶⁴³, dont les objectifs concernent: l'élaboration et l'implémentation d'une politique de l'audiovisuel équilibrée et proportionnée afin d'assurer la libre compétition et le pluralisme; l'augmentation de la prise de conscience générale pour ce qui est de l'adoption et l'implémentation de l'acquis; une capacité administrative renforcée du CNA dans l'élaboration des projets législatifs et dans l'implémentation des politiques conformément au cadre législatif harmonisé de l'audiovisuel; la facilitation, pour les membres du Parlement, du gouvernement et pour les professionnels, de connaître et comprendre le contenu de l'acquis et des standards, des lignes directrices et des principes européens dans le domaine de l'audiovisuel; un plus grand nombre de connaissances au sein du grand public relativement aux conséquences de l'harmonisation de l'audiovisuel roumain sur les standards européens.

Les Rapports de contrôle et les Rapports d'évaluation confirment le fait que tous ces objectifs ont été atteints.

Vu le déroulement positif du projet Phare RO 0107.02, cofinancé par les subventions nationales, qui s'est déroulé de 2002 à 2004, et qui a notamment visé à apporter un soutien technique et matériel, le CNA a pu mener un second projet **Phare, PHARE 2004/016-772.03.15.01**, de 2007 à 2008, intégralement financé, cette fois-ci, par les fonds européens. Ce deuxième projet se proposait

¹⁶⁴¹ http://www.cna.ro/IMG/pdf/raport_cna_2004.pdf.

¹⁶⁴² <http://europa.eu/scadplus/leg/fr/lvb/l24224.htm>.

¹⁶⁴³ http://www.cna.ro/IMG/pdf/primul_pr_phare.pdf.

d'approfondir et d'élargir les compétences dans le secteur roumain de l'audiovisuel. L'objectif central était d'enrichir l'expérience et les connaissances des membres du CNA et du personnel spécialisé par l'acquis communautaire du secteur audiovisuel. Le programme englobait une analyse du marché de l'audiovisuel en Roumanie sous l'angle de quatre études spécifiques: le comportement, les habitudes et la satisfaction des auditeurs et téléspectateurs, l'influence de la télévision sur les enfants, l'impact de la publicité sur les enfants et l'impact des médias sur le comportement électoral du public. Les stages de formation continue proposés au personnel du CNA étaient consacrés aux thèmes de la protection des mineurs, du respect de la dignité humaine, de l'intérêt général, du pluralisme des médias et de la qualité de l'information.

Parallèlement, on envisageait des stages d'initiation informatiques et des cours d'anglais. Le programme comportait des voyages d'étude auprès des autorités de régulation d'autres Etats européens, des conférences et des ateliers. Au cours du projet, quatre bulletins d'information consacrés aux derniers développements internationaux dans le secteur de l'audiovisuel ont été publiés. A la fin du programme il y a eu une campagne médiatique pour la protection des mineurs dans le domaine de l'audiovisuel¹⁶⁴⁴.

On a pu constater que, entre le 15 janvier 2007 et le 14 février 2008, toutes les actions prévues dans ce projet se sont déroulées avec succès¹⁶⁴⁵.

La loi-cadre roumaine dans le domaine de l'audiovisuel a été révisée en octobre 2003. La révision a notamment permis de renforcer la position du CNA qui a porté le mandat de ses membres de 4 à 6 ans afin d'accroître son indépendance politique, mais elle a contribué aussi à clarifier les procédures de sanction et à introduire la possibilité d'actions plus nuancées et proportionnelles.

En 2004, les capacités administratives du CNA ont été accrues par une formation à la législation européenne et aux compétences techniques de contrôle.

En 2005, la Roumanie a, en grande partie, aligné sa législation sur l'acquis communautaire, en adoptant deux modifications qui restaient à apporter à la législation audiovisuelle au sujet de la compétence et de la liberté de réception. Néanmoins, le principe de non-discrimination basé sur la nationalité concernant la diffusion télévisuelle n'est pas respecté. Cela est dû à l'adoption d'une loi sur la cinématographie qui prévoit l'obligation, pour l'ensemble des organismes roumains de radiodiffusion télévisuelle, de réserver une part d'au moins 5 % du temps de diffusion aux films roumains¹⁶⁴⁶. Par conséquent, la Roumanie doit parfaire son alignement, tout en continuant à renforcer ses capacités administratives.

En décembre 2007, la Commission a présenté une révision de la Directive «Télévision sans Frontières», ayant pour principal objectif de moderniser les règles existantes de manière à tenir compte de l'évolution technologique et commerciale du secteur audiovisuel européen. La directive vise également à alléger les réglementations actuelles, surtout en matière de publicité, et distingue entre les services «linéaires» (télévision traditionnelle, Internet, téléphonie mobile) et «non linéaires» (télévision et informations à la demande)¹⁶⁴⁷.

Invités par la Commission à assouplir cette réglementation, les États membres de l'Union Européenne ont peu progressé dans l'adaptation de leur réglementation nationale. Le délai afin de finaliser la mise en place de ces changements a été établi à décembre 2009. On estime avoir alors un marché unique pour tous les services de médias audiovisuels en Europe.

La seule à pleinement avoir mis en œuvre les nouvelles dispositions européennes sur l'audiovisuel, entrées en vigueur le 19 décembre 2007, a été la Roumanie. Le 25 novembre 2008, elle a adopté un nouveau décret gouvernemental modifiant sa loi de 2002 sur l'audiovisuel dans le but d'y intégrer les dispositions de la nouvelle directive européenne. Cette réglementation offre aux producteurs et aux fournisseurs de programmes télévisés la possibilité d'avoir un accès plus facile à un financement provenant de nouvelles formes de publicité audiovisuelle, telles l'écran partagé ou le placement des

¹⁶⁴⁴ <http://www.cna.ro/PROIECTE-IN-DERULARE.html>.

¹⁶⁴⁵ Ibidem.

¹⁶⁴⁶ <http://europa.eu/scadplus/leg/fr/lvb/e20108.htm>.

¹⁶⁴⁷ <http://europa.eu/scadplus/leg/fr/lvb/l24101.htm>.

produits, autorisé dans tous les programmes, excepté les journaux télévisés, les documentaires et les émissions télévisées. L'interruption plus facile des programmes de diffusion sera possible grâce à la suppression de la règle imposant les 20 minutes entre chaque coupure publicitaire. Cette réglementation se propose de renforcer le secteur européen de la télévision et de l'audiovisuel en créant des conditions de concurrence équitables pour les services de médias audiovisuels «sans frontières»¹⁶⁴⁸.

Les possibilités d'assouplissement proposées par la directive ont été entièrement exploitées par notre pays surtout concernant le placement des produits. Au moment de la notification officielle de ces modifications, la Commission vérifiera si la directive de 2007 a été complètement respectée en Roumanie.

Dans la reprise de l'acquis, le CNA doit veiller à ce que les décisions adoptées soient conformes aux progrès enregistrés au niveau européen. Il est nécessaire de continuer le renforcement de la capacité administrative du CNA afin d'assurer une implémentation prévisible, transparente et efficace du cadre de réglementation dans le domaine de la politique audiovisuelle.

En Roumanie, les actes normatifs qui règlementent les aspects concernant la publicité en général et la communication promotionnelle par l'intermédiaire de la télévision en particulier sont: la Loi sur la publicité et la Loi sur l'audiovisuel.

La loi no. 148/2000 sur la publicité, adoptée par le Sénat de la Roumanie le 29 juin 2000 et publiée dans le Moniteur Officiel no. 359 du 2 août 2000¹⁶⁴⁹, a comme but la protection des consommateurs de biens et de services, mais aussi des producteurs, des commerçants ou des personnes qui prestent des services. Les réglementations prévues dans le texte de cette loi s'appliquent au contenu des messages publicitaires indifféremment du moyen de communication. Quant à la publicité diffusée par voie de radio et télévision, les conditions y prévues sont complétées par la Loi sur l'audiovisuel.

La loi sur la publicité comprend quatre chapitres. **Le chapitre I** contient les dispositions générales concernant la publicité radio et télévisée, les définitions des termes de spécialité, les caractéristiques de la publicité et les interdictions la concernant. **Le chapitre II** traite de la publicité trompeuse et de la publicité comparative. **Le chapitre III** comprend les dispositions spéciales concernant certains produits (produits du tabac, boissons alcooliques, substances stupéfiantes et psychotropes, armes, explosifs et médicaments). **Le chapitre IV** précise les sanctions applicables en cas du non-respect de cette loi.

La loi no. 504/2002 sur l'audiovisuel, qui transpose dans notre législation les préventions de la *Directive «Télévision sans Frontières»*, a été adoptée le 27 juin 2002, modifiée et complétée par la **Loi no. 402** du 7 octobre 2003 et publiée dans le Moniteur Officiel no. 709 du 10 octobre 2003¹⁶⁵⁰. Structurée en huit chapitres, elle définit les termes de spécialité y utilisés et la qualité de radiodiffuseur, réglemente, d'un côté, la liberté de diffusion sur le territoire de la Roumanie des programmes télévisés et radiodiffusés des radiodiffuseurs qui sont sous la juridiction des États membres de l'Union Européenne, et, de l'autre côté, le droit de toute personne de libre réception des programmes de télévision (chapitre 1). La loi règlemente aussi le fonctionnement du Conseil National de l'Audiovisuel (membres, fonctions, attributions, etc.; chapitre 2), fixe le contenu de la communication audiovisuelle (réglementations concernant la transmission de la publicité et du télé-achat par l'intermédiaire de la télévision, la publicité pour certains produits tels les cigarettes, les médicaments et les boissons alcooliques, le temps de diffusion consacré à la publicité, etc.; chapitre 3), établit le régime juridique de la propriété dans le domaine de l'audiovisuel, mais aussi le fait que la mesure d'audience et de quotas sera réalisée conformément aux standards et à l'usage internationaux par des institutions spécialisées, désignées à la suite d'une mise aux enchères (chapitre 4), vise tous les aspects relatifs aux licences et aux autorisations du secteur audiovisuel – éléments constitutifs, temps consacré, situations où le CNA ou l'Autorité Nationale de Réglementation en Communications peut retirer la licence (chapitre 5), précise les limites du droit d'exclusivité (les trois derniers chapitres). Ainsi, en vertu de l'article 83, chaque personne a le droit de recevoir des informations, par voie audio ou audiovisuelle, relatives à tout

¹⁶⁴⁸ <http://www.welcomeurope.com/default.asp?id=1300&idnews=5125&MyPays=fr>.

¹⁶⁴⁹ <http://www.anpc.ro/anpcro/index.php>.

¹⁶⁵⁰ www.cna.ro/legislatie.html.

problème ou événement d'intérêt public, les contreventions et les sanctions applicables en cas de non-respect de cette loi, respectivement des dispositions transitoires et finales. La loi no. 504/2002 a été également complétée par la **Loi no. 116 du 19 mai 2008**, publiée dans le Moniteur Officiel no. 384 du 21 mai 2008.

A partir de 2000, le CNA a adopté également une série de décisions concernant la communication de marketing par l'intermédiaire de la télévision afin d'aligner la législation interne sur la législation européenne sur l'audiovisuel:

- la **Décision no. 65 du 23 mai 2000** relative aux normes obligatoires pour la publicité, le télé-achat et la sponsorisation dans le secteur de l'audiovisuel;

- la **Décision no. 21 du 28 janvier 2003** visant la publicité et le télé-achat pour les médicaments, les traitements médicaux, les suppléments nutritifs; la **Décision no. 22 du 28 janvier 2003** traitant des règles de la publicité et du télé-achat (publicité politique, publicité pour les bureaux des avocats et des notaires, publicité pour les boissons alcooliques et les aliments); la **Décision no. 36 du 13 février 2003** quant à l'intervalle horaire de diffusion télévisée de la publicité pour les boissons alcooliques distillées; la **Décision no. 38 du 18 février 2003** visant la publicité politique et la publicité relative à l'exercice de certaines professions. Le contenu des décisions no. 21, 22, 36 et 38 a été ultérieurement compris dans la **Décision no. 123 du 30 juin 2003**¹⁶⁵¹, modifiée et complétée par la **Décision no. 17 du 5 février 2004** concernant la diffusion de la publicité et le télé-achat, mais aussi la promotion des médicaments;

- la **Décision no. 187 du 3 avril 2006**, la plus récente décision du CNA, actualisée par les Décisions no. **335/2006**, **194/2007**, **516/2007**, **762/2007**, **1105/2007** et **50/2009**¹⁶⁵² et en vigueur à partir du 3 février 2009, contenant le code de réglementation du contenu de l'audiovisuel. Le 7^e titre de cette décision, *Sponsorisation, publicité, télé-achat*, concerne la publicité pour l'alcool, les aliments, les médicaments, la publicité politique, la publicité relative à l'exercice de certaines professions, les programmes de télé-achat.

En guise de conclusion, nous pouvons affirmer que la législation roumaine est, en grande partie, alignée sur l'acquis, même s'il reste encore des ajustements à faire quant à la Loi de l'audiovisuel et qu'il faut également assurer l'alignement sur l'acquis de toutes les décisions applicables à la loi. La Roumanie doit aussi respecter certaines dispositions législatives, réglementaires et administratives prévues dans **La Directive 2010/13/UE** du Parlement Européen et du Conseil **du 10 mars 2010**, relatives à la fourniture de services de médias audiovisuels (**Directive «Services de médias audiovisuels»**)¹⁶⁵³. Au plus tard le 19 décembre 2011, puis tous les trois ans, la Commission soumet au Parlement Européen, au Conseil et au Comité économique et social européen un rapport relatif à l'application de cette directive.

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¹⁶⁵¹ <http://www.cna.ro/reglementari/decizii.html>.

¹⁶⁵² <http://www.cna.ro/Decizia-nr-nr-187-din-3-aprilie.html>.

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IMPROVING COMMUNICATION BETWEEN DOCTORS AND PATIENTS

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Communication is the key factor necessary to improve the relation between doctors and patients. The communication is the method used to transmit or collect information using different types of channels. The communication process should provide useful information for doctors and patients. In order to establish a good communication system, both parts must fulfil some obligations. The present paper presents direct communication methods and indirect methods of communication.

Keywords: communication, direct communication, indirect communication, doctors, patients

JEL codes: M 310;

Richard Weiner¹⁶⁵⁴ defines communication as “transmitting or exchanging information, signals, messages or data using different ways – verbal communication, written communication, or by telephone, radio or other channels, within a group or orientated to specific people or specific groups.” Communication is a process which involves the existence of two parts: the sender – the person who initializes the communication and the receiver - the person who receives the message. Between these two parts of the communication system we find the message, the channel, the codification, the decodification and the feedback.

The communication between doctors and patients must fulfil the following:

- doctors must establish a relationship based on trust;
- doctors must continuously provide information about the correct methods that can be accessed by the population in order to benefit from correct health care services;
- doctors must know and apply the rights and obligations provided by the status of the insured person;
- to inform the patient about the risks that the incorrect dosage of a treatment may involve;

The communication between doctors and patients has the following roles:

- exchanging of information;
- creating the bases of a relationship;
- building a relationship based on trust;
- maintaining the relationship for a long time period;

In order to establish a good communication system between doctors and patients, both parts must fulfil some obligations:

The doctor's obligations:

- the doctors must concentrate their full attention on the patients;
- confidentiality must be respected;
- permanent preoccupation with the patients;
- the doctors must treat their patients with respect;

¹⁶⁵⁴ Weiner, R., „Webster's new world dictionary of media and communications”, Editura Simon & Schuster Inc., New York, 1990, p.104.

The patient's obligations:

- the patients must establish a list of questions that they want to address to the doctors;
- when needed, the patients can assign a family member or a trustworthy person to; represent them in the discussions with the doctors;
- to keep an open dialog with the doctor;

Methods of communication

Direct communication – implies a direct dialog between two or more persons.

Types of direct communication:

1. Face to face communication occurs when the patient and the doctor are present in the same location, at the same time. This type of communication must be differentiated taking into account the different segments of patients. Taking into consideration the segmentation criteria based on the age of the patients we can identify the following:

- Children age between 3-10 years – must be considered as being the target segment to develop a good communication process. The health education must be presented as a story avoiding specialized terms and the results should be concluded with the help of a contest. For example, every child should have a table with daily hygiene rules in which he must mark with an X the respected tasks. Every week the doctors should check the accomplishment of those tasks.
- Children age between 10-14 years – the school doctor should organize and participate in open discussion in order to inform the children about the factors that causes the appearance of diseases and methods of prevention. When we talk about an epidemic, beside the explanation about the disease the doctor should display the methods of prevention of the disease in every classroom. The doctors should also initialize a contest in which to challenge the children to create prints about the disease and methods of prevention. The school doctor will select the most representative prints and will organize an exhibition in public places.
- Teenagers age between 15-19 years – the doctors should organize open discussions and project movies that explain the disease and also present the effects over the human body. When we talk about an epidemic the doctor could organize a forum of discussion on the web page of the high school, should transmit daily information about preventing the disease on the high school radio and should involve the teenagers in information campaigns about the epidemic among their young colleagues.
- Young population age between 20-35 years – the doctors should organize seminars on different themes in order to make them realize the risks of living a non-healthy life. For example, the school doctor should organize a seminary on the risks of consuming different types of drugs, alcohol and tobacco. Moreover, the doctors should create different accounts on socialization networks such as Facebook, Hi5 in order to communicate more easily with this segment of population. The doctors should additionally use e-mail communication in order to establish a meeting with the patients.
- Mature population and elderly population – the doctors should inform them about various modalities that they can use to reinforce their immune system, new methods of investigation and treatments discovered for each disease.

2. Communication by phone can be used for all types of patients and can occur when the doctor telephones the patient. This type of communication can be done in order to inform the patient about changes in the schedules. It can also appear when the doctor receives the blood results of a patient. When those indicate the appearance of a disease that requires immediate treatment or seeing a specialized doctor. In the case of communicating an incurable disease the doctor should contact a family member assigned by the patient to inform him about the disease and the proper method of informing the patient. For the segments between age 18-55, the doctor can modify the issues previously announced using the SMS service.

3. Communicating by mail can be used to inform the patients between 18-55 and can occur when the doctor announces the vaccination campaigns for babies, young children and the rest of population for

the prevention of new diseases. The doctors can send e-mails to patients in order to inform them about the opening of new medical clinics and services offered by those.

4. Communicating on an Internet forum. This type of communication can occur when the doctor creates a blog or an Internet page where the patients can address their questions. It is indicated for the doctor to have a schedule in which he will present the time and dates when he will be available for on-line communication.

Indirect communication is characterized by the possibility to send messages without a personal contact. The main forms of indirect communications are: printed media – newspapers, magazines; the broadcasting media – radio, television.

1. Communication using newspapers can be used when the doctors announce the vaccine campaigns for the patients. When a new disease appears, the newspaper can be used to inform the patients about the symptoms, effects over the human body and also about the methods of preventing it. The newspaper can even be used to inform the patients about the increasing of number of patients that have a contagious disease and the measures that must be taken. In the case of natural disasters that can influence the health status of the patients the doctors must communicate the measures that need to be taken into account.

2. Communication using specialized magazines in order to inform the patients about new discoveries in medical treatments and medical equipments.

3. Communication using radio and television as methods of sending the messages. The doctors must send messages in case of an epidemic explaining people the causes and effects of that epidemic and also the indicated medical measures that need to be taken into consideration. The doctors can participate in live transmissions on the radio or television where they can discuss current health issues.

Recommendations:

The health ministry must create a web page with the most competent specialized doctors for each medical domain. This page can be accessed by all patients from all over Romania. The site must provide a chat section and a forum where the patients can send analyses, X-rays, MRI analyses and treatments they themselves used in the process of treating a disease in order for the specialized doctors to get another confirmation about the diagnosis and the treatment. Also by using this site they must be able to obtain a medical appointment. This way, every patient will benefit from access to specialized doctors from every part of Romania.

The patients must be informed daily using the printed media and radio about the pharmacies that have the funds for compensated prescriptions.

The results of medical analyses and medical investigations must be delivered directly to the GPs (General Practitioners).

The patients must have the possibility to schedule to state clinics using the Internet site from where they can obtain the number of order.

If a person is medically insured and because of a lack of funds he/she has to pay for a medical analysis, he/she should benefit from a deduction to the sum paid for the medical insurance or the amount of money paid for that analysis must be returned to him.

Information campaigns about health issues conducted in schools should be conducted directly not by using only printed posters.

The communication campaigns using the Internet should increase the usage of Internet banners and interactive windows on the most accessed web sites.

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ASPECTS REGARDING THE DIFFICULT PROCESS OF BUILDING A ROMANIAN TOURISM BRAND

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The image we have about a country has a huge impact on how we view it as a tourist destination, a place to invest in, or a place to buy the brands we love from. In today's globalised market the battle for tourism, exports, and inward investment is extremely intense as brands have become more and more the vehicles for communicating national identity.

Keywords: brand, tourism brand, image, country image, tourism.

M31 - Marketing

1. Defining the key concepts of the paper

As an introduction, the key concepts of the paper are briefly defined.

Brand

The American Marketing Association defines the term “brand” as followed: “A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name”.

We find it necessary to mention that the Romanian theoretical concepts of “brand” and “trademark” have spawned controversy, regarding the differences and similarities between the ways they are used. Most of the times the ones responsible for this “conceptual war” are the same unspecialized translators that also marked the beginning of yet another linguistic controversy between the terms “commercial” and “publicity”¹⁶⁵⁵. Without insisting on the issue, we would like to mention that the following paper considers the two theoretical concepts as being synonyms.

Country Brand

A **nation brand** or **country brand** is believed to be a country's identity that has been proactively distilled, interpreted, internalized and projected internationally in order to gain recognition and to construct a favorable national image. A country brand strategy therefore is a plan for defining the most realistic, most competitive and most compelling strategic vision for the country.

Country branding harmonizes national policies as varied as acts and policies of government, the values and behaviors of citizenry, education, culture, sports, health, taxation, public diplomacy, the look and feel of settlements, export and investment promotion, and infrastructure development.

Image¹⁶⁵⁶

In terms of marketing, an **image** is a mental representation, on an individual or group level, as a result of perceiving and organizing information about a product, person, group, organization, political party or country.

Country Image

¹⁶⁵⁵ Sasu D V. Diferențe și similitudini între marcă și brand in The Journal of the Faculty of Economics - Economic Science Series, TOM XIII, Oradea, 2004, p.332.

¹⁶⁵⁶ Bucur-Sabo M in Florescu C, Mălcomete P, Pop N A. Marketing – Dicționar explicativ, București, Ed. Economică, 2003, p.291.

There are many definitions surrounding this concept, but reviewing them we could say that “**country image**” represents a set of beliefs and perceptions that people have about a given country. Further on, we can make the assumption that country image is constituted of history, geography, art, music, citizens, events and a diverse package of variables and auxiliary factors.

2. Assessing the situation

We are witnessing a paradox. On one hand, Romania’s tourism potential indicates that it can compete with surrounding countries; therefore it has been chosen, by the government, as a strategic orientation for Romania’s Sustainable Development Strategy¹⁶⁵⁷, where the most important measures aim for sustainable capitalization of the cultural heritage and natural resources with tourism potential and also the improvement of tourist recreation and housing infrastructure. On the other hand, foreign tourism demand for Romania as a tourist destination is recording a downfall trend (not only compared to previous years, but also compared to other neighbourly countries – Annex 1) due to a complex number of factors ever so diverse. Curiously domestic tourism demand has had a constant accession in the last 6 years

Table 1: Arrival of tourists that check in at a hotel or similar establishment¹⁶⁵⁸

	Year	2003	2004	2005	2006	2007	2008
Number of tourists (x1000)	Non-residents	1.104	1.359	1.429	1.379	1.550	1.465
	Residents	3.951	4.279	4.375	4.836	5.420	5.659

Romania’s problem regarding tourism and the attempts to identify the main weaknesses in this field are not recent issues. The relative novelty for this subject is considering the lack and need of a strong tourism brand, part of a general country brand, as one of the main causes for Romania’s tourism problems.

Building a county brand, a tourism brand or a regional brand is a difficult task, but it is not impossible. Creating a brand involves developing a brand program, which underlies the brand identity and positioning. Thus the brand’s reason for being, its vision, core values, and know-how must be clearly defined, internalized and communicated. Country branding plans should exhibit the clear, simple, differentiating propositions often built around emotional qualities expressing some kind of superiority, which can be readily symbolized both verbally and visually. Therefore, in principle the product, service, corporate or country branding are the same. However, the methods differ.

As Simon Anholt, a reputable advisor for the British government, specializing in the field of nation branding, states on numerous articles on his personal web-site¹⁶⁵⁹, one of the most critical challenges facing nation branding is finding a strategy which is believable, relevant to the consumer audience, true to reality, and the aspirations of the country. The fact that products can be de-listed or modified, re-launched and re-positioned, or replaced by improved products is yet another difficulty encountered by country branding, one that product branding does not have to face. Countries, however, do not have many of these choices and their image problems may be founded in structural handicaps that take years to fix. For example, even The European Union finds it hard to build a coherent regional brand, as Wally Olins, also known as “The Branding Guru”, President of “Saffron Brand Consultants” states his opinion during an interview for IqAds: “Europe has not been able to build something like this [meaning a

¹⁶⁵⁷ “The National Strategy for Sustainable Development of Romania - Horizon 2013-2020-2030”, The Romanian Government, Ministry of Environment and Sustainable Development, The United Nations Program for Development, The National Center for Sustainable Development, 2008, p.116 at <http://strategia.ncsd.ro/>

¹⁶⁵⁸ <https://statistici.insse.ro/shop/>

¹⁶⁵⁹ <http://www.simonanholt.com>

regional brand] yet, but it will probably succeed in time. We can find models in the past. Going as far back in time as The Austrian Empire, The Austro-Hungarian Empire or if we take a look at the Ottoman Empire, [...], we will discover that it is possible for such an entity to exist, one that reunites different cultures and tongues, joint together by identity¹⁶⁶⁰.” Although exaggerating a bit, we can agree that there are inspirational resources for brand building that date as far back as the Old Continent goes.

As regarding tourist country brand, the recipe for success is out there. Here are a few examples of countries that have a strong tourist country brand:

Top 10 Country Brand Index¹⁶⁶¹ (CBI¹⁶⁶²) by FutureBrand

1.USA; 2.Canada; 3.Australia; 4.New Zealand; 5.France; 6.Italy; 7.Japan; 8.United Kingdom; 9.Germany; 10.Spain – Romania ranks number 81 in 102 countries.

Or countries that have active country branding programs: South Africa – Alive with possibility; Spain – San Siro; India – Incredible India; Thailand – Amazing Thailand; Malaysia – Truly Asia; Iceland – Iceland naturally; Egypt – Destination Egypt; Estonia – Positively Transforming.

Building a strong brand creates equity which is „a set of characteristics that make a brand seem different and better to both consumer and businesses¹⁶⁶³”. But in order to do that, „a branding program needs all its involved participants to take on the resulting responsibilities, in the same way if we are talking about a corporation, a church, a store or a country¹⁶⁶⁴”, and it also needs to be based on concrete and tangible characteristics.

Philip Kotler says that „in order to avoid the failure trap of an undifferentiated brand, marketers need to start from the belief that anything can be differentiated¹⁶⁶⁵”. So he frames 4 differentiation strategies:

1.Product, 2. Personnel, 3. Distribution channel and 4.Image differentiation.

When choosing image differentiation, one needs to take into consideration the fact that an image, in order to serve its goals has to be¹⁶⁶⁶: *1.Valid (anchored into reality), 2. Credible, 3.Simple, 4.Appealing, and 5. Distinctive.*

The questions for Romania are: “*What differentiates our country from all the other countries? And are those characteristics relevant enough to build a strong tourism brand?*”

3. Romania’s options and what is being done

Since Kotler encourages us to think that anything can be differentiated, maybe that’s where we have to start. Of course Romania can differentiate itself from other countries; we only have to choose the right way to do that and we cannot make the unpardonable mistake of trying to appeal to everyone. The answer to that is positioning, the process by which marketers try to create an image or identity in the minds of their target markets for their product, brand, or organization. The next logical step is to establish your target markets and focus on them. And that is yet another chapter at which Romania’s tourism fails, because it targets everyone. Romania wants to be “The land of choice”, but unfortunately not even we can say whose choice Romania is supposed to be.

When the target markets are set, one needs to bear in mind that advertising targets need to also be set. The advertising target has a wider range than the target market, and includes consumers, but also other

¹⁶⁶⁰http://www.iqads.ro/interviul_12129/wally_olins_sintagma_land_of_choice_nu_mi_spune_absolut_nimic.html

¹⁶⁶¹<http://www.futurebrand.com/think/reports-studies/cbi/2009/rankings>

¹⁶⁶²CBI features expert opinions, statistics and proprietary global quantitative data to create the largest study of its kind. Assessing 102 countries across 29 image attributes and seven measures of brand strength.

¹⁶⁶³Clow E K, Baack D. Integrated advertising, promotion and marketing communications, New Jersey, Pearson, Prentice Hall, 2007, p.5.

¹⁶⁶⁴Ries A, Trout J. Poziționarea: Lupta pentru un loc în mintea ta, București, Ed. Brandbuilders, 2004, p.195.

¹⁶⁶⁵Kotler P, Keller K L. Managementul Marketingului—ediția V, București, Ed. Teora, 2008, p.465.

¹⁶⁶⁶Kotler P, Haider H D, Rein I. Marketingul locurilor, București, Ed. Teora, 2001, p.159.

individuals that can influence the target market. In terms of volume, the advertising target is superior to the target market, unless a selective policy is established¹⁶⁶⁷.

After doing that, instead of trying to “*push*” new destinations, new offers, new experiences towards tourists, why not “*pull*” the tourists towards destinations that established themselves as attractive to foreigners. “New” is not always the best approach. The destinations foreign tourists are *already* interested in can become premises for building our tourism brand.

Table 2: Favorite Romanian destinations for foreign tourists

Country of origin	Favorite destinations
Japan	Maramureş County, the monasteries of Bucovina, Sighișoara, Braşov, Bucharest
USA	Transylvania’s medieval cities, Bucharest, the monasteries of Bucovina, traditional villages
Germany	The Black Sea shore, balneary resorts
Italy	Northern Moldavia, Bucovina, Bucharest, The Danube Delta, Prahova Valley
Sweden, Norway and Denmark	The Black Sea shore, balneary resorts
Poland	The Black Sea shore, skiing resorts, Bucovina
Hungary	The Black Sea shore
Holland and Israel	balneary resorts

Some of these destinations cannot compete with similar ones abroad. For example, if we are being practical about it, the Romanian Black Sea shore cannot compete with the beaches in Greece, nor can Prahova Valley compete with similar mountain resorts in Austria or Germany simply because nature is just different. *But* other destinations like Sighișoara, Bucovina, the old fortresses in The Orăştie Mountains, are a gold mine. According to Jean-Claude Baumgarten, president of the World Travel&Toursim Council, Romania has been gifted with a seventh of the worlds total cultural heritage¹⁶⁶⁸. Maybe, taking all this into consideration, we need to reassess our priorities.

The Ministry of Tourism has initiated a program called “Tourist in Romania”, promoting the destinations mentioned above, but the program only targets Romanian tourists. The <http://turistinromania.com> web-site is not even available in any foreign language and it is poorly designed, with scarce information.

Another issue revolves around the fact that not much has been done when it comes to finding the country an *up-to-date identity*. Romania’s country brand also depends on how the country is perceived in terms of its popular and high culture: ranging from films, TV, sport, and music to history, art and literature, even popular local products, and including not just elevated cultural achievements, but also popular celebrities. Romania’s identity and image hangs on the notable figures of the past, but these are not enough to be brand ambassadors in *today’s world*. Romanian “products”(including people) need to make their mark. Sadly, there are very few truly prominent people identifiable as Romanians and with whom outsiders can relate to.

A campaign that promotes our country as a tourist destination was launched following a collaboration protocol between the Ministry of Tourism and BRD Societe Generale. Headed by the key line “Romania.Land of Choice,” the campaign has at its forefront three Romanian sports legends- gymnast Nadia Comăneci, soccer player Gheorghe Hagi and tennisman Ilie Năstase. According to the Tourism Minister, the entire campaign will cost several million euros, of which 2 million euros will be used for

¹⁶⁶⁷ Marcenac L, Milon A, Saint Michel S H. Strategii publicitare, Bucureşti, Ed.Polirom, 2006, p. 86.

¹⁶⁶⁸ Sasu D V, Coita D C. Aspecte privind opţiunile strategice de dezvoltare turistică a României in The Journal of the Faculty of Economics - Economic Science Series, vol.1, TOM XV, Oradea, 2006, p. 963.

running the campaign on two popular international TV channels. She also made clear the distinction between this campaign and the country brand.

Previous branding campaigns have failed. This is actually not the first effort to brand Romania. In 2004, a campaign was made by Ogilvy&Mather, which required 1.7 million USD and which was called "Romania, simply surprising". It was cancelled three years later by Richard Batchelor, leader of the World Tourism Organization International Consultants team, because "it did not communicate Romania's essence to potential visitors."

A second failed attempt was a campaign initiated by the Ministry of External Affairs with the slogan "Fabulous Spirit" which cost 110,000 USD. The spokesman for the Ministry of External Affairs at that time said the reason for which previous efforts have failed was because building a branding strategy was one of the most difficult communication strategy projects. The brand strategy should convey that "Romania equals the most beautiful adventure in Europe". "The symbols and people used in it should be compatible and representative for this direction", said the spokesman.

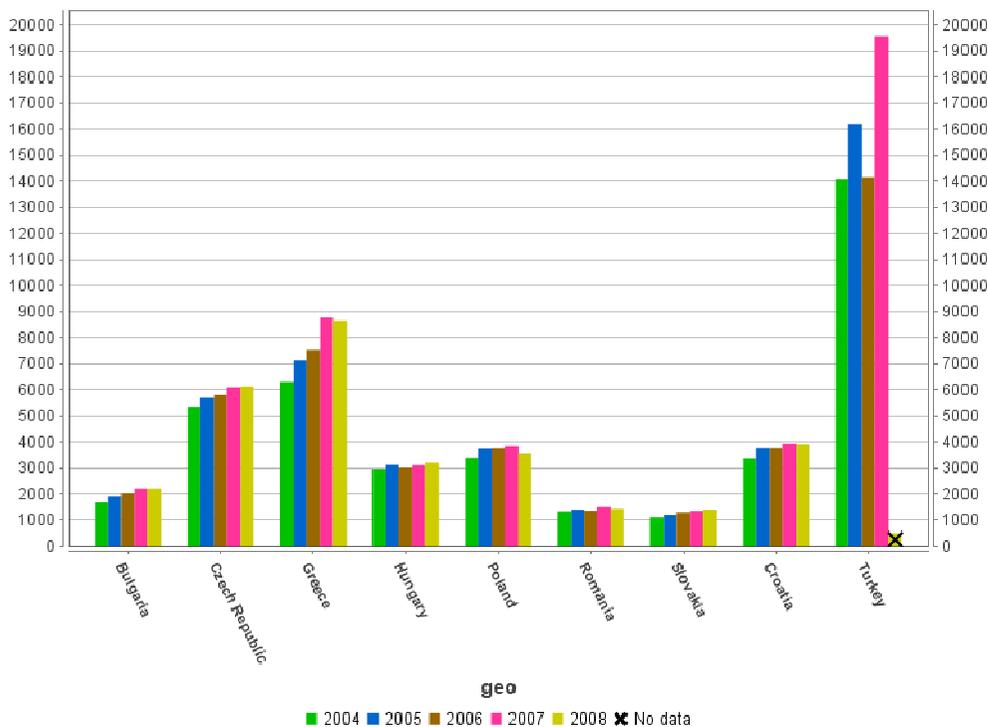
Regarding the process of Branding Romania, actions are being taken as we speak. An agency that will create the Romanian tourism brand will be selected by the Ministry of Tourism, following an international bid. Among the criteria that participants will have to meet is to have worked on at least one similar project. The creation of the brand will cost 2 million euros, while other 73 million euros, from European Union funds, will be used for implementing it.¹⁶⁶⁹

Only time will tell if Romania's Tourism Brand will become a successful story. But one thing is for sure, considerable efforts will be necessary in order to re-sketch our country image and build a solid, long-lasting, efficient brand.

ANNEX 1

Source: <http://epp.eurostat.ec.europa.eu/portal/page/portal/tourism/data/database>

Arrivals in hotels and similar establishments
(1 000)



¹⁶⁶⁹ From the "Assumption documentation for the contract of public acquisition regarding the creation of the tourism brand for Romania", Ministry of Tourism Legal Department, Human Resources and Public Acquisitions.

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CUSTOMER SATISFACTION REGARDING BANK'S DISTRIBUTION CHANNELS – THE ATM NETWORK

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In addition to traditional distribution methods (network of territorial units), to better meet market requirements in terms of speed and efficiency of services, banks have developed interactive electronic and computerized systems for clients: banking services via telephone, internet banking, network of automatic teller machines (ATMs), Electronic Funds Transfer at point of sale (EFTPOS). Automatic Teller Machines have become in recent years one of the common instruments through which banks offer the possibility of conducting routine operations such as: cash withdrawals, bill payments, transfer between accounts. This article presents the results obtained following a research that focused on determining the customers' degree of satisfaction with the distribution channels used by a Top Five Romanian Bank, in particular the ATMs distribution network.

Keywords: distribution channel, Automatic Teller Machines, satisfaction degree, bank

JEL Classification: M31, G29

Introduction

The distribution of banking services can be understood as the place and means by which the bank services are offered to customers.

In general, banks try to create a diversified distribution strategy in order to market their services range, offering customers several ways through which they can benefit from the bank services (a firm applies a diversified distribution strategy when making their products or services available through two or more distribution channels). The three main factors that led to the use of multiple distribution channels by banks are: major changes in the banking sector by growing competition and increasing pressure from competitors, changing customers preferences and the third factor, the difficulties encountered by banks in the attempt of differentiation by offer. As a result, the banks have then resorted to compete on price and now the emphasis is on differentiation by distribution channels used.

Distribution channels used by banks can be divided into two main groups: in the first category are included those channels which typically involves "personal contact with the consumer" - territorial units, and in the second category are included those "channels which may either interact directly with the consumer, by non-personal means, or operate through various intermediaries"¹⁶⁷⁰. Thus, in addition to traditional distribution methods (network of territorial units), to better meet market requirements in

¹⁶⁷⁰ Peter J. McGoldrick, Steven J. Greenland (1992), "Competition Between Banks and Building Societies in the Retailing of Financial Services", *British Journal of Management*, Vol. 3, No. 3, pp. 169 - 179

terms of speed and efficiency of services, banks have developed interactive electronic and computerized systems for clients: banking services via telephone, internet, network of automatic teller machines (ATMs), Electronic Funds Transfer at point of sale (EFTPOS).

Research objectives

The main objective of the research was to determine the contentment / satisfaction degree of respondents with distribution channels used by a top five Romanian Bank.

To achieve this, it was necessary to determine the most important factors that customers take into consideration in assessing the various distribution channels and determining how these factors are valued for channels of the analyzed bank¹⁶⁷¹.

The secondary objectives derived from the main objective have been structured as follows:
-identifying and measuring the satisfaction degree with the bank's territorial units;
-identifying and measuring service satisfaction with the Bank's Call Center services;
-identifying and measuring service satisfaction with the banks internet banking services;
-identifying and measuring satisfaction degree with the banks ATMs network.

In this article, only the results from the analysis of the fourth secondary objective are presented, because these are the most relevant for the article's topic.

Methodology

Data collection was carried out using punctual survey and the research instrument was the questionnaire.

Given the objectives of this study, the surveyed population was composed of banks' customers (customer = person who has at least one account with the considered bank), aged at least 18. The research was carried out during June-July of 2009, thus resulting in a sample composed of 515 persons, the margin of error being $\pm 5.2\%$, for a 0.95 probability.

Research results

Automatic Teller Machines have become in recent years one of the common instruments through which banks offer the possibility of conducting routine operations¹⁶⁷² (cash withdrawals, bill payments, transfer between accounts) which before the introduction of ATMs were carried out over the counter, with the help of bank staff.

The questions regarding this distribution channel were constructed so as to identify the main operations carried out by the bank's customers at ATMs and also the frequency with which they are conducted. Another aim was also to establish those factors that customers consider most important in assessing a distribution channel. A third goal was to identify how the bank's ATMs are perceived by its customers, to determine the satisfaction of respondents with the bank's ATMs and, not least, identifying the main reasons behind reduced customer satisfaction (if present)¹⁶⁷³.

The results presented in table 1 show that operations with the highest frequency conducted by most respondents are: cash withdrawal and card balance query.

¹⁶⁷¹ Wendy W.N. Wan, Chung-Leung Luk, Cheri W.C. Chow (2005), „Customers' adoption of banking channels in Hong Kong”, *International Journal of Bank Marketing*, Vol. 23, No. 3, pp. 255-272

¹⁶⁷² Luis M. Huete, Aleda V. Roth, (1988), „The Industrialisation and Span of Retail Banks' Delivery Systems”, *International Journal of Operations & Production Management*, Vol. 8, No. 3, pp.46-66

¹⁶⁷³ Robert Rugimbana, Philip Iversen (1994), „Perceived Attributes of ATMs and Their Marketing Implications”, *International Journal of Bank Marketing*, Vol. 12, No. 2, pp. 30-35

Table 1. Services structure according to the frequency of their request

		Frequency of the service use					
		Once a week or more often	Once every two weeks	Once a month	Once every 2-3 months	Less often	Total
Bill payments to utilities providers	Frequencies	14	29	65	10	15	133
	% of the persons requesting this service	10,5%	21,8%	48,9%	7,5%	11,3%	100,0%
Cash withdrawal	Frequencies	242	157	80	14	19	512
	% of the persons requesting this service	47,3%	30,7%	15,6%	2,7%	3,7%	100,0%
Card balance query	Frequencies	116	126	80	18	69	409
	% of the persons requesting this service	28,4%	30,8%	19,6%	4,4%	16,9%	100,0%
Changing the PIN Code	Frequencies	2	1	2	1	79	85
	% of the persons requesting this service	2,4%	1,2%	2,4%	1,2%	92,9%	100,0%

The higher percentages of customers who carry out these operations can be explained by the original purpose of this alternative distribution channel - cash withdrawal outside the bank's working hours. Another explanation is the low rate of POS payments (compared with the large number of people who withdraw cash from ATMs), and when such payments are made, the customer often wants to ensure for the accuracy of operation. This comes as a surprise because in general it is expected that these two percentages (99.42% for cash withdrawal and 79.42% for card balance query) are closer, considering that usually when cash withdrawal is performed, the customer also requests a receipt to be issued for the account balance. A possible explanation would be that the bank introduced since 2009 a fee for each card balance query. This prompted customers either to reduce the frequency of such operations, or to abandon the balance querying through this distribution channel in favor of internet banking (this channel does not charge any fee for checking the account balance).

Changing the PIN code at ATM is carried out less often than every 2-3 months by the majority (92.9%) of respondents. However, there are also customers who choose to change the PIN code more often, this being considered a protection measure against possible frauds.

The second aim is to investigate factors considered important by customers in assessing this distribution channel.

Initially, 8 factors of influence were taken into account, a number too large to be easily used in developing marketing strategies by the financial institution. Therefore, this number of factors was

reduced using principal components analysis¹⁶⁷⁴.

Applying this method has led to the formation of two components. The first one explains almost one third of the total variance, 32.095% and the second component 13.558%.

Table 2. The total variance explained using principal component analysis

Component	Initial eigenvalues			Extraction sums of squared loadings		
	Total	% of variance	Cumulative percentage	Total	% of variance	Cumulative percentage
1	2,568	32,095	32,095	2,568	32,095	32,095
2	1,085	13,558	45,653	1,085	13,558	45,653
3	0,856	10,700	56,353			
4	0,823	10,289	66,642			
5	0,747	9,339	75,981			
6	0,684	8,556	84,537			
7	0,652	8,146	92,683			
8	0,585	7,317	100,000			

The first component is a linear combination of 5 factors that customers consider important when assessing alternative distribution channel: *The variety of transactions*, a factor which has the highest loading - 0.647, *Operations rapidity*, the factor with the second highest loading - 0.635, *Ease of use*, *Clarity of instructions* and *The ATM network*.¹⁶⁷⁵

The second component is a linear combination of 3 factors considered to be important in assessing ATMs: *Costs of services*, loading - 0.599, *Service security*, loading - 0.564 and *Information provided related to promotional campaigns*, a factor with a smaller loading than the first two.

The first component is called *ATM*, because it contains factors that relate to the functional characteristics of this channel (technical features such as software that allows for quick and easy operations and logistical features – ATMs network).

The second component is called *Bank* because it contains factors that refer to the financial institution: costs of services or information, displayed on ATMs screens, about its offer.

Grouping eight factors into two components is very useful when the bank seeks to encourage the use of this distribution channel. The percentages of variance explained by each component indicates the issues on which the bank must primarily intervene and aspects through which the ATM distribution channels is evaluated by most respondents. In this case, the customers' emphasis more the ATM component, which means that the bank should try to focus mainly on messages relating to the factors included in this component.

After grouping the considered factors for the overall assessment of the distribution channel, an evaluation of the bank's ATMs was performed. Thus, respondents were asked to agree or disagree, on a 5-step scale where: 1 - totally disagree and 5 – totally agree, on statements about the bank's ATMs. Means are presented in table 3.

¹⁶⁷⁴ Mathew Joseph, George Stone, (2003), „An empirical evaluation of US bank customer perceptions of the impact of tehnology on service delivery in the banking sector”, International Journal of Retail & Distribution Management, Vol.31, No. 4, pp. 190-202

¹⁶⁷⁵ Kevin Curran, David King, (2008), „Investigating the human computer interaction problems with automated teller machine navigation menus”, Interactive Technology and Smart Education, Vol. 5, No. 1, pp. 59-79

Table 3. Means obtained for statements relating to the bank's ATMs

	Mean
<i>Ease of use</i>	4,72
<i>Service Security</i>	4,29
<i>The variety of transactions</i>	4,23
<i>Costs of services</i>	4,28
<i>ATMs network</i>	4,67
<i>Information provided related to promotional campaigns</i>	4,87
<i>Instructions clarity</i>	4,57
<i>Operations rapidity</i>	4,73

ATM Component - the lowest score was obtained for the statement: *Variety of transactions*. Thus, it is recommended that the bank should introduce new services for customers available through this channel.

Bank Component - the lowest means were obtained for *Cost of services* and *Service Security*. The low score for *cost of services* shows that some of the bank's customers consider the costs for operations performed through this distribution channel as being high. This perception requires further investigation because no additional costs are present other than the fee introduced since 2009.

Knowing what factors customers consider important when assessing a bank's ATMs and how the analyzed bank's ATMs are appreciated, it is also important to determine the customers satisfaction with this distribution channel (Customer were asked to express their level of satisfaction on a 5 points scale – 1=very dissatisfied and 5= very satisfied).Therefore the following hypothesis is formulated:

H₁: Customer satisfaction with the bank's ATMs is rather high.

Table 4. One-Sample T test results

T Test					
Test value = 4					
t	df	Sig. (2-tailed)	Mean difference	Mean	Std. error mean
24,200	514	0,000	0,569	4,57	0,024

Based on the results of the *One Sample T Test* (Sig. (2-

tailed) = 0.000 <0.05) the null hypothesis is rejected. In other words, the level of satisfaction is higher than the test value 4 (rather high). Indeed, the sample mean is 4.57, higher than the tested value.

Conclusion

To better meet customer expectations, it is essential that banks take into account both their expectations about the channel distribution mix (the channel mix should be established by customer requirements) and customer perception of the distribution channels. This will likely lead to an increase in sales and also to a more flexible offer matching different customer requirements.

Limitations and suggestions for future study

This research was carried out only in one city and therefore the sample might not be representative. It is recommended to extend this study in other areas of Romania, especially in the rural areas, where the population characteristics are different from those in the urban areas.

Future study is recommended in order to compare the results obtained periodically for a better understanding of consumer perceptions towards the bank's ATM network.

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MARKETING PREDICTIONS IN ANTI-DRUG SOCIAL PROGRAMS: USE OF CAUSAL METHODS IN THE STUDY AND PREVENTION OF DRUG ABUSE

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Drug use is one of the major challenges that today's society faces; its effects are felt at the level of various social, professional and age categories. Over 50 non-profit organizations are involved in the development of anti-drug social programs in Romania. Their role is to improve the degree of awareness of the target population concerning the risks associated with drug use, but also to steer consumers towards healthy areas, beneficial to their future. This paper aims to detail the issue of drug use in Romania, by making predictions based on the evolution of this phenomenon during the next five years. The obtained results have revealed the necessity to increase the number of programs preventing drug use, as well as the need to continue social programs that have proved effective in previous years.

Keywords: social marketing, non-profit organization, drug abuse, marketing forecast, drug use social program

JEL Classification: M31

Introduction

Over the past 10 years, social marketing has become an important area of analysis and research.¹⁶⁷⁶ The number of non-profit organizations that are currently carrying on social activities has increased considerably, and so has the efficiency of social programs undertaken. Nowadays, non-profit organizations are a means to sustain the solving of major society problems: drug use, smoking, cancer, road safety or sedentariness. Drug use is one of the most troublesome phenomenon that humanity faces. Preventing and limiting access to drugs is a necessity, both on behalf of the consumers, and for society in general. The article tries to provide an overview concerning the matter of drug use in Romania. By studying the connections between illicit drug addiction and various factors that influence the consumer decision process, this article wishes to extend research in this area, starting with the practical aspects. Thus, based on information provided by the *National Anti-Drug Agency* and the *General Inspectorate of Romanian Police* in the *National Report on the drug situation in 2009*, the article estimates the evolution of drug problems in Romania on a given period of five years. Causal prediction methods are used in the information analysis, and data evaluation is achieved based on the multi-factor regression model.

Trends concerning drug use in the society background

Drugs are a global problem causing major imbalances in the normal functioning of societies. According to the 2009 report of the European Monitoring Centre for Drugs and Drug Addiction regarding the drug use situation in Europe, about 13 million Europeans aged 15-64 have tried cocaine at least once, 74 million Europeans have tried cannabis at least once and 2.5% young Europeans use cannabis on a daily basis. These statistics become more alarming each year. Research shows that illicite drug abuse *in Romania* is lower than in other EU countries, but there is a growing trend for consumption in most of them.¹⁶⁷⁷ Most illicitly traded drugs in Romania are cannabis, heroin and ecstasy tablets, with cocaine ranking fourth place because it is a more expensive and harder to obtain drug. According to the Eurostat

¹⁶⁷⁶ Ranchodd, A. and Marandi, E., 2006, *Strategic Marketing in Practice*, Butterworth-Heineman, page 106.

¹⁶⁷⁷ European Monitoring Center for Drugs and Drug Addiction 2009, EMCDDA, accessed on the 17th of April 2010, www.emcdda.europa.eu.

report (Statistical Office of the European Communities) of 2008, the most widely consumed drug in Romania is *cannabis*. Most people begin using drugs at an early age of 15 to 19 years old - about 34% of the total in 2008. The next risk-subjected group is tat of 20 to 24 years, the age at which about one in four of them became drug users.¹⁶⁷⁸ According to research, the main drug consumers are young people in large cities. Bucharest still remains the most important center for drug trafficking and consumption in Romania, placed at the top of heroin consumption. The following districts are Timis and Cluj.

With regard to the evolution of treatment admissions, according to National Anti-Drug Agency (NAA) of 2009, the main drug for which assistance was requested remained heroin, both at the level of centers from the Ministry of Health network (66%) and, locally, at the level of prevention, evaluation and counseling drug centers (CPECA).

The prevalence of infectious diseases among drug injection users (DIUs) shows a worrying increase in the hepatitis C virus, the presence of antibodies (HCV) mounting to 72.59% in 2008, exceeding the European average value. Low levels of HIV prevalence (1.09%) can be explained by the decreased number of individuals who members of the DIUs community.

Number of drug consumption has reached 33 people in 2008, over 50% more than in 2007. Off the record, forensic sources said that their number ranges somewhere between 100 and 200 people each year.

Involving the National Anti-Drug Agency (NAA) in social programs

The National Anti-Drug Agency is the main institution involved in developing programs to prevent drug abuse in Romania. Established in December 2002 by the Romanian Government, the NAA is a public organization, under the coordination of The Ministry of Administration and Interior, whose main attribution is to *design general strategies to prevent drug use and traffic* in accordance with national anti-drug legislation in Romania. Also, the agency coordinates public authorities, state institutions and non-government organizations (NGOs) specializing in fighting drugs. NAA owns **47 assessment, drug prevention and counseling centers**, of which six are found in Bucharest, one for for each sector, and and 41 in the country - one for each district.

The National Anti-Drug Agency, along with the National Institute of Health Research and Development, are the main research institutions regarding drug traffic and consumption for these Romania. Together with the Ministry of Health, NAA is an important source of funding on such researches. The dissemination of information obtained from research is achieved by specialized websites and by holding national conferences.

According to the National Report on the drug situation in 2009, programs initiated by the NAA included the following areas: prevention in the domestic life, in the community and in recreational areas. Of these, the most important was the *"Fred goes Net - early intervention for drug users identified for the first time" project*. This project was initiated in Germany in 2002, Romania being one of the nine countries that took over, as pioneer partner, the project implementation. Another project was *"A one time means always!"* which was achieved in close collaboration with Rotary International. The project consisted in distributing information on DVD and CD-based information materials concerning drug prevention in recreational areas.

Non-profit organizations drug programs

One of the main tasks of the *National Anti-Drug Agency* is to coordinate the activities of non-profit organizations, so as to improve the efficiency of national anti-drug programs.¹⁶⁷⁹ The main purpose of these programs initiated by nonprofit organizations is to promote the rights of young people against drug abuse, by improving the degree of efficiency of the collaboration between specialized public institutions and family environment.

¹⁶⁷⁸ National Anti-Drug Agency, EMCDDA and General Inspectorate of Romanian Police, 2009, *National Report on the Drug Situation*, page 7.

¹⁶⁷⁹ Romanian Government 2005, *National Anti-drug Strategy 2005-2012*, Bucuresti, page 3.

One can notice ***a trend of increasing non-profit organizations' concern*** to increase the awareness of drug-consumption associated risks in society. Research conducted by them have provided valuable information on the prevalence of drug use among vulnerable groups. These projects were financed by international organizations such as *UNAIDS, UNICEF, UNODC* and the *Global Fund to Fight AIDS, Tuberculosis and Malaria*.

The more recent studies on traffic and drug consumption mentioned in the 2009 National Report emphasized aspects and concerning the consequences of drug use and the main ways of preventing it among youth.

The National Anti-Drug Agency has led and implemented many social programs in collaboration with non-profit organizations. The most important non-profit organization involved in drug prevention programs is ***“Save the Children”***. In the year 1998, “Save the Children” initiated the "Education towards Health" program, through which media drug campaigns were organized, aswell as youth interaction campaigns, courses and extra-curricular activities designed for scholars and students.¹⁶⁸⁰

Along with the ***National Anti-Drug Agency***, ***“Save the Children” organization*** has developed the following projects:

- the ***“Feel Free”*** campaign, in 2003, organized together with the Romanian Monitoring Centre for Drugs and Drug Addiction, which aimed to reduce the number of young drug users and to promote a healthy lifestyle.

- ***“The sea is our only addiction”*** campaign, in 2005 - a project initiated in partnership with the National Anti-Drug Agency, which takes place annually at the Black Sea seaside and is mainly intended to inform young people about the risks associated with drug use.

- The project ***“RIIA”*** – or Inter-Institutional Anti-Drug Network¹⁶⁸¹, in 2008 - project funded by the EU PHARE 2005 program, which took place between December 2007 - September 2008 and aimed to promote youth rights and protect them against drug abuse.

Other ***non-profit organizations that collaborated with the National Anti-Drug Agency*** in their programs were:

- ***International Drugs Brigade***, NAA's non-profit organization partner, which has developed the ***“Get him close to you”*** project in 2007. The campaign created public awareness about the fact that drug users' place is within society, together with their family, friends and colleagues.

- ***“Support for Life” Association***, through projects like: ***“Protego Project”*** in 2007 which aimed to inform parents about drug use among children, or the ***“Drug use and violence in schools”*** project in 2008, aswell as the ***“Choose Life”*** (2008 project).

- ***Rotary International Association*** through the ***“Friends, help children say YES to Life”*** in 2009, intended to prevent drug use among youth.

- ***Soul to Soul XXI Association***, in partnership with the Romanian Patriarchy and “Light” newspaper, which initiated the ***“The world of drugs is not my world”*** project in March 2010, whose main purpose was to increase readers' awareness of the inherent danger of drug consumption in society.

Studying issues of using and illicite drug trading in Romania

In studying the main issues of using and trading drugs in Romania, we examined correlations between these variables: **1) Number of persons detected as drug users:** dependent variable.

2) The quantities of drugs seized: independent variable. **3) Number of people caught red-handed:** independent variable. **4) Number of persons convicted for crimes:** independent variable.

Hypothesis: The number of persons detected as drug users directly depends on the quantities of drugs seized, the number of people caught red-handed and the number of persons convicted.

<i>Years</i>	<i>Evolution of the number of</i>	<i>Dynamic of drugs seized</i>	<i>Dynamic of the number of</i>	<i>Evolution of the number of</i>
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¹⁶⁸⁰ Salvati Copiii 2010, Bucharest, accessed on the 17th of April 2010, www.salvaticopiii.ro.

¹⁶⁸¹ Inter-Institutional Anti-Drug Network 2010, Bucharest, accessed on the 17th of April 2010, www.riia.ro.

	<i>persons detected as drug users</i>	<i>quantities (kg)</i>	<i>people caught red-handed</i>	<i>people convicted for drug offenses</i>
2001	2134	33.45	605	268
2002	1905	202.18	1035	432
2003	2070	320.70	1139	439
2004	1502	65.40	1219	508
2005	1538	285.07	1489	632
2006	1350	32.63	1921	659
2007	1891	129.90	1695	521
2008	1962	385.23	2158	454

Table 1. Aspects of drug use in Romania between 2001 and 2008,

Source: National Report on Drugs in 2009

Dependent Variable: PERSOANE_DEPISTATE				
Method: Least Squares				
Date: 04/17/10 Time: 14:09				
Sample: 2001 2008				
Included observations: 8				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2664.313	222.8331	11.95654	0.0003
CANTITATI_CONFISCATE	0.692377	0.420726	1.645673	0.1752
PERSOANE_IN_FLAGRANT	0.049855	0.151774	0.328478	0.7590
PERSOANE_CONDAMNATE	-2.180175	0.588175	-3.706680	0.0207
R-squared	0.870531	Mean dependent var	1794.000	
Adjusted R-squared	0.773430	S.D. dependent var	290.2378	
S.E. of regression	138.1514	Akaike info criterion	13.00143	
Sum squared resid	76343.21	Schwarz criterion	13.04115	
Log likelihood	-48.00572	F-statistic	8.965178	
Durbin-Watson stat	2.600595	Prob(F-statistic)	0.030038	

Table 2. Multiple regression model characteristics

Model was considered valid because the probability associated with the Fisher test, Prob(F-statistic) was 0.03, a value less than 0.05. Since the regression line slope shows a negative sign (-2.18) it is safe to say that there is an inverse relationship between “persoane_depistate”(drug users) and “persoane_condamnatate” (persons convicted for drug offenses).

	<i>Persoane_ depistate</i>	<i>Cantitati_ confiscate</i>	<i>Persoane_ in_flagrant</i>	<i>Persoane_ condamnatate</i>
<i>Persoane_depistate</i>	1,00			
<i>Cantitati_confiscate</i>	0,33	1,00		
<i>Persoane_in_flagrant</i>	0,41	0,33	1,00	
<i>Persoane_condamnatate</i>	0,86	0,02	0,66	1,00

Table 3. Simple correlations between the variables considered

Because the correlations were too weak, most of them located below 0.5, we can say that there were no independent variables strongly correlated. Comparing t-Statistic values with t-theoretic (for 4 degrees

of freedom and a confidence level of 80%), we notice a low correlation between the dependent variable and the independent variables.

Prediction issues regarding the usage and traffic of drugs in Romania

Starting with National Report data on the drug situation in 2009, one has estimated the number of persons to be detected by drug use during 2009-2013.

Regression model obtained was considered valid because the value of Prob(F-statistic) was less than 0.05.

Dependent Variable: PERSOANE_DEPISTATE				
Method: Least Squares				
Date: 04/17/10 Time: 14:38				
Sample: 2001 2013				
Included observations: 13				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2691.534	226.3018	11.89356	0.0000
CANTITATI_CONFISCATE	0.520127	0.394574	1.318200	0.2200
PERSOANE_IN_FLAGRANT	0.252094	0.118024	2.135958	0.0614
PERSOANE_CONDAMNATE	-2.676599	0.532957	-5.022163	0.0007
R-squared	0.787692	Mean dependent var	1860.154	
Adjusted R-squared	0.716922	S.D. dependent var	265.5833	
S.E. of regression	141.3037	Akaike info criterion	12.98736	
Sum squared resid	179700.6	Schwarz criterion	13.16119	
Log likelihood	-80.41784	F-statistic	11.13040	
Durbin-Watson stat	2.824638	Prob(F-statistic)	0.002201	

Table 4. Features of multi-factor regression model after projection

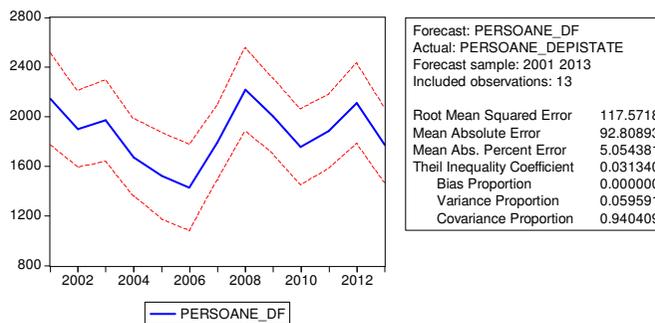


Chart 1. Predictions regarding the number of people detected as drug users during the period 2008-2013

The evolution of the number of persons detected as drug users in the next five years shows fluctuations, the values ranging between 1800 and 2200 people. Compared to the previous period, one can observe a slight increase concerning the number of people, which points, in a positive sense, to the development of ways to detect drug users on behalf of the authorities or, as a negative effect, points to an increasing number of persons using drugs.

Conclusions

Throughout this article, the author tried to present some of the aspects of drug issues in Romania. The main trends of drug use in Europe and in Romania were highlighted, as well as the connections between

The National Anti-Drug Agency and non-profit organizations, which were analyzed from the point of reducing the demand for narcotics. In the applied section of this paper, projections have shown that the number of tracked drug users will increase. This will cause many non-profit organizations to adopt a firmer position in communicating with vulnerable groups. The need to develop social programs is even greater, as the incidence of sexually transmitted infections and number of drug related crime are increasing. The main restrictions of this article relegate to the absence of data on drug users in Romania, NAA presenting only the evolution in the number of consumers discovered by treatment centers. Other restrictions concern the small number of research papers in this field, as well as the small scale of the implemented social programs, the majority of projects having a local character.

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MARKETING COMMUNICATION IN ONLINE SOCIAL PROGRAMS: OHANIAN MODEL OF SOURCE CREDIBILITY

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The development of the Internet as a medium for interaction with customers has resulted in many changes regarding the promotion of organizations. Online marketing is nowadays used not only to sell a product on the market, but also requires ideas and behavioral change. Non-profit organizations active in online communication are based on the quality of their provided information. Credibility, attractiveness and usefulness are the key elements that provide effective online social programs. This paper aims to extend the scope of research in the field of social marketing by studying the Ohanian model in the online environment. The goal is to highlight the important theories and social models intrinsic to the online non-profit organizations' communication. The results show that the efficiency of social programs depends on the level of incorporated elements of social theories in the design, content and structure of the website.

Keywords: social marketing, Internet, Ohanian model, non-profit organizations (NGOs), online behaviour

JEL Classification: M31

Introduction

Social marketing is nowadays an important line of study concerning consumer behaviour in society. The complexity of social problems imposes the finding of quick solutions that meet the specific economic, cultural, historical and religious environment that is characteristic of a target population.¹⁶⁸² The emergence of the Internet as a dynamic, flexible and effective environment has opened up new opportunities for organizations to communicate and interact with consumers. Non-profit organizations (NGOs) have understood the advantages of the Internet and have adapted their programs to follow specific online communication. This paper aims to provide NGOs and practitioners in the field of online social marketing a valuable model to determine online consumer reaction, that model being the Ohanian model. Its three dimensions: credibility, attractiveness and expertise, are the basis to any communication, whether it is done online or offline. Starting with the Ohanian model, the article analyzes consumer perception towards currently undertaken online social programs. Thereby, consumer opinions on the quality of websites are studied and the relations between the considered variables and described. Furthermore, by using the model, it can be shown that the dimensions of online communication are not to be ignored, as they are in close relation with the support toward the target segments and with the influence of the individuals' behaviour in society.

The Ohanian Model

In the process of communication with target segments, an important role is played by the degree of persuasion inherent to the transmitted messages. The persuasiveness of a message depends on the considered characteristics of the source (Kelman, 1961). Credibility is a multidimensional concept, with particular impact on the consumer's attitudes, intentions and behaviour. Credibility is strongly linked to information, therefore it may be described as part of communication.¹⁶⁸³

¹⁶⁸² Ranchodd A. and Marandi E. 2006, *Strategic Marketing in Practice*, Butterworth-Heinemann, page 105

¹⁶⁸³ Eisend M. 2006, *Source Credibility Dimensions in Marketing, Communication – A Generalized Solution*, Journal of Empirical Generalisations in Marketing, 2006, page 3

The credibility source is the basis for credibility, being generally used to describe the positive influence of the communicated message on the receiver or transmitter (Ohanian, 1991). Researchers found that the degree of persuasiveness of a message largely depends on the credibility of the source (Petty and Cacioppo, 1986).

Based on the studies of, Desarbo, Likewise and Harshmann (1985), in 1990, Ohanian propounded three factors that contribute to the credibility of the source. The first of them is the **trust of the source**, or "the extent to which the audience perceives communication as valid" (Hovland, 1953). Ohanian describes the concept of **trust** as having dependent variables as "honesty", "addiction" and "sincerity" linked to it. Another factor, the **expertise**, expresses the ability of the source to be perceived as "qualified", "professional", "expert." The last factor, the **source attractiveness**, has the role of amplifying the message sent by features such as: beauty, elegance and style. Corresponding source attractiveness variables are: similitude - similarity between source and receiver of the message, familiarity - the near of the receiver and the source, and sympathy – the affectivity shown to the receptor (Erdogan, 1999).¹⁶⁸⁴ The figure below shows the credibility of the Ohanian model source (1990), including variables for every factor.

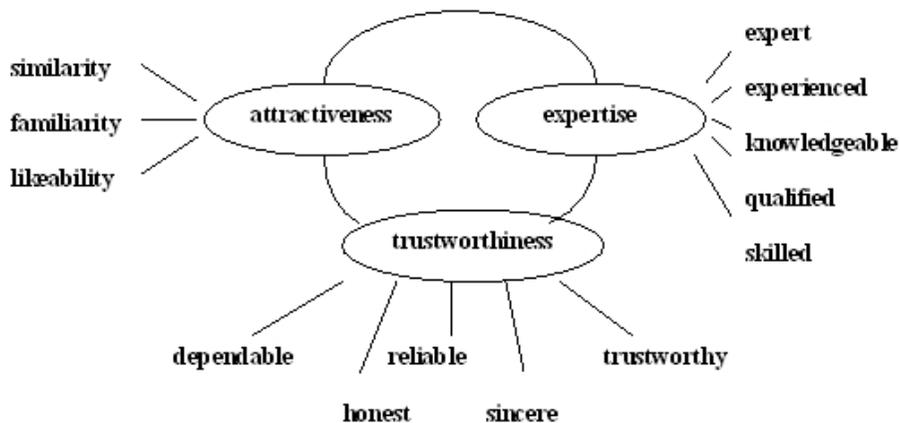


Figure 1. The Ohanian Model of Source Credibility
Source: Louise E Canning, celebrity endorsement in *Business Markets*, 2005

Credibility in social marketing programs

Although most social marketing programs, referred to as social programs, are based on solid research and involve strong national institutions such as public authorities, national agencies and NGOs, their online presence creates many problems related to fierce competition and low confidence. Using an aggressive means of communication and a hidden image, online organizations that promote unhealthy products and behaviours (cigarettes, alcohol, activities like gambling and bets) often win consumer confidence, adversely influencing their behaviour. In this context, the role of NGOs concerning the empowerment of social behaviour is extremely important and so is the need to gain credibility on behalf of the online consumer.

In what concerns social programs, online credibility can be gained in two ways: either by **using the human factor** and the social relationships between people, either by promoting a healthy lifestyle through **counteracting negative effects of risky products campaigns**.¹⁶⁸⁵ The first case, using the human factor, involves transmitting the message through a public office, a model in society. An example of an unprecedented social program was the "**Cherish Life**" campaign in 2007, when Andreea Marin, anchorwoman and UNICEF ambassador to Romania, has endorsed a national health system for

¹⁶⁸⁴ Canning L. 2006, *Celebrity endorsement in business markets*, 22nd IMP Conference, Italy

¹⁶⁸⁵ Cugelman B. 2009, *The psychology of Mass Interpersonal Behavioral Change Websites: a meta analysis*, Medicine 2.0 Conference, Canada

bone marrow transplant to leukaemia patients. The campaign won the Media Award next year, donations amounting to the equivalent of the annual budget of the Ministry of Health allocated for bone marrow transplants in Romania. Reducing the harm of unhealthy products campaigns was achieved through the *"I want fresh bread"* campaign in 2008. The project was initiated by three NGOs: CPA Romania (Consumer Protection Association), PRO ALIM SAN and Eurolink, and concerned these issues: non-specific legislation in connection to bread production, corruption and tax evasion, as well as the need to attract European funding. That campaign has raised a warning sign on the quality of the bread market and the increasing level of corruption currently existing in the industry.

Credibility is thus a multidimensional concept, which plays a decisive role in the impacts that social programs have on consumers. Credibility is easily influenced by media and social networks, therefore it is necessary to establish a relationship of trust and honesty with the consumers.

Study of the credibility of online social marketing programs

Purpose

The purpose of this research is to examine the extent to which the information on websites containing social organizations in Romania is considered trustworthy by consumers.

Objectives

Target goals: 1) determining the percentage of people who visit websites containing social programs, 2) determining the impact generated by each Ohanian model components (confidence, attractiveness and expertise) on consumers, 3) establishing relationships between respondent's demographic characteristics and their opinions on the analyzed problem.

Hypotheses

We defined the following hypotheses:

H1: The credibility of the source depends directly on trust.

H2: The credibility of the source depends directly on expertise.

H3: The credibility of the source depends directly on attractiveness.

Methods

In achieving the research, a questionnaire with questions based on the Ohanian model was used. The study was conducted online in March 2010-April 2010. To determine the number of people visiting websites containing social programs the following filter question was used: "Have you ever visited a site that promotes a social cause or one that fights problems such as smoking, maintaining health (fitness, diet), environmental issues (recycling), health problems (cancer, heart disease), education (education of the child), car accidents, etc.?" The questionnaire had 9 closed questions with multiple answers, arranged in a proportional scale.

Participants

A total of 76 persons were interviewed, of which 31 have not passed the filter question.

Respondents were aged between 18-30 years, with an average of 22 years' age. Respondents are singles (75%) residing outside Bucharest (78%) and are currently students or belong to academic environment (65%).

Data analysis and results

The data analysis program was conducted in Eviews' 4 software program. A multiple regression model was built containing these independent variables: trust, expertise and attractiveness, as well as a dependent variable- the credibility of source. Links between variables' intensities were measured using a proportional scale of 1 to 5, where 1 equalled very poor, and 5 - very strong.

Furthermore, simple correlations were examined between regression model variables.

	Credibility	Trust	Expertise	Attractiveness
Credibility	1,00			
Trust	0,13	1,00		
Expertise	0,08	0,08	1,00	
Attractiveness	0,47	0,46	0,16	1,00

Table 1. Simple correlations between source credibility, trust, expertise and attractiveness variables

Since the values obtained did not exceeded 0.5, it can be said that there were no independent variables that strongly correlated.

Dependent Variable: CREDIBILITY				
Method: Least Squares				
Date: 04/18/10 Time: 17:24				
Sample: 1 35				
Included observations: 35				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.252878	0.696682	6.104476	0.0000
TRUST	0.092813	0.142328	0.652108	0.5191
EXPERTISE	-0.016925	0.186495	-0.090750	0.9283
ATTRACTIVENESS	-0.458216	0.157376	-2.911589	0.0066
R-squared	0.234850	Mean dependent var	3.114286	
Adjusted R-squared	0.160803	S.D. dependent var	0.900047	
S.E. of regression	0.824512	Akaike info criterion	2.559161	
Sum squared resid	21.07443	Schwarz criterion	2.736915	
Log likelihood	-40.78531	F-statistic	3.171637	
Durbin-Watson stat	2.485058	Prob(F-statistic)	0.037960	

Table 2. Multiple regression model features with source credibility as dependent variable

Based on the information obtained in Table 2, we defined the following regression equation:

$$\text{Website Credibility} = 4.252 + (0.092 \times \text{trust}) - (0.016 \times \text{expertise}) - (0.458 \times \text{attractiveness})$$

The Student test was used to test significance of model parameters. Since probabilities were higher than 5% (except for attractiveness, prob = 0.0066), Wald test was used. Applying this test high values for Fisher test (F-statistic = 127.21) and Hi-square test (Chi-square = 508.84) and very low probabilities (Probability = 0.00) were obtained. We thus conclude that the parameters are significantly different from zero.

Checking the validity of proposed model

These hypotheses were tested:

1) Assumption of errors normality

The Jarque-Bera test coefficient is not significant ($0.63 > 0.05$), therefore null hypothesis is accepted, errors presenting a normal distribution.

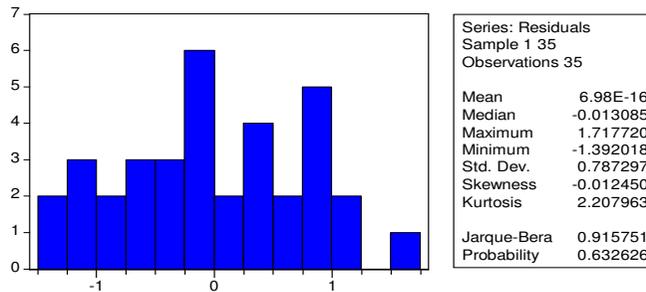


Figure 2. Normal distribution of errors

2) The hypothesis of autocorrelation errors

This can be verified by applying the Durbin-Watson test. Since the d calculated value is equal to 2.48, it can be said that errors do not show autocorrelation.

3) The hypothesis of homoscedasticity errors

The White test value ($R^2 = 7.504$) is higher than tabular value, that being safe to say because there is no heteroscedasticity between model errors.

White Heteroskedasticity Test:				
F-statistic	1.273711	Probability	0.301034	
Obs*R-squared	7.504555	Probability	0.276692	
Dependent Variable: RESID^2				
Method: Least Squares				
Date: 04/18/10 Time: 21:55				
Sample: 1 35				
Included observations: 35				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.074388	1.261281	1.644668	0.1112
INCREDERE	-0.363702	0.478665	-0.759826	0.4537
INCREDERE^2	0.029941	0.075102	0.398674	0.6932
EXPERTIZA	-0.186793	0.880436	-0.212159	0.8335
EXPERTIZA^2	0.054649	0.166036	0.329141	0.7445
ATTRACTIVITATE	-0.735444	0.509543	-1.443341	0.1600
ATTRACTIVITATE^2	0.161929	0.082723	1.957488	0.0603
R-squared	0.214416	Mean dependent var	0.602127	
Adjusted R-squared	0.046076	S.D. dependent var	0.671443	
S.E. of regression	0.655792	Akaike info criterion	2.170909	
Sum squared resid	12.04175	Schwarz criterion	2.481979	
Log likelihood	-30.99091	F-statistic	1.273711	
Durbin-Watson stat	2.096952	Prob(F-statistic)	0.301034	

Table 3. White test

4) The hypothesis of multi-collinear errors

Multi-collinearity points to the linear or nonlinear relationship between two independent variables of a model. Results of the correlation matrix showed a correlation between the nature of reverse credibility and trust, and between credibility and attractiveness.

	Credibility	Trust	Expertise	Attractiveness
Credibility	1.000000	-0.130893	0.081283	-0.473642
Trust	-0.130893	1.000000	0.080128	0.466027
Expertise	0.081283	0.080128	1.000000	-0.163013
Attractiveness	-0.473642	0.466027	-0.163013	1.000000

Table 4. Correlation matrix

From these assumptions, it is to conclude that the defined model is valid.

Conclusions

This article presented several theoretical and practical aspects related to source credibility in the online environment. Based on information obtained from research, a model of credibility in the online social programs was defined. Research results showed that the credibility of websites is quite low, average values of considered variables ranking around 3, a somewhat favourable opinion. This has confirmed the restricted nature of social online programs and their relatively low level of promotion. Some limitations of this paper were connected to the large number of people removed by filter question, the small number of researchers in the field and the sample consisting mainly of students.

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ACCESSIBLE TOURISM – THE IGNORED OPPORTUNITY

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To create a positive visitor experience, a key factor in obtaining economic benefits, the tourism industry must pay attention to all the elements that contribute to it, especially to accessibility. Visitor accessibility encompasses all tourism markets including seniors and people with disabilities, who have been defined through accessible tourism. This article offers a short presentation of the term accessible tourism, the existing research in the field and the main reasons why the worldwide tourism industry is seemingly unaware of this particular market.

Keywords: accessible tourism, disabilities, market potential, research

The article's JEL classification: M31

Introduction

There is a large and profitable market out there that the tourism industry has been largely ignoring for a long time. This market is as big as over 650 million people worldwide and it's estimated that by the end of 2020 it will reach an approximated 1.2 billion people (Darcy, 2008). It has a huge potential for growth and what's more, research shows its members are more easily converted into regular costumers and on average they spend more per trip than the usual tourist. So who is this market? They are the ones that "accessible tourism" – a rather new concept – primarily targets.

What is "accessible tourism"?

Definition

Accessible tourism enables people with access requirements including mobility, vision, hearing and cognitive dimensions of access, to function independently and with equity and dignity through the delivery of universally designed products, services and environments. This definition is inclusive of all people including those travelling with children in prams, people with disabilities and seniors.(Darcy and Dickson, 2009, p.34). Therefore it can be said that accessible tourism targets any segment of the market that prefers accessing a tourism experience with ease, whether is the seniors that may prefer walking up a gentle ramp than going up a large number of steep stairs or those with any type of disability, who will appreciate more tourism facilities with continuous pathways, tactile surfaces and clear and bright signage.

According to ENAT, the European Network for Accessible Tourism, accessible tourism includes:

- Barrier-free destinations:** infrastructures and facilities.
- Transport:** by air, land and sea, suitable for all users.
- High quality services:** delivered by trained staff.
- Activities, exhibits, attractions:** allowing participation in tourism by everyone.
- Marketing, booking systems, Web sites and services:** information accessible to all.

Situation Overview

Is the tourism industry worldwide adapted to the needs of those requiring accessible tourism? Despite the fact that modern society is increasingly aware of the need to integrate people with any type of disabilities the answer is a resounding "no". And while it can be argued that in order to function many tourism facilities comply with legislative requirements like accessible parking space and accessible toilets, clearly a step in the right direction, unfortunately that can't be called true accessible tourism as there are no further developments to include requirements like: professional staff capable of dealing

with accessibility issues, wheelchair accessible vehicles, adapted hotel rooms and many more. The reasons to that are numerous and stem from two directions:

-there is very little research that shows how the tourism industry can benefit from making changes in the tourism product development and delivery so that it can become more accessible. Only recently the European Union has commissioned research that shows insight into the complexities of accessible tourism (Buhalis et al., 2005) and in 2007 The UN Convention on the Rights of People with Disabilities and the International Day for People with Disabilities has internationally reinforced the language of disability thus helping define concepts like: accessible destination experiences, accessible tourism, access precincts, continuous (accessible) pathways and disability. Another important contributor to the accessible tourism research is the Australian Sustainable Tourism Cooperative Research Center which funded an Accessible Tourism Research Agenda that sought to create a sound research base on which the tourism industry and government marketing authorities can make more informed decisions. (Darcy, 2008)

-there is a perception that accessible tourism is “low yield” due to the stereotype that people with disabilities have significantly less disposable income and are more likely to be dependent on a pension. This argument has been used in the past as a deterrent to investment in accessible tourism and as long as there are too few case studies that can be given as examples of successful tourism enterprises offering accessible tourism experiences, it will continue to carry weight. Yet, according to the latest statistics the market for accessible tourism is continuously growing making it clear that to ignore its potential is to actually ignore fruitful business opportunities, a fact that several companies in Europe and US have counted on when designing offers clearly meant for this market niche. These pioneers can show through their example that accessible tourism can become a competitive edge, just like the case of Divi Hotels Resort on Bonaire Island, in the Caribbean Sea, which became “famous for being completely accessible”, their presentation brochures including images with the access ramp for those who need a wheelchair.

Market size and Economic value

In 1983 E. D Mills noted that “provisions for the disabled in any type of holiday situation can no longer be regarded as an optional extra” (Mills, 1983, p.81). Yet, several decades later researchers (Darcy, 2006) have noted that despite the large numbers of people with disabilities living independently, their growing financial wealth and their desire to travel, this segment continues to be largely ignored by the tourism industry worldwide.

What are the exact numbers? In Australia, for example, 20% of the population, or 4 million people, identify as having a disability. Of these people 520,000 have a mobility disability, 480,000 are blind or vision impaired, and 1 million are deaf or hearing impaired (Australian Bureau of Statistics, 2003). Still Darcy’s research (2008) estimates that in the 2003-2004 period the tourists with disabilities spent in Australia between \$8034.68 million and \$11980.272 million, contributed between \$ 3075.5243 million and \$4580.219 million to Tourism Gross Value Added (12.27%–15.60% of total tourism GVA), contributed between \$ 3885.168 million and \$5787.435 million to Tourism Gross Domestic Product (11.02%–16.41% of total) and sustained between 51 820 and 77 495 direct jobs in the tourism industry (11.6%–17.3% of direct tourism employment). And Australia is not an isolated case.

In the US alone there are more than 54 million people with disabilities, a market larger than that of African American or the Hispanics, representing almost 1 billion dollars in buying power (Kotler, 2009), while the European Union countries’ OSSATE research (Buhalis et al.,2005) estimates that tourists with disabilities contribute €80 billion to the economy using gross demand estimates. Globally there are over 650 million people with disabilities (Fujiura and Rutkowskikmitta, 2001; Mercer and MacDonald, 2007), equating to about 10% of humanity.

And this isn’t all of it. There is a direct link between aging and disability as a person is 14 times more likely to have a disability by the time they reach 65 years old than a four-year-old(Darcy, 2008), a trend shared by all western developed countries with a noticeable difference in Asian countries where the

ageing is occurring at a faster rate. (World Health Organization, 2007). What's more, this generation of seniors, unlike past generations of older people, is seeking an active and adventurous experience for their post work lives, and tourism is seen as an important component of their quest of life experiences. Yet, the tourism industry continues to ignore this market as shown by the results of a study involving senior travelers which has proven that despite the fact that seniors greatly value security and support elements in the bathrooms, visible signage in the halls, restaurants menus with big readable fonts and extra heating sources (more blankets available per bed), this type of information is not generally included in the advertising materials used by tourism enterprise, making it harder for them to choose old-age friendly destinations.(Howey et al., 1992).

Accessible tourism consumer behavior

People with disabilities are very appreciative of products that are adapted to their needs. According to Jim Tobias, the president of Inclusive Technologies, a consulting company specialized in "accessible products", "people with disabilities have the tendency to become **brand evangelists** for the brand they love; if usually a consumer would tell another 10 people about their favorite product, people with disabilities could tell 10 times more people." (Hsu, C.H.C., Powers, T., 2002).

This point of view is also shared by the Department for Culture, Media and Sport, DCMS for short, of the British Government, who has taken active steps for changing the British tourism industry in preparation for the Olympics and Paralympics Games of 2012. According to their statistics (DCMS, 2010), disabled people:

- **become regular clients** after finding a tourism facility that suits their needs;
- **tend to take longer holiday breaks** than the average – 4 days as opposed to the average length of stay of 3 days – therefore spending more money per trip (£216 as opposed to £197 overall);
- **tend not to travel alone**, as they are often accompanied by caregivers, family and friends: over 50% travel with a partner, 20 % with a child and between 21-25% with a companion.

Combining these behavior characteristics with the great potential for growth, presented in the chapter before, makes the market containing senior and persons with disabilities a very attractive one. That's why the mystery remains of why the tourism industry is still largely ignoring it. Fortunately, there are more and more case studies that show the fact that accessible tourism can be profitable: for example Holiday Inn and their specially targeted offer for hearing impaired people. According to their data the hearing impaired people segment includes from people with no hearing to people with different hearing problems, a number that in the US means 21 million persons. To approach this market Holiday Inn promoted their message through special magazines designed for those hearing impaired. And their strategy has paid off, in the first year after making the special offer Holiday Inn gained between 40000 to 50000 travelers staying the night, from this segment alone. (Hsu, C.H.C., Powers, T., 2002)

Conclusion

Is ignoring the opportunity presented by accessible tourism a mistake? One quick look at the facts should show that the obvious answer is "yes". The only fact that still remains uncertain is how the situation can be remediated. There are several things that can be done:

1. **Doing more research in the field.** While the statistics presented in this article are relevant to the developed western countries, there almost none regarding the situation in the developing countries, such as Romania, who could benefit very much from identifying a tourism niche. Unfortunately, in the case of Romania, there is also a lack of official information regarding the situation of disabled people: by 2003, there were 414.620 people with disabilities in the official statistics, or 1.97% of the population, far lower the average 10% for the EU countries, as estimated by UN statistics. (CNDR, 2004).
2. **Creating a business model** that can be successfully put into practice.
3. **Involving the tourism industry.** No matter how great the theoretical model is, until it's put into practice and it has proven its efficiency, it won't become a good argument. That's why tourism industry

needs to be involved in the research, and only by seeing actual numbers and successful case studies, they will change their attitude and give accessible tourism the place it rightfully deserves.

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ETHICAL CONSUMERISM IN THE 21ST CENTURY

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In a world where the global economy has suffered a great deal of changes and has encountered many obstacles, consumers and companies seem less concerned about ethics in their behaviour.

Ethical consumerism regards issues as environmental friendly consumerism, fair-trade, morality and honesty. The paper presents a theoretical background of ethical behaviour from two perspectives, followed by factors of influence, typologies of consumers and causes of unethical behaviour, offering an up-to-date starting point for more thoroughgoing studies and some possible directions for further research.

Keywords: ethics, behaviour, consumer, unethical consumption

JEL: M31, M39

1. Introduction

An issue of great importance for the economic behaviour has been and still is the study of ethical consumption. In the speciality literature there are not many studies concerning this subject, but the interest increased in the last 10 to 15 years.

In order to be able to understand better the nature of this subject, it is important to start with the description of the concept and what are its meanings.

Firstly, “ethics” as a general term refers to a branch of philosophy which seeks to address questions about morality. It has been for centuries in the interest of philosophers the discussion regarding what is right and what is wrong and how we can live doing the right thing.

Secondly, a more general definition of ethical consumerism describes it as an intentional purchase of products and services that the consumer considers to be made ethically. Ethical consumerism can be practiced through “positive buying”.

Las but not least, among specialists there have been discrepancies regarding the meanings of “ethical consumption” and “ethics of consumption”¹⁶⁸⁶. The ethics of consumption mainly depicts a set of judgements over the morality of the entire provision system; the consumption is seen as the object of moral evaluation. In the case of ethical consumption, the consumption is now a medium for political and moral action. Although it may seem so, the meanings of the two concepts are not completely separate.

This paper’s main purpose is to build a theoretical frame of ethical behaviour among consumers, providing the description of its different meanings and, also, some directions for further research.

As the last couple of years have been a challenge from an economic perspective, ethical behaviour has begun to be more and more a problem which needs to be properly studied.

In the second part of this paper, the different views of ethical behaviour will be presented, along with the factors which influence this type of behaviour. The third part brings into discussion the typologies which can be found related to this behaviour and the main causes that determine an unethical behaviour (or simply being indifferent to it). Finally, the paper ends with conclusions and some further research directions.

¹⁶⁸⁶ Harrison R., Newholm T., Shaw D., *The Ethical Consumer*, Sage publications Ltd., London, 2005.

2. Ethical behaviour perceptions. Factors of influence

The concept of ethical behaviour has been approached in the speciality literature from two perspectives. The first one refers to ethical behaviour from an environmental approach. In many studies referrals to “green consumerism” are being made¹⁶⁸⁷. A green consumer is the one who avoids using products which pollute or is against animal cruelty, he/she purchases eco-friendly products, recycles etc.¹⁶⁸⁸.

Shaw and Shiu (2003) emphasize on the difference that must be made between green consumers and ethical consumers. The second category is obviously much more complex and includes the first one.

Ethical consumption has also been referred to as a behaviour which incorporates the principles of environmental friendly consumption and addresses issues regarding conscience and morality¹⁶⁸⁹.

In the opinion of Callen-Marchione and Ownbey (2008), ethical behaviour includes the purchase of eco products, the attitude towards counterfeited goods, how consumers react to companies which approach an unethical behaviour, honesty etc.

The second approach on ethical behaviour regards piracy, petty theft, shoplifting, unethical behaviour of employees etc. In this case, the morality and the honesty of individuals are put into question.

Shoham, Ruvio and Davidow (2008) emphasize on the matter of piracy (DVD's, music, software) and describe the phenomenon in three forms, as found in other researches:

- The assessment of software piracy, in the context of the innovation diffusion, accentuating the outcomes of piracy;
- The overall issue of purchasing counterfeited products;
- The identification of the ethical/moral issues which support the consumers' decision of buying counterfeited goods.

Coyle et. ali (2009) discuss about piracy in music. They think that the ability to distribute digitized music, the perception of an unfair treatment as long with the misunderstood expectations of buyers/sellers of music have created a favourable environment for music piracy.

Regarding the factors which influence the ethical behaviour or the attitude towards ethical consumption, previous researches have approached demographic, cultural and situational factors.

Babakus et. ali (2004) consider that a better comprehension of variations among consumers, regarding their beliefs on unethical behaviour, at a global level, could help in business development, but also in the propagation of public policies.

Many of the researchers think that age could influence the ethical behaviour. Babakus et. ali found out in their study that younger people are more tolerant when it comes to unethical behaviour.

Carrigan, Szmiging and Wright (2004) also sustain the idea that age is very important factor. The authors came to the conclusion that older people (50 and more) have higher morale and are more ethical when it comes to consumption. They think that the over 45 age segment is often underestimated, especially regarding subjects as novelty, technological innovation.

Older people are more predisposed to boycotting companies/brands which develop an unethical behaviour, but only in certain conditions. Carrigan, Szmiging and Wright conclude with the idea that their study cannot be generalised and that it can be approached only from an idiographic perspective.

Women were found to have a more positive attitude towards ethical behaviour¹⁶⁹⁰, but other authors think that the sex factor does not have an influence on ethical behaviour¹⁶⁹¹.

Income and education are positively correlated with ethical consumption¹⁶⁹².

¹⁶⁸⁷ In Carrigan M., Szmigin I., Wright J. (2004); Shaw D., Shiu E. (2003).

¹⁶⁸⁸ Apud Carrigan M., Szmigin I., Wright J., *Shopping for a better world? An interpretative study of the potential for ethical consumption within the older market*, Journal of Consumer Marketing, Emerald Group Publishing Ltd., vol. 21, no. 6, 2004, p. 401.

¹⁶⁸⁹ Idem.

¹⁶⁹⁰ In Babakus E., Cornwell T.B., Mitchell V., Schlegelmilch B. (2004); Starr A. Martha (2009).

¹⁶⁹¹ Carrigan M., Attalla A., *The myth of the ethical consumer-do ethics matter in purchase behaviour?*, Journal of Consumer Marketing, Emerald Group Publishing Ltd., vol. 18, no. 7, 2001, pp. 560-577.

Coyle et. ali (2009), in order to illustrate the way how people decide to purchase or pirate music, take in consideration three influencing constructs: attitudinal factors, demographic factors and purchasing/pirating behaviour. They came to the conclusion that younger men with lower incomes have more the tendency to pirate music. Also, they found that the legal/ethical factor has a great significance in describing the past behaviour and predicting the future one.

Starr (2009) found through her study that individuals who are influenced by politics, are more likely to have an ethical consumption behaviour, this suggesting a general influence of pro-active attitudes in the socio-political participation.

Ford, Nonis and Hudson affirm that values influence attitudes, attitudes influence behaviour, and behaviour has effects on culture, forming in this way a circular phenomenon. They think that the most frequent mistake made by marketers is that they fail to understand cultural differences. In their study, they measure six types of basic attitudes, with the help of six scales¹⁶⁹³:

- Theoretic;
- Economic;
- Aesthetic;
- Social;
- Politic;
- Religious.

The authors found a significant difference between the US and middle-eastern culture. The political dimension has the highest result in the case of the US culture, regarding ethical consumption. This dimension also influences the middle-eastern culture, along with the “social” attribute. The middle-eastern are seen as keen on social welfare and interaction between individuals.

Babakus et. ali (2004) also emphasize on cultural differences, trying to expand the research on the role of individual background variables, as determinants of unethical consumer perception. They underline the power of one nation to be different from others.

Egan and Taylor (2010) analyse the general personality traits that predict the attitude towards shoplifting and unethical behaviour. Predictors for this type of behaviour, according to their study, are lower IQ's and lower incomes, especially at young males. Their study also shows that between personality and unethical behaviour exists a significant relationship.

3. Behavioural typology. Causes for unethical consumption

Shaw and Shiu bring into discussion the fact that some researchers in ethical consumerism rely on the Theory of Reasoned Action/Theory of Planned Behaviour¹⁶⁹⁴. According to this theory, attitude and subjective norms (the individual's beliefs about what other people think related to his actions) determine the genesis of the behavioural intention and, in the end, the actual behaviour.

Shaw and Shiu tried to demonstrate that the behavioural intention of the individual has behind it a more complex structure of influences. They divided the “attitude” component into the *attitude of the individual towards difficulties* and the *attitude towards fair-trade*.

Subjective norms also have two components: *subjective norms-traditional*, which reflect the normative others from the traditional theory and *subjective norms-context*, that refer to groups associated to fair-trade.

The behavioural intention, in Shaw and Shiu's model, is primarily influenced by *behavioural control* and *internal reflection*. All the other components come to influence these two elements

¹⁶⁹² Starr A. Martha, *The social economics of ethical consumption: Theoretical considerations and empirical evidence*, The Journal of Socio-Economics, Elsevier Inc., vol. 38, 2009, pp. 916-925.

¹⁶⁹³ Ford W.C., Nonis A.S., Hudson I.G., *A Cross-Cultural Comparison of Value Systems and Consumer Ethics*, Cross Cultural Management, Emerald Group Publishing Ltd., vol. 12, nr. 4, 2005, pp. 36-50.

¹⁶⁹⁴ Shaw D., Shiu E., *Ethics in consumer choice: a multivariate modeling approach*, European Journal of Marketing, Emerald Group Publishing Ltd., vol. 37, no. 10, 2003, pp. 1487.

Rawwas took in account Hofstede's classification of the dimensions which make societies different¹⁶⁹⁵: power distance, uncertainty avoidance, individualism and masculinity.

The author also uses in his study Hofstede's typology to categorize the different types of nationalities and their culture¹⁶⁹⁶:

- Functionalists (Nordics, Anglo-Saxons): people with high common-sense, with a well-developed sense of perceived risk; they have the tendency to be individualistic;
- Deferents (Latin nations, Mediterranean and Japan): the opposite of functionalists; are hard-working and obedient;
- Survivors (German): they weigh all possibilities and then they choose the one which can help them achieve their goal;
- Enthusiasts (Asian and African people): they listen to their superiors and are risk-tolerant.

He offers another typology, in order to complete the first one:

- Achievers (American business men, Anglo and some of the Asian): are aggressive and very competitive; their morality is variable;
- Absolutists (Latin Americans and Asian): are cooperant and are encouraged to take group decisions-collectivists;
- Situationists (some of the Latin, German and Japan): they accept a condition only if it brings safety and benefits;
- Conservationists (Indonesia, few of the Nordics and Africans): are preoccupied with society and environment.

The conclusions of Rawwas's study are that functionalists have a tendency of being more pragmatic, deferents have more stringent ethical values, absolutists can be idealistic and achievers more relativistic. Babakus et. ali, regarding the attitude towards unethical behaviour, have made a classification of the consumers, giving five different categories¹⁶⁹⁷:

- Puritans;
- Realists;
- Indifferent;
- Tolerant;
- Cynics.

The extremities are puritans and cynics and show the most clear segmentation. Puritans mostly young people (57%), mostly female (57%) and Anglo-Saxons. Cynics, although have a small overall percentage, include young people (89%), male (53%), the majority form the UK (73%).

In a study regarding similarities between the opinions towards ethical behaviour of countries from the North and South of the European Union, Polonsky et. ali remind about four categories of questionable behaviour¹⁶⁹⁸:

- People who actively benefit on the behalf of the retailer;
- People who passively benefit on the behalf of the retailer;
- Deceitful practices;
- No harm/no foul.

The first category is related to consumers who initiate this type of actions and who perceive the action as being illegal. In the second, the situations are determined by the seller's mistakes and the consumers don't do anything to correct them. The third category regards situations which are initiated by

¹⁶⁹⁵ Apud Rawwas Y.A. M., *Culture, personality and morality. A typology of international consumers' ethical beliefs*, International Marketing Review, MCB University Press, vol. 18, no. 2, 2001, p. 189.

¹⁶⁹⁶ Idem, pp. 192-193.

¹⁶⁹⁷ Babakus E., Cornwell T.B., Mitchell V., Schlegelmilch B., *Reactions to unethical consumer behaviour across six countries*, Journal of Consumer Marketing, Emerald Group Publishing Ltd., vol. 21, no. 4, 2004, p. 260.

¹⁶⁹⁸ Polonsky J.M., Brito Q.P., Pinto J. , Higgs-Klein N., *Consumer Ethics in the European Union: A Comparison of Northern and Southern Views*, Journal of Business Ethics, Kluwer Academic Publishers, vol. 31, 2001, p. 119.

consumers who do not see the act as being illegal. Finally, the last category describes the situations in which consumers think that no harm is done to the seller.

Regarding possible causes that determine people to engage or tolerate unethical behaviour, Carrigan and Attalla (2001) have identified the following:

- Poor quality of information; in order to maintain an ethical behaviour, people must be constantly informed;
- There are too little constraints for companies to behave in an ethical manner;
- The gap between attitude and behaviour;
- The lack of personal impact.

Callen-Marchione and Ownbey (2008) make a very interesting point by sustaining the idea that an unethical behaviour can determine supplementary costs for the consumers, as sellers increase prices to cover losses, an adverse shopping environment and many restrictive policies in stores.

4. Conclusions. Further research

Although ethical behaviour is presented from different views in the marketing literature, its importance remains the same. Ethical behaviour includes both consumers and companies behaviour and attitudes towards morality, honesty and environmental protection.

Ethical behaviour is seen from the environmental perspective (eco-buying, recycling, boycotting companies which have an unethical behaviour) and from the moral perspective (shoplifting, counterfeiting products, buying/selling pirated music, films and software).

This type of behaviour could not exist without the influence of such factors as: demographic factors (age, sex, education), cultural (the differences between nationalities) and situational factors.

Adopting a certain behaviour or simply having an opinion are not the only important elements. People are extremely diverse, but through some similar characteristics, different typologies have been conceived by specialists, in order to help international commerce and marketing.

Even though the causes that lead to unethical behaviour seem changeable, consumers along with companies put very little effort in making an importance change.

An interesting subject for further researches would be how countries from Europe differentiate from one another regarding ethical behaviour. For example, a study regarding the ethics in countries from Eastern Europe, especially in the economic crisis context, can be taken in account for the following researches.

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SOME ASPECTS OF THE ROLE OF VISUAL IDENTITY IN THE SUCCESSFUL IMPLEMENTATION OF THE PROMOTIONAL STRATEGY

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This paper wishes to emphasize the necessity and importance of the communicational capital of a business, in the midst of fierce competition and 'bombarding' of all clients with a great deal of data through classical methods of advertising. The overcrowding of media channels with information about different products, the excessive advertising through classical methods (e.g. TV, radio, media) has led to a negative attitude of potential clients towards such items. Hence, a boomerang effect has occurred as a result of the above-mentioned excess of advertising products and services. Furthermore, marketing specialists have come to the conclusion that the single promoting of a product through TV, radio, media will not make the consumer choose a certain product / service or a brand. But the integrated concept of communication will...

Keywords: communicational capital, promotional strategies, visual identity, identity manual

Code Jel:M31

1. Context

Given these circumstances, the question „Why to communicate ?” is considered out-of-date. The importance of communication between organizations and different categories of public was emphasized and demonstrated a long time ago. Nowadays, the real question, which is an issue for most marketers who understand the importance of communication is: „How to communicate ?”

Communication is closely linked to the marketing activity and, mainly, to the promotion concept. Not once or twice the two notions have been confused or dealt with as a single identity. There are authors who treat the concept communication – promotion as a whole – part type.

Philip Kotler, the famous American professor, defines marketing communication with the help of the total communicational mix of a company. According to him, it consists of „*a specific combination of advertising, distribution channel, sales promoting and public relations, which a business utilizes in order to meet its advertising and marketing goals.*”¹⁶⁹⁹

Corporate communication has *the mission of determining the position of a given company, of building itself an acknowledged personality and a distinct identity from its competitors?* Communication within a company defines its characteristics relative to other enterprises. This communication is of two different types:

- *external communication*, namely the relations of a business to the market, its business partners, distributors, banks, financial community, media, etc.,
- *internal communication*, which grows among the human resources department: employees, managers, share-holders, etc.

The marketing strategy is the path a company chooses to take in order to reach its marketing objectives.¹⁷⁰⁰ It is represented by the whole of the concrete objectives an organization is bound to reach in a given period of time, of the means and methods by which these objectives are practically made use of, in accordance with the tendencies and requirements of the throughput, which is measured with the help of economic indicators such as: stock market, sales, profit.

¹⁶⁹⁹ Kotler, Ph., Armstrong, G. – „Principiile Marketingului”, Ediția Europeană, Editura Teora, București, 2000.

¹⁷⁰⁰ Botezat, Elena- „Bazele marketingului”, Ed. Universității din Oradea, Oradea, 2006.

In the light of the current situation of the market, at a time when, for the majority of products and services, supply exceeds demand, it is a must for companies to communicate with their present or potential clients. Most companies have the tendency to approach promotional strategies such as „pull strategy” (sales promotions). Such strategies involve marketing activities, especially advertising and promoting on the consumer market, aimed at the final user and meant to make him / her ask intermediaries to provide additional products, and determine the latter to order those specific products from the producers.

As to the external communication, apart from promotional activities, one must take into account a series of supporting communicational elements, such as: brand, image, marking and packing of a product / service, employees’ attitude and behaviour, the aspect and the environment of workplaces (registered or head offices, shops, warehouses, etc.) All these elements have brought about the building up of communicational capital.

The communicational capital of an organization is the total amount information disseminated within and outside the company, to different categories of public.

Global image of a business results from the totality of its expressions: corporate (institutional), commercial (company reports about products or brands) and internal (communication with people from within).

There are two distinguishable types of marketing communication:

- promotional communication (namely, communication techniques used in an temporary advertising campaigns);
- continuous communication (around the clock communication with the target public).

Due to the large number of companies, marks, products lingering on the market and to their advertising campaigns, customers often feel confused or even have the tendency of ignoring and rejecting from the very beginning any new piece of information in the field. It is for this very reason that marketing specialists have started to become more and more aware of the importance of a continuous communication and to concentrate all their efforts in this direction.

2. Visual identity

In close relation to the concept of communicational capital, we may refer to the **visual communication** of a company. The succes on the market of any given company relies on the way in which it manages to distinguish itself from its competitors and to mark a particular spot in the mind of the target market. Hence, the creation and development of a suggestive and steadfast visual identity are essential. The instrument which deals with all the information about the **visual identity** of a business is the **identity manual**.

Talking about visual communication, Marie - Helene Westphalen mentions three elements:

- a) A logo and a system of visual identification (Logo or „specific mark” represents the association of a graphic image with its symbolism and colours).
- b) Visual communication applied to the product itself (industrial design and communication through package designs).
- c) Communication through environment or environmental design (devising work spaces, commercial and exhibition areas)¹⁷⁰¹.

Visual identity gives us information about the values and principles of a organization, about its quality and domain of activity. All these information are perceived in a matter of moments. The creation of a coherent and strong visual identity represents the turning point of a successful brand. Visual identity of good quality must accurately reflect the business and its founders, render credibility and trust to the brand customers.

Creating a visual identity is not an easy task. It has to follow a few basic steps:

- to reflect its domain of activity, its personality or a definite characteristic of the business;

¹⁷⁰¹ Westphalen, Marie- Helene- Comunicarea externă a firmei, Ed. C.H. Beck, București, 2008.

- to be able to hold good in the long run (altering its visual identity would result in a series of material and emotional costs) ;
- its logo must be clean-cut, easy to understand and to tell the story of the company;
- to be able to adapt itself to various graphic supports and to evolution, as well;
- its slogan has the purpose of deriving benefits for the client.

“On a competition market, where one must struggle with experienced companies and corporations, you must always be a step ahead. Unlike a few years ago, when only a few companies understood the importance of visual identity, at present it is absolutely necessary to understand and make a profit out of this issue”, thinks Georgiana Radu, managing partner and co-founder of full service [Brandaffair Advertising](#).¹⁷⁰²

Promotional communication

Freidmann Schulz von Thun, a German psychologist and specialist in communication sciences, has worked up a communication model which devises all messages in four groups: fact, self-revealing, relationship and appeal. This model can be applied to promotional communication as well. We may think that a piece of news is the promotional message.

a) The content of the promotional message: offers an answer to the question: „What do I give information about ?” A promotional message keeps us informed about a particular product / service, shop, special offer. Its content may be as well: „We have launched on the market the new product X”.

b) Self-revelation (self-exposure) is related to the information about the speaker, what s/he actually means through his / her words. In the case of the promotional message the company / organization who launches a product / service is the sender. We could say such things about the company: „Who are they ?”, „Have I heard about it or its products ?” „It tries to adapt itself to the customers’ needs”, „This company is struggling to develop itself”, „This service is useful to me”.

c) The relationship – the sender expresses what s/he thinks about the receiver and how s/he gets along with him / her. A certain company wants to sell its product / service to customers. Its target is to convince the receiver (potential clients) to make the decision of buying. In other words, the company wants to tell the receiver: „You need the product I am offering you”.

d) The appeal – the sender wants to influence the receiver, to cause a change in the latter’s attitude or behaviour. The companies which communicate have the desire to influence the buying or consumption behaviour of the target market (consumers) and cause changes in making decisions. In the case of the promotional message the appeal of the companies is as follows: „Buy! My product is the ideal solution for you!” „You must buy this product!”, „This is the product you have been looking for and we are offering it to you!”

For the consumer (i.e. the receiver of the promotional message), the task of receiving and proper understanding of a message with so many meanings is not at all an easy one, all the more so as s/he is daily confronted with tens or even hundreds of such challenges.

Each and every day, we all are subject to a series of messages, new pieces information, often very inconsistent. Because of this excess of messages we have the tendency to filter the information, consciously or not, in terms of their sender. Nothing new when it comes to promotional messages: we pay attention and receive only those messages that come from people we know, who have a certain identity and whom we trust.

Up to the present at the base of the pyramid of the promotional mix lied advertising, in which most part of the marketing budget used to be invested. Then, we had sales promotion and personal selling. Public relations used to play a minor part. However, things have taken a reversed turn lately. At present, many of the companies must be aware that, prior to investing money in advertising through the classical media means, they have to introduce themselves to the target public. But, in order to do so, they must be „someone”, they must have an identity of their own. Only after they become „someone” they will have

¹⁷⁰² http://antreprenor.money.ro/cum_se_construieste_identitatea_vizuala_a_unui_start_up-84084.html.

an identity clearly stated, only then they will be able to send promotional messages on the classical channels.

3. Identity manual

The identity manual is a tool of utmost importance for a company's identity and especially for a brand. It provides all the visual guidelines of the company and the rules for applying them, with both negative and positive examples.

The necessity of centralization of all the elements the visual identity of a company embodies has sprung from the idea that the people who have initially drawn it and taken care of it launch are not the only ones who are responsible for its promotion. It may happen that a customer changes his / her agency or that the agency itself externalizes its services and is bound, therefore, to send its coworkers the exact technical details of the customers' brand.

As a result, in the contents of an identity manual, there are enlisted such aspects as acceptable and unacceptable elements of a logo, multimedia, map colour guide, dress codes, formatting for stationery, acceptable and unacceptable photos. Through this instrument a company manages to implement and keep the consistency, unity and coherence of a brand, from its logo to leaflets, from its web sites to TV commercials.

Components of the identity manual:

1. Logo is the milestone, the basic element of the identity of any given company and, at the same time, the starting point of the creation of the brand, „its signature'. In order to get off on the right foot in creating an identity one must pay close attention to the logo, which must be, first of all, a suggestive symbol for the target of the company, unique and easy to identify. This logo consists of graphic symbols (images), texts (letters) and specific colours. The result of this association must be clear, concise, identifiable and recognizable. As well as the targets of a corporation it has to follow the KISS rule: Keep it short and simple!

When choosing a logo one must take heed to its flexibility, to the implementing possibilities on different promotional materials.

2. Business cards – bear business information about an individual and enhance interhuman relationships. By way of them people formally introduce themselves and make the premises of starting anew, rescheduling or developing of an established relationship. In order to fulfill their intermediary role, business cards must reflect in a sincere, clear and convincing way the image of the individual or the legal entity it represents.¹⁷⁰³ A business card must include:

- identity: name and surname
- job, professional degree, scientific titles
- company affiliation
- contact address: address, phone number, email, website.

In addition to these, one can include other pieces of information such as: personal information (phone and address), domain/s of activity of the corporation, services his / her company offers, features of the organization or institutio. It is not advisable to add other types of information. But, when it is absolutely necessary, one must make much of the established rules in the identity manual and of the open-minded nature of a business card. A lot of useless information might lead to the loss of essence of this instrument.

The design of a business card must be inspired, original, in perfect key with the organization personality, must stick to the requirements of the identity manual of the corporation, namely its logo, keeping to the approved space, utilization of the specific colour scheme of the brand, the ordering of materials in the space given, supporting typography and letter sizes, utilization of other graphic elements apart from a customized setting of the name.

The type of paper chosen for printing the card may give them a distinctive feature. In terms of the domain of activity of the organization, of its prestige and reputation, one can choose a common type of

¹⁷⁰³ Graur, Evelina – „Tehnici de comunicare”, Ed. Mediamira, Cluj-Napoca, 2001.

paper or stock, with or without a glossy coat. Business cards in a company may be different depending on whom they are imprinted for (e.g. managers, client service personnel, PR, etc.). They can be either in Romanian or another foreign language (e.g. English, French, German), but never in both languages on the same card.

3. Stationery: letterhead design, envelopes, portfolios, catalogues – are all important factors in communicating with business partners (clients, distributors, share-holders, financial distributors, governmental organisms). Using such tools is a proof of professionalism, coherence and unity of communication and helps in strengthening the brand.

4. Dress codes – a personalized attire supports both internal communication (employees feel they are members of the same family, building up a sense of affiliation and mutual respect) and external communication (clients associate the employee with the company s/he stands for). Moreover, a particular business attire is another form of promoting the image of the brand.

5. Promotional materials (pens, caps, T-shirts, keyrings, etc.) are offered on special occasions or events to coworkers. The right materials must be carefully chosen. They can have a big contribution to the image of the company. The quality of these products must reflect the image the company wants the others to picture. Furthermore, they must be carefully chosen when it comes to special days and events: Christian feasts, national celebrations (e.g. Women's Day, the 1st of May, the 9th of May, etc.), launch of a new product or the company's anniversary, signing of an important contract, the successful completion of a project, a press conference, etc. Special attention must be rendered both to the colour scheme of these materials (which must illustrate the brand) and to the personalization methods: imprinting, inscribing, engraving, etc., in perfect accordance with the 'flexibility' of the logo.

7. Cars imprinting - Similar to dress codes, it has two objectives: internal communication among employees and external communication, a form of promoting. The selection of the cars has an important contribution to the improvement of the brand image. The association of the company with the brand image of an acknowledged motor vehicle manufacturer will urge respect and will be a sign of security and financial performance. Likewise, the colours must assent to the brand colours or, at least, to allow the logo to be used in its simple form.

8. Website and CD presentations – Nowadays, the development of technology, of the communication system has led to an overall digitizing of the world (including the economic relations). The era of communication on the internet has brought about the development of many interhuman and business relationships. The selection of a particular product / service is usually preceded by a more or less comprehensive research on the company's website, on different search engines or chatting with former or potential clients interested in the same product / service. Thus, we can say that, unless we are on the Internet, we do not exist!

A website with the most important and viable information for the clients and business partners may lead to a better company image, may be a proof of professionalism and especially of being up-to-date with technical evolution.

The website graphics and design require knowledge and careful usage of the company's identity manual. Unpleasant situations might arise: e.g. the usage of another colour or image or font might create a sense of confusion in the client, who may not be able to recognize the brand s/he is looking for or even worse, mistake a particular brand for a similar one.

4. A model identity manual of a private kindergarten („Cheerful little angels”)

The launch onto the market of a private kindergarten requires a lot of research work and preparation, including the right choice of its name.

The services, as well as the products offered to the children, have names inspired from fairytales or little animals. The nouns usually are used as diminutives. Besides nouns, in the name of the company we might have a number which bears a certain meaning in our literature (2, 3, 5, 7), or an adjective (small, tiny, cheerful, strong, hardworking, happy).

The logo we choose for such a company is illustrative of the services we offer to the children, but those who are responsible for their buying are the parents (especially mothers). Hence, the new logo must be

attractive, as colourful and cheerful and playful and friendly as it can possibly be for the little ones, but, at the same time, it must give a sense of trust, security, reliability, care and affection to the buyers, namely to the parents.

The logo components: graphic elements: three little angels (two boys and a girl, the idea of friendship) and a little cloud (innocence, dreams, ideals, childhood games).

The text: the name of the company was carefully chosen. The font is cheerful, playful, and the size of the letters highlights it. This font type is not grave, austere or formal. It suggests security, reliability, a long term investment, though.

The colours: the background colour is light blue and white. The little angels and their dresses have various colours, in soft pastels to enrich the palette colours and to attract the children's attention.

Business cards design. We need only typical business cards (with information about the kindergarten and manager). The background is pale blue, the text is white to enhance a light, not at all crowded imagery. The logo is placed at the top right corner, according to the rules in the manual.

Stationery elements (leaflets, posters and flyers): in harmony with the business cards serve the purpose of drawing children's attention and provide additional information. For each and every child we have prepared personalized labels with their names which have been stuck unto the hall stands. The portfolios, envelopes, letterhead sheets of papers stand for professionalism towards our coworkers: distributors, financial institutions, governmental organisms, etc.

Dress code: within an educational institution a decent, but comfortable attire is a must. The teaching staff must be allowed flexibility when playing with children. Hereby, we have chosen comfortable cotton collar-embroidered shirts for the teachers and personalized, unicoloured logo-imprinted T-shirts for the children.

Custom - imprinted vehicle: in which the children are safely driven. Its design has drawn the attention and affection of both the children who see it every day and of potential clients (a personalized vehicle = a promotion vehicle). We have selected a light blue Mercedes Vito van, ideal for our logo.

Website: provides information for those interested in our offer service, photo galleries, contact details, etc. The parents of the children enlisted in our facility have the possibility of choosing the daily menu for their child and of watching their children through the video surveillance cameras installed in classes, bedrooms, dining halls, yard, etc.

5. Conclusion

The communicational capital, as well as the other types of capital (financial, technological, human) requires financial resources and time in order to continuously develop and improve. Drafting an identity manual is not a cheap financial investment. The bare concept may cost between 1.000- 5.000 EUR, plus the production and personalization costs. But such an investment is to be yearly made up for with every new client. The initial target, of 30 children at the beginning of the school year, has been exceeded. We have 42 children in three different age groups. Once the identity of the company is firmly stated, the manager can think of other effective methods of promoting the kindergarten services. Until then the gained trust and recommendations are the best method of promotion.

In conclusion, the relevance of the communicational capital for organizations may be expressed by their capacity of issuing and capitalizing this capital both on corporative and commercial level, in order to reach the marketing objectives of the organization.

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STUDY REGARDING COMMUNICATION AND DISTRIBUTION ACTIVITIES WITHIN THE ROMANIAN MONASTERIES

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The purpose of this paper is to examine the way in which Romanian monastic compounds promote their religious attraction and the degree of collaboration between monasteries and intermediaries in the religious tourism market. The study was carried on in more than 100 monasteries and showed the existence of significant differences regarding the promotion activities among monasteries because of the characteristics of the religious compounds. Moreover the results indicated there are opportunities to develop relationships and partnerships between monasteries and the other actors involved in organizing the travels with religious motivations.

Keywords: communication tools, distribution activities, religious sites, religious travel.

JEL classification: M 3.

1. Introduction

As in case of the other forms of tourism, the religious tourism should be seen into a competitive environment, in which the representatives of religious tourism supply try to attract and retain the customers or precisely try to attract a larger number of believers within sacred places. Although representatives of pilgrimage places say that we cannot speak about a competition among pilgrimage places from Romania, yet the number of visitors, the development, and the notoriety of these places vary greatly from one to other (Chiș and Țirca, 2009). Even if the religion or the religious needs are less important in a post-modern secular if not atheist society (Widenfeld and Ron, 2008) and the number of church attendants in Europe decreases (Nolan and Nolan, 1992), the number of visitors to religious sites is continuously increasing. Moreover religious tourism and/or pilgrimages are described as a new trend on travel market, a rapidly increasing segment (Country Brand Index, 2008).

This aspect is determined on one hand by consumer behavior, but in the same time can be a result of marketing and management instruments used by representatives of the religious attractions, even if they are not known under this name or they are not used for a commercial purpose.

Such example is the study of Pavicic et al. (2007) which presents many aspects related to management of communication and promotion to Marija Bistrica shrine.

The results of this study show that the main reason for the attraction of visitors to religious places is redemption and closeness to God; this is also the main goal when developing collaborative relationships with various intermediaries on the tourism market. Hereby we can speak about an attempt to adapt the religious tourism supply to consumers' needs, not in the sense of modifying the dogma or religious values, but using the specific communication tools and establishing partnerships between the actors in the religious tourism market. These aspects are brought up by Angheluță et al. (2009) which presents the utility of the market for religious organisations, in this case the Church.

3. Objectives and methodology

The present paper has two objectives: on the one hand to identify the medium used by the most important pilgrimage places from Romania to inform the public, and on the other hand to determine the collaborative relationships with intermediary agents in order to include religious attractions in tourism programs. In other words, we want to study two major activities of religious compounds which can greatly benefit from target audience-centred orientation: the communication - promotion and the delivery of religious tourism offerings.

The hypotheses considered in this study are:

- *Hypothesis #1: The communication tools used significantly differ because of the characteristics of the religious organizations.*
- *Hypothesis #2: The degree of collaboration between religious organizations and travel agents significantly differ because of the characteristics of the religious organizations.*

As three identification characteristics of monastery were taken into consideration (the type, the size and the Metropolis Church) *each hypothesis statement was divided in three, resulting six hypothesis.*

The research was carried on among the orthodox monastery in Romania, the major destinations for religious-based travels as pilgrimages and religious tourism. The *sampling unit* was the monastic compounds represented by abbot as manager of the monastery.

Due to the difficulty in contacting the abbots, the delicacy of the subject and the high geographic dispersion of monasteries, we chose *a mix sampling method*. The research was carried out through survey method, using the interview technique. *The questionnaire was the instrument of data gathering.*

The sample included 151 monasteries from 24 counties of whole Romanian Metropolis: the Metropolis of Cluj, Alba, Crişana and Maramureş 57.55%, the Metropolis of Muntenia and Dobrogea 2.88%, the Metropolis of Moldavia and Bucovina 15.11%, the Metropolis of Oltenia 7.19%, The Metropolis of Banat 10.79%, The Metropolis of Ardeal 6.47%. Regarding the type of monastery, 51.08% were monk monasteries and 48.92% were nun monasteries. Related to the size of monasteries in terms of numbers of inhabitants, the monasteries were divided into five categories from small monasteries (have no more than 5 inhabitants) to large monasteries (have more than 25 inhabitants).

4. Results

First, we tried to determine if the abbots think it is necessarily to carry on activities in order to attract people to monasteries, as a way to draw them closer them to God. We used a five-step scale from “certainly not” (value=-2) to “certainly yes” (value=+2). While this question may seem surprising, it is justified, because according to religious representatives’ statements based on orthodox dogma, people must visit the monasteries as their own choice, not because they are constraint or influenced. This is the reason the information tools used by orthodox monasteries don’t have invitations to visit them, only just schedules. Besides, the mission for many monasteries regarded the withdrawing from the world and solitude.

But, the answers pointed up that more than 50% from the abbots consider that monasteries should definitely attract people to them (“certainly yes”), however with the reason of drawing them closer to God. The mean is $M=0.91$ ($S.E=0.128$) (Table 1). *The abbots’ view significantly differs because of the type of monastery and the Metropolis Church.*

Table 1. The influence of monastery’s characteristics on abbots’ view regarding the necessity to attract people to monasteries

The view of abbots		Factors that influence abbots perception	
<i>Certainly not</i>	11.60%	Monastery size	$F=1.001$ ($p=0.421>0.05$)
<i>Probably not</i>	8.30%	Metropolis Church	$C=0.467$ ($df =20$; $p=0.028<0.05$)
<i>Indifferent</i>	5.00%	Monastery type	$C=0.300$ ($df =4$; $p=0.017<0.05$) $Z= -2.318$ ($p=0.020<0.05$)
<i>Probably yes</i>	24.80%		
<i>Certainly yes</i>	50.40%		

C= Pearson Correlation Coefficient; Z= Mann-Whitney Nonparametric Test; F=ANOVA test.

We tried to determine if there is an opportunity to develop promotion strategies for monastic compounds, to use religious tourism as a way to achieve the spiritual mission of the monasteries. As we can see, in most of cases the abbots' view allows such approach but it should take into consideration the characteristics of the monasteries.

Regarding the communication tools used by monasteries, the results indicated the monastery guides as being the most used (especially in monks monasteries), followed by the monastery flyers (Table 2). The main disadvantages of the brochures are the low market coverage and the reduced impact because usually, they can be found in monasteries.

Table 2. The influence of monastery's characteristics on the communication tools used by monastic compounds

The communication tools used by monasteries	The characteristics of monastery which influences the communication tools used
<i>Religious publications</i>	33.33% -
<i>Specialised broadcast stations</i>	38.21% -
<i>Travel guides of Romanian monasteries</i>	75.61% Monastery type: $C=0.258$ ($df=1$, $p=0.003<0.05$); $Z= -2.748$ ($p=0.006<0.05$).
<i>Monastery brochures</i>	36.58% Monastery size: $C=0.270$ ($df=1$, $p=0.002<0.05$); $Z= -3.084$ ($p=0.002<0.05$).
<i>Monastery flyers</i>	55.28% Monastery type: $F=2.351$ ($p=0.045<0.05$).
<i>Postcards</i>	35.77% Metropolis Church: $C=0.309$ ($df=5$, $p=0.028<0.05$).
<i>Monastery CDs</i>	17.07% Metropolis Church: $C=0.318$ ($df=5$, $p=0.018<0.05$). Monastery size: $C=0.325$ ($df=5$, $p=0.015<0.05$); $F=3.252$ ($p=0.009<0.05$).
<i>Monastery website</i>	24.39% Metropolis Church: $C=0.306$ ($df=5$, $p=0.029<0.05$).
<i>Metropolis websites</i>	37.39% -
<i>Tourist information websites</i>	25.20% -
<i>The travel agencies offerings</i>	10.56% Metropolis Church: $C=0.322$ ($df=5$, $p=0.018<0.05$).

C= Pearson Correlation Coefficient; Z= Mann-Whitney Nonparametric Test; F=ANOVA test.

Thus brochures are mostly used for the presentation of large monasteries, and the flyers for monks' monasteries. Postcards and CDs are means of promotion especially for the monasteries belonging to Moldavia and Bucovina Metropolis Church and Oltenia Metropolis Church. The monasteries from Moldavia and Bucovina Metropolis Church and Muntenia and Dobrodgea Metropolis Church are using their own website for communication, and those for Muntenia and Dobrudja Metropolis are using the Metropolis and Archbishoprics website. The last two Metropolis Churches mentioned and Vadului, Feleacului and Clujului Metropolis Church are the most often structures included in the travel agencies offers.

The communication tools with higher audience like specialised radio and television stations are used by 40% of monastic compounds. Almost 30% of monasteries are using their own website and almost 40% of monasteries are using Metropolis' website to deliver the information. Just 10.56% of monastic compounds use travel agencies and almost 25.20% of them use tourist information websites to give information. 10% of the abbots mention word of mouth advertising, and most probably the percent is higher, but we didn't included it within the predefined variables as we intend to determine just the impersonal communication tools. We consider that word of mouth advertising would be better identified if analysing the religious tourism demand.

The communication tools used by monasteries significantly differ because of the characteristics of the religious organizations, especially in case of the Metropolis of belonging, but in most situations there is medium relationship between variables.

Regarding the content of the message within information and/or presentation materials we tried to determine the explanation for the very beautiful pictures with monasteries using open ended questions: *We assume that the extraordinary content of the pictures and brochures is a way to attract the people to monasteries, being a promotion strategy.* The answers haven't confirmed entirely the hypothesis statement (Table 3).

Table 3. The reasons for the content of the presentation materials of the monasteries

The reasons for the content of the pictures of the monasteries		The characteristics of monastery which influence the abbots' opinions
<i>To attract people, promotion</i>	25.64%	The Metropolis Church: C=0.513 (<i>df</i> =20, <i>p</i> =0.005<0.05).
<i>It shows the "Gift of God"</i>	17.95%	
<i>It represents the beauty of the places</i>	41.88%	
<i>Is due to photographer skills</i>	7.69%	
<i>Others</i>	6.84%	

C= Pearson Correlation Coefficient.

Most of the abbots think the beauty of the pictures and brochures is given by the fact that they capture the loveliness of the surroundings. 25.64% of abbots think the content of the pictures is to promote, to attract people and almost 18% think the beauty of the pictures shows the work of God. The Metropolis of belonging influences greatly the answers of the abbots.

Next, we tried to determine the collaboration relationships between monasteries and organized groups of visitors, religious organisations or travel intermediaries. Hereby, in 60.3% of the cases to monasteries arrive organized groups of religious associations (ASCOR, Liga Studentească etc.), mainly young people, but sometimes come organized groups of pupils, elderly persons from asylums or even children. The question regarding the collaboration with members of religious organisations was meant to determine in the case of good cooperation, if it's possible to develop cooperation relations with non religious groups who want to visit the monastery. The results indicate the possibility to establish such relationships.

Just a small percent of monasteries appear in travel agencies offers (11.50%) and 15.70% cooperate with Pilgrimage Bureaus of Metropolis or Patriarchy. More than 70% of abbots received no proposals to introduce monasteries into tourism programs, and 6.60% refused such offers. For monasteries which cooperate with Travel agencies or Pilgrimage bureaus, the proposals came from travel organizers in 72.70% of cases and the rest from monasteries.

Table 4. The collaboration between monasteries and travel organisers

<i>Travel agencies</i>	4.10%
<i>Pilgrimage Bureaus of Metropolis or Patriarchy</i>	8.30%
<i>Travel agencies and pilgrimage bureaus</i>	7.40%
<i>Refused the collaboration offers</i>	6.60%
<i>Never received cooperation proposals</i>	73.60%

Testing the hypothesis shows there are no significant differences between the nature of the relationships and the characteristics of the monasteries therefore the *hypothesis #2 is not valid.*

Next, we tried to determine if such collaborative relationships with travel planners are possible from monastery abbots' view. All subjects answered to this question even if there are no contracts between monasteries and travel agencies or pilgrimage bureaus. To determine their view we used a five step

scale from “very detrimental” (value=-2) to “very beneficial” (value=+2). More than 60% of abbots consider that the collaboration relationships with travel organisers are “beneficial” or “very beneficial” and 30% of them indifferent, and none of them think such relationships as being “very detrimental”. Mean of the variable is 0.62 (*S.E*=0.062) (Table 5).

Table 5. Abbots’ view regarding the opportunity to develop relationships with travel organizers

The abbots’ view regarding the opportunity to develop relationships with travel organisers		The factors that influence abbots perception	
<i>Very detrimental</i>	0.00%	<i>Monastery size</i>	F=1.848 (<i>p</i> =0.110>0.05)
<i>detrimental</i>	6.10%	<i>Metropolis church</i>	C=0.329 (<i>df</i> =15; <i>p</i> =0.531>0.05)
<i>Indifferent</i>	30.40%	<i>Monastery type</i>	C=0.328 (<i>df</i> =3; <i>p</i>=0.003<0.05) Z= -3.659 (<i>p</i>=0.000<0.05)
<i>Beneficial</i>	59.10%		
<i>Very beneficial</i>	4.30%		

C = Pearson Correlation Coefficient; *Z* = Mann-Whitney Nonparametric Test; *F* = ANOVA test.

The tests show there are significant differences between abbots view regarding the opportunity to develop relationships with travel organisers, due to the type of monastery (more suitable for monks monasteries).

6. Conclusions

The current paper presents some aspects of the communication and delivering activities carried out by the monastic compounds from Romania, representing the main pilgrimage places for Romanian orthodox spirituality. *The novelty of this subject is very high in Romanian literature, because such research wasn’t carried out in our country until now.*

The results showed that communication activities are not very developed, using mainly the classical communication tools. *The most used tools to deliver information to target audience and believers are monasteries guides and brochures.* Just 25% of the religious compounds have their own website and 10% of them cooperate with travel agencies. *The communication tools used significantly differ because of the type and the size of monasteries and due to the Metropolis of belonging.* The aesthetic of the pictures from promotion materials is used in 25% of monasteries in order to attract visitors.

Regarding the cooperation with various intermediaries from tourism market, *more than 70% of the monastic compounds have no relationships with travels organizers, such as travel agencies or pilgrimage bureaus, although almost same percent of the abbots consider these relationships beneficial or very beneficial, and 60% of them receive organised groups of visitors, especially members of the religious organisations.*

Thereby, we can assume there *is a high potential of collaboration* between actors in the travel market and pilgrimage places, as well as an *obvious orientation of monasteries towards the usage of the most effective communication tools*, but only if the *main reason and the mission of the cooperation and communication activities is the religious experience of the traveller.*

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THE FACTORS THAT INFLUENCE THE ROMANIAN BANKING MARKET DURING POST-ACCESSION PERIOD

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In a developing economy, like the one of Romania, frequent changes take place in all areas, including the banking market. The Romanian banking environment is frequently influenced by various factors. The article shows the changes that have taken place in the Romanian banking market during the period 2007-2010 as a consequence of these factors. The research consisted in presenting the most important political, economical, social and technological factors which have influenced the banking market after Romania's integration to the European Union. Based on the analysis of these factors' influence, I have presented the developing manner of the Romanian banking market after joining the European Union, but also the problems faced in the context of the current global crisis.

Keywords: banking system, integration, financial indicator, bank marketing.

Code JEL: M31, G21

Introduction

The banking market in Romania is in a continuous movement since the environment is changing, the customers' needs and the competition are changing. Achieving success on an internal market which constantly changes its dimensions and internal structure, which improves its manner of carrying on its transactions, which uses the new technology in performing its operations, can only be made by adapting it to the external changes which represent its only viable alternative¹⁷⁰⁴.

Factors that influence the Romanian banking market

This environment in which the banks perform their activity is influenced by the following factors: political, social, technological and economical.

a) Political environment. The intervention of the politic in the banking activity is extremely detrimental because the political regime influenced the economical development, fluctuations based on governments being registered. During the period 1990-1996, Romania is facing both an economical and a political crisis caused by the politicizing of the positions in most of the government institutions. The banking sector was affected as well by this state of affairs, the government banks being divided between the political leaders as follows: BCR (Romanian Commercial Bank), CEC (Romanian Savings Bank) were administered by PNTCD (Christian-Democratic National Peasants' Party), Banca Agricola (Agricultural Bank) was given to PD (Democratic Party), etc.

The influence of the politic in the economical sector, and banking as well, has not been removed until today. By the agreement made with IMF (International Monetary Fund), Romania must receive almost 20 billion Euros, for a 2 year period. The biggest share of the money, meaning 12.9 billion Euros, must enter the foreign currency reserves of BNR (National Bank of Romania) in order to support the local currency (leu). The first part of 5 billion Euros entered the country in May 2009, and the average interest of the loan from IMF represented 3.5% per annum. From the European Union, Romania must receive 5 billion Euros (with an interest between 2 and 2.5%), a loan which firstly financed the budget

¹⁷⁰⁴ Constantin Rotaru, *Sistemul bancar românesc și integrarea europeană*, Ed. Expert, București, 2008, p.23.

deficit, and from the World Bank and from the European Bank for Reconstruction 2 more billion Euros intended for economy and banking system will come¹⁷⁰⁵.

At 1st of October 2009, Romania sinks into a new crisis, when the government coalition between the center-right party of president Traian Basescu (PD-L Democratic-Liberal Party) and the Social-Democratic Party (PSD) dissolves, causing an aggravation of the economical crisis.

After 6th of December 2009, the political crisis became even deeper when the final results of the presidential elections overturned the polls and brought out Traian Basescu as leader¹⁷⁰⁶.

The agitation in the Romanian political life determined a delay in the finalization of Romania evaluation process by IMF and implicitly a delay in granting the third part of 1.5 billion Euros, offered by IMF and the World Bank, following the delay of the government in the preparation of the consolidated budget for 2010. The banking system has also been affected by this crisis and the results did not delay in showing up: the number of credits granted to customers decreased, especially to SMEs (Small and Medium Enterprises), the number of bad debtors increased, etc.

b) Social environment. The social environment refers to *demographical, cultural and lifestyle changes*, the consumer *attitude and perception* changes. The banks must monitor the demographical tendencies, they must mark their probable impact and they must decide on the needed actions. The absence of the above could create problems for the banks.

The population number and structure of Romania has suffered major changes during the last 15 years.

During the period 2007-2009 the decreasing tendency of the population number continued, reaching from 21.53 million persons in 2007 to 21.49 million persons in 2008 (0.14% less than 2007) and to 21.45 million persons in 2009 (out of which 10.4 million men – 48.7% and 11.05 million women – 51.3%), considering the higher number of deaths compared to the number of newborns, according to the announcement of the National Statistics Institute (INS)¹⁷⁰⁷.

Therefore it can be said that the banks acting on the local banking market must consider the decrease of the young population number and the increase of the old population share when preparing its own strategies and the bank products and services as well, since in one way or another, this population represents the bank customers.

However, the *population attitudes and perceptions* did not change too much. Thus the population with the age over 46 continues to keep the savings at home, they prefer to pick up the money from the bank operator, they prefer to receive/send money by post-office and when applying for credits they prefer the credit cooperatives.

Unemployment rate. According to the latest data of the National Agency for Employment, the unemployment rate in December 2009 reached 7.8%, the total number of unemployed persons being of 683,123 persons, out of which 298,091 women. Romania is thus getting near the prognosis of IMF, who was estimating the number of unemployed persons at over one million persons for 2010. The effects of the current crisis have been felt by the local banking system not by wage reductions, but by the reduction of bonuses, benefits (which generally represent 15-25% of the yearly wage) and number of employees. Up to now, OTP Bank dismissed 5% of the employees and from Citibank around 100 persons were laid off. The number of unemployed persons coming from banking environment is over 7,000 persons¹⁷⁰⁸.

¹⁷⁰⁵ <http://www.fmi.ro/index.php?pid=116&lg=ro&presa>.

¹⁷⁰⁶ <http://media.ft.com/cms/bb0999bc-eba2-11dc-9493-0000779fd2ac.pdf>.

¹⁷⁰⁷ <http://www.insse.ro/cms/rw/pages/calendar/publicatii/mai.ro.do>.

¹⁷⁰⁸ <http://www.banisiafaceri.ro/analize>.

Real net average earning. The real earnings of the Romanians started on a descendent path since April 2009, and in October they reached the value of 1,375 Ron. In October 2009, the index of the real earnings was of 99.3%, the equivalent of a decrease in the real average earnings of 0.7 percentage points. In the below figure, the evolution of the real earnings during the period February 2000 – October 2009 can be observed¹⁷⁰⁹.

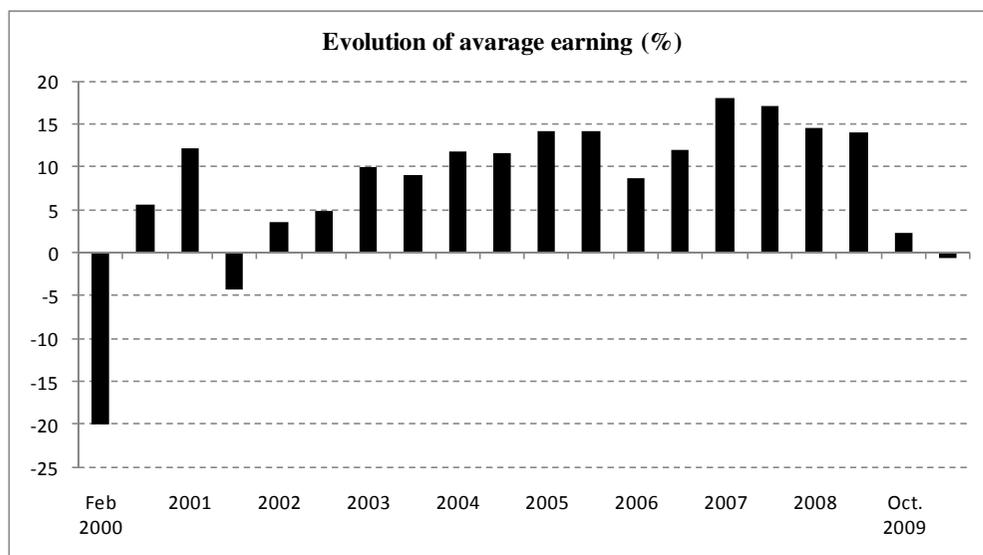


Fig. 1. Evolution of average earnings (%) during 2000-2009

Source: <http://www.insse.ro/cms/rw/pages/arhivaBuletine2009.ro.doc>.

The gross average earning in 2009 was of approximately 1,881 Ron¹⁷¹⁰. During the last years, the bank employees have been among the best-paid in the economy sector, according to the data provided by the National Statistics Institute, which indicates a gross average earning of 5,983 Ron (1,503 Euro) in the banking sector, almost three times higher than the average earning for the whole economy of 1,881 Ron, followed by the one of the employees in the pharmaceutical sector (918 Euro) and IT sector (880 Euro), according to Paywell study performed by PricewaterhouseCoopers (PwC).

Nevertheless, the earnings average has been “pulled down” by the entrance of a great many new employees into the system, since the earnings for the entry-level positions from the banking sector are not very high. However, during the last years, the earning increases have not been spectacular in banks: 10% in 2007, 9% in 2008 and 5% in 2009 considering that the market increased with 12-15%.

Consumption prices. The average increase of the prices per total in 2009 compared to 2008 determined based on CPI (Consumer Price Index), but also the one determined based on the harmonized index of consumer prices (HICP) was of 5.6%. Comparing 2009 with 2008, the highest increase of the consumer price index has been registered in services (8.97%), followed by non-food items (6.22%) and food items (3.25%)¹⁷¹¹. Under these conditions, the situation deterioration of the persons distributing over 80% of their income to cover the basic needs is natural. The living standard constantly decreasing, the

¹⁷⁰⁹ http://www.financiarul.com/articol_36837/efectele-crizei-salariul-mediu-net-real-s-a-redus-pentru-prima-data-in-ultimii-opt-ani.html.

¹⁷¹⁰ <http://www.insse.ro/cms/files/statistici/comunicate/castiguri/a09/cs12r09.pdf>.

¹⁷¹¹ <http://www.insse.ro/cms/files/statistici/comunicate/ipc/a09/ipc12r09.pdf>.

population's trust in banks and national currency is diminished, this being reflected in the structure of banking products inquiry.

c) Technological environment. In the development of the market economy, the banks are the biggest users of information technology (IT). It influences the offer of banking services as well as the efficiency of the banking processes. In the technology world, fast developments have occurred, new hardware and software products have been released, the operations which were manually performed are now computerized, the information systems being introduced at a large scale.

The technology had a deep impact on the sector of banking services in Romania as well. The increase of the competition, the more and more sophisticated inquiries from customers and a larger range of products will benefit from an improved technology. An example is given by the new technology for chip card reading, which was introduced in December 2009 by Citibank and BRD banks, while most of the POS systems on the Romanian banking market operate by magnetic stripe reading only¹⁷¹².

d) Economical environment. The second year of Romania's participation to EU mechanisms has been marked by a series of events, both external and internal, which have complicated the mission of the authorities to ensure macro-economical stability.

Internationally, the turbulences triggered in the summer of 2007 by the high risk mortgage loans (*subprime*) transformed during 2008 into the most severe international economical crisis since the Great Depression of 1929-1933. The crisis mainly affected the countries with high external deficits, including Romania. Internally, the economical aspect has been complicated by the parliamentary elections in November which have caused an unprecedented relaxation of the income and fiscal-budgetary policies¹⁷¹³.

The budget deficit reached the highest level of the last decade (5.4% of GDP), the expansion of the government sector cancelling almost integrally the external adjusting effort undertaken by the private sector and thus contributing to maintaining the current account deficit to a level perceived by the foreign investors as being much too high (7.4% of GDP in 2009). This evolution manifested itself in all emerging countries of EU, but in different proportions (Table 1).

Table 1. Evolution of current account deficits in emerging EU

	<i>percent of GDP</i>							
	<i>BZ</i>	<i>CZ</i>	<i>EE</i>	<i>LV</i>	<i>LI</i>	<i>HU</i>	<i>PL</i>	<i>RO</i>
Average 2002-2006	-9,0	-4,4	-12,2	-12,5	-7,4	-7,8	-2,4	-6,3
2007	-22,5	-1,5	-18,3	-22,5	-15,1	-6,2	-5,1	-13,5
2008	-24,8	-3,1	-9,1	-13,6	-12,2	-8,4	-5,3	-12,3
2009	-18,8	-3,2	-1,1	-1,5	-1,9	-5,0	-4,7	-7,4
2010	-17,2	-3,3	-3,1	-1,9	-0,7	-4,8	-3,7	-6,1

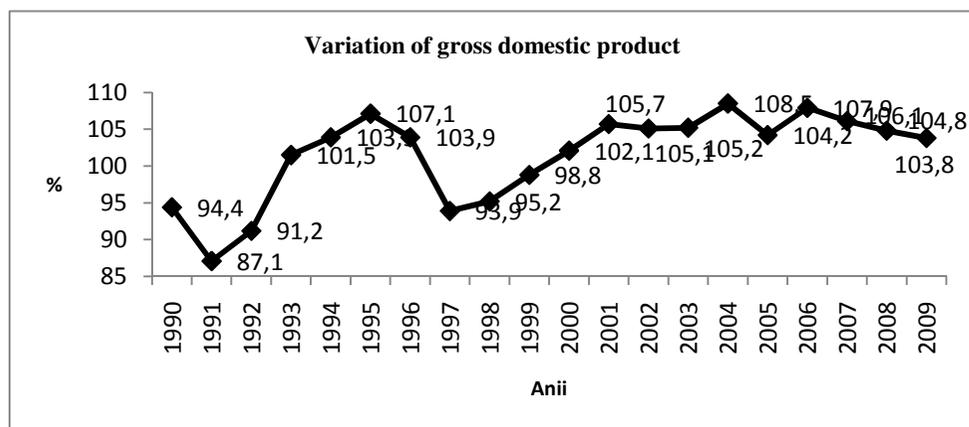
Source: <http://www.insse.ro/cms/rw/pages/arhivaBuletine2009.ro.doc>.

The correction of the current account deficit brings two important challenges: financial situation deterioration of the companies, especially those with import-export activity and the risk for the adjustment to take place especially by diminishing the investments.

¹⁷¹² <http://www.zf.ro/banci-si-asigurari/citibank-isi-securizeaza-cardurile-de-credit-cu-cipuri-5317658>.

¹⁷¹³ http://www.insse.ro/cms/rw/resource/rom_cifre_2008_ro.pdf.

After a decline period (1997-2001) of the *Gross Domestic Product (GDP)*, the economical growth re-launched starting with 2002. The growth has been determined significantly by the increase of the activity volume in the field of banking services, constructions and industry.¹⁷¹⁴



Source: http://www.insse.ro/cms/rw/resource/rom_cifre_2009_ro.pdf

Considering that the financial intermediation is still at a low level and taking into account the share of the bank assets in GDP compared to other countries in EU, the Romanian market potential remains high. Besides, the last years have been marked by a pronounced stimulation of bank activity and an increased competitiveness, the share of the banking system assets rising to 50.1% of GDP at the end of 2006, to 60.9% in 2007 and 62.4% in 2008.

Investments. At the end of 2007, the investments made in the national economy registered a remarkable increase of 151.7% compared to 2000. In 2009, on the main activities of the national economy, a higher concentration of the investment funds took place in the industry sector, including electrical and thermal energy, natural gas and water (40.6%), and in the services sector (44.1%). The foreign investments in Romania have reached a record level of 9 billion Euros in 2008.

In the banking system, after years in which the crediting achieved record levels, the moment of the payment has arrived and the authorities reached the point of borrowing from the International Monetary Fund (IMF) in order to cover the financial gaps, in the context of the financial corporations stopping the capital flows to Romania.

The analysts believe that the high external vulnerabilities of Romania, so negative in the context of the current financial and economical crisis, as well as the economical disarticulation by the unsolvable disequilibrium between consumption and production, is first of all the deed of the foreign banks and not the foreign investments.

In conclusion, among the changes that took place on the Romanian banking market after joining EU we can mention the following: the banks continued to improve the technology for a large range of products, they renewed their customer database and they used more aggressive strategies for customer segmentation and for the promotion of their own banking products; the decrease in the living standard diminished the trust of the population in banks and national currency, this being reflected in the decrease of the inquiry for banking products; the economical and political crisis in the Romanian economy materialized by the decrease in the number of loans granted to the population and especially to SMEs, as well as the increase in the number of bad debtors; the number of unemployed persons at national level increased, a relatively small part coming from banking environment; the gross average earnings of the Romanians increased while the earnings in banks remained relatively constant; the global economical crisis and the internal elections caused a relaxation of the income and fiscal-budgetary policies; in 2009 the highest budget deficit in the last decade was registered (5.4% of GDP)

¹⁷¹⁴ <http://www.insse.ro/cms/rw/forum/post535.ro.do>.

which contributed to maintaining the current account deficit at 7.4% of GDP, thus causing the decrease of the foreign entrepreneurs' interest in investments on the banking market and other fields of economy as well; the volume of foreign investments decreased and the authorities had to borrow from IMF in order to cover the financial gaps in the economy.

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CONCEPT AND EVOLUTION OF BANK MARKETING

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The bank marketing, a specialized field of the marketing, has emerged following the extensive development of the general marketing and following the appearance, separation and development of services marketing. The article shows the appearance, development and delimitation of the bank marketing concept following the increase of the financial-banking sector in all world countries due to the appearance of new competitors and the competition intensification. The research consisted in presenting the evolution stages of the bank marketing and the manner in which the concept has been approached and perceived, in time, by various Romanian and foreign specialists. Through analysis, I have shown the importance of including the bank marketing concept into the assembly of tactical and strategic decisions of the banking companies.

Keywords: marketing, bank marketing, concept, evolution.

Code JEL: M31, G21

Introduction

Following the extensive development of the marketing field, the consumer-goods marketing and the services marketing have resulted. The services marketing, as a distinct field, is characterized by a peculiar content where elements can be found similar to material goods (properly adapted) and other elements common to all services. It developed in two ways: one approaching the sector as a whole and another one specific to various categories of services, which underlies the appearance of some of its branches: *bank marketing*, *tourism marketing*, etc.

The marketing-specific applications within the activities performed by the banking institutions that offer their products and services, realized in the banking sector, to companies or organizations, government, other financial institutions and population as well, designate the *bank marketing*.

Bank marketing concept

The bank marketing is a specialized field of the marketing and it has emerged following the extensive development of the general marketing and following the appearance, development, separation, delimitation, deepening and specialization of services marketing. The bank marketing concept evolved following the significant increase in the developed countries of the financial sector and implicitly the banking sector due to the appearance of new competitors, the market overcapacity and the competition intensification.

*The bank marketing is "the marketing that applies in the *universal banks'* field (commercial banks as: savings and cooperative banks) and in the *specialized banks'* field (actual credit institutions, investment companies, etc.). Besides the insurance companies and savings institutions for constructions, the banks are the most important offerers on the market of financial services. Today, on the market of bank services, there is a powerful competition, the transparency is more pronounced and the customers have become more critical and less fastidious, being better informed about the monetary and financial issues, but also better advised for this purpose. Therefore, many banks admitted the need to develop and implement professional and efficient *bank marketing* in the relationship with their own private customers".*

In the specialty literature, the *bank marketing* is also called marketing for *services* or for immaterial goods. Compared to other services, the banking products are distinguished by the fact that they are *complex and abstract*. Most of the customers do not easily understand what the financial services

consist in, what benefit they bring and how they can be distinguished from one another. To this we can add the fact that the benefit of a banking service, for example a consultancy for the acquisition of a mortgage loan, for the placement of some shares or a funding for the execution of a construction, is exposed to an *external insecurity*, more than the other goods. The factors that influence these situations are the following: the evolution of national and world economy and the evolution of banking, monetary and capital markets. The exogenous insecurity and the immateriality generate a very high *qualitative insecurity* of the banking products for customers. Most of the banking products are mainly *integrating*, meaning that the customer takes part, more or less actively, in their realization.

For banking services, the specialist Kaas K.P. emphasizes the importance of the customers giving some information about the standard financial *data* (income and patrimony), about their financial *objectives* for life planning, about their attitude towards *risk*, about the intended period of the commitment, etc. in interaction with the bank employees. The immateriality and the abstractization of the banking services lead to the fact that, compared to the offerers of material goods; it is more difficult for a bank to create lasting competition advantages. The innovating products, for example a special savings contract or a chip card, cannot be protected against the competition by patents or property know-how. A bank can create competition advantages by a *high quality of the services, customer orientation and customer loyalty development*. To that effect, resources are needed which, on short term, are not available to all competitors. Examples to that effect are the customers carefully chosen, formed and motivated to serve the customers in an exceptional manner and also the information systems which allow the bank to optimally adapt its services to customer needs and restrictions¹⁷¹⁵.

The contemporary specialty literature shows numerous definitions of the *bank marketing*, more or less different, on the one hand due to the development level of the banking market and of the economy in the author's origin country and on the other hand due to the viewpoint in which the concept has been approached and perceived.

The English specialists C. Ennew, T. Watkins and M. Wright, in their writing "Marketing Financial Services", considered that the *bank marketing concept* implies "*the achievement of the bank objectives by establishing the needs and wishes of the target customers and the supply of the needed satisfaction in a more efficient manner than their competitors*"¹⁷¹⁶.

Another Belgian specialist Claessens R., in his writing "Marketing of retail banking products" stated that "*The banks should identify the future needs and wishes of the customers and should use their own services and distribution channels in order to efficiently develop the integrated marketing concept on long term*"¹⁷¹⁷.

In a brief formulation, the Romanian specialist Ionescu Lucian, in his writing "Bank marketing elements" states that the *bank marketing* represents "*the management of the processes leading to the satisfaction of the customer financial needs, in a manner profitable to the bank*"¹⁷¹⁸.

Another Romanian specialist, Dedu V. considered that "*the bank marketing refers to the actions taken through banks in order to satisfy the customer needs – private and companies*"¹⁷¹⁹

The specialist Odobescu E., in his writing "Modern bank marketing", stated that "*the adaptation of the bank marketing concept, as an assembly of strategic and tactical decisions adopted in the management process and the bank existence, implies the consideration of the following elements: satisfaction of customer needs, increasing the bank profitability, employees' involvement thus ensuring the cost*

¹⁷¹⁵ Florescu C., Malcomete P., POP N. Al., *Marketing, Dictionar Explicativ*, Editura Economică, București, 2004, p.394.

¹⁷¹⁶ Ennew C., Watkins T., Wright M.: *Marketing Financial Services*, Butterworth-Heinemann, Oxford, UK 1991, p.19.

¹⁷¹⁷ Claessens R.: *Marketing of retail banking products-From "Theory" to Practice & Strategic planning implementation*, U.B.I. Brussels, 2004, p 16.

¹⁷¹⁸ Ionescu L.: *Elemente de marketing bancar*, Romanian Banking Institute, București, 2001, p.17.

¹⁷¹⁹ Dedu V., *Gestiune și audit bancar-editia a doua*, Ed. Economică, București, 2008, p.278.

control and the income maximization, social responsibility, the bank needing to have a responsible behavior"¹⁷²⁰.

The bank marketing considers that the bank institutions must involve themselves to a great extent in the complex study of the customers (income level, lifestyle, financial situations, market positions, market shares, etc), they must try to influence their behavior and to keep a permanent and efficient communication in order to know better their preferences and demands, offering to them new and diversified products, constantly improved in quality, using a highly qualified personnel and in the same time efficiently using their own resources, thus ensuring their profitability increase.

Bank marketing evolution

The stages of the bank marketing evolution are the following:

-*during the 70s*, many banks did not use the marketing in their activity, their management being market-oriented. Once the competition intensified, some of the banks have started to use the marketing, launching some extremely expensive advertising campaigns. The banks were counting on the fact that they could fool the customers by various promotional activities, by which they could hide the negative aspects related to their own banking services. The first failures of the advertising campaigns proved to the banks that on the one hand these campaigns could ruin them, and on the other hand that the main problem did not consist in attracting new customers, but in keeping them. During this period, the advertisement was the most important marketing activity performed by the banks;

-*during the 80s*, the banks developed programs to support the business, they promoted the bank marketing on a large scale, engaging all its constituent aspects: establishing and organizing the offer of products/services to satisfy the existing needs; promoting and orientating the products/services towards responding to the considered requirements of the business. It is a time when the banks no longer accentuate the trade, the short term sale of banking products, their volume increase; instead they focus on the perennial value of the customer, pursuing the winning of new customers.

-*during the 90s*, the banks focused their efforts in order to create some superior banking products/services, on the one hand following the assurance of the customer needs' satisfaction, and on the other hand establishing lasting relationships with them. During this period, the financial sector and implicitly the banking sector experiences a significant growth in the developed countries.

-*during the 21st century*, the banks act in a dynamic environment, where the market and the other factors (components of the political, economical, social, juridical, cultural, demographical and technological environment) frequently raise problems, forcing them to additional efforts or offering them opportunities that need to be fructified as well as possible; they need to integrate their current actions to their long term objectives which were previously determined by the bank marketing policy. Adapting the banking institution's activity to the environment requires a continuous tracking of the structural quantity and quality changes which the environment registers or will register¹⁷²¹.

In conclusion, in order to successfully achieve the purpose of the marketing process, *the banks* should:

-perform analyses in order to know the bank customers to the highest possible extent, so that the offered banking products/services match their needs and the sale is ensured. That is why the bank needs to involve as actively as possible in their customers' activities, by financial and logistical support, specialty consultancy and assistance.

-perform studies, systematical analyses of the financial market identifying the profitable markets, the new capital flows on the financial markets, the new agencies, intermediaries and entrepreneurs (sellers) acting on these markets, their operations and performances.

-define and apply their strategies in their relation with the market, efficiently using their own resources in order to create new banking products/services and to diversify them according to the consumers' wishes and expectations.

¹⁷²⁰ Odobescu E., *Marketingul bancar modern*, Ed. Sigma, București 2007, p.17.

¹⁷²¹ Dedu V.: *Gestiune bancară*, Ed. Didactică și Pedagogică, București, 1999, p.9.

- try to obtain a lasting competition advantage by promoting high quality products/services, by customer orientation and by customer loyalty development.
- establish clear communication strategies for the customers, shareholders and employees.
- influence the customers' behavior since the profitability ratio of the banks is connected to their customers' profitability.
- determine certain specific indicators with the help of the financial – banking marketing, such as liquidity, solvency, interest rate and amount, the size of the production and investment expenditure estimates (especially within the credit banking product), bank capital adequacy ratio, the quality of credits portfolio by which to eliminate or to reduce the financial risk and to increase the profitability.

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ATTITUDES OF THE CONSUMERS REGARDING THE PROCESSING AND EMPLOYMENT OF THEIR PERSONAL DATA

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The concept of privacy, seen in connection with the consumer's private space, and defined in terms of the specific personal data has gained an increasing importance, as a result of the organizations' extended attempts, within their marketing efforts, to capture, process and use the consumers' personal data.

Paper explores the attitudes of the consumers regarding their personal data in terms of their disclosure, previous agreement consumers should grant to the companies or public institutions (authorities) processing them, employment, registration and processing by the companies, and buying products and/or services as a result of a direct approach.

Keywords: privacy, consumer private space, personal data

JEL Classification: M31

Introduction

The end of the 19th century has brought the first formal attempts to conceptualize privacy. In 1887, the Pacific Railway Commission has found that “of all the rights of the citizen, few are of greater importance or more essential to his peace and happiness than the right of personal security, and that involves, not merely protection of his person from assault, but exemption of his private affairs, books, and papers, from the inspection and scrutiny of others” (Langenderfer and Cook, 2007). Three years later, Louis Brandies, in the article “The Right to Privacy”, has approached and explained the individual’s “right to be left alone” as a response to the loss of privacy experienced during that times (Wirtz, Lwin, and Williams, 2007).

In spite of their historical roots, privacy laws could being traced as far back as 1361 – when the Justices of the Peace Act in England provided protection from peeping Toms and eavesdroppers (Henderson and Snyder, 1999), the attempts to define *privacy* were rather difficult due to the wide number of related interests such as the personal information control, reproductive autonomy, access to places and bodies, secrecy, and personal development (Kemp and Moore, 2007). Many definitions given have tried to explain the content of privacy considering the right to be let alone, limited access to the self, secrecy, control of personal information, personhood and intimacy (Solove, 2002). Misspecification, cultural and historical biases, and their value-driven appearance altered more or less the content of all these definitions (Kasper, 2005).

Considering the information perspective, privacy is an ambiguous term and consumers may have different privacy thresholds depending on internal or external factors associated mainly to the context of the data collection process (Long, Hogg, Hartley and Angold, 1999). In the information age, due to the many invading ways, mainly through the internet, the consumer privacy has become a luxury to maintain (Pan and Zinkhan, 2006). Frauds, identity thefts and deceptive consumer surveys made consumers more discrete and sensitive to the need of protecting their privacy (Pitta, Franzak, and Laric,

2003). That is why the answer, provided more than a decade ago, by Scott McNealy, Sun Microsystems CEO, when questioned about the potential privacy breaches of new networking technology, will remain extremely accurate and actual: “You have zero privacy anyway, get over it” (Kasper, 2005).

From a *marketing perspective*, definition of privacy should focus on the personal data and information regarding the consumers. In this respect, privacy has been defined as the claim of individuals, groups or institutions to determine for themselves when, how, and to what extent information about them is communicated to others (Westin, 1968). Definition proposed by Schoeman adapted the content of privacy at individual level presenting it as a claim, entitlement or right of an individual to determine what information about himself (or herself) may be communicated to others; the measure of control an individual has over information about himself, intimacies of personal identity, or who has sensory access to him; and a state or condition of limited access to a person, information about him, intimacies of personal identity (Jóri, 2007).

Privacy must be seen in connection with the particular area where its content is applied. The above definitions imply the existence of a *consumer's private space* defined through and including an amount of information referring to the demographic, psychographic and behavioral characteristics of the individuals (*personal data*), and the rights the consumer should have to disclose or not, respectively to have this information protected through the appropriate laws and means (Veghes, 2009).

Analyzing the evolution of the definitions given to the personal data in the 1998-2008 decade, Grant (2009) has concluded that the content of the personal data, representing the central issue in the data protection, is still under debate. Still, there is a strong need for identification and definition of this data as consumers are more and more approached through direct marketing campaigns by the different organizations. Although most of the consumers have realized that participating in direct marketing is a necessary part of being in a consumer society, they are concerned about the unauthorized use or the misuse of their personal data and information, mainly in the forms of sale of their data without permission, unsolicited contact by businesses, the feeling that businesses know too much about their personal information, and the accuracy of data retained in databases (Pope and Lowen, 2009).

Methodological Notes

Data expressing the attitude of the consumers regarding their personal data have been obtained within a research approach with a larger overall scope, of assessing the exposure, attitude, current and future behavior of the consumers in connection with the direct marketing efforts of the organizations.

Data have been collected in January 2010 using a sample including 78 Romanian consumers from the Capital and other cities, aged 18 to 30, with higher education, which have been asked about:

- the attitude toward communicating their personal data to the companies or public institutions (authorities) the consumers are getting in touch with;
- the previous agreement the companies or public institutions (authorities) should obtain from the consumers before they will disclose their personal data;
- the consumers' attitudes regarding employment, registration and processing of their personal data by the companies providing different products and services;
- buying products and/or services from the companies approaching the consumers by mail, mobile phone, telephone or Internet.

Main Findings

All the direct marketing approaches employed by the organizations present in the market to provide various products and/or services aim to capture data about the consumers to be processed and later used in the future campaigns. That is why the investigated consumers have been asked to express their attitude regarding the potential reserves they may have to communicate (disclose) their personal data to the companies and public institutions (authorities) when getting in touch with them. Results obtained (see Tables 1 and 2) indicate that, overall, consumers are rather reserved in disclosing their personal data to the organizations attempting to approach them in a direct and interactive manner. This reserved

attitude tends to be more consistent in the case of the companies than in that of the public institutions (authorities): 60.2 % of the respondents would not, or rather not, communicate their personal data to the companies, while 46.2 % of them would not, or rather not, communicate this data to the public institutions (authorities).

Table 1. Attitude of the consumers toward communicating their personal data to companies

Data_firms					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	7	9.0	9.0	9.0
	rather yes	24	30.8	30.8	39.7
	rather no	31	39.7	39.7	79.5
	no	16	20.5	20.5	100.0
	Total	78	100.0	100.0	

Table 2. Attitude of the consumers toward communicating their personal data to public institutions (authorities)

Data_public					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	7	9.0	9.0	9.0
	rather yes	34	43.6	43.6	52.6
	rather no	28	35.9	35.9	88.5
	no	8	10.3	10.3	98.7
	don't know	1	1.3	1.3	100.0
Total		78	100.0	100.0	

A part of this attitude can be explained through the risks the consumers perceive and associate with the communication and, mostly, the consequent inappropriate employment of their personal data. The most important threats in this respect are the exposure to the potential abuses of the private companies, respectively the frauds respondents may suffer as consumers of the different products and services. By comparison, potential abuses of the public institutions (authorities) were mentioned by slightly more than a half of the respondents and the gap between the percentages associated to the abuses potentially committed by the companies, respectively public institutions (authorities), reveal that consumers tend to trust more the public entities and to fear more the private ones.

Having the right to agree or disagree in disclosing the personal data to the organizations (companies and/or public institutions or authorities) aiming to capture, process, and employ them is one of the most important mechanisms the consumers may use to defend their privacy and private space. That is why the investigated consumers have been asked to express their attitude regarding the agreement the companies and the public institutions (authorities) should ask before capturing their personal data. Results obtained (see Tables 3 and 4) indicate that, overall, consumers consider this agreement they could grant as mandatory before any attempt from the part of the companies and public institutions (authorities) to obtain their personal data.

Table 3. Attitudes of the consumers toward having the right to agree to disclose their personal data to companies

Agree_firms					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	64	82.1	82.1	82.1
	rather yes	14	17.9	17.9	100.0
	Total	78	100.0	100.0	

Table 4. Attitudes of the consumers toward having the right to agree to disclose their personal data to public institutions (authorities)

Agree_public

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	53	67.9	67.9	67.9
	rather yes	21	26.9	26.9	94.9
	rather no	3	3.8	3.8	98.7
	don't know	1	1.3	1.3	100.0
	Total	78	100.0	100.0	

The attitude of the respondents in terms of the agreement they should grant the companies and public institutions (authorities) confirm the higher confidence the consumers tend to have in the public entities: while there are respondents not demanding to be asked about disclosing their personal data to the public entities, all of them agreed (or rather agreed), that private entities should ask for an agreement in order to process the consumers' personal data.

The investigated consumers' attitude regarding what happens with their personal data after being captured by the companies represented a third objective of this research approach. More than a half of the respondents agreed, or rather agreed, that companies should not register their personal data when they buy products and/or services from them (see Table 5). Still, the fact that a part of the respondents appear less or not-at-all affected in this respect may suggest that a proper processing environment would make them more confident and open toward disclosing their personal data to the companies.

Table 5. Consumers' attitude toward their personal data registration by the companies

DataSave_Firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	21	26.9	26.9	26.9
	rather yes	24	30.8	30.8	57.7
	rather no	19	24.4	24.4	82.1
	no	10	12.8	12.8	94.9
	don't know	4	5.1	5.1	100.0
	Total	78	100.0	100.0	

Processing of the consumers' personal data is perceived in a similar manner by the respondents: more than a half of them agree or tend to agree that companies should not process their data although a situation like this would be a rather less probable: the companies have captured the personal data of the consumers specifically to know better their demographics, psychographics and behavioral characteristics, to profile them and to use this information in planning more effective direct marketing campaigns targeting them. A possible interpretation of the respondents' attitude in this respect may consist in a certain expectation that their personal data will not be processed at all or, when processed, this will be done in a way that does not affect their private space or do not expose their private lives.

Table 6. Consumers' attitude toward their personal data processing by the companies

DataProce_Firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	22	28.2	28.2	28.2
	rather yes	22	28.2	28.2	56.4
	rather no	19	24.4	24.4	80.8
	no	13	16.7	16.7	97.4
	don't know	2	2.6	2.6	100.0
	Total	78	100.0	100.0	

Employment of the consumers' personal data by the companies to promote their products and/or

services through direct marketing campaigns is perceived in a rather unfavorable and reserved manner by the respondents: almost three quarters of them agree or tend to agree that companies should not employ their to support marketing campaigns aiming to promote products and/or services. The percentages corresponding to the consumers not (or rather not) having a problem in disclosing their personal data to allow companies to conduct later direct marketing campaigns support the rather overall reserved attitude of the respondents regarding the processing of their personal data. It is important to observe that all these reserves are determined not necessarily only by the fears the consumers may have regarding the risks associated with an inappropriate processing and employment of their personal data: the unclear definition of the personal data and the relative consumer knowledge on how this data should and could be protected contribute to this overall reserved attitude.

Table 7. Consumers' attitude toward their personal data employment by the companies

		DataUse_Firms			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	44	56.4	56.4	56.4
	rather yes	13	16.7	16.7	73.1
	rather no	11	14.1	14.1	87.2
	no	9	11.5	11.5	98.7
	don't know	1	1.3	1.3	100.0
Total		78	100.0	100.0	

Buying products/services from the companies approaching consumers in a direct and interactive manner, based, of course, on the personal data captured and processed has represented another objective of the research approach. As the results presented in the Table 8 suggest, the most important conclusions that can be drawn state that:

- consumers are (or rather are) reserved to buy products and/or services after they have been approached directly by the supplying companies, specific weights of the consumers not having reserves in this respect varying between 14.1 and 20.5 %;
- consumers tend to consider buying of the products and/or services when the distance between them and the companies approaching them is higher and to remain so. Thus, respondents have appeared to be more open (or rather open) to buy after being approached on the Internet (57.7 %) and by mail (50.0 %), respectively less open (or not open) to buy when approached in a more personal manner, over the telephone (38.5 %) or the mobile phone (35.9 %).

Keeping the distance is one of the safest strategies the consumers seem to employ in protecting, not necessarily their personal data but their private space from the its invasions conducted by the different companies present in the market.

Table 8. Consumers' attitudes toward buying products/services after being directly approached by the companies (percentages, n=78)

I would have no reserves to buy... from the companies approaching me by...	Mail	Phone	Mobile phone	Internet
Yes	19.2	16.7	14.1	20.5
Rather yes	30.8	21.8	21.8	37.2
Rather no	37.2	29.5	35.9	23.1
No	11.5	29.5	26.9	19.2
Don't know	1.3	2.6	1.3	0.0
Total	100.0	100.0	100.0	100.0

Limits of the research

The research approach has been conducted under the context created by the existence of the limits related to the set of the variables considered to define and measure the attitude of the consumers regarding the processing of their personal data (these variables should be extended for the further research to be conducted), and the sample and the sampling procedure used (further research should be conducted using a sample covering also the rural areas and having a representative structure in terms of demographics such as education and income).

Conclusions and main implications

Findings of the research show that the attitude of the consumers toward the processing their personal data is a rather reserved one. Consumers are not so willing to disclose personal data and are concerned for the risks they should face when this data is employed in an inappropriate manner. Although seem to agree the receiving of personalized marketing information, the consumers tend to avoid engaging in interactive relationships with the organizations approaching them and prefer to defend their private space keeping the distance.

The currently unclear definition of the personal data leads to an uncertain delimitation of the private space of the consumer, which may represent a source of abuses of both the companies and public institutions (authorities) over their consumers and citizens: that is why a better legal environment regulating the capturing, processing, administration and employment of the personal data is more than necessary in order to allow consumers to take a real and effective control over the collection, processing, administration and employment of their personal data.

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LE CONCEPT ET LE PROCESSUS DE MANAGEMENT DU MARKETING DIRECTIONS STATUTAIRES PAR RAPPORT AU MARKETING TRADITIONNEL

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Une question qui a dominé et domine encore la littérature de spécialité porte sur la manière dont le concept de management du marketing ressemble-t-il à celui de marketing. À partir du concept de marketing tel que l'on a défini sur plus de 50 ans d'existence, nombreux auteurs ont essayé d'en offrir des réponses pertinentes, développant des démarches dont le but représente l'identification des points communs et des différences significatives entre les deux concepts.

Mots-clés: marketing, management du marketing, théorie du mix de marketing, échange, marché

Cod JEL: M31

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1. Une analyse des ressemblances et des différences entre marketing et management du marketing

Un premier élément analysé par une large catégorie d'auteurs porte sur l'éloquence et la rélevance de la théorie des 4P proposée par McCarthy, dans le développement du concept de management du marketing. Les opinions concernant cet aspect sont partagées: d'un côté il ya les partisans de la théorie des 4P, qui considèrent que *„la théorie est toujours la base des décisions, même dans le contexte du marketing management”*¹⁷²², et d'un autre côté se trouvent les critiques véhémentes qui proposent *„de repenser et de restructurer le système de fondements dans l'approche spécifique du management du marketing”*¹⁷²³.

Des arguments soutenant la rélevance des 4P dans le contexte spécifique du management du marketing sont fournis par de nombreux auteurs tels Foxall (1981) qui affirme que *„la responsabilité de base du management du marketing dans différentes situations où se manifeste la demande consiste dans l'utilisation des 4P.. dans une combinaison équilibrée”*¹⁷²⁴; selon Anderson et Taylor (1995), *„la théorie proposée par McCarthy est mal comprise parce que 1. les critiques ne comprennent pas pleinement les*

¹⁷²²Vignoli, C., Davies, B.J. – *The marketing mix redefined and mapped*, Management Decision, vol. 32, issue.8, pp.11-16, 1994.

¹⁷²³Bruner, G.C., - *The marketing mix: a retrospection and evaluation*, Journal of Marketing Education, vol.10, spring, pp. 29-33, 1988.

¹⁷²⁴Foxall, G., - *Strategic marketing management*, Wiley, New York, 1981.

4P dans le contexte pratique des managers et 2. la théorie de McCarthy est remarquable face aux problèmes de la pratique”¹⁷²⁵; Vignoli et Davies (1994); Kotler (1997).

D’autre part on trouve des travaux qui critiquent et remettent en cause l’utilisation de la théorie des 4P qui, au-delà de la nécessité de la redéfinition et d’achèvement exigée par le contexte spécifique du management du marketing, mentionnent les arguments suivants:

- la théorie des 4P relève un développement inadéquat pour le management du marketing, n’étant qu’une liste sans fondements théoriques¹⁷²⁶;

- la théorie des 4P n’est pas intégrée formellement dans le paradigme de l’échange, car il n’y a pas d’indications sur l’existence des composantes de ce processus¹⁷²⁷;

- la focalisation de la théorie des 4P sur les biens de consommation montrent une vision de l’orientation vers la production ou ventes qu’une orientation réelle des ventes à la commercialisation, le vendeur est actif, tandis que l’acheteur ou consommateur sont passifs”¹⁷²⁸;

- les 4P ne surprennent pas toutes les activités spécifiques pour le management du marketing¹⁷²⁹;

- la théorie proposée par McCarthy ignore les démarches spécifiques du marketing stratégique¹⁷³⁰;

- la théorie des 4P est centrée seulement sur l’étape de l’acquisition du processus de consommation¹⁷³¹;

- les composants de la théorie proposée par McCarthy sont incompatibles avec le paradigme du marketing relationnel¹⁷³²;

- la théorie des 4P est dépassée de point de vue conceptuel¹⁷³³.

Bagozzi est celui qui souligne que le management du marketing n’est pas synonyme avec le marketing, en soutenant, en 1986, que „le management du marketing représente le lien central entre le marketing placé au niveau sociétal et la consommation quotidienne du grand public”¹⁷³⁴. Cette différence est soulignée aussi par Houston (1992) qui soutenait „qu’il faut opérer une distinction nette entre les termes de marketing et management du marketing”.

Dans la même direction, en 1989, Foxall soutenait que le marketing est le point de départ pour la fondementation et l’opérationnalisation du management du marketing, considérant que „l’expérience théorique et pratique du concept de marketing ... offre le support de la distinction entre le marketing, qui surprend un set des fonctions de gestion ... et le management du marketing en tant que manière dont ces fonctions sont accomplies”.

Il faut mentionner, dans cette étape de l’analyse, les théories de Kotler (2000) et Boyd (1998) qui considèrent que „le management du marketing est, essentiellement, le management de la demande”¹⁷³⁵.

Dans la même lignée on pourrait mentionner les théories, beaucoup plus permissives en ce qui concerne la définition des deux concepts, proposées par Dixon și Wilkinson (1989), qui soutiennent que „le

¹⁷²⁵ Anderson, L.M., Taylor, R.L. – *McCarthy’s 4P: timeworn or time-tested?*, Journal of Marketing. Theory and Practice, vol.3, summer, pp.1-9, 1995.

¹⁷²⁶ Gronroos, C., - *From marketing mix to relationship marketing: towards a paradigm shift in marketing*, Management Decision, vol. 32, issue.2, pp.4-20, 1994.

¹⁷²⁷ Yudelson, J., - *Adapting McCarthy’s four P’s for the twenty-first century*, Journal of Marketing Education, vol.21, april, pp. 60-67, 1999.

¹⁷²⁸ Dobscha, S., Foxman, E.R., - *Rethinking the principles of marketing source: focus on exchange*, Marketing Education Review, vol.8, spring, pp.47-57, 1998.

¹⁷²⁹ Houston, F.S., Gassenheimer, J.B., Maskulka, J.M., - *Marketing exchange transaction and relationship*, Quorum Books, Westport, 1992.

¹⁷³⁰ Jain, S.C., Punj, G., - *Developing marketing strategy: a framework*, Marketing Intelligence Planning, vol. 5, issue.1, pp.34-39, 1987.

¹⁷³¹ Gummesson, E., - *Total relationship marketing*, Butterworth Heinemann, Oxford, 1999.

¹⁷³² Lendrevie, J., Levy, Lindon, D., - *Mercator. Theorie et Pratique du marketing*, 7th edition, Dalloz, 2003.

¹⁷³³ Day, G.S., Montgomery, D.B., - *Charting new directions for marketing*, Journal of Marketing, issue.47, pp. 3-13, 1999.

¹⁷³⁴ Bagozzi, R.P., - *Principles of marketing management*, Science Research Associates, Chicago, 1986.

¹⁷³⁵ Boyd, Jr. H.W., Walker Jr., O.C., Larreche, J., - *Marketing management: a strategic approach with a global orientation*, Irwin McGraw-Hill, Boston, 1998.

*paradigme du marketing contemporain est apparente dans les ouvrages conventionnelles, qui font référence non à l'étude du marketing, mais à celui du management du marketing*¹⁷³⁶.

2. Nouvelles théories dans la définition du concept et du processus de management du marketing

Compte tenu de la différence entre les deux concepts mentionnés dans la littérature par divers auteurs, les critiques remettent en question la théorie des 4P, apportant un nouveau concept - la **Théorie des 8D** et les piliers du processus de gestion du marketing (Day et Montgomery 1999, Mickael R. Hyman). Pratiquement, les auteurs cités ont essayé, à travers la *Théorie des 8D*, d'identifier les questions auxquelles répondra le management du marketing¹⁷³⁷ dans le cadre de la structure remplacera la théorie des 4P ainsi:

- **Design:** *Comment les organisations pourraient traduire les besoins et les préférences des consommateurs dans les produits (biens, services, idées) qui ils veulent, qu'ils achètent et les utilisent?*

- **Demande:** *Qu'est ce que rend le consommateur une partie d'un échange avec les organisations présentes sur un marché?*

- **Didactique:** *Comment les organisations peuvent informer les stakeholders – particulièrement des cibles visés - sur les produits et d'autres informations spécifiques pour les activités déroulées?*

- **Distribution:** *Comment les organisations peuvent distribuer des produits pour les consommateurs?*

- **Devoir:** *Quels sont les droits et obligations des parties prenantes impliquées dans une organisation?*

- **Direction:** *Quelle est l'histoire et l'évolution de l'organisation et les produits commercialisés?*

- **Quotidien:** *Quels sont les éléments de définition de l'organisation liés à la culture, la vision et la mission de l'organisation?*

- **Dialectique:** *Quelles stratégies de marketing peut et doit suivre l'organisation?*

Les premiers 5D de la théorie mentionnent explicitement des éléments de l'éthique et la responsabilité sociale dans le marketing, la notion de devoir étant, probablement, la plus complète, y compris les composants allant de l'environnement politique et naturel, de la consommation et le marketing vert.

D'autre part, les dernières 3D traitent explicitement 1. le marketing stratégique, qui est extrêmement important pour le management du marketing, 2. la recherche de marketing et 3. la pratique de marketing.

Par la reconnaissance formelle de l'importance de l'historique, la composante **direction** fournit les coordonnées pour la compréhension des actions de marketing et des résultats enregistrés dans le passé. Le **quotidien** reconnaît l'importance de comprendre et de déterminer, au niveau d'une organisation, de certaines cultures, de visions et missions courantes et le **dialectique** souligne la dimension stratégique par ses composantes: la planification stratégique, les avantages concurrentiels durables, l'analyse SWOT et l'audit de marketing.

Ce qu'il faut souligner, c'est que les partisans de cette théorie affirment que „*les 8D sont applicables aussi bien dans des domaines spécifiques qui visent les organisations à but lucratif et au niveau des organisations sans but lucratif*”¹⁷³⁸.

Mais les partisans de la théorie de McCarthy critiquent la tentative de remplacer les 4P aux 8D, remettant en question ses limites évidentes qui, d'ailleurs, sont mentionnées et argumentées par ses partisans - la **théorie des 8D ne tient pas compte de l'importance du micro-environnement de marketing**. À cet égard, Monye (1995) affirme que la théorie des 8D justifie la négligence du macro-environnement de marketing, étant circonscrite au management du marketing et non au marketing, le concept étant discuté dans le contexte des marchés internationaux: „*si le management du marketing*

¹⁷³⁶Dixon, D.F., Wilkinson, I.F., - *An alternative paradigm for marketing theory*, European Journal of Marketing, vol. 23, issue. 8, pp. 59-69, 1989.

¹⁷³⁷Hyman, M.R., - *Revising the structural framework for marketing management*, Journal of Business Research, vol. 57, issue 9, september, pp. 923-932, 2004.

¹⁷³⁸Laczniak, G.R., Mikie, D.A., - *The social disorder of the broadened concept of marketing*, Journal of Academy Marketing Science, vol.7, summer, pp. 91-96, 1979.

dans un environnement international est une discipline distincte, il est possible que la théorie des 8D ne puisse pas bien saisir ses composants."¹⁷³⁹.

Malgré ses limites évidentes et de l'acceptation à petite échelle dans la littérature et la pratique de spécialité, les 8D ont le mérite de développer un certain nombre d'éléments considérés comme essentiels pour différencier les deux théories:

- elle est plus explicite, au moins sur la dimension stratégique, et synthétise les 40 ans de théorie et de pratique dans le management du marketing;
- le courant du management du marketing tel que décrit dans la littérature;
- est-ce compatible avec le partenariat entre le consommateur et l'organisation (orientation marketing cohérente et le paradigme du marketing relationnel), traduit avec succès les besoins et les préférences des consommateurs concernant des produits désirés et sollicités;
- elle surprend la totalité des activités du management du marketing; s'adresse à toutes les étapes de la consommation - l'achat, la consommation, de post-consommation;
- met l'accent sur la communication marketing intégrée au détriment de la publicité et à la promotion des ventes, comme des actions isolées.

3. La rélevance des concepts d'échange et marché dans le concept et processus de management du marketing

Un autre aspect spécifique du marketing, à faire l'analyse dans la démarche d'établissement les différences entre les deux concepts est celui de l'échange. En partant de la prémisse, lancée par divers auteurs, que „*les besoins de consommation facilitent l'échange*” est l'expression à définir le concept de marketing, Hunt (1983) soutient, quant à la notion d'échange, qui ne figure pas explicitement dans de nombreuses théories de la littérature, qu'on ne peut pas la considérer l'un des fondements de cette science.

Pour étayer sa théorie, l'auteur propose quatre composantes, considérée comme le fondement de base en marketing comme une science: 1. le comportement des consommateurs; 2. Le comportement des organisations; 3. le contexte institutionnel; 4. Les conséquences sur la société la société générées par les trois premiers éléments. En outre, sur la base de ce qu'on a mentionné, Hunt propose un guide de recherche pour identifier les questions de recherche auxquelles le marketing essaie d'apporter des réponses. Par exemple, dans le cas du comportement du consommateur, les questions indiquent, à l'opinion de l'auteur, „*la manière dont le consommateur agit, ses motivations, le moment et le lieu du déroulement de l'action.*”¹⁷⁴⁰.

Hunt insiste sur l'analyse du concept d'échange, de déterminer dans quelle mesure celui-ci peut constituer un fondement du concept de management du marketing. Considérant que l'échange n'est pas un concept de base en marketing et que le management du marketing est un sous-domaine du marketing, il conclut que „*l'échange n'est pas un fondement du management du marketing ... et d'ailleurs il ne peut pas lui fournir une série de questions similaires à celles liées au marketing*”¹⁷⁴¹.

Au cours des trois dernières décennies du XXe siècle, cependant, de nombreux auteurs ont critiqué la théorie de Hunt, affirmant que „*l'échange définit le domaine du marketing*”(Bagozzi 1975, Dobscha et Foxman 1998, Ferrell et Lucas 1987, Kotler 1972) et en ont apporté des arguments :

- dans la littérature de spécialité, le marketing n'est pas défini dans le paradigme de l'échange, mais cela ne veut pas dire que l'échange n'en est impliqué: présent dans toutes les définitions de marketing, l'échange est effectivement compris et intégrés dans le modèle stratégique des 4¹⁷⁴².

¹⁷³⁹Monye, S.O., - *Research note: international marketing management: a separate academic discipline?*, International Marketing Review, vol. 12, issue 3, pp. 5-14, 1995.

¹⁷⁴⁰Hunt, S., - *General theories and the fundamental explananda of marketing*, Journal of Marketing , vol. 47, pp.9-17, 1983.

¹⁷⁴¹Hunt, S., - *Modern marketing theory: critical issues in the philosophy of marketing science*, South-Western Publishing, Cincinnati, 1991

¹⁷⁴²Keith, R.J. - *The marketing revolution*, Journal of Marketing, vol. 24, january, pp. 35-38, 1960.

- une recherche menée par Ferrell et Lucas en 1987 sur les définitions du marketing à partir de 1970 relève que le terme d'échange est implicite, les 7 sur 27 des théories tenant compte de la notion de théorie de l'échange d'une manière implicite;

- en outre, un certain nombre d'auteurs font référence, comme argument, à la situation similaire constatée à propos du concept de *marché*. Ainsi, Hyman et Tansey (1992) ont constaté que bien que le concept de marché est un élément clé de la théorie du marketing, seulement 9 des 125 définitions du concept¹⁷⁴³ entre 1970 et 1990 en offrent une mention. De toute évidence, l'absence de la notion de marché n'est pas considérée comme une omission ou la marque d'un faible niveau de son importance, mais elle est implicite au-delà des composants qu'elle incombe.

En ce qui concerne la définition du management du marketing, la littérature est dominée par deux tendances: d'une part, dans la littérature européenne, on trouve des conceptualisations qui définissent le management du marketing comme un moyen d'assimiler et de mettre en œuvre le marketing au niveau des organisations sur les trois dimensions - la *culture organisationnelle* (mentalité), la *dimension stratégique* et la *dimension opérationnelle* et d'autre part de trouver des définitions spécifiques de la littérature américaine, qui réduit la notion à un ensemble d'activités tactiques, localisé au niveau fonctionnel de la structure organisationnelle.

La plupart des définitions de la notion de management du marketing ont en commun *l'orientation client, le développement des relations rentables avec eux, de fonder et rendre opérationnel le mix de marketing* en tant que support de la relation d'échange, *impliquer tous les domaines fonctionnels d'une organisation pour gérer les relations avec les clients* comme un moyen d'atteindre des objectifs à long terme de l'organisation -, mais les aspects les plus importants sont liés à mentionner les quatre secteurs d'activité de base - *l'analyse, la planification, la mise en œuvre et le contrôle des activités marketing*.

4. Conclusions

Après cette brève analyse, il est conclu que la théorie 4P et les concepts d'échange et de marché sont des éléments fondamentaux du concept de gestion du marketing, explicitement ou implicitement mentionnés. En outre, la façon d'aborder le processus de management du marketing révèle les théories conformément auxquelles les deux concepts (marketing et management du marketing) ne sont pas similaires, sans promouvoir l'idée du remplacement de la théorie des 4P .

Le **marketing** est une vision intégrative et une séquence cohérente d'activités, stratégiques et tactiques, orientées vers la maximisation de satisfaction et de l'efficacité des intervenants en fournissant une valeur supérieure par rapport à la concurrence, tandis que le **management du marketing** peut être considéré comme un „véhicule utilisé dans l'entreprise afin de permettre l'activation du concept de marketing", ou comme „la façon de mettre en œuvre le concept de marketing visant à accroître la satisfaction des consommateurs et de maximiser les profits."¹⁷⁴⁴.

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SUB-SECTION: ECONOMIC INFORMATICS

ASPECTS REGARDING THE INTEGRATION OF THE MODERN INFORMATION SYSTEMS

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Developing an information system integration strategy, at enterprise level is one of the most difficult issues that the information systems managers must solve, within the present conditions. When settling the integration strategy, two aspects must mainly be taken into account: assuring a complete integration solution of the information systems and building an integration infrastructure of the applications.

The present paper aims at presenting few aspects regarding the integration of the information systems at organizational level and describing a specifically developed IBM architecture.

information systems integration, software modelling, Model Driven Architecture (MDA), Model Driven Development (MDD)

M15

1. The necessity to integrate the present information systems

The success of the business depends, mostly, on the quality and quantity of the information that it relies on. The internet is a new form of environment, which modifies both the nature of the business and the market, transforming the relations between the two. Technically, all long-term business in the real world is nowadays actively present on Web. Many of them have entirely transferred their operations on Internet. The information systems have become more and more complex; therefore it is compulsory to integrate them within the already existing software applications and to adjust them to the new actual conditions. The IT solutions were rapidly created, the attention of the software producers focusing on the development of high quality instruments for the integration of the information systems. Therefore, presently, in most of the companies, the process of developing the software solutions is no longer a unique process, based on costs, but it became a part of the company global strategy, also requiring the integration of the existing applications.

A viable solution for integrating the information systems within an environment which is continually developing must be based on the informational architecture at enterprise level, or most of the time, department level. This is how the information system integration can be accomplished, not only at technical infrastructure level, but also at the level of business concept, which are more stable in time [1].

OMG Group (Object Management Group) has been pursuing, for 12 years, the integration of the new developed applications, within the already implemented ones. Taking into account the dynamic transformation of the IT technologies, the growing demand of soft application integration, the new information online systems and new e-business patterns, a new standard based on integration and interoperability is required. Presently there are several operation systems, different programming languages, multiple networks architectures, which are rapidly developing and in order to keep up with them, they must resort to the modeling process and the increase of the abstracting degree within the software development process.

Each system was based exclusively on accomplishing the functions it was designed for. Nowadays, when transferring data from one system to another, the users have to re-enter the data or to manually transfer the information.

2. Integration solutions

One of the used solutions was settling some connections between some specific systems, which prove to be connected. This connection though, cannot be easily achieved and maintained for a great number of systems, at enterprise level. The purpose of the integration is to make these systems work within one single logic system. The integration of the applications within different departments or enterprises can be achieved on three directions: vertical, horizontal, mixed.

The vertical integration consists in accomplishing adaptive services that would connect the present applications and existing data, with new applications, new platforms or services; for instance, connecting an existing insurance system, to Web services.

The horizontal integration consists in building adaptive services that would connect already existing applications and data among them. For instance, integrating an on-line acquire system, with an accounting system. The integration can be achieved by using application integration instruments at enterprise level. (Enterprise Application Integration – EAI)

The mixed integration consists in integrating both existing and new applications.

The integration consists in integrating the applications and also data, by using adequate security standards and methods.

The integration of data represents the integration at the level of database, either by migration of the data from one system to another, or by creating common data warehouses which would be used by several systems. The integration consists in extraction, transportation, transformation and validation of the data from the source systems and loading the data in the destination systems or data common warehouses.

The integration of applications represents a strategic approach in order to unify several systems, at the level of both services and data. The user's way of interacting with the systems and the integrated application is important in this case. These architectures also include Web parts, the Internet access being already well known, they contain connections with the data warehouses and relations with other enterprises.

3. Software modeling – integration technology focused on models

Presently, most of the software developers are facing the problem of integrating a great number of software applications, written in different programming languages. These applications are designed to run on different software platforms, operating systems, to use different databases, being adapted to different network protocols or middleware platforms. This is the reason why OMG Group has been trying to simplify the issue of applications integration, by developing the new MDA architecture – based on patterns - and which lays the foundation of UML language.

By modeling the information systems, the software developers can create the system models before engaging additional resources; they can design software applications starting from requests and can apply the iterative development, where the obtained models have a high abstracting level. Modeling complex software applications implies therefore a number of benefits, but it only represents a part of the software development and integration process. The models oriented approach of the software development process was possible due to adopting some standards such as UML language, models representation language. Considering that the applications development process has become more and more complex, the solution based on increasing its abstracting level was compulsory.

4. Model Driven Architecture (MDA) – the methodology of modern software applications integration and interoperability

The new MDA approach is focused on integrating the software applications belonging to the beneficiary companies; by using the UML, the soft developers can model interface and connections between applications, irrespective of the software/hardware platform, programming language or

network type. The new MDA approach is based on the UML language and works at a high abstracting level, in order to provide a universal valid software applications integration mode.

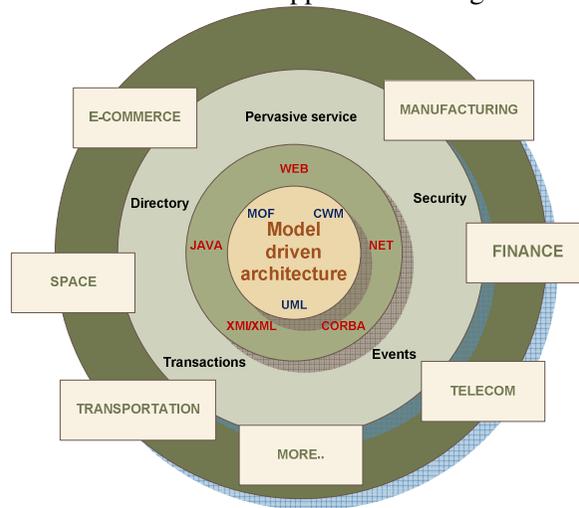


Figure 1. Model Driven Architecture [2]

This architecture can be graphically represented by a number of concentric circles (figure 1), in the middle of which lay the UML language and the MOF models (Meta-Object Facility). The purpose is creating a central, fully integrated model, based on which different applicants would be generated, in different programming languages, in order to run on different hardware or software platforms. It can be therefore obtained the integration of all software applications already existing in the beneficiary company and the clients and the fulfillment of the demands regarding the simplification of the developed IT system infrastructure. The MDA is not just another CASE instrument of generating a complete application, starting from the UML diagrams, but it consists in generating complete connections, for integrating software applications through UML diagrams. It is like a UML integration model, at high level, that could generate: connection bridges, protocols, relations, etc., necessary for the integration of a new application, with the already implemented, inherited ones.

The ideas laying the foundations of this new challenge are the following:

- Software solutions at a company level are considered a collection of incapsulated services communicating through their own interfaces;
- Reiteration of the approach way takes place at all levels, during the entire software project, starting with modeling the business environment, the business processes and ending with the implementation.

Therefore, the MDA architecture separates the functional demands of the system, from the implementation method, resulting thus an independent architecture of programming language, hard/soft platform or IT producers [3]. The MDA architecture can be applied during the entire process of development of the IT systems, using open standards. It allows the modeling of the IT systems, based on the functions starting from programming languages, hard/soft platforms, IT technologies, and this means that a system created through the MDA approach can be modified or extended at any time, without modifying the core infrastructure. The MDA approach facilitates the integration process, decreases the information systems development time and preserves the company's resources, enabling the accomplishing of a greater number of IT solutions without the increase of the necessary time or of the number of people involved.

The MDA architecture has three views (figure 2):

- *Computation Independent Viewpoint – CIV* – which separates the logical modeling of the IT system from the implementation specifications;

-*Platform Independent Viewpoint – PIV* – which focuses on the operation modeling of the system, without detailing the implementation specifications;

-*Platform Specific Viewpoint – PSV* – which contains the implementation specifications (hardware platform, software platform, middleware products, used IT technologies).

The true value of the MDA approach consists in the fact that the CIM view can become PIM and the latter one can become the PSV view, which can be directly translated into a source code. Its key-elements are the mapping between the three views and the software instruments allowing these mappings.

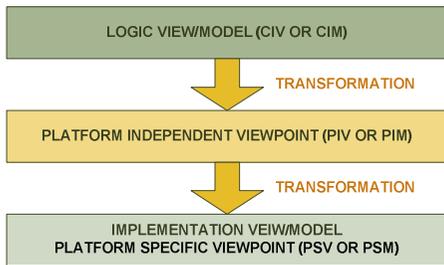


Fig.2. Views of the Model Driven Architecture (MDA) approach [4]

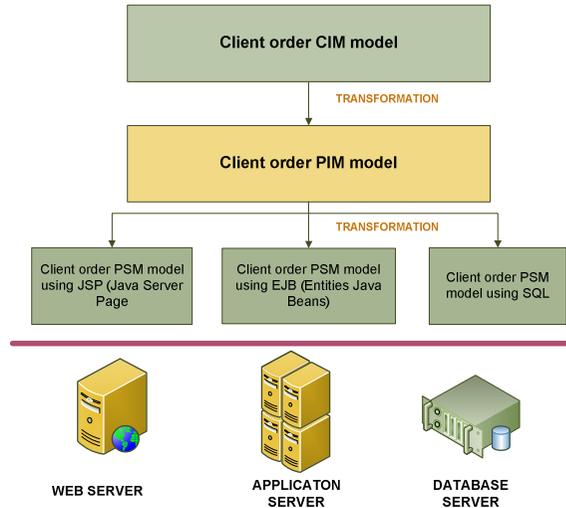


Fig.3. Transformation of CIM-PIM-PSV for the clients' orders

If integrating the clients' orders sent via Internet, within a company's information system, is being considered an issue, the CIM view shall consist in UML diagrams at a conceptual level that will show what the information system will specifically do; the PIM view is next and it describes its functions and structure through detailed UML diagrams and finally comes the PSV view, actually several such views (figure 3).

The company applications are focusing, more and more towards clients, products and services, dealing with the daily specific transactions. Considering that the business regulations are rapidly changing in a modern business environment, the information systems must be updated mostly by incorporating the new IT technologies. The MDA approach [5] is suitable for such applications, due to the benefits: portability, interoperability towards the platform, productivity, quality, fast process of developing the software applications, of integrating the modern IT technologies and the independence towards the imposed hard/soft platform, the decrease of costs and time connected to the software development process.

5. Soft instruments used with the MDA methodology

Once the new MDA standard was introduced, a new implementation instruments market was created. Considering that the MDA approach is based on the separation of the information system architecture in three different models (CIM, PIM and PSV), the chosen instruments must put up with the same separation, and not only the generating of source-code from UML diagrams [6].

The Model Driven Development (MDD) is a new method of designing the information systems and is applicable with the MDA methodology, which allows the building of an ensemble of models of the system to be analyzed and of the new system, based on which other models or the system's source-code

are being generated. Practically, everything focuses on transforming the models of the system to be achieved, and generating the source-code. This method needs an integrated development environment (IDE) that would support: UML language, patterns, transformation of UML models and source-code generation. Rational Software Architect (RSA) is such an integrated instrument for designing and developing information systems.

By going from analyzing to designing, for instance, the analyses model becomes a design model, the documentation connected to different models is created (e.g. the instrument Rational Software Architect's Report Generator or IBM Rational SoDA - IBM Rational Software Documentation Automation), the testing models are obtained (by applying JUnit), the building and development of scripts, the application of patterns.

The next image shows how an actual problem becomes the adequate IT solution, by applying the MDD method. (figure 4).

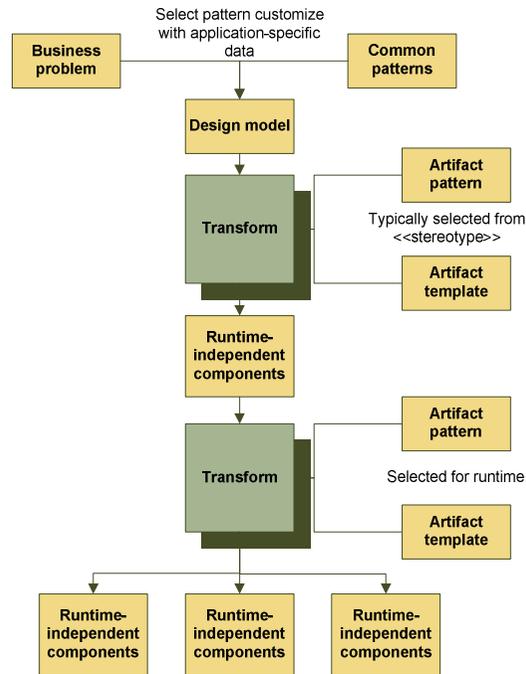


Figure 4 MDD method for transforming an actual problem, into an IT solution [7]

Starting from the clear separation between the logic models and the implementation ones, we can actually speak about a layered modeling technique, which allows the achieving of the analysis, design, and implementation model. The three models can be defined as follows: *the analysis model*—contains the utilization cases, *the design model* – includes the architecture of the system to be achieved, independently from implementation specifications, *the implementation model* – contains the implementation specifications.

Just as the architecture of a system is traditionally defined by 4+1 different perspectives (the centrally located utilization cases view, the logic view, the implementation view, the distribution and exploitation view), the *utilization cases view*, in MDD method, is also centrally located, alongside with the *implementation view*, which fits the structuring of the programs forming the system in components, *the logic view*, which describes the functional requirements of the system, *the distribution view*, which defines the space aspect of the system (hardware equipments, network nodes) and the *operational view* or the processes' one, which fits the structure of exploiting the programs and executable components. By viewing the utilization cases, the connections users-services and services-IT technologies are being accomplished.

Image 5 reveals the connection between the business processes sphere and the sphere of the IT technologies, achieved by services modeling. The beneficiaries look at the information system through the logic view and the utilization cases, while the IT specialists build and maintain the abstracting level between services and implementation IT technologies, through the implementation and distribution views [8].

The MDD method allows the logical modeling of the software applications integration, independently from the IT technologies used for their implementation [9].

Components specific to the patterns applying come in addition to the architecture of the RSA integrated environment (figure 6). We can notice the presence of a functional asset repository, obtained starting from models, applying patterns and eventually transformations, their saving into this repository, followed by their re-utilization, taking into account the demands [10].

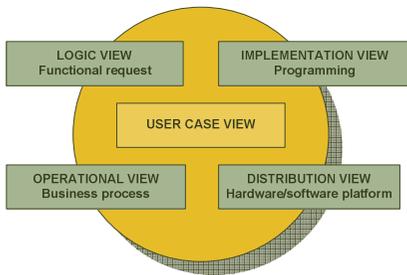


Figure 5 perspectives 4+1 of the IT system architecture in MDD method

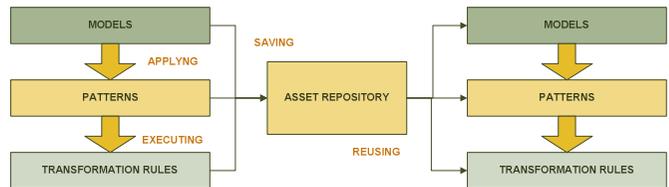


Figure 6 The components of RSA environment, specific to patterns appliance [11]

6. Conclusions:

The integration of the applications/IT systems represents a very up-to-date and complex issue, becoming a part of the global management strategy of an organization [12]. Within this context, the IT specialists are becoming more and more involved with the management process, they explore and offer solutions of software applications development and integration, the flux of the resulted data and processes providing a strategic advantage for the enterprises: the possibility to carry on a business in real time, in an environment based on events, with decreased response time, re-using the IT components under optimal conditions. This is why new specific IT techniques and technologies and new adequate Case instruments emerge. Some of these issues have been analyzed by authors and solutions have been suggested within a research project called Development and Implementation of the Integrated Management System (DI-IMS).

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DATA WAREHOUSE AND DATA MINING - DATABASES NEXT STEP

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Data Warehouses and Data Mining are indispensable and inseparable parts for modern organization. Organizations will create data warehouses in order for them to be used by business executives to take important decisions. And as data volume is very large, and a simple filtration of data is not enough in taking decisions, Data Mining techniques will be called on. What must an organization do to implement a Data Warehouse and a Data Mining? Is this investment profitable (especially in the conditions of economic crisis)? In the followings we will try to answer these questions.

Keywords: database, data warehouse, data mining, decision, implementing, investment.

JEL code: M15

Data warehouse

The data warehouse concept has its origins in the early 60's when following the collaboration between a group of companies and a university in the United States were introduced new terms such as *dimensions* and *facts*.

The role of Data Warehouse was obviously marked by the year 2000 once with the advent of applications accessible to all consumers.

Data Warehouse represents in fact a response to the developers of IT society dynamics.

There are two premises that led to the emergence of data warehousing:

1. Economic premises.
2. Technological advances.

The premises are in close relationship with economic and market dynamics, namely:

- Globalization of trade.
- The dramatic sharpening of competition.
- Spectacular shortening of products' cycle of life due to technologic dynamics.
- Imposing of extremely high quality requirements.

The economic premises are:

- The increase of computing power;
- Low prices.

Given the above, we can draw the following conclusions:

- Informatics systems exist;
- data can be accessed from anywhere;
- the need for information is acute;
- great computing power;
- large and cheap storage capacity;
- available software tools.

So there we have all the premises for implementing a Data Warehouse. Data Warehouse is a collection of designed data for the fundamentals of management decision. Data Warehouse contains a great variety of data that present a coherent image of business conditions of a company at one point in time.

A Data Warehouse like system is used to monitor the activity of organizations by generating reports in standard formats for analyzing issues related to the work in the organization and based on this analysis taking coordination decisions is made.

In a Data Warehouse Data Mining operations are particularly made. One can say that Data Mining instruments use raw materials supplied by the Data Warehouse.

Basic features of a Data Warehouse are:

1. It is focused on daily operations and transactions. It focuses on the data used in the analysis on which decisions are taken.
2. The basic operation is to add data. The data is not deleted and not at all overwritten. A log of data is maintained.
3. The system is integrated. Data is collected from different places (operating systems, databases, files etc.), is transformed by bringing the data to the representation format from the Data Warehouse and centralized in the system.
4. The integration of data represents the most important issue in the construction of a Data Warehouse. The necessary costs for creating and maintaining a Data Warehouse are divided equally into the following categories:
 - Required hardware systems and data storage systems.
 - Software needed for extraction, processing, storing and analyzing data.
 - Professional services.

Building a Data Warehouse is a complex work and it is addressed particularly to experienced professionals.

A Data Warehouse is made out of the following levels with their own structure and functionality:

1. The level of data sources

The level of data sources refers to any information, usually electronic, that must be collected and stored in the Data Warehouse. It uses as data sources: mainframe databases (DB2, IBMS, VSAM, ISAM, Ababas etc); client-server databases (Oracle, Informix); small databases, from PC's (MS Access); spreadsheets and other types of files.

2. The level of data processing

This level deals with bringing the collected data to a standard form. The transformation consists in bringing them to the internal format of the Data Warehouse. Special applications are used such as ETL (Extract, Transform and Load).

Data transformation may require operations of "cleaning" data (accuracy, consistency, totals, subtotals etc).

3. Data Warehouse level

Data Warehouse level is actually dealing with data storage. For storage relational databases are used. Data is retained for determined periods of time.

4. Reporting level

The level of reporting is the one that does the analysis and generates reports for monitoring the organization's activity. The generating of reports can be done using specific tools: Business intelligence tools; Executive information systems; Enterprise Information Systems; OLAP; Data Mining and KDD (Knowledge Discovery in Databases), that uses statistic analysis techniques, "form" recognition to discover correlations, rules, knowledge etc.

5. Metadata level

Metadata includes administration information of the Data Warehouse (date of last update, number of connected users etc.)

6. Operations level

This level has as main purpose loading data in the Data Warehouse, but also manipulating and extraction of data. The second purpose is represented by the user management, security, capacity but other administration functions as well.

Three types for the implementation of a Data Warehouse are known: **analytical, for standardization of reports and for homogenization and consolidation of data.**

Analytical. This is very complex and requires a lot of attention from design to implementation. It is mainly addressed to the analysts who can interpret the data.

For standardization of reports. These are the most common types known on the market (80%) because they are easy to interpret. Because of the fact that they are based on developing standard reports, these have appeared long before Data Warehouse.

For homogenization and consolidation of data. These are the most complex and combine multiple sources of information in order to fit the data.

Typically Data Warehouses double their size the first 12 up to 18 months.

Data Mining

Another very powerful tool, along with the Data Warehouse, that is available to assist organizations as support to taking decisions is represented by Data Mining techniques.

Data Mining is a “deeper search” in the source data. The source data means both the data from the Data Warehouse but also other data categories. Data Mining, also known as “knowledge discovery in large databases” is a modern and powerful IT instrument that can be used to extract useful information but still unknown.

Data Mining in many cases involves data analysis in large data deposits - Data Warehouse.

Data Mining is the process of extraction knowledge from databases (Data Warehouse), knowledge that was previously unknown valid and in the same time operational.

By unknown knowledge we understand extraction of new knowledge that are unanticipated and sometimes even surprising. Extracted knowledge must be translated and applied in reality. Also they must be made operational and obtained in a short time.

Data Mining differs from other data processing for data analysis, such as data query, reports, OLAP etc. Information obtained through Data Mining techniques can be predictive or descriptive. Predictive information is used to describe an event, such as the possibility of fraud.

Using Data Warehouses and data extraction from warehouses using Data Mining techniques will give the organizations that use them a clear advantage over the competition.

Implementing Data Mining techniques, also as in the case of Data Warehouse, must be done by specialists in order for the results to be the ones expected.

The areas where Data Mining is used are multiple. They are used especially in the following directions:

- sales analysis and establishing customer behavior;
- research (medical research);
- fraud, electronic fraud and (cyber) terrorism ;
- risk analysis.

Data Mining tools use technologies of Artificial Intelligence (AI) to process and extract data.

Lately, Artificial Intelligence solutions are more and more present in the offers of the companies who offer data analysis software for business activities, thereby we have the Business Intelligence (BI) concept.

Using a Business Intelligence solution is suitable both for the management departments and for the other departments. Each department can use specific capabilities of a Business Intelligence solution.

The benefits are:

- Financial departments will use Business Intelligence to analyze data and generate reports, financial statistics and to take important financial decisions based on the information.
- Operations department can anticipate requests, estimate stocks and can make the production process more efficient.
- Marketing and sales department can analyze the response to promotions and marketing campaigns, can estimate sales and the analysis of market behaviour.
- Freeing IT departments from tasks.

Components of Business Intelligence solution are: Windows Server 200X, SQL Server 2000 Analysis Services, Microsoft SQL Server Accelerator for Business Intelligence, Project Server 2000, SharePoint Portal Server, Data Analyzer, Map Point and connection customers.

Implementing the system

To design and implement a Data Warehouse and Data Mining it is necessary to go through some stages. We will discuss about Data Warehouse, understanding the existence of Data Mining.

There is no strict methodology to design and implement a Data Warehouse. In the following we will define the important stages without concentrating ourselves on technical elements.

Stage 1. Implementation decision

The first question one has to answer when someone wants to implement a Data Warehouse is: "Do I really need this?". The answer can be multiple some of them being clear and others ambiguous. Ten years ago probably, especially in our country the answer would have been: "No". A great part of the decision would have been taken due to the ignorance of the used terms- Data Warehouse and Data Mining. Nowadays the answer must be emphatically "Yes". A decisive argument in the foundation of the response is given by the sharpening of the competition on the market. Companies are forced to explore a huge volume of data in a very short time in order to take a decision. A second argument is given by the companies that study the IT market.

Gartner Groups Inc. was making in 2009 the following predictions for the upcoming years:

- by 2012, due to the lack of information, processes and tools, more than 35% from the total of 5000 companies worldwide will have problems in taking optimal decisions for the company's activities.
- by the year 2012 the companies will allocate 40% of the budget for Business Intelligence.
- in the late 2010, 20% of the organizations will rule analytical software applications as a Business Intelligence component.
- by 2012, one third of the analytical applications will be delivered through Web applications (web application hybrid).

Stage 2. The analysis of the existing economic system

At this stage a strategic analysis referring to the company's assets and the ways of achieving these objectives, and also an analysis of the existing informational system must be done. From the existing economic system we will retrieve data which consequently we will use to help management factors in taking a quick and correct decision. If the collected data is not correct and the decision will be incorrect - *garbage in garbage out*. In many cases, from personal findings the managers expect certain errors to be corrected by the IT personnel.

Stage 3. Analysis of the existing IT system

At this stage 2 things must be established:

- if the existing IT infrastructure can be used (at least partially to reduce costs) to implement Data Warehouse and Data Mining;
- whether the organization has a well defined and formalized security policy (in conjunction with step 3).

Hardware components that will form a new architecture cost one third of the total cost so I have to see if I can lower this cost. Ideal would be to find as many solutions to reduce initial costs, by relocating the existing computer systems, following that these to be replaced by the ones initially indicated. We should not exaggerate, an equipment with minor problems will create big problems in such a system.

In a Data Warehouse the important data about the organization is stored in one place. This involves increased risks for the organization. Building a Data Warehouse must be done very carefully because having all the data of a company focused in one single point data security problems might appear.

The steps that follow are much more complex gaining technical meanings.

Stage 4. Data Warehouse architecture design

Taking as starting point the existing architecture we can define the future architecture. The new architecture must be designed in such way that it will have as little impact as possible on the existing system but a further development to be allowed [3]. We define physical and logical configurations, the data, the necessary applications and financial and architectural support are designed. Basically the main components must be designed: the data stores, ETL (Extract, Transform and Load) system and the front-end applications.

Stage 5. Selection of the technological solution

At this stage we will identify the implementation tools for data and applications, and the tools needed for technical and architectural support. Selecting these tools must take into account the structure and the complexity of the Data Warehouse. According to their function, these tools can be classified into the following categories: Transforming and extracting time, data cleaning, data loading and refreshing, data access, security providing, version control and configuration management, database management, data backup and recovery, disaster recovery, performance monitoring, data modeling, metadata management [3].

Stage 6. Development

At this stage the elements designed in the data stores are designed, ETL system (including data quality system and metadata) and the front-end applications.

We define the detail level of design for every operation that has as purpose data extraction.

Stage 7. Testing and implementation

At this stage, all designed and built elements are put together forming a system, and are tested and implemented thereafter.

Stage 8. Operation and maintenance

This is actually the last stage, with equal duration of the Data Warehouse life. It involves using Data Warehouse for the purposes for which it was designed and also for periodical application on Data Warehouse of some test and maintenance operations, evaluation and security assessment. All these stages are done one at a time, when one is finished the other starts- waterfall methodology.

Ways of implementation

To be able to define a strategic plan for initial implementation and further development it is necessary to know the financial resources, time and specialists of the company. In the case of financial resources an implementation at a lower level for the Data Warehouse and Data Mining must be done. Depending on the time available one can choose for the application development his own personnel or can choose the COTS products (Commercial On The Shelf). This option must be put together with the level of the company's specialists. If the training of the specialists is high, then the implementation can be done, but otherwise this operation must be outsourced, with the problems that can appear starting from this point. Creating and developing a Data Warehouse can be done starting from the following three stages:

1. Implementation from scratch.
2. Improving the existing system.
3. Converting an older system.

Implementation from scratch has the advantage that I do not need an audit of what we have in the organization but it implies higher costs. For operating safely it is advised to start from scratch. Instead upgrading the existing databases or hardware and software will reduce costs, but will also create "fear" in later use. If something goes wrong later, then I would probably ask myself: "Why haven't I changed the ... too?". With a limited budget I will probably be forced to use open-source applications.

With a budget that is over the calculated average we will have a new and reliable system, with increased computing power. It would be best to have all the amount of money in order to make all the assembly powerful.

An option to reduce costs would be outsourcing certain services. Outsourcing any service must be done by weighing three factors: money, performance and security. With less money I can get more performance but I need to share data with an outsourced organization.

Return on investment

For this we have to answer the question: "How do we measure success?". Displaying new results will be a gained point in understanding the necessity of building and exploiting the Data Warehouse and Data Mining.

Time factor will also be essential. Making a report in a very short time will put another brick in the building of the system.

But most important is the fact that all the system can be used in assisting decisions, this time disposing the results of a large data volume, so with a higher precision.

Finally, an analysis with the specialists in the company or outside the company will highlight the benefits of using Data Warehouse and Data Mining.

The most important thing is represented by the acknowledgement of resources owner over the necessity of this type of investment.

There are Data Warehouses consisting of databases containing between one and several tens of terabytes. Creating such a warehouse costs million dollars. What organization would invest so much money without obtaining profit?

Conclusions

For the medium and large organizations with a very good computer system, implementing a Data Warehouse and of course a Data Mining are absolutely necessary.

Even if it seems an easy task at first sight, implementing a Data Warehouse proves to be a challenge for the specialists. Lately, more and more commercial applications come with Data Warehouse facilities implemented. Very often, the organization implements a Data Warehouse and thinks the issue is solved. But things are not as easy as they seem. Probably many companies have specialists who can read a standard report given by a Data Mining tools on a Data Warehouse. But how many companies have analysts who can read and interpret an analytical report or a report for homogenizing and consolidating data? This is where things get complicated. The decision personnel must be assisted by persons who are capable to interpret the data, which consequently will be used in the decision process.

Finally, after the system will be used in assisting the first decisions, the benefits of using a Data Warehouse and Data Mining system will be seen.

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IT SOLUTION FOR PROCUREMENT MANAGEMENT FROM RESEARCH CENTERS

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Abstract: The paper proposes a study and analysis of the management of procurement of goods (products, services) by research centers and laboratories in a university. The stated goal is the computerization of work related to directions and research centers. The module is designed to be integrated into an existing platform. Modeling obtained highlights the main activities to be supported for this type of activity, possible problems that may arise and solutions proposed.

Keywords: modeling, acquisition, conceptual model, relational modeling, research center

Cod JEL: C61 - Optimization Techniques; Programming Models; Dynamic Analysis, C67 - Input-Output Models, C81 - Methodology for Collecting, Estimating, and Organizing Microeconomic Data.

1. Introduction

In the current direction "Knowledge Economy" is driven and academic research is creating opportunities that should not be ignored. But research can only take place in a suitable well, receiving support. Given the flow of requests for goods (physical products or services), it must follow the work in this direction and efficiency of purchasing. For example, aggregating more supply can reduce the purchase price (aggregation), in other cases, redundancy can be eliminated. The paper proposes a conceptual model how to take over the prosecution of such applications for purchase. The result is meant to be a module can be integrated into various platforms.

2. Analysis requirements.

Requirements resulting from the analysis following actors: the beneficiary, buying office, administrative service. Beneficiary (or research center research laboratory, CCLC) an application for purchase of property / assets (a good will mean both an object and a service – e.g. a subscription, a connection to a database) the University Registry. Beneficiary is a project coordinator and has justified the acquisition, the value estimate, technical specifications of the property / goods purchased CPV code, approval of university management (vice-rector Scientific), addressed the funding sources.

Purchasing office collects applications, preparing specifications according to technical specifications supplied by the customer, get management approval to auction the University, organizing and conducting the auction, decided the contract of acquisition. Part of the legal requirements, establish procurement office annual procurement plan (PAA). PAA is updated with approved purchases occurred during the year and of course included in PAA.

Administrative Service: receiving property or assets acquired and taught him the beneficiary, the property is taken from storage provider subordinated Supply Service. Then compile the property or assets purchased with service accounting and financial service to inform the final invoice. An action / activity CCLC is located in one of the states:

- *Recorded* - the application is taken to purchase office and found that the conditions for commencement of business acquisition.
- *Validated* - has signed the purchase agreement.
- *Purchased* - the asset (property) has been received (received in full) of administrative services.
- *Completed* - property (goods were taken by the applicant (research center, research laboratory, etc.).

The application is maintained by the office of acquiring acquisition activity recorded in the database and validates the contract of acquisition. Administrative service acquisition points with good acceptance (of goods in full). This alert occurs when the property registration (property) in management. The applicant indicates completion of the action when he takes the endowment asset management (property).

IT solution for managing this activity includes:

- Ensure staff web server that hosts the application.
- Annual maintenance of the database: The database contains information on outstanding data, be deleted from the closed end of a cycle (calendar year).
- Ensuring access to application.

The application is distributed, information is provided by the office of procurement and administrative service by filling out forms online (Internet / Intranet). Tables resulting from the modeling are:

- DirectieCercetare
- Proiect
- Entitate
- TipEntitate
- DirectieCercetare_Entitate
- Proiect_Entitate
- Proiect_DirectieCercetare
- Achizitie
- Furnizor
- Achizitie_Proiect
- Achizitie_Entitate
- Achizitie_DirectieCercetare

Tables have the following meanings:

- DirectieCercetare - For now DirectieCercetare entitatea shape as synonymous with research center. Project - research project is intended to make purchases.
- Entitate - defines entities such faculty, department, laboratory with hierarchical relations (eg, a chair is a faculty).
- TipEntitate - defines the types of entities: faculty, department and laboratory.
- DirectieCercetare_Entitate - directions for research, retains entities (faculties, departments, laboratories) to whom they are subordinate. An entity can contain multiple lines of research, a research direction can be contained by several entities.
- Proiect_Entitate - some projects are initiated by a particular entity. Table Proiect_Entitate Note that such projects were initiated by the entity. A project can be put in contact with several entities, one entity may initiate more projects.
- Proiect_DirectieCercetare - some projects are initiated in a research direction. Table Proiect_DirectieCercetare Note that such projects were initiated by the direction of research. A project may be placed in the line of inquiry, a research direction may initiate more projects.
- Achizitie - Note data acquisition (tender).
- Furnizor - maintain data about suppliers.
- Achizitie_Proiect, Achizitie_Entitate, Achizitie_DirectieCercetare - these tables as part of a store go towards the purchase of the 3 types of beneficiaries. Sum of quantities of the three tables above must be equal to the number of items ordered in the acquisition.

Information expected to be received by the scheme are: the list of beneficiaries, providers list, the recipient of an acquisition situation, queries / reports.
Diagram links between tables is presented in Figure 1.

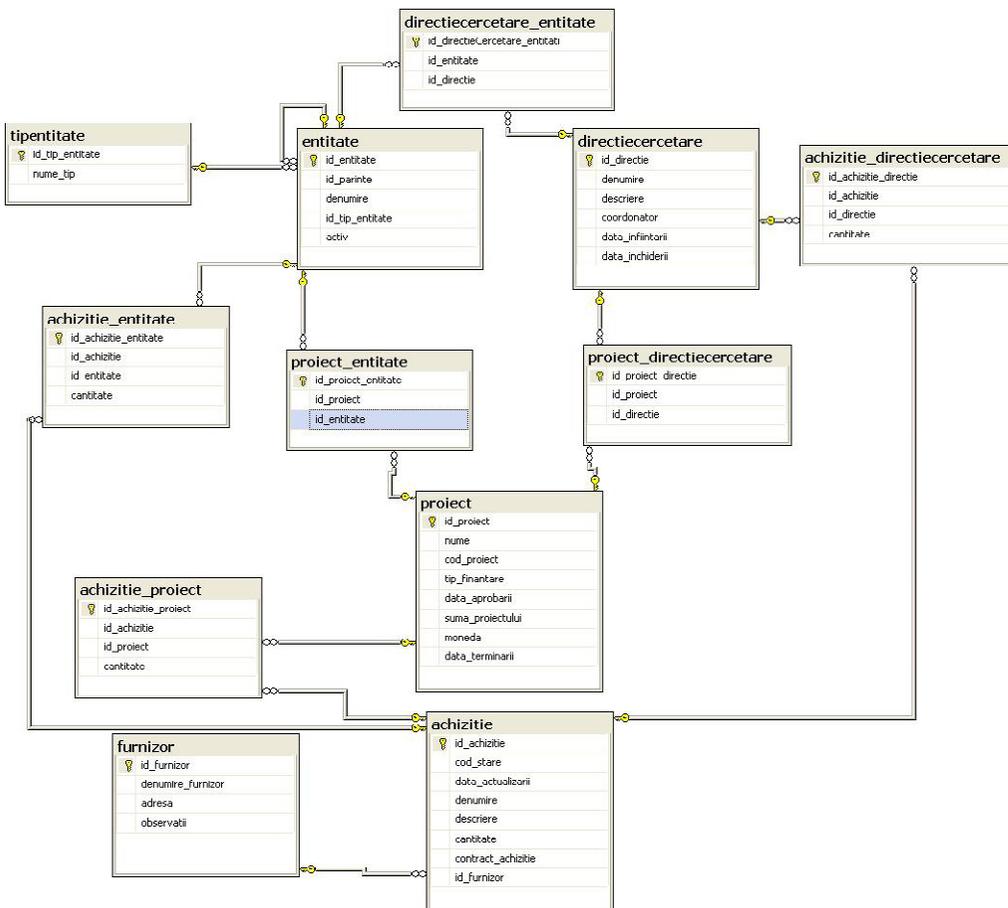


Figure 1. Diagram links between tables

3. Solution approached.

A problem arises in modeling the relational form of technical specifications, they can be extremely heterogeneous, with specific types of associated values. A solution to this problem is modeling the Entity-Attribute-Value, known as Object-Attribute-Value. This type of modeling can continue to use a traditional relational DBMS. Modeling involves storing a registration form has three columns: entity - a foreign key to a table containing the entity name for specifying the attribute and associated value attribute is a foreign key to one table with definitions of attributes - it contains at least the name and key attribute, possibly description, unit of measurement, permissible values, etc.. The third column is the current attribute value.

Other issues that need to be addressed are: data security, logging into the system allowing only certain users (authentication) and implementing a scheme to control access to web pages (authorization). Addressing these requirements is specifically covered platform on implementation. A complete solution is based on operating system facilities, the specific security settings that operate the network and the application-level security.

4. Conclusions.

Creating a system that would meet the proposed goal was to determine the requirements and determine the flow of actors and events. For persistent fever relational data modeling can be complemented in this case, the EAV model, the situation required some technical features related goods. Such modeling could also be useful if others modeled (projects, suppliers) are attached to features that are not found for all instances.

Also how the results should have an external security (data security, authentication, authorization). They are most often presented as the best practices, patterns and programming interfaces - API's - to be integrated into the host system.

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BUSINESS MODELS FOR EXTENDING OF 112 EMERGENCY CALL CENTER CAPABILITIES WITH E-CALL FUNCTION INSERTION

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The present article concerns present status of implementation in Romania and Europe of eCall service and the proposed business models regarding eCall function implementation in Romania. eCall system is used for reliable transmission in case of crash between In Vehicle System and Public Service Answering Point, via the voice channel of cellular and Public Switched Telephone Network (PSTN). eCall service could be initiated automatically or manual the driver. All data presented in this article are part of researches made by authors in the Sectorial Contract Implementation study regarding eCall system, having as partners ITS Romania and Electronic Solution, with the Romanian Ministry of Communication and Information Technology as beneficiary.

Road safety, information technology, communication, ecall, emergency call center.

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1 Introduction

1.1 Road fatalities

Since 2004, European Commission has developed an integrated plan named e-Safety, as primary pillar on Intelligent Car Solution i2010 initiative. Its objective is connected with vehicle safety, keeping in mind the excessive number of road accidents. This plan follows all phases regarding vehicle safety as *exposure, crash avoidance, injury reduction* and *post-crash* situations.

The issue of road safety, including all phases: information, support, intervention, crash and post-crash, is very severe, because of its repercussions in population health and death causes. First, we must see any effort of saving lives or limiting and preventing injuries from humanitarian reasons, where a life lost is not measured in financial terms for the family members. The second point of view, an accident has as result time of work incapacity, expenditures with treating injuries and so on. From World Health Organization published statistics we emphasize that road accidents are in 2004 estimated as 2,2 percent of death causes, being the ninth as percent and for 2030 to 3,6 percent of total deaths, rising on fifth place as cause of death, being estimated on 2,4 million fatalities around the world ([1]). In the same report is clearly revealed the connection between funds invested in prevention policies and number of accident, the cost of road traffic injury being estimated at 518 billion USD world-wide, for countries with poor economic settings, losses being bigger than fund invested in development of prevention measures. In Europe road traffic injury fatality rates (per 100 000 population) is 12,9 with 19,3 rate for middle-income countries (e.g. Romania), being lower for high-income states (7,9) and even for low-income countries (12,2).

For Romania, reported road traffic fatalities (2007) is 2712 (86 percent males, 14 percent females) and non-fatal road traffic injuries (2007) 29832, with total registered vehicles 4,6 million (2008). In 2008, from Romanian Police data are registered 10472 severe road accidents with 2999 fatalities, 9260

persons with severe injuries and other 3125 persons injured (non-severe), with 23,7 percent increase for number of severe road accidents compared with the year 2007. The same report also emphasize the increasing of road accident without injuries with 16,3 percent comparing with 2007 (full data [2]). As primary conclusion, for Romania, with 6150USD/habitant income (in 2007), estimated as being middle comparatively with other countries, with 81693 km (2008) of national roads the road safety became a serious issue.

1.2 Implementing IT technologies in safety measures

Starting from this situation where both humanitarian and economic reasons are important, on 2004 a number of discussions were held between the Commission for the European Communities (CEC), the automotive industry, the telecommunication industry and European Telecommunications Standards Institute (ETSI) regarding the development of various safety systems, covering all phases mentioned above on European level, called e-Safety [3]. This initiative has promote the concept of Intelligent Transport Systems (ITS) [4], where new and advanced information and communication technologies (ICTs) is incorporated on-board in order to help preventing or avoiding traffic accidents, limiting the accidents consequences, provide real-time information for drivers about local traffic, optimizing the cruise by avoiding road congestion roads, assistance in post-crash situations [5]. To a better understanding, we emphasize the phase of intervention and related technologies. First phase is *Information* with related technologies: *Dynamic traffic management, Extended environmental information, Real time traffic information* and *SpeedAlert*. Second phase, *Support*, with *Adaptive Head Lights, Blind spot monitoring, Extended environmental information, Lane departure warning, Local danger warning* and *Obstacle and collision avoidance*, followed by *Intervention* phase with *Electronic stability control, Lane keeping assistant* and *Longitudinal support and collision warning, Crush* with *Obstacle and collision warning* and *Post-crash* with *e-Call* technology. Most of these technologies are implemented by i2010 Intelligent Car initiative. As part of this initiative, eCall is defined as a specific item in the scope of the e-Safety initiative. eCall is seen as an extensio of current E112 capabilities, enabling the automatically transfer of eCall data between the Vehicle and the Public Safety Answering Points (PSAPs) in case of crush, supposing that the passengers are wounded or unaware to make the call to 112. This should rely on existing E 112 network architecture.

2. 112 and eCall Function Insertion Status

Part of e-Safety plan is to extend 112 Emergency Call Center capabilities with eCall function insertion, to enable the transferring of eCall data between the vehicle and the Public Safety Answering Points (PSAPs), relying on existing 112 network architecture.

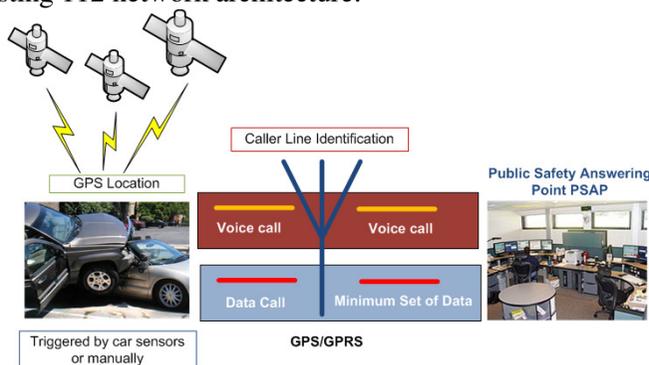


Figure 1 eCall system service chain

As it shown in Figure 1, eCall system use existing E112 networks to communicate between a vehicle and a public emergency service center, providing reliable full-duplex data communications between IVS and PSAP in addition to emergency voice call (E112) via the cellular network, and can be initiated either automatically or manually. If an accident occurs, the device will call the emergency services and

will communicate the exact location of the vehicle. Thus, emergency response time will be reducing, and the wounded will be treated more quickly and more lives will be saved. Advanced communication and information technologies have great potential to improve safety on roads.

The eCall objective is to reduce the number of roadway fatalities by minimizing the response time when an accident has occurred, being estimated by EC on 2500 person each year as fatalities because of non-intervention or long intervention time.

Location-enhanced emergency calls like in-vehicle e-Call have their primary benefit to society of saving lives and in offering an increased sense of security. eCall is a combination of an In Vehicle System (IVS), a device with a GSM cell phone and GPS location capability, and a corresponding infrastructure of PSAPs [6].

Under the Action Plan, automobile manufacturers and technology companies to be as up in late 2005 to agree on standards and technical specifications necessary to complete the tests, because in 2010 a part of new vehicles are equipped with this technology, as European Commission has announced, major implementation phase being expected to 2020. Main advantage of eCall implementation is that 112 intervention procedures are set in all European countries, with few exceptions.

In Romania, the 112 has one PSAP to each county, organized under Special Telecommunication Service, who is developing the modules needed to introduce the new service. What is missing is the Memorandum of Understanding between national MNOs and STS and as a result one of next possibilities of implementation:

- Mandatory for new cars, that having a result a critical mass of vehicle in 2020;
- Mandatory for cars insurance (CASCO or RCA), where the insurance company will install eCall IVS to prevent thefts to finance damages from unreal accidents, critical mass of vehicle being expected immediately (with limitation of car age caused by lack of sensors);
- Optional for car insurance, with discount insurance (20 percent in France), with the same idea of preventing thefts.

3. Business models for eCall function insertion

To establish the possible business model we have to define the cost and incomes for the eCall service. Basic, are two models for implementing eCall service. First, one is based on private PSAP, the Minimum Set of Data [7] being received by a PSAP [8], managed by insurance companies or car manufacturers. After receiving data about the crush, the PSAP operator decides if a live is putted in danger situation. In this case, the operator, accordingly with the Law No. 160/2008 regarding the implementation of the Single National Emergency Call System (SNECS), transfers the call to Special Telecommunications Service, who is the unique administrator. STS, announce, depending on the crush details and severity, the competent authorities such Ambulance, Police or Emergency Situation Inspectorate (Fire/Rescue). Accordingly with the procedure, those authorities must close the emergency case (after it is solved) and report to PSAP. The closing data are reported from STS to private PSAP, who initiate the procedure. The private PSAP could make capital out of selling diverse reports to third parties (insurance companies, transportation companies etc.). The information flow is presented in figure 2. The second is based entirely on existing SNECS managed by STS. In this case, SNECS receive MSD [9] resulted from car accident, announce the competent authorities, close the emergency case and could sell various reports to third parties. The question is what solution could provide an efficient business models. It is expected that all the cost involved by implementation, operation and maintaining.

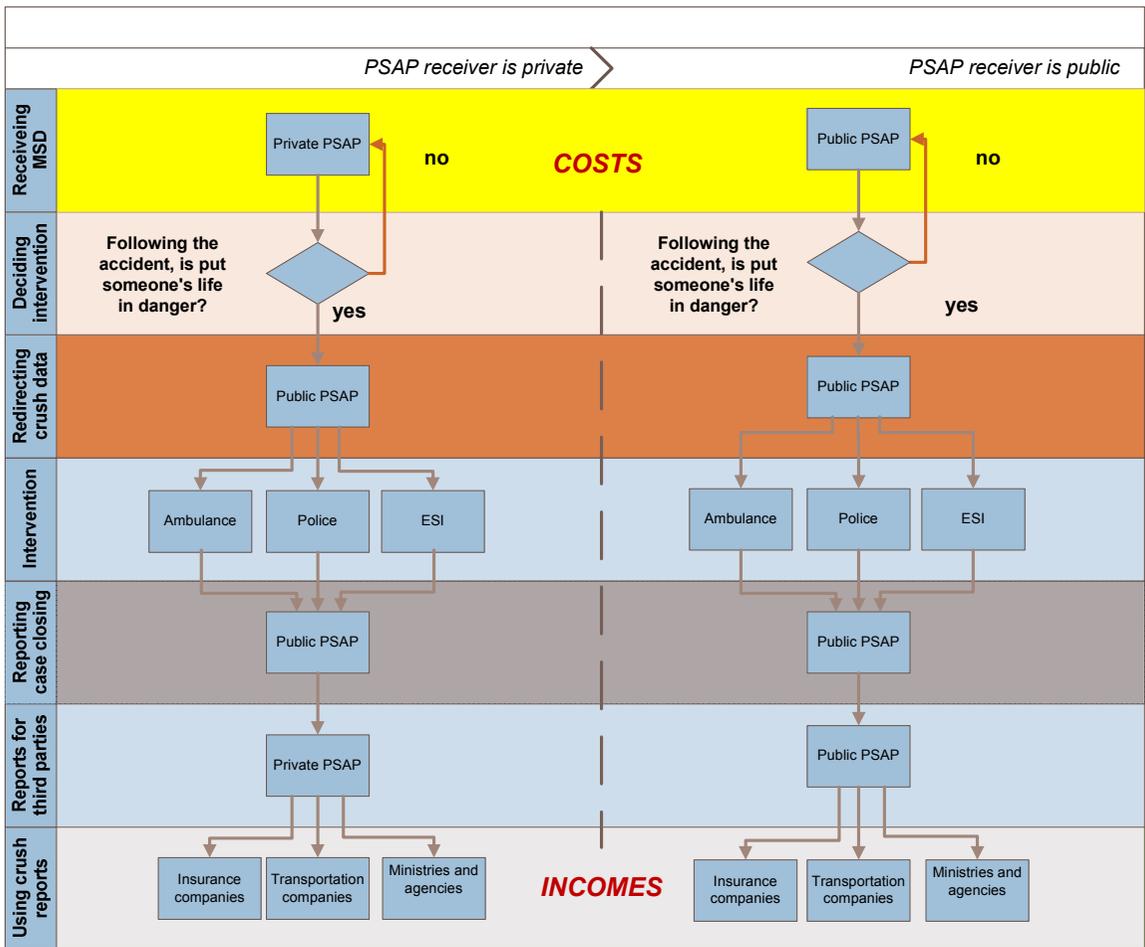


Figure 2 Comparatively information flow for eCall business models

If private PSAP is put on target, the cost of implementation are very high because, none of Romanian companies from assurance or transportation field, accordingly with our study, based on questionnaire in December 2009- February 2010 [10], is not interested in develop their own PSAP. So, if any private company intent to develop such PSAP it is need to:

- Connect to all PSTN, to receive a digital compressed data under the form of MSD,
- Extract from MSD the VIN code and connect to Romanian Automobile Registry database to establish vehicle manufacturer, type, color,
- Decide, after a voice call or other procedural step if is an emergency life situation. Must have its own call center,
- Collect closing data from STS and prepare reports for third parties.

In public PSAP case, all those operations are currently covered in classic 112 emergency life situations. What must be developed is:

- Prepare the system for MSD receiving, supposing additional software module developing to existent system,
- Complete hardware infrastructure with servers for switching and recording data and additional voice calls,
- Testing entire chain service and also the crossing border situations,
- Develop special procedure for eCall.

Now, Romania is part of FP7 initiative named eCall National Projects, European Commission providing 50% of implementation and testing costs. The project will start in January 2011, having a

three years durations and one million euro total budget for Romania. The project consortium bring together ITS - Romania, STS, RNADCR, UTI, Romanian-American University and El- Sol. The first conclusion is that because of lack of interest of assurance and transportation companies, first implementation will be with a single public PSAP managed by STS.

The second issue is the In Vehicle System, supposing that every car to be equipped with a device capable to transmit the MSD with GPS position and VIN code and support a voice call. In this case, based also on the same questionnaire, the assurance companies are not interested to support entirely or a part of implementation cost, evaluated between 50 and 150 euro/car. Therefore, the implementation situation could be as follow:

- For old vehicles by owner request, if the vehicle already has the sensors for triggering the call in crush situations,
- Mandatory for new car produced in Romania from 2013,
- Mandatory for new cars registered in Romania from 2020.

In the plan presented, we expect to reach 30% of registered vehicle until 2018, and 45% in 2020, based on actual and presumed vehicle replenishment rate in period 2010-2020 and predicted number of vehicles. The operation and maintenance for 112e service will be sustained financial by government budget with co-financing from selling reports for third parties. Car owner will pay IVS on vehicle purchasing time.

4. Conclusions and Future Works

In order to make the reporting of an accident more simple and to give the emergency call operator more information about the accident the European Commission launched a communication telling the EU Member States to implement the single European emergency call number 112, which has been follow by all EU Member States. In addition the European Communication launched a recommendation about the enhanced E112 number, with also provides the location when an emergency call initiated from a cellular phone. From the network operators and service provider's perspective they are developing different systems for all vehicles manufactures, which is making the system expensive and not able to work across the different EU Member States. Another conclusion is that if there should be a Pan-European eCall system, the vehicle manufactures or the network providers cannot develop these themselves. It is very important to include the public eCall MSD signaling system should be based on a in-band modem/signaling application eCall In-band Modem.

The present article presents the research made in Sectorial Contract Implementation study regarding eCall system, Romanian Ministry of Communication and Information Technology. The eCall system utilizes existing E112 networks to communicate between a vehicle and a public emergency service center. The authors are direct implicated though its partner ITS Romania, which have signed the European Commission MoU regarding eCall. Therefore, what we claim in this article is the general plan of implementation for Romanian of eCall technology, as the result of Sectorial Contract *Implementation study regarding eCall system*, being now on third phase, project-having deadline in September 2010. To conclude, we propose an architecture with a single PSAP managed by STS and calendar to impose IVS on new car. In 2020 we expect a 45% coverage of the service. Next, for future work, we will participate to eCall implementation, as a part of FP7 already constituted consortium.

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SOME ASPECTS CONCERNING THE CORRELATION BETWEEN ICT AND INNOVATION IN EUROPE

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In the context of the entire world's efforts to start recovering from one of the worst economic crisis, finding the main drivers of growth is increasingly important. The European Commission's new proposal – "Europe 2020" – states innovation as one of these main drivers, and promotes the development of a smart economy based on knowledge and innovation. But how innovation can be fostered? The present study focuses on the relationship between innovation and Information and Communications Technology (ICT), a supporting pillar of the "smart economy". This relationship has been studied at country level using two composite indicators: one for ICT – the "Networked Readiness Index" (NRI) published by World Economic Forum – and another for Innovation – the "Summary Innovation Index" (SII) from the European Innovation Scoreboard (EIS). The results represent a first step towards finding the best driving factors that can stimulate innovation.

Keywords: *Innovation, ICT, SII, NRI, correlation*

JEL classification: O11

1. Introduction

Innovation and ICT, as main drivers of competitiveness and sustainable growth, enable the reducing of the digital, economic, and social divides within each country, and among countries.

A recent analysis made by the European Commission (European Commission, 2010) shows that even before the global economic crisis, Europe was not progressing fast enough relative to the rest of the world, and the productivity gap has widened over the last decade. This was due to many factors, including the insufficient use of ICT, the lower level of investment in R&D and innovation, the "reluctance in some parts of our societies to embrace innovation" etc. Thus, the importance of *the dynamic relationship between "the use of ICT" and "innovation"* is becoming more and more politically recognized.

But how does ICT connect with innovation? This research study – which was partially supported by the National Council for Scientific Research in Higher Education (CNCSIS) under the Project NPRDI - II, Contract No. 91-071/2007: "Innovation and competitiveness – the fundamental drivers of economic and social progress of Romania" – investigates the following aspects:

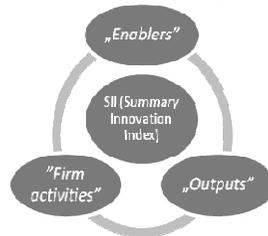
- the existence of a correlation between ICT and Innovation for 32 European countries in 2009; a cross-sectional regression analysis on the relationship between two composite indicators has been used: the Summary Innovation Index (SII) for Innovation, and the Networked Readiness Index (NRI) for ICT;
- the existence of a connection in time, related to different clusters of innovation, between SII and NRI; a dynamic regression analysis for the data of 27 European countries over six years (2004-2009) has been used;
- the relationship between NRI and SII for Romania during 2004-2009.

2. Composite Indicators - measures of ICT and Innovation performance

2.1. The Summary Innovation Index

SII (Summary Innovation Index) is a composite index that measures the overall innovation performance at national level. It was created at the request of the European Council in Lisbon in 2000 and since then has been assessed and published annually in the European Innovation Scoreboard (EIS). According to the methodology used since 2008, SII summarizes 7 innovation dimensions grouped into 3 main blocks: "Enablers", "Firm activities" and "Outputs". Each one of the innovation dimensions contains several indicators leading to a total of 29 indicators (EIS, 2009).

Fig. 1. The structure of the Summary Innovation Index (SII)

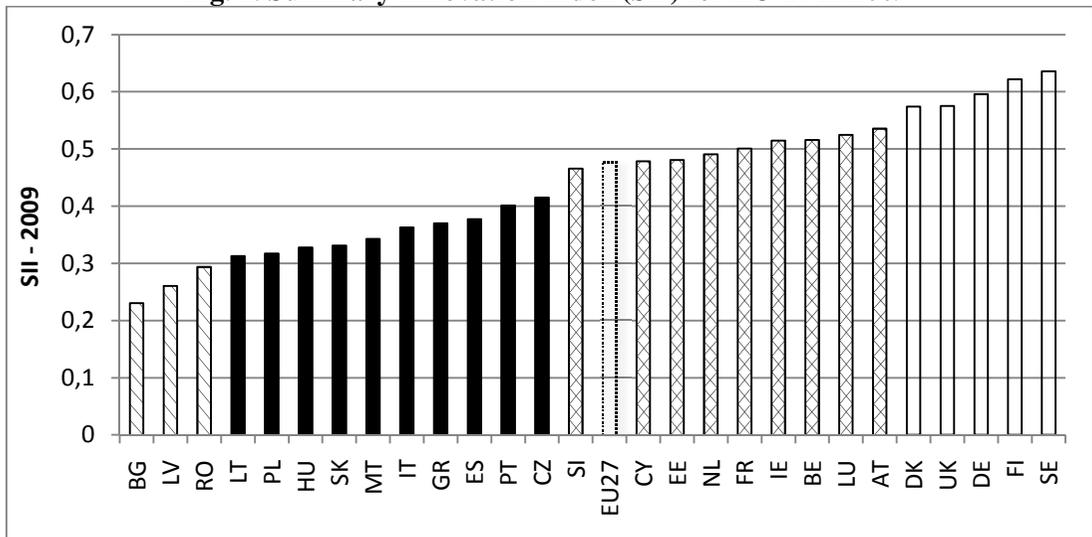


Based on a statistical cluster analysis of the SII scores over a five-year period, the EU Member States are divided into four groups:

- *Innovation leaders*, including countries with innovation performance well above that of the EU average;
- *Innovation followers*, including countries with innovation performance below those of the innovation leaders but close to or above that of the EU average;
- *Moderate innovators*, including countries with innovation performance below that of the EU average;
- *Catching up countries*, where the innovation performance is well below the EU average.

Figure 2 shows the four groups (clusters) according to EIS 2009 (with the most innovative country in the right side and the less innovative one to the left).

Fig. 2. Summary Innovation Index (SII) for EU-27 in 2009



Source: (EIS, 2010)

The *Innovation Leaders* are Sweden, Finland, Germany, the UK and Denmark. The group of the *Innovation followers* includes the following nine countries: Austria, Luxembourg, Belgium, Ireland, France, Netherland, Estonia, Cyprus and Slovenia. The *Moderate innovators* are: Czech Republic, Portugal, Spain, Greece, Italy, Malta, Slovakia, Hungary, Poland and Lithuania, whereas Romania, Latvia and Bulgaria are regarded as *Catching up countries*.

2.2. The Networked Readiness Index (NRI)

The Networked Readiness Index has been published annually, since 2001, in *The Global Information Technology Report* produced by World Economic Forum, in collaboration with INSEAD. The index is a composite of 3 components (fig.3):

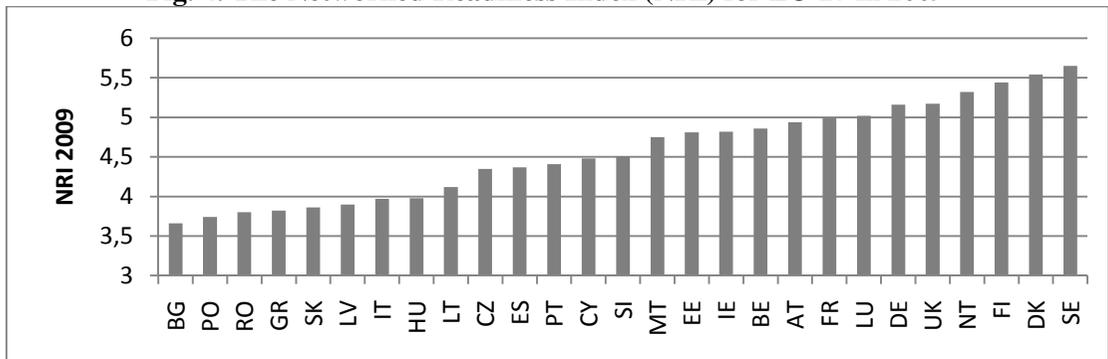
- the *environment* for ICT offered by a given country;
- the *readiness* of the economy's key stakeholders (individuals, businesses, and governments) to use ICT;
- the *usage* of ICT among these stakeholders.

Fig. 3. The structure of the Networked Readiness Index (NRI)



Each of the NRI components contains 3 sub-indexes ("pillars") composed of variables, the total number of variables included in NRI being of 68 (WEF, 2010).

Fig. 4. The Networked Readiness Index (NRI) for EU-27 in 2009



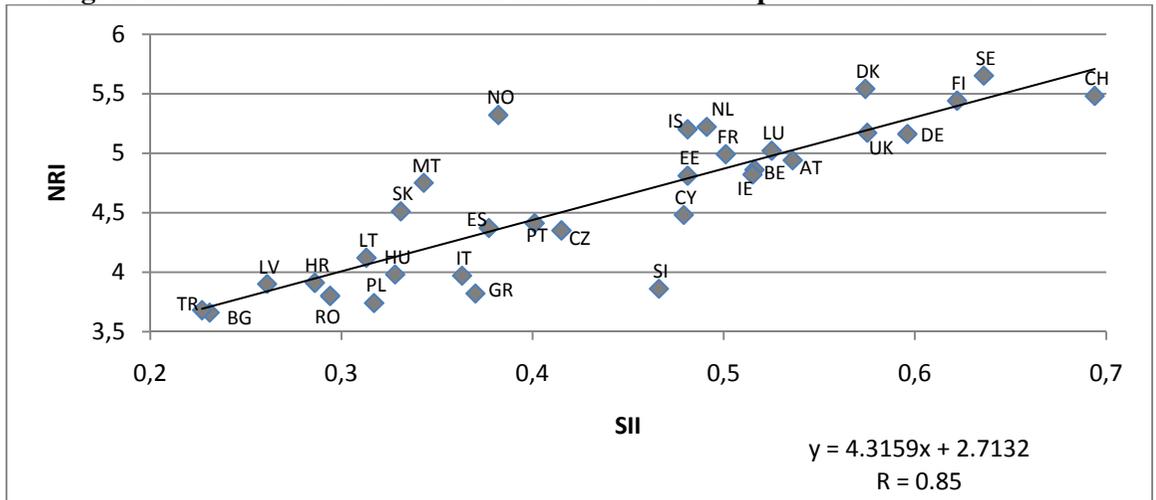
Source:(WEF, 2010)

3. Econometric tests

3.1. The correlation between NRI and SII for 32 European countries in 2009

To get an overview of the degree of correlation between ICT and Innovation at EU level, a cross-sectional analysis of NRI and SII in 2009 for 32 European countries has been achieved. The results of the statistical tests performed are listed in Annex, Table 1.

Fig. 4. The correlation between NRI and SII for 32 European countries in 2009

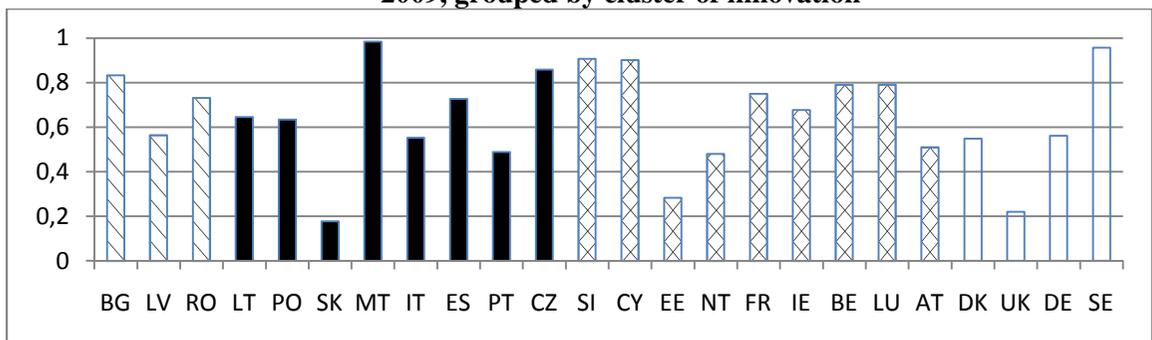


As shown in figure 4 there is a strong correlation between NRI and the innovation index (SII), the regression coefficient having a value of 0.85. In the right-upper corner, countries which are "leaders" in innovation also have the highest values for NRI. In the second group of countries, the "followers in innovation", the low performance in ICT opening of Slovenia and Cyprus must be noted. The "moderates" in innovation are spread in the lower left corner, registering a wide range of NRI values, from 4.75 for Malta to 3.74 for Poland. The "catching-up in innovation", Romania, Latvia and Bulgaria, have also wide spread NRI-SII values: Romania (3.8, 0.294), Latvia (3.9, 0.261) and Bulgaria (3.66, 0.231).

3.2. The correlation between NRI and SII for 24 countries from European Union, during 2004-2009

Using a linear (unifactorial) regression analysis, the relationship between NRI and SII for 24 EU countries over a period of six years (2004-2009) has been studied. The results obtained are presented in Annex, Table 2. Figure 5 shows the correlation degree for each of the 24 states, grouped by innovation cluster. The "leaders in innovation" (cluster 1) appear on the right, and those who are "catching up in innovation" (cluster 4) appear at the left.

Fig. 5. The correlation degree between NRI and SII for 24 UE countries during the period 2004-2009, grouped by cluster of innovation



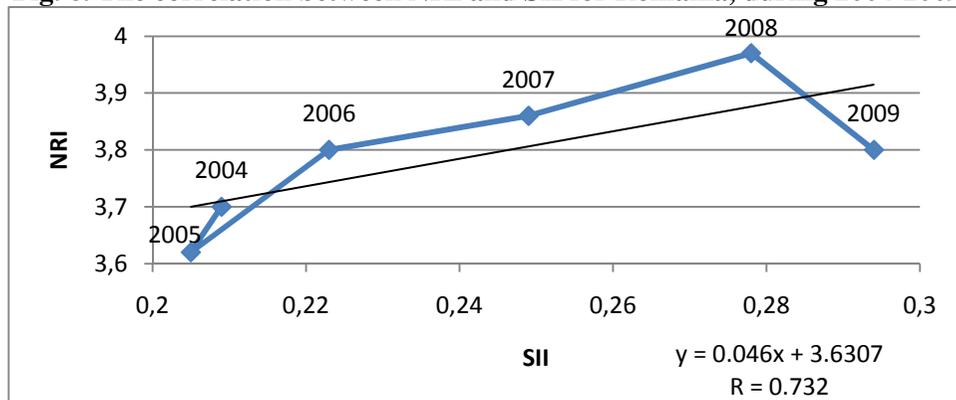
All clusters in innovation have similar properties, namely they are composed by countries where the correlation between NRI and SII is relevant, and countries for which this correlation is not significant. For "innovation leaders", Sweden is the only country for which there is a strong correlation between NRI and SII. In the "followers in innovation" cluster, there are strong correlations recorded for Cyprus and Slovenia, and significant correlations for Luxembourg, Belgium, Ireland and France. Similar results can be observed in the case of

"moderates in innovation". Among "catching-up in innovation", just for Romania and Bulgaria the connection between the two indicators is significant.

3.3. The correlation between NRI and SII for Romania during 2004-2009

For Romania, the correlation between the two composite indices over the period 2004-2009 is illustrated in figure 6.

Fig. 6. The correlation between NRI and SII for Romania, during 2004-2009



Statistical analysis of the correlation is shown in detail in Annex, Table 3. The 0.732 value of the correlation coefficient for Romania confirms that there is a relationship between ICT and innovation. To be noted the regress registered in Romania in 2005 over the previous year. In 2009, although the degree of innovation has increased significantly, from 0.278 in 2008 to 0.294, a regression in terms of opening for ICT can also be noted.

4. Conclusions

The study shows, through the econometric tests performed, that there are significant correlations between NRI and SII:

- at the European level - proved by the transverse analysis corresponding to year 2009 and the dynamic analysis for the period 2004-2009;
- at the national level – proved by the dynamic analysis for Romania in the period 2004-2009.

The results represent a first step towards finding the best driving factors that can stimulate innovation and increase its efficiency.

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Annex

Table 1. Statistical analysis of the correlation between NRI and SII for 32 European countries¹⁾ in 2009

<i>Regression Statistics</i>						
Multiple R	0.855					
R Square	0.731					
Adjusted R Square	0.722					
Standard Error	0.333					
Observations	32					
<i>ANOVA</i>						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	9.073	9.073	81.579	4.634E-10	
Residual	30	3.336	0.111			
Total	31	12.409				
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	2.713	0.216	12.552	1.799E-13	2.272	3.155
SII - global	4.316	0.478	9.032	4.634E-10	3.340	5.292

¹⁾ The 32 European states analyzed are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom and Switzerland, Norway, Turkey, Croatia, Iceland.

Table 2. The correlation coefficient between NRI and SII for 24 EU countries²⁾ during 2004-2009 (by cluster of innovation)

State	Correlation coef.						
BG	0.833	LT	0.646	SI	0.907	DK	0.549
LV	0.564	PO	0.634	CY	0.901	UK	0.220
RO	0.732	SK	0.178	EE	0.283	DE	0.561
		MT	0.984	NT	0.481	SE	0.957
		IT	0.553	FR	0.751		
		ES	0.726	IE	0.678		
		PT	0.488	BE	0.790		

CZ	0.858	LU	0.791
		AT	0.510

²⁾ The 24 European states analyzed are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

Table 3. Statistical analysis of the correlation between NRI and SII for Romania during 2004-2009

<i>Regression Statistics</i>						
Multiple R		0.732				
R Square		0.536				
Adjusted R Square		0.420				
Standard Error		0.093				
Observations		6				
<i>ANOVA</i>						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	0.04	0.040	4.619	0.098	
Residual	4	0.035	0.009			
Total	5	0.074				
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	3.206	0.275	11.643	3E-04	2.441	3.97
SII	2.412	1.122	2.14916	0.098	-0.704	5.528

OPTIMIZATION OF DISTRIBUTED QUERY USED IN SYNCHRONIZING DATA BETWEEN TABLES WITH DIFFERENT STRUCTURE

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Replication can be used to improve local database performance and to improve the availability of applications. An application can access a local database rather than a central database from another site, which minimize network traffic, locking escalation at the central database and achieve maximum performance for current insert, delete or update operations. The application can continue to function if the central database is down, or cannot be contacted due to a communication problem, power or hardware failure. This paper is focused on presenting a synchronization process between a central Microsoft SQL Server database and many remote sites databases. One possible problem in replication can appear when the two databases have different organization of tables and structures.

Keywords: replication, data synchronization, openquery, linked server, parameterized query, uniqueidentifier, SQL Server

In this paper we will focus on the problem of synchronizing data between a central database and many client databases, when the client and the server databases have different organization of tables and structures. All the client databases are identical, this means that have the same number of tables, the tables have the same structure, but the records are different. This model can be used to improve local database performance and availability of applications at the clients, because we access the local database rather than a central database. Other benefits are the minimization of network traffic between the client and the central location, the minimization of locking at the central database, the maximization of up time because we does not need a permanent communication channel between the clients and the central location and also the minimization of costs.

The architecture of the network

The network consists of one Central Server on which we have the central database and many client servers, each of them with its own database used in the local area for storage the local transactions, like in figure 1. Between the client servers and the central server communications channels had been made by using VPN (Virtual Private Network). This communication channels are most of the time down, and from time to time get connected.

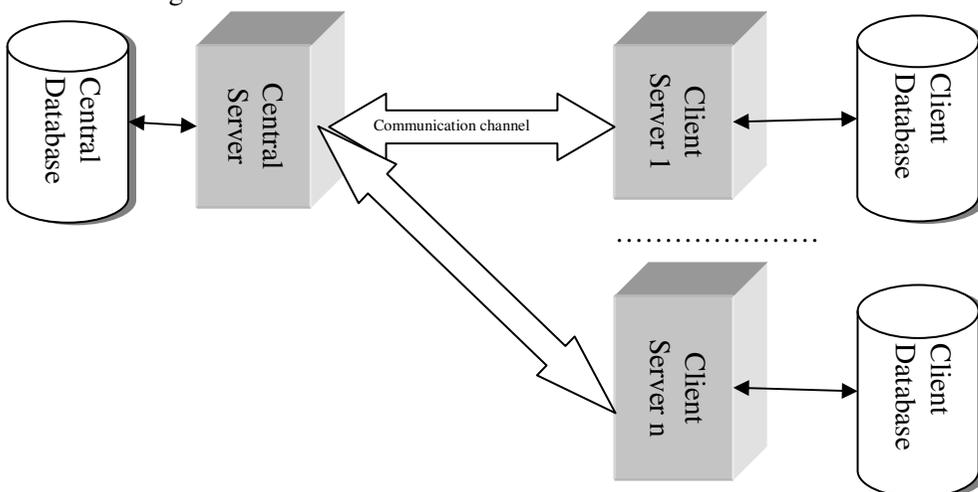


Figure 1. The architecture of the network

If we want to synchronize the information from client database with the server, we have to open first the communication channel and after that to synchronize the data. Microsoft SQL Server offers a mechanism of defining linked servers which can be used to run distributed query against multiple server. Our scenario consists of a one way data transfer from Central Database to the Client Database. We have to obtain new or modified data from the Central Database using inner join operations between TableA and TableB and to copy these data in TableC from Client Database. The fields used for filtering are of uniqueidentifier data type.

We want to obtain the best performance for our process of synchronizing the data.

One syntax for doing this operation is:

```

Select A.somefields, B.somefields
  From CentralServer.CentralDatabase.dbo.TableA A
  Inner Join CentralServer.CentralDatabase.dbo.TableB B
  On A.idProduct = B.idProduct
  And B.FilteringField = @SomeValue
Where not exists (Select * from TableC C
                  Where C.idProduct = A.idProduct )
    
```

In our studying case TableA contains 1915 records, TableB contains 7341 records and TableC contains 1664 records. We obtain 243 new records which have to be copied in TableC. In our test environment this query takes about 47 seconds. The explanation for this bad performance are given to us by the following sentence “Queries involving the following are never delegated to a provider and are always evaluated locally: bit, uniqueidentifier” (Microsoft), which means that the records are taken from the Central Database to the client, and all operations are done at the client. For a poor connection we lose precious time with data transportation.

	Rows	Executes	StmtText	PhysicalOp	LogicalOp	Argument
1	243	1	select P.codprodus from . . .C...	NULL	NULL	NULL
2	243	1	--Hash Match(Right Anti Semi Joi...	Hash Match	Right Anti Semi Join	HASH: ([p...
3	1664	1	--Index Scan(OBJECT: ([vanza...	Index Scan	Index Scan	OBJECT: (
4	1907	1	--Merge Join(Inner Join, ME...	Merge Join	Inner Join	MERGE: ([
5	1915	1	--Remote Query(SOURCE:...	Remote Query	Remote Query	SOURCE: ([
6	1907	1	--Filter(WHERE: ([` \...	Filter	Filter	WHERE: ([
7	7341	1	--Remote Query(SO...	Remote Query	Remote Query	SOURCE: ([

Figure 2. Execution plan

The execution plan demonstrates that two remote query are executed against the linked server for bringing locally data from TableA and also from TableB, and only after that the inner join operation are executed at the client site. From this execution plan we understand that 1915 +7341 records are moving from central database to the client site.

One thing we have to optimize is that of forcing to execute inner join operation at the Central Server site. This can be done if we define a view in the CentralDatabase or if we use OPENQUERY syntax to send queries which will be executed at the central database.

```

Select *
  from OPENQUERY(CentralServer,'Select A.somefields, B.somefields
  from CentralDatabase.dbo.TableA A
  inner join CentralDatabase.dbo.TableB B
  on A.idProduct = B.idProduct') As R
where R.FilteringField = @SomeValue
and not exists (Select * from TableC C
                Where C.idProduct = A.idProduct )
    
```

Because OPENQUERY does not accept variables for its arguments, we have to write filtering condition outside. The execution plan demonstrate us that only 7341 records are coming from the central database which resulted in better performance, which means 43 seconds.

	Rows	Executes	StmtText	PhysicalOp	Argument
1	243	1	Select * from OPENQUERY(, '...'	NULL	NULL
2	243	1	--Hash Match(Right Anti Semi Joi...	Hash Match	HASH: ([p2
3	1664	1	--Index Scan(OBJECT: ([vanza...	Index Scan	OBJECT: ([
4	1907	1	--Filter(WHERE: ([A].[idGest...	Filter	WHERE: ([A
5	7341	1	--Remote Scan(SOURCE: (...	Remote Scan	SOURCE: (D

Figure 3. Execution plan

The next big thing to optimize is that of execution of filtering condition at the central database to obtain only 1907 records instead of 7341. If we know exactly the value used for filtering we can write in the OPENQUERY the filtering condition.

```
Select *
from OPENQUERY(CentralServer,'Select A.somefields, B.somefields
from CentralDatabase.dbo.TableA A
inner join CentralDatabase.dbo.TableB B
on A.idProduct = B.idProduct
and A.FilteringField =VALUE
') As R
```

```
where
not exists (Select * from TableC C
Where C.idProduct = A.idProduct )
```

The time needed for executing this query was 7 seconds, and the execution plan can be analyze from the figure 4.

	Rows	Executes	StmtText	PhysicalOp	Argument
1	243	1	Select * from OPENQUERY(, '...'	NULL	NULL
2	243	1	--Hash Match(Right Anti Semi Joi...	Hash Match	HASH: ([I
3	1664	1	--Index Scan(OBJECT: ([vanza...	Index Scan	OBJECT:
4	1907	1	--Remote Scan(SOURCE: (DOUAR...	Remote Scan	SOURCE:

Figure 4. Execution plan

As we can see only 1907 records came from the central database, which is an explanation for our best results until now.

Because OPENQUERY does not accept variables for its argument, we can construct the sting dynamically and executes after that like in the following example:

```
DECLARE @SQLSTMT nCHAR(4000)
DECLARE @SOMEVALUE uniqueidentifier
--we can put here a code for initializing the value of our variables
SET @SOMEVALUE = '341FE6DA-D431-4D72-93F0-E20B2CDB1767'

SET @SQLSTMT =N' Select * '
+'from OPENQUERY ( CENTRALSERVER, "Select A.somefields, B.somefields '
+' from CentralDatabase.dbo.TableA A'
+' inner join CentralDatabase.dbo.TableB B '
```

```

+' on A.idProduct = B.idProduct '
+' and B.FilteringField = ""'+cast(@idSomeValue as char(36))+""'" As A '
+' where not exists ( select * from TableC C '
+' where C.idProduct = A.idProduct) '

```

```
EXECUTE SP_EXECUTESQL @SQLSTMT
```

The execution plan for this command can be viewed in the following figure, and we can see the same results as in the last example. The execution of the Join operation and the filtering occurs on the central server. We achieve the same results.

	Rows	Executes	StmtText	PhysicalOp	Argument
1	243	1	Select * from OPENQUERY(, 's...	NULL	NULL
2	243	1	--Hash Match(Right Anti Semi Joi...	Hash Match	HASH: ([p
3	1664	1	--Index Scan(OBJECT: ([vanza...	Index Scan	OBJECT: (
4	1907	1	--Remote Scan(SOURCE: (DOUAR...	Remote Scan	SOURCE: (

Figure 5. Execution plan for dynamic query

The speed is well for the preceding examples, but we can improve performance, if we can rewrite the query without making reference to a table from the client site.

To do this we have to know for every records from the central site for every records involved in the query, the date when the record was added or modified. This date has to be copied to the client site.

```

DECLARE @SQLSTMT          nCHAR(4000)
DECLARE @SOMEVALUE        uniqueidentifier
DECLARE @DATA              datetime

```

```
SET @SOMEVALUE = '391FE6DA-D431-4D72-93F0-E20B2CDB1767'
```

```
SELECT @DATA =MAX(DATA)
FROM TABLEC
```

```

SET @SQLSTMT =N' Select * '
+'from OPENQUERY ( CENTRALSERVER, "Select A.somefields, B.somefields '
+' from CentralDatabase.dbo.TableA A'
+' inner join CentralDatabase.dbo.TableB B '
+' on A.idProduct = B.idProduct '
+' and B.FilteringField = ""'+cast(@SomeValue as char(36))+""'"
+' and P.Dataoperarii >=""'+cast(@data as char(20))+""'"
+') As A '

```

```
EXECUTE SP_EXECUTESQL @SQLSTMT
```

We obtain 1 seconds for 243 records, the best results.

	Rows	Executes	StmtText	PhysicalOp	d
1	243	1	Select * from OPENQUERY(, '....	NULL	
2	243	1	--Remote Scan(SOURCE: (_ ...),...	Remote Scan	

Figure 6. Execution plan on the linked server

Another benefit of dynamically creation of sql commands consist of construction of a mechanism for calling function from linked server, like we can see in the following example:

```
DECLARE @SQLSTMT          nCHAR(4000)
DECLARE @idParameter      uniqueidentifier
--we can put here a code for initializing the value of our variables
SET @ idParameter = '6EDAE050-F5EA-4B1C-823B-28B8F599FDC9'

SET @SQLSTMT =N' Select * '
    +'from OPENQUERY(DOUAROTI,"select * '
    +' from DataBase.dbo.FunctionName( ""'+cast(@idParameter as char(36))+""") ' ) '
--we used only apostrophes

EXECUTE SP_EXECUTESQL @SQLSTMT
```

Conclusion:

1. Even if OPENQUERY does not accept variables for its argument we can build dynamically the command and executed against the linked server.
2. For better performance we have to limit the number of records which are transported from one server to other.
3. It's better to force the execution of JOIN operation at the sites where the tables are located, if we need better performance
4. Using OPENQUERY we can call function from the linked server, which can used variables.
5. The best results can be achieved if all operations will be executed on the central server.

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A SUPPLIER SELECTION MODEL FOR SOFTWARE DEVELOPMENT OUTSOURCING

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This paper presents a multi-criteria decision making model used for supplier selection for software development outsourcing on e-marketplaces. This model can be used in auctions. The supplier selection process becomes complex and difficult on last twenty years since the Internet plays an important role in business management. Companies have to concentrate their efforts on their core activities and the others activities should be realized by outsourcing. They can achieve significant cost reduction by using e-marketplaces in their purchase process and by using decision support systems on supplier selection. In the literature were proposed many approaches for supplier evaluation and selection process. The performance of potential suppliers is evaluated using multi criteria decision making methods rather than considering a single factor cost.

Keywords: Supplier evaluation, Supplier selection, Multi-criteria decision making, E-marketplace, Software development outsourcing

JEL: P13, L81

1. Introduction

Today, outsourcing is considered a competitive strategy to improve the competitiveness of an organization. There are many barriers which can affect the success of a software development outsourcing. Some research suggests that most outsourced development projects do not succeed. The primary cause is the lack of customer preparation about the selection criteria and other important factors which have to take into account in the supplier selection process.

Identifying, gathering, and analyzing the appropriate information to aide in the selection of a qualified supplier is essential in properly preparing to outsource, and critical to outsourcing success. With appropriate supplier selection the company can achieve significant cost reduction and can increase its productivity. The potential benefits that come from outsourcing create a new demand and a successful market that have 10.000 suppliers in 175 countries. Many organizations have failed on her outsourcing action because of improper preparation and consideration. A study showed that 45% of the companies engaged into an outsourcing project would classify their project as a success.

In this paper we review some important aspects of supplier selection from the literature than we will propose a conceptual model for supplier selection on software development outsourcing which can be used on e-marketplace.

2. Literature review

Supplier evaluation and selection problem has been studied extensively. We can mention three important literature reviews – Weber at al. (1991), L. De Boer at al. (2001), W. Ho at al. (2010) – in which the authors present the main criteria's and methods utilized in supplier evaluation and selection. Weber (1991) based its review on Dickson 23 supplier evaluation criteria. Dickson (1966) concludes that the major supplier selection criteria proposed in the most researches are quality delivery, net price, geographical location, production facilities and capacity. W. Ho (2010) analyzed papers from 2000-2008 periods and found that nowadays in the literature numerous individual and integrated approaches were proposed to solve the supplier selection problem. They are capable to handle multiple quantitative and qualitative factors. They find that the most important individual approach is DEA and the most popular integrated approach is AHP-GP. H. Shyur and H. Shih (2006) present an effective model for supplier selection using ANP and modified TOPSIS techniques. They observe also that most popular

criterion used for evaluating the performance of suppliers is quality, followed by delivery, price or cost, and so on.

Degraeve et al. (2000) analyses the supplier selection models proposed in the literature from a total cost of ownership perspective. He concluded that all mathematical programming models perform better than the rating models because they approach the problem in a more objective way by optimizing an explicitly stated objective function.

Several studies have been conducted on the process of outsourcing dealing with different aspects of this matter. Smith et al. (1996) have presented a framework that addresses issues that arise in the context of the offshore outsourcing of software development. The proposed framework links projects and sites, including environmental aspects. Krause et al. (1998) have developed a process model for supplier development based on an exploratory study.

Regarding the supplier selection on outsourcing problem little research has been found in the literature. Almeida (2001) has studied the maintenance contract selection problem based on a multicriteria model, which uses contributions from multiattribute utility theory (MAUT). Dulmin and Mininno (2003) have presented a multicriteria decision aid method, to approach a suppliers selection model, which is applied in the context of the rail transportation. Valluri and Croson (2005) have studied the performance of a supplier selection model, which displays a reward and punishment profile under incomplete information. Their study is based on outsourcing of tangible products and is not adequate for service outsourcing.

3. Supplier selection criteria for software development outsourcing

The process of e-procurement using an e-marketplace can be illustrated with the following figure.

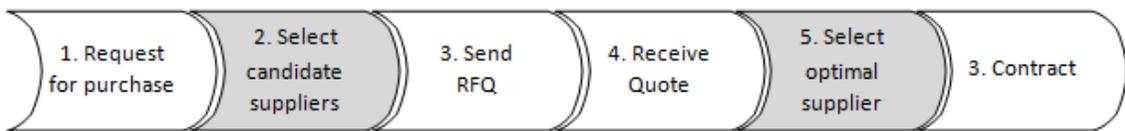
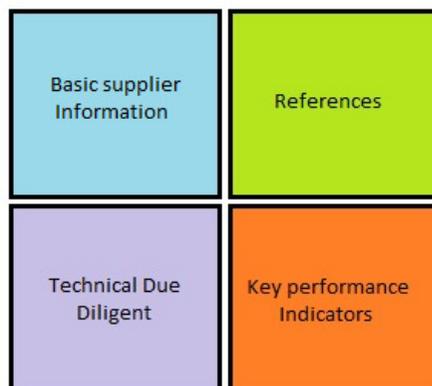


Figure 1. E-procurement process

The supplier selection process starts with potential supplier selection. In this first step the client company has to isolate a handful of potential suppliers from a field of thousands. There is necessary an assistant tool which help the client in what information to look for, how to get the information, how to assess the information to locate those suppliers that best suited for the task. The information need to be evaluated by the client can be group in 4 categories.

3.1. Basic vendor information



The basic supplier information group is necessary for having an elementary insight about de supplier background and capabilities. A list of basic information is presented in Table 1.

Figure 2: Vendor selection information grouping

Basic Supplier information	
Location	Country and city of suppliers
Year founded	Year when the supplier start its activities.
Number of Technical Resources	Number of development, testing and management resources that supplier employs.
Average rate	Average hourly/monthly rate of a developer, tester, and project manager.
Technical Capabilities	Technical skill set (development languages, databases)
Applications Previously Developed	Types of applications developed for their clients (document management, business intelligence, etc.)
Major Clients	Most important clients
List of Certifications	CMM, ISO, etc.

Table 1: Basic information about the supplier

3.2. References

The reference information is almost always positive; otherwise the supplier wouldn't provide the reference. This reference information represents the best objective information that the supplier can provide. By measuring the degree of praise offered by de reference can give some inspection to the general capabilities of the potential supplier. Basing the buying decision on only this information would be a mistake. What works for one organization may not work for another. This is why different business models, experiences, and available resources of each organization interested in outsourcing will play a major role in the execution of the outsourcing initiative.

3.3. Technical Due diligence

This group of information involves a detailed discussion with some of the supplier's technical resources. Topic of discussion should include: Development process, development tools, project management, and technical skills/certification. The technical resources provided by the vendor to answer a potential client's due diligent questions are the best resources that a supplier has to offer. The information gained during due diligent may be not shows clearly the actual technical expertise that you can expect on your project. Technical due diligent indicates generally the supplier capabilities.

3.4. Performance indicators

The performance indicators are the best information based on the client can select a well qualified software development outsourcing supplier. This information offer de specific and objective insight about the performance of potential supplier. The key performance indicators group contains the most important information on the supplier selection process. Until recently this type of information was impossible to be collected. But this thing was changed and there are new way to gather this type of information.

Key performance indicators	
On-Time Delivery	Indication of the supplier's ability to deliver the specified work on schedule. Calculated via client feedback.
On-Budget	Indication of the supplier's ability to deliver the specified work within budget. Calculated via client feedback.
Quality	An acceptable level of quality can differ from client to client. This KPI provides an indication of the supplier's ability to deliver on an agreed upon level of quality. This measurement is calculated via a combination of client feedback.
Productivity	An indication of the supplier's speed, responsiveness, and related effectiveness. Calculated via client feedback
Client Satisfaction	The level of satisfaction with the supplier. Calculated via client satisfaction surveys.
Ability to Manage Change	Most projects have some element of change that is required as the project progresses. This is an indication of the supplier's ability to plan, prepare, and respond to the inevitable change requests. Calculated via client feedback.

Table 2: Key performance indicators

4. Supplier selection model on the e-marketplace

The supplier selection model in software development outsourcing utilizes the six criteria described in Table 2: on-time delivery, on-budget, quality, productivity, client satisfaction, ability to manage changes. As a supplier evaluation method we will use the Multi Attribute Utility Theory (MAUT). “MAUT allows the decision-maker to quantify and aggregate multiple objectives even when these objectives are composed of conflicting attributes. The decision-makers preferences are modeled in order to obtain a multi attribute utility function, for instance $U(c_i, t_i, d_i)$. This function aggregates utility functions for all criteria or attributes. That is an analytical function is obtained which combines all criteria through a synthesis function. Each particular analytical form for this function has preferential independence conditions to be evaluated, in order to guarantee that the decision maker’s preferences are associated to the basic axioms of the theory” Teixeira, (2007). According to this MAUT the utility of a supplier can be calculated with the formula:

$$U(s) = \sum w_i f_i(x_i)$$

$U(s)$: supplier utility

x_i : criteria(attribute)

w_i : importance of attribute x_i , represented by a numeric value

f_i : utility function applied to attribute x_i

On the marketplace clients when registries sign a contract agreement and take the obligation that they will give feedback about every selected and contracted supplier. The feedback is to rate in a 1(very dissatisfied) to 4 (very satisfied) scale of the supplier’s performance. The evaluation of each supplier will be calculated as the average of the individual evaluations gave by the clients.

For the utility function we will use the linear function having the formula $u=ax+b$.

The weights are given by the client depending which is the most important selection criteria in its case. The weights are introduced by a specific form on the e-marketplace interface. The suppliers will be ranked according to their calculated utility from the bigger utility value to the smallest.

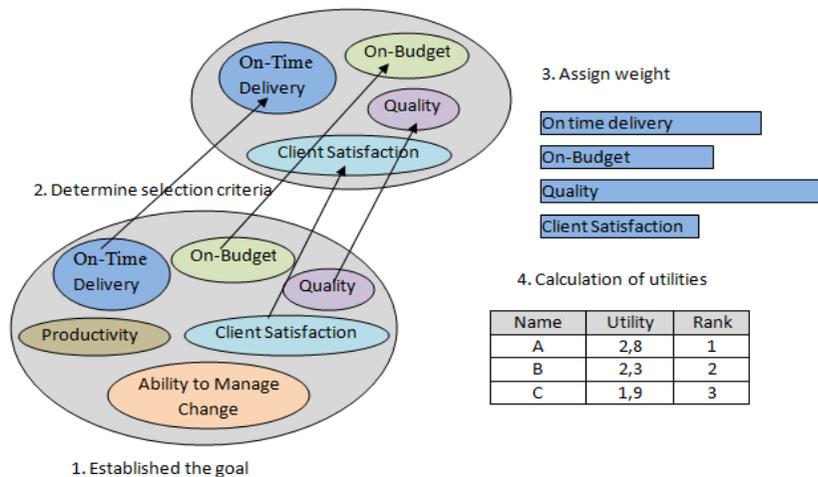


Figure 3: Supplier selection process model

4.1. Example of the utilization of the supplier evaluation model:

1. Establish the goal: A typography company wants to outsource the development of software for supporting different form types used in business as invoice, delivery note, bill, etc.

The company makes a search on the e-marketplace based on basic supplier information presented in Table 1. Based on the basic supplier information and references the company chose the potential suppliers.

2. Criteria selection: The client company considers that for his case on-time delivery, on-budget, quality, productivity and client satisfaction are the key factors.

3. Assign weight: On-Time Delivery – 20%, On-Budget -20%, Quality – 30%, Productivity – 15%, Client Satisfaction – 15%.

4. Calculation of utilities: Supplier A – $U(s)=2,81$. (Table 3)

5. Ranking the suppliers bases on the utility value

In this example the supplier selection model for software development outsourcing indicate supplier B having the biggest utility value (3.54, bigger than A’s utility – 2.8, D’s utility – 2.2 and C’s utility – 1.98).

Criteria/Clients evaluation	Client ₁	Client ₂	Client ₃	Client ₄	Eval/Criteria	Weight	
On-Time Delivery	2	3	4	3	3	20,00%	
On-Budget	4	3	4	4	3,75	20,00%	
Quality	2	1	3	2	2	30,00%	
Productivity	3	4	2	3	3	15,00%	
Client Satisfaction	2	3	3	3	2,75	15,00%	
Ability to Manage Change	1	2	3	4	2,5		
U(s): Supplier A	2,81						100,00%

Table 3: Calculation of Supplier A utility value

5. Conclusions and future work

In this article we have presented a model of supplier evaluation and selection for software development outsourcing in e-marketplace. We have detailed the information group that are necessary to take proper supplier selection decision. We presented also the supplier evaluation criteria specifically for software development outsourcing. We proposed a supplier evaluation method based MAUT theory. Finally we presented an example of using the proposed model.

As future work we propose to evaluate the possibility of using alternative methods and criteria for supplier selection. For example we can use the ELECTRE method for supplier evaluation in our model. We can include other supplier selection criteria like: performance history, warranties and claim policies. The evaluation and complaints received from clients in supplier evaluation enhance the collaborative nature of supplier selection model for e-marketplace presented.

Acknowledgment:

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INTEGRATION VERSUS DEDICATION IN ROMANIAN MANAGEMENT SUPPORT SYSTEMS

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The technologies supporting future business must be intuitive from a user standpoint, flexible from design standpoint and highly productive. As an answer to many requirements, analysts recommend the inclusion of SOA and ESB in the IT management strategies, since these tend to become mainstream, overcoming their abstract vision status in the last decade. In this paper, we provide a study regarding the attitude of companies from north-western Romania with respect to this transition and the SOA&ESB models. Our analysis targets attributes such as: level of understanding, knowledge and concern in adopting such technologies, the management involvement in the company IT strategy, the added value of the new technologies and risk factors for the migration towards an SOA&ESB architecture.

Keywords: integration, enterprise applications, web applications, SOA, ESB, framework

Cod JEL: M15

1. Introduction

The role of IT has been changing significantly in the last decade. Far from being just a background element or a system acknowledged for logistics support only, the IT environment has become an engine for the business, an element with direct impact upon improving business results and indicators such as customer satisfaction and revenues. The majority of systems have developed gradually, with multiple technologies and vendors, and in time they have become too complicated and inflexible, big resource consumers and difficult to change. [site1,2006]. In the 90's many firms from Romania acquired software solutions which worked very well individually but had an application scope of high specificity. Gradually these applications generated a discontinuity in processes (information islands), it became increasingly difficult to exchange data between them, information was redundant and burdened the company resources. This could only be compensated by „manual intervention” on data (even screen scraping), which led to data isolation and inconsistency. Thus, the need for integrating legacy systems in an system of high interoperability prevailed, an integration which acts on two levels: the infrastructure integration and the applications integration. It was supposed, and in time it actually proved to be real, that the IT integration determines both the corresponding business performances and the access to the methodologies recommended by the international good practice rules for maintenance. All ensure dependence and continuity, the safety and the effectiveness of data processing and stocking in efficient conditions. The strategic planning, a feature of performant management, is extended in this way to the level of the IT department. „System integration” refers to the functional integration, which includes two aspects: the infrastructure integration and the integration at the level of the application. The infrastructure integration determines a distributed IT system, with a certain number of interconnected locations collaborating in real time, ensuring a corresponding data flow in the system

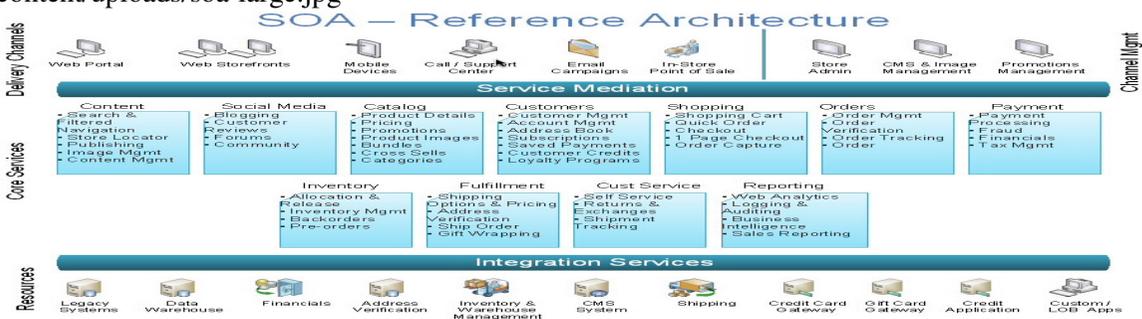
and having a security framework in place. Integration at the level of the application means that for all the data processing requirements of a firm, the number of independent applications should be minimized, both a company level and within departments and units of the organization [site1, 2006]. The integration at both levels is also known as Enterprise Application Integration. The first solution which worked relatively well with two applications was found under the name of Point-to-Point integration, well supported by Java technology. For a larger number of applications, the integration would become too complex. Moreover, there were problems in the case that one or several integrated applications were changed. Middleware-based integration is the solution that solved the integration of several applications considering that it introduces an architecture oriented towards the maintenance of the system, which allows to change certain applications more easily, without affecting the others, due to high modularity and base code refactoring [site1,2006]. SOA is based on middleware between the operation systems and the applications which ensure the integration. According to [Vasile,2005] „SOA is a model through which businesses are seen as a set of services which interact, an approach which uses open standards for making the operations of a company more efficient, more flexible and more collaborative”. In this paper we make a study with the purpose of monitoring the attitude of the companies from North-West Romania towards integration through SOA and ESB.

2. Related works on SOA&ESB

Why is there a need for SOA? According to [Rangu, 2006] the fundamental reason is to be able to answer the changing and unpredictable needs determined by the market demands, the clients and the increase in the number of distribution channels. The term SOA was introduced by Yefim Natis in a research paper from 1994: SOA is a software architecture which starts from an interface definition and builds a whole topology of the application as an interface topology, interface implementation and interface calls. [Petcu,2009] The SOA principles [Frasinaru,2010] are not technology-dependant, but rather define an abstract architectural vision:

Encapsulation	Abstractionization	Contract
Autonomy	No state	Loose coupling
Granularity	Re-use	Composition
Communication	(Self) description	Discovery
Standardization	Integration	Interoperability

SOA uses the service as a reusable component [Petcu,2009]: the services have a higher granularity than the components; the communication between services and with the clients is made on the basis of well-defined interfaces. The SOA general design in according to [http://www.getelastic.com/wp-content/uploads/soa-large.jpg



According to [Frasinaru,2010] and [ERL, 2009], SOA is an architectural solution for exhibiting and accessing the applications under the form of services (such as web services); it involves an infrastructure for communication and service management, the ESB (Enterprise Service Bus), a specialized language for composing the simple functionalities into complex ones, which will model the economic processes (such as BPEL). Other definitions state: - “service oriented architecture (SOA) is an approach to have software resources in an enterprise available and discoverable on network as well defined services. Each service would achieve a predefined business objective and perform discrete units of work. The services are independent and do not depend on the context or state of the other services.

They work within distributed systems architecture” [Anurag, 2008]; - “earlier SOA used COM or ORB based on CORBA specifications and recent SOA stress on web services using standard description (WSDL), discovery (UDDI) and messaging (SOAP). Service oriented architecture may or may not use web services but web services provide a simple way towards service oriented architecture albeit with the age old security and reliability limitations” [Anurag, 2008]; - “enterprise service bus (ESB) is an infrastructure to facilitate SOA. Technically ESB is a messaging backbone which does protocol conversion, message format transformation, routing, accept and deliver messages from various services and application which are linked to ESB” [Anurag, 2008]; - according to Gartner Group’s definition, the new application integration middleware is: „a new architecture that exploits Web services, messaging middleware, intelligent routing and transformation. ESBs act as a lightweight, ubiquitous integration backbone through which software services and application components flow“. [site,2006]

Some advantages of SOA we can sum up are, as follows [site,2006]: it covers the integration of applications, an essential requirement under the circumstances of very rapid development of instruments such as the CRM or BPM etc; it provides efficiency through flexibility, automation and the integration of the business processes; it ensures cost reduction through re-using what was developed before and not through re-inventing for each new product or distribution channel; it decreases the time-to-market and time-to-yes by standardization and re-use of previously developed services; it simplifies the IT infrastructure and complexity in the company, the possibility to apply well-fundamented architectural principles; it supports business innovation and the competitive advantage [Rangu,2006]; it is agile - the significant improvement of the answer times to the business changes - the systems are projected as parted and autonomous services which behave independently as the “black box” type; it supports the implementation of new business processes or modified ones at a high level of independence from the particular IT systems; - it helps the business owners to have an active and direct role in designing the IT systems or at least the business processes supported by the IT systems. The modern software products which implement the SOA architecture provide the necessary functionality to a business-agile firm by implementing an ESB line. The ESB approach is to transform the robust messaging infrastructure in a platform for the development of the applications which interact through service-type interfaces. The working and management method based on the tools contained in the SOA/ESB software products transforms the IT infrastructure so that it could be used both by IT administrators, programmers and by the business people. [Lupu,2006]

In terms of technology, a project based on SOA principles is preferable to be implemented either on a Microsoft platform or on an IBM platform, these being the most popular. The Microsoft SOA platform represents a technology portfolio which offers capabilities such as:

- service exhibition (from the business point of view it means to allow the participation/re-use of services and from the technical point of view to adapt the services and to develop the end points or facades);
- connectivity between services;
- a message exchange system between services, preserves the abstraction of service implementation and a loose coupling, but also a naming, organization and mediation system for services;
- the service composition. Assembling new solutions, with minimum code: composite application or service orchestration or process composition, business ones etc.;
- the service consumption (the interaction with the users through a minimum number of interfaces);
- the service administration, service management and governance [site2,2006].

The SOA in the IBM mainframes provides a lot of advantages. We can use the old mainframes systems for getting data and integrating them in the new applications which use newer technologies, such as Java, XML and web services. Also, besides the possibility of integrating with new applications using state of the art technologies, the use of SOA permits a cost reduction as well and avoiding the implementation of more complex systems. Through a mere application and a web service, the existing data can be taken without problems and their usage will lead to an extension of their utilization mode. Thus, the SOA integration on the IBM mainframes and the use of new technologies (Java, XML, web

services) bring about new benefits: the extension of the applicability of current data in the IBM mainframes by cost reduction, as well as avoiding the development of more complex applications which would involve an infrastructure that would be more difficult to use and maintain. [site2,2006]. Thus, SOA is implemented by using a variety of technologies [Petcu,2009]: Distributed objects CORBA, J2EE, COM/DCOM; Message-oriented middleware (MOM); WebSphere MQ, Tibco Rendezvous; MonitorsCICS, IMS, Encinia, Tuxedo; Platforms B2B as well as ebXML, RosettaNet; Web services

3. The SOA market in the northwestern Romania

The West development region, called shortly the West region, is one of the 8 development regions from Romania. From the point of view of neighborhood, the North-West region has a strategic geographical position, close to the European markets and it is characterized by a relatively good accessibility by air or land. The following were settled as priority supporting sectors at the region level, meant to ensure competitive advantage in the national and global competition: IT&C, higher education and research, tourism, agriculture, foods industry, consumption goods (furniture and clothes), the machine and equipment industry, banking activity. Among the factors that contributed to the introduction of the concept in the Romanian business environment we mention: - previous implementations of ERP, BPM, CRM, SCM; - the appearance of multinational companies (for example, Italian, German, Finnish even American companies); - the involvement of the software vendors who support the promotion of architecture through their products; - the statistics given to the public linked to the expansion of the SOA concept.

Concerning the ERP, this is often considered as backbone for many producers' activities, as well as a basis for performant management. The ERP systems based on SOA allow clients to model and manipulate the system in such a way as to adjust it more easily to their own needs. This thing helps them obtain maximum flexibility of their business, generate innovation and react promptly to different changes, without modifying the basic business processes. The SOA benefits include also a decrease in the demands of IT resources at the end user, for the integration and personalization of the systems, and the reduction of the maintenance requirements. Some of the statistics from the national literature which influenced, as we believe, the attempt to analyze and even to adopt the SOA &ESB concept are:

- the Forrester Research study published in August 2004 which shows that 25% of the interviewed companies gave up the EAI platforms opting for an ESB solution [site1,2006];
- according to Gartner Group, 75% of the companies' projects were supposed to be based on SOA in 2008;
- according to Gartner „SOA will be used in more than 50% of the new operational applications and the processes projected for business in 2007 and in more than 80% of such programs until 2010” [site3,2007];
- the IBM specialists predicted the use of SOA in more than 80% of the business applications and processes before 2010.

The first attempt to implement SOA in Romania was linked to the banking activity, more exactly in 2003 a collaboration between Iiruc Service and Raiffeisen Bank România. Other attempts followed. If we group on categories the potential SOA&ESB clients we can identify: banks and financial institutions; IT&C companies (Nokia); big corporations in the real estate field and in tourism, respectively industries which already run systems such as ERP, CRM, etc. The analysis we are undertaking refers to such aspects as: the understanding, knowledge and interest level in adopting these new technologies; the involvement of the management in the firm's IT strategy: the business value of the new technologies, the risk factors in the migration from a closed architecture to SOA&ESB, etc. We applied 500 questionnaires among the decision factors and the IT specialists from companies belonging to the north-west business region. We obtained 427 answers which could be processed. Through the questions from the questionnaire we tried to analyze the following aspects: the understanding, knowledge and interest level in adopting these new technologies; the involvement of the management in the IT strategy of the firm; the business value of the new technologies, the risk factors in the migration

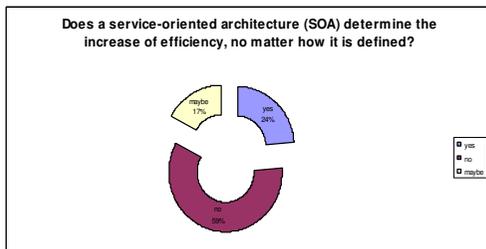
from a closed architecture to SOA&ESB. The questions were grouped in 3 big classes: A. questions referring to the respondent's profile and to the firm he/she is coming from: age, sex, college graduated, other studies, professional activity, research activity, company type, (SMBs, or corporations), the company profile (IT&C, higher education and research, tourism, agriculture, foods and consumption goods industry (furniture, clothes), machine and equipments industry, banking activity), number of employees, the county they are coming from; B. questions about competence in IT&C; C. questions which define understanding and the will to progress. It provided the following definition: SOA is the composition of services, an architectural approach which allows IT to be agile and to answer the changing needs of business. In the following paragraph we are going to detail some conclusions linked to class C, the will to know and the interest in promoting new technologies.

To the question: „Is there a business model respectively an IT model in the company you work for?“, 35% answered YES, 42% answered NO and the others said they were not interested. Out of those who answered YES a number of 67% were in leading positions and the others were ordinary employees.

To the question „Which ERP system is there in the firm you are currently working for?“ 56% were able to name the ERP, 23% do not know that the integrated application is called ERP and 21% were not interested by the fact that it was an integrated application, they knew that it was an application they can work in.

To the question „Does the modernization of the company's business environment depend on the IT&C modernization?“ 58 % answered YES while 25% said maybe and 17% said NO, the business environment in Romania being determined mostly by politics and current regulations.

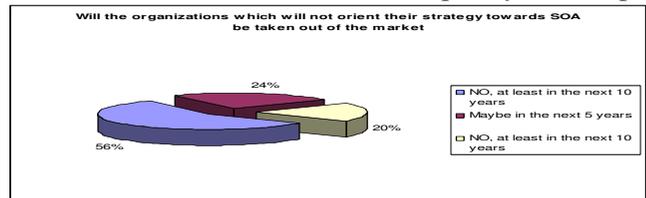
To the question: „Does a service-oriented architecture (SOA) determine the increase of efficiency, no matter how it is defined?“ 24% answered YES, 59% answered NO, and 17% think that the term efficiency must be modulated.



To the question "Will the organizations which will not orient their strategy towards SOA be taken out of the market?" 56% answered NO, at least in the next 10 years, 24% answered maybe in the next 5 years and the rest said NO because they consider this is a slogan with no real basis, based on a buzzword.

Our observations show that the frequency of companies

that have already implemented or try to implement the new models is low, less than 10% of the business environment in north-western Romania, but there are perspectives for a potential growth.



4. Conclusions

Regarding the questionnaire we applied there were certain difficulties in gathering data, as the concept of SOA is not really familiar to managers and is considered to be a technical issue rather than a strategic management approach. We realized that it is hard to define in universally accepted indicators the benefits of SOA. [ERL, 2005]. One of the problems the organizations under our scrutiny are facing is that the majority of IT departments would rather use legacy hardware and software than being the promoter of an IT approach strategically linked to improving business results. This can be noticed even though the IT managers admit the importance of aligning the IT efforts to the business objectives. On the other hand, the IT departments have the tendency to manage their resources and tasks like islands, each with their own agenda and priorities, consuming redundant efforts and wasted time. Another remark is that at the moment of the study there was a segmentation of the integrated software solution market and there are players with experience in this area, with a correct and acknowledged positioning, but at the same time we can still find a serious growth potential, due to the maturity and development process many companies from Romania are going through. SOA, composite applications, EAI and

related-products do not define a mature market in the north-west region of Romania. Above all we have to understand the benefits of using composite applications both on an operational and on a strategic level, and its implications on the general informational system of a company. SOA is not a product to buy and install. Besides adopting new technologies, it imposes changes in the people's behavior. All these involve costs which cannot be justified only based on technical specifications. In the absence of specific business requirements that SOA would respond to directly it is difficult to "sell" (and be convinced to buy) SOA. We conclude that the area submitted to the analysis from the point of view of IT&C technologies is characterized by three aspects: quite a big and very dynamic market, talented human resource with good technical skills and clearly belonging to the European priorities. As a final conclusion, the integration of management applications continues to represent a challenge for Romanian specialists and a necessity for companies, providing benefits from various points of view: management, system design, maintenance cost.

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IT&C POLICIES AND STRATEGIES OF THE MODERN ROMANIAN SOCIETY

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Technology has become more and more global and access to advanced technologies is vital for gaining and maintaining a durable competitive advantage under the conditions of economic globalization. Globalization and opening of large research and development centres by the large companies in areas with a major human potential, in which the operating costs are low, imply an exchange of specialized information with global distribution, access to specific applications and big data traffic generators. In the same time they imply the existence of IT&C infrastructure, as well as the availability of human resources experienced in using the new technologies. Electronic communications have a significant impact over cultural activities as well as on recreative ones, by offering a high accessibility, changing the consumer behaviour as well as offering access to a large number of options.

Keywords: universal service, national strategy, interactivity of the on-line environment, durable competitive advantage, on-line public services dedicated

Jel classification: M15, O17

Introduction

The technological progress has an important role in keeping a good position on the market, as well as for an optimum choice of the production partners or providers as well as the permanent documentation, which implies direct contacts with competitors, providers, research centres, universities, participation to scientific events, subscription to specialized publications, specialized data banks, etc. As for the Romanian business environment – which suffers from the technological gap with the developed countries – technological development appears to be a stringent necessity, which can be satisfied through education (favoured by the ever increasing spread of the technology in the society and by the ever increasing relevance of the literature in the field) and through foreign investments, which allow a continuous impulse for the Romanian partner to develop personnel training, to stimulate the creative activity and to facilitate the innovations process).

Strategies for developing technologies

Technologies can be considered a key factor of the gaps that separate different countries from the socio-economic level point of view. The technological factor plays an essential role in explaining the domination that a country experts on the others. If a country is the first to have industries capable of ensuring it a dominant position, it automatically benefits from an asset that the other don't have, and the others can only copy, in their development, the nation with a dominant position and to adapt to it.

As an answer to the challenges of globalization, a set of development strategies have appeared lately, as:

-the strategy of internationalization – whose managerial alternatives can envisage

-export – as a way to minimize the risk related to investments and testing the acceptability of a product;

-licence – an understanding through which a company gives the right to produce/sell a product of its own to another company;

-acquisition – *strategy through which is followed keeping the control in a country or obtaining a synergy by adding complementary competences;*

-joint venture – *way to avoid socio-political risks and to obtain access to a new market;*

-key operations – *suppose achieving a contract that implies creating an operation facility in a country which could be paid for;*

-production partnerships – *strategy through which is tried to obtain an advantage by combining some components/subcomponents created in different countries;*

-greenfield development – *alternative to an acquisition, with the advantage that starting a contract allows choosing the best alternative in the given moment.*

-re-centring strategy – adopted by many of the large companies in the process of adapting to the international economic conjecture, to increased competition, as well as to the profound technological transformations, this strategy consists in the orientation to outsourcing peripheral activities, and concentrating over one or a couple of activities for which companies consider they have the most performing potential.

-techno polls technology – complex strategy, through which is attempted to efficiently answer the ample and heterogeneous mutations which occur at world system, macro system and micro system levels, through a techno- industrial concentration which ensure achieving a close contact between research and industry, university and companies, by reuniting small areas, relatively little developed, by strong research networks, units for preparing the high level specialists and a nucleus of innovative industry, to which is associated an adequate socio-cultural climate, ready to ensure a rapid economic development based on a sustained technical-scientific progress.

The strategies of transnational societies cover a variety of forms, depending on the degree of integration desired under the new concurrential conditions. The informational society is integrating objectives for a durable development, based on social justice and equality of chances, ecological protection, freedom, cultural diversity and innovative development, restructuring the industry and the business environment.

The role of IT&C in the modern society

The contribution of IT&C to economic growth depends on the development of the information technology and communications sector, as well as on the degree of its use in the economy. The progress of Romania in the field of informational society, its future opportunities are far from being satisfied.

A relevant indicator of the situation of the informational society in Romania is the level of expenses in the IT field in the year 2009, which has been of approximately 2% of GDP. The analysis of performances in the field of informational society shows that Romania registered progresses in the field of informatization of education and public administration, but has not been able to cover enough of the enterprise sector in developing its IT&C. When it comes to PCs and the degree of penetration of them one can see an ascendant evolution due to competition on the market and introducing on a large scale the systems of consumer loans, which include loans for buying IT&C goods, offered to private persons, as well as the governmental program for subsidizing computer acquisition.

The successful implementation of communication technologies has tangible effects in increasing the degree of innovation by offering the opportunity to virtually aggregate the best resources and ideas from around the world. The free circulation of information and the increased interactivity lead to increasing the number of new solutions and products.

In the same times, new doors to knowledge in universities and the possibility of development and intensification of the university research programs by uniting efforts between researchers from different centres from Romania and intensifying cooperation in international projects (e-working), facilitating and accelerating the access to new information. In the same time, while communication performance increases, it triggers an increase in the interactivity of the on-line environment by attracting new users, giving the possibility of a rapid dissemination of the content, communications being a vector for

promoting cultural values and diversity inside Romania. Thus, informatics databases can be developed (**e-tourism, e-culture**) which can help develop the cultural digital content, including touristy information by introducing the necessary information for promoting national landmarks, by contributing to promoting the Romanian values as well as increasing the number of tourists.

The public administration is a provider of public information, services as tax collecting, education and health, all of which are of a major importance for the citizens. The development by the public administration of those electronic services that are covering the citizen's needs, for making the service less time consuming, when he pays the local and administrative taxes, sends requests and receives answers in electronic format and displaying the useful information for obtaining emits and authorizations (**e-governing** and **e-administration**) as well as improving the efficiency of the public health services by creating national databases regarding the health of the patients in hospitals and at the level of family doctors(**e-health**) and for developing telemedicine services that lead to improving the condition of people with heart disease, diabetic and other diseases, as well as of the handicapped people.

For private companies, broadband represents a facilitator of the **e-business application and practices**, by creating new business opportunities and helping companies to obtain increases in productivity based on an improvement of the access to information and transactions. For companies, as well as for employees, broadband communications have the role to diminish the importance of location by allowing establishing new headquarters in small towns, in rural or isolated areas, as well as facilitating tele-working. Romanian companies have developed the electronic commerce which can bring important advantages in the sense of significantly reducing transaction costs and intensifying the speed of interaction with business partners. Broadband communications allowed a revolutionary change of business processes, contributing to an increase of competitiveness of the Romanian companies in the Central and Eastern Europe region, as well as at global level, by facilitating the internationalization of the local companies, decentralizing functions of enterprises, such as production and marketing, etc.

For small rural or isolated communities, developing communications can favour the economic and social integration by facilitating access to new, superior goods and services, as well as opportunities of participation to the digital economy or to the informational society. For the average consumer, services, such as **e-education**, tele-working etc, have benefices effects that are concretized in an increased access to interactive content, various equipment interconnection, with or without a communication basis or personalizing consume.

Thought the pilot project edonatii.mcti.ro (**e-donations**) functional all over the country, it is permitted to private or juridical persons to donate IT equipment to people who don't have computer access. It is offered free technical support and portal hosting, ensuring the security and the integrity of the public information.

Each offering or requesting person should open an account on the site www.e-donatii.ro. The request for creating an account contains data regarding the user such as username, password, name and surname, e-mail address.

In case the solicitor belongs to the defavorized communities or ONGs with charitable or ecologic profile, there are also required the age, address, education level and the income level on family member. The solicitor will publish on site the equipment request which consists in the parameters of the wanted computer and the motivation of the request. A similar procedure has to be followed by the offering person.

The site automatically produces an encounter between a request and an offer, generating the automatic expedition towards the 2 parties of a report that contains their contact data.

By studying the flow of processes in time I noticed that there are requests and offers and that the displayed identification data seem to be elements of a test. We consider the utility of popularizing the existence of these forms of help but in the same time of reuse of the functional equipments belonging to

citizens and economic agents, and the efforts made in this sense should be accomplished by the local public administration authorities.

Communitarian cohesion policies

Modernizing the society and developing European economic competitiveness generated by the process of aging of the European population, is going to be based on using electronic services and equipment which will help creating an informational society. Through these directions is aimed at stimulating an increase in the degree of economic competitiveness in the EU.

In the context created by the general objective, that is promoting economic and social progress in a balanced and achievable way is done through enforcing the economic and social cohesion. Without neglecting the decisive and dominant role of the pre-adhesion funds, the implications of the absorption of the funds allocated to communitarian programs are strategic for Romania, first of all for supporting the economic convergence with the European Union, as well as for evaluating the success of the integration, based on comparisons and competition with the other member states.

In 2010 it was planned to accomplish the migration of electronic public services at the level of the Unique Access Point through using unique databases by ensuring interoperability at European level by implementing security standards for informatics systems.

In June 2009 the Ministry of Communications and Informational Security, as unique public authority for organizing and coordinating at national level the implementation of programs and projects for e-governing and e-administration, has proposed a national strategy that is following a unique vision for creating a coherent and integrated national system for online public services dedicated to citizens and to the business environment. The national strategy is accompanied by an action plan that should lead in a short time to orienting the whole public sector towards the informational society, to the society based on knowledge, whose main action instrument being the e-governing system

The basic goal is the creation of a society which would allow the access of all citizens, by increasing the capacity of using the services of the informational society, reforming the operational models at the level of the public administrations and increasing the operational efficiency by an adequate use of IT&C, respectively by increasing competitiveness at the business level by using advanced informational technologies and implicating all decedent factors, from the central and local public administration, as well as organizations that belong to the business environment as well as scientific and professional associations.

E-Romania represents a unitary vision of a coherent and integrated national system for online public services dedicated to citizens, the business environment and the central and local administration.

The interoperability of the systems will allow the local authorities to develop at various levels, as digital city or district, to implement its own services at regional, district or town level

The need to decentralize which represents a priority direction for action will allow e-government at local level, achieved according to the needs and specific requirements of each public local authority to be integrated in the central e-government system.

The essential element is represented by promoting public trust in the services and the importance of the informational society, in parallel with reforming the structures and operational models, introducing the model of *Digital Town* or *Digital District* by identifying, auditing and developing public services, corroborated with their translation and transporting in digital format, and promoting these practices at the level of local public authorities and at the business level.

Maximizing the quality of the public services is achieved by:

- offering services in a unitary and friendly way by interoperability, at the highest level of possible trust;
- permanent availability of services to all users, the access being ensured throughout the country or outside it;
- accessing information and services through a central, integrated access point;
- achieving a rate of service adoption similar to the one at the European level, the consequence being a degree of client satisfaction at the level of the European average;

-the integrated use of the system of electronic public acquisitions.

The service e-Romania, through its fundamental component e-governing, is based on generally valid principles, of service integrity, which supposes reprojecting the way in which various governmental agents cooperate for providing a service. The unitary framework of approach, formulating a vision but also the explicit description of the structural components: organizational, e-service, application, infrastructure.

Centring on the citizen's needs and the needs of the business environment that is the orientation on added value of the e-governing services provided by the public administration have to satisfy the needs of its users, with private individuals or companies. The accessibility and the transparency through which the information processes and electronic services are provided by the public administration have to be accessible and transparent to all categories of clients, including the disadvantaged groups, in an intelligible form adapted to them, through traditional as well as through electronic means.

The reuse and the efficiency of the e-governing solutions and of the information/data at the level of the public administration it's the goal of avoiding project duplication with similar objectives in different public institutions and eliminating the redundancy in the information requested to citizens and the business environment

Through standardization and system interoperability, by using new technologies, open standards and architectures, which are scalable and flexible, in order to ensure interoperability between the e-governance application, as well as at national and European level.

E-Romania will cover areas of interest, general interest information, as the historic and geographic ones, the culture of our country, detailed information concerning a district, town or at the level at the associated territorial portals (figure 1).

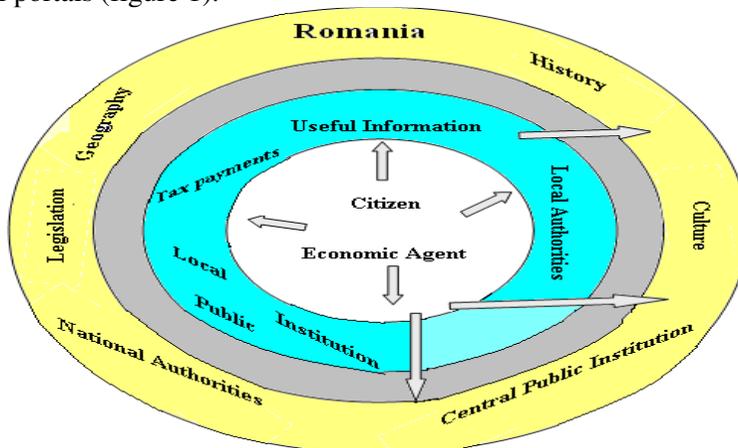


Figure 1 Areas of E-Romania

Each citizen, irrespective of where he lives, in Romania or abroad, each company and governmental user, will have the possibility of gathering information, to access the public services or to solve online any administrative problem, in the quickest and most favourable way.

Providing high quality governmental and administrative e-services to citizens, companies and users from the central or local administration, increasing the efficiency of the public sector, reducing costs, simplifying operations, a consistent increase in the number of users, are the main goals of the strategy and the goals program, the e-governance system being the main pillar of the informational society and one of the main pillars of the society based on knowledge.

The access to a set of minimum services of electronic communications is considered a fundamental right of the citizens, essential for his integration in the community and in the informational society. The electronic communication services are an essential instrument for providing to the public of all the types of information, goods and services, to the public administration (social services, for example education or health) as well as to the private sector (the services of the informational society).

In the same time the policy and strategy concerning the **universal service in the field of electronic communications** is aiming on the long run to provide access to the public telephone network through fix points in each house. On the short term the goal is providing access to isolated rural communities to the public telephone network in a fix point, for certain defavorized categories of users. One can notice that the installation and the interoperability through telecasters represent one of the most efficient means to prevent the phenomenon of social exclusion. The low of the universal service comes with the solution of proposing one or more universal service providers, to which will be imposed the obligation to offer one or more services from the area of the universal service, in some areas or on the whole territory of Romania.

Conclusions

1. The convergence phenomenon, which appeared due to new technologies, ensures a maximum choice possibility for the final users, among several providers and ensures a maximum of benefits from the services available at a certain price level, becoming essential instruments for directly increasing the degree of satisfaction.
2. Romania has set strategic objectives in the IT&C sector, with a clear orientation towards a competition profile, by developing offers for an access infrastructure for users on the background of a continuously increasing request, fed by an increase in the buying power and by the increasingly sophisticated consumes preferences of Romanian users.
3. In order to accelerate the transition to an Informational Society and an Economy Based on Knowledge, it is aimed at increasing the efficiency of the informatics systems through which are offered public electronic services, implicitly by a more efficient use of public funds, increasing the security of informatics systems of the local and central administration, the multiple reuse of resources offered through informatics systems, the improvement of the cooperation between the institutions of the public administration, increasing the comfort of the citizen and facilitating the cooperation at European and international level.

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PARTICULARITIES AND TENDENCIES IN IT

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In the current global economic environment, competition is becoming acute and complex, and rapid technological changes are shortening product lifecycles and the capacity of a company to generate new goods and services, or to improve them and distribute them as quickly as possible to markets. Changes of technological nature have been so rapid lately that one can talk of a new technological revolution – if we take into account the „waves” of technological development which are based on the spectacular progresses in informatics, telecommunications, robotics, fiber optics, fine chemical products and in aerospace industry.

Keywords: technological revolution, strategic management, formalized knowledge, inovational potential, organizational culture, analysis of the value chain

Jel classification: M15, M54, O17

Introduction

The term technology has different meanings and definitions:

- assembly of processes, methods and scientific methods applied for obtaining a product or service;
- assembly of knowledge regarding the method, the way, the experience of producing a product, creating a factory etc, together with the technique and the working facilities;
- combination between a certain technique and the knowledge necessary for using it (in which knowledge has the dominant role related to the working facilities), technology plays an essential role in the economic development of a country, determining not only an increase in production dimensions but also in its quality. In an increasingly concurential environment, technology appears to be a key element in obtaining international competitiveness for countries;
- structured assembly of the processes, methods and operations used in order to produce or commercialize a certain product or for creating a process; organized and formalized knowledge of techniques (assembly of procedures for creating a product) a pluridimensional package structured on knowledge that can be exploited from an economical point of view. In its composition we find material elements (materials, machinery), informational elements (knowing the procedures, experiences or individual or collective habits) or operational (production functions, coordination);
- at company level, technology appears as an operator that represents using resources, structures (production structures and how to manage them and the company in general), know-hows and human relationships in the process of work and not only that, for achieving objectives.

The most common way of approaching notions of technology is based on separating the notion related to defining technology as a scientific means of research or defining it as a procedure, method or process. This delimitation can be considered just partial because, even when the notion of technology is attributed to processes and procedures, they're not accompanied by the knowledge related to it. This results in the definition given by the Economic Commission for Europe, according to which the technology consists in „concretely applying scientific knowledge and techniques in the conception, development and fabrication of a product”.

The impossibility of separating scientific knowledge and techniques from the used methods, procedures and techniques becomes even more evident when the concept is had into account, that is technology is

seen as a system. Regarded as a system, technology covers, as invariable elements, scientific knowledge, technical knowledge incorporated in procedures, materials, equipment and specific informational systems (plans, programs, various documentation). Under this vision, the technology concept is not referring only to product processing, but it becomes a complex activity of a company, where it takes a number of forms: research technology, design technology, information technology, leadership and organization technology, fabrication technologies, distribution and sales technology, etc.

The place of IT in the modern company

Under the impact of scientific and technologic progress, but also under the profound and accelerated mutations to which are exposed the global economy and the national economies, the company will be the stage of fundamental changes that will affect its leadership, functionality and integration in the society as a whole:

- increasing dimensional, structural and functional flexibility
- geographical dispersion of the activities of the company
- adopting suitable dimensions for competitiveness
- harmonizing standardization with flexibility
- extending informatization
- increasing the role of intellectual technologies in the management and functioning of a company
- increasing the creative potential
- increasing the managerial ability to anticipate environment change
- increased concern for saving and a superior valorification of resources
- increased concern for environment protection
- increased professionalization of the management

On the other side, the future *characteristics of the environment* – due to general causes (such as the technico-scientific progress, the progress of society in general, perfecting economic mechanisms) or the reaction of companies that pollute the environment and are trying to adapt to its evolution, by influencing it, on their turn, in a significant way – with a major impact on the strategic management of the company will be:

- development of the knowledge society
- amplification of the inovational potential
- intensification of the entrepreneurial spirit
- increasing internationalization and globalization of the markets
- intensification of the cooperation between companies
- acceleration and deepening of changes

The metric force is the acerb struggle for increasing competitively and efficiency in the context of globalization of the economy and in this context a significant contribution was brought by the managerial revolution in IT.

In order to see the place and the role of the informatics systems in the informational management of an informatized economic organization, one starts from the structured organizational scheme on levels of management and on management domains (functions) of the organization (Figure 1).

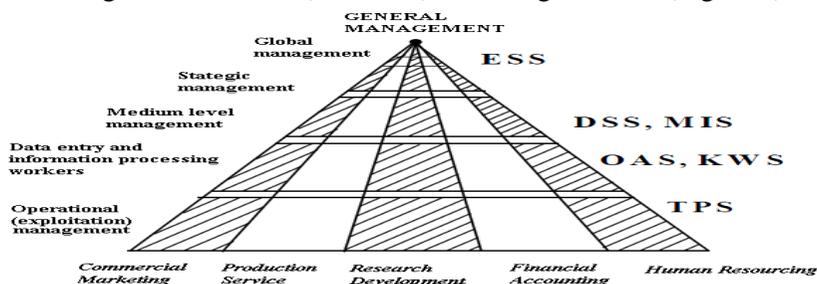


Figure 1 Level and domanins management

The categories of informational systems correspond to each layer of organizational management:

-at the level of **strategic management** – informatics systems for assisting the executive, (ESS Executive Support Systems) serve the strategic management level and are aimed at assisting decision taking not structured on elements of great synthesis, graphical presentations and advanced communications. ESS are used by general managers, address unstructured decisions and more, they create the general working and communication environment, dealing less with specific, detailed applications, necessary for the economic organization.

-for the medium level management: MIS (**M**anagement **I**nformation **S**ystems) and informatics **D**ecision **S**upport **S**ystems (DSS). MIS serve the medium management layer of the economic organization, providing managers with reports, online access to results and older records. MIS also serve the strategic management layer, by supporting the planning, control and decision taking functions through routine resumes and reports of unforeseeable situations. Normally MIS can be accessed by managers who are interested in weekly, monthly or annual results obtained by the economic organization. The IT for assisting DSS at the medium management layer, combines data and sophisticated analytical methods for helping semistructured and unstructured decisions. Although DSS uses mainly data and information coming from TPS and MIS, it often receives data and information from external sources, as for example market values of certain products or services.

-at the layer of the data and information entry workers, the knowledge informatics system is called **K**nowledge **W**ork **S**ystem (KWS) and the informatics system for the automatization of desk office, also called **O**ffice **A**utomation **S**ystem (OAS).

-at the operational management layer (exploitation) – informatics systems for processing transactions, also called **T**ransaction **P**rocessing **S**ystems (TPS).

These informatics systems are designed to incorporate, in general, data about external events as, for example, new elements about market competitors, but also receive internal data from MIS and DSS. ESS filters, compresses and follow critical data, while having an accent on shortening execution time for activities and reducing the necessary effort for obtaining useful and relevant information for the whole organizational management.

Organization management through IT

Organizations are formal entities tied with rules and procedures that have to be followed. They can also be seen as social structures, because they represent a collection of social elements. The technical definition is focused on influences that technological modifications (thus also the information and communication technologies IT&C) have on the environment in which the inputs are transformed in outputs.

In the case of behavioral definition, building or reconstructing the informatics system of an organization supposes much more than a new configuration of the workstations or a new informatics application. Organizations, in general, can have different structures - entrepreneurial, bureaucratic, bureaucratic machine with subdivisions, professional bureaucratic machine and adhocratic.

Organizations with an *entrepreneurial structure* are of a smaller dimension, usually small companies with simple structures, led by an entrepreneur.

Bureaucratic organizations are formal organizations, of medium size, with a clear division of labor, with pre-established procedures and rules and an impartial process of decision taking, where employees are promoted based on their technical qualification and their professionalism. This type of organization has the following characteristics of the management: a centralized management team, a centralized management process and a centralized decision making process.

Bureaucratic machine organizations with division's combines multiple bureaucratic machines, each achieving distinct products and services, led from a central general headquarter.

Professional bureaucratic machine organizations are based on knowledge, and the products and services depend on the knowledge of the specialists. This type of organization is dominated by department chiefs with a low central authority.

Adhocracies are act of God organizations created to solve emergency situations and which have to respond to rapid changes of the socio-economic environment. This type of organization is composed by a large number of specialists organized in multidisciplinary teams, it functions for a short period of time and have a weakly represented central management.

All organizations develop standard working procedures, policies and cultures. Standard procedures are precise rules, procedures and practices developed by the organization in order to answer to almost all possible future situations.

Organizational policies take into account the fact that people in organizations occupy different positions have different specialties, preoccupations and perspectives. Thus they represent various points of view about distributing resources, the way of rewarding work results and sanctioning ways. These different points of view affect managers as well as employees and are materialized in the existence of disputes and of a competition inside the organization.

Virtually all informatics systems that bring significant changes to the goals of the organization, in the work procedures, in productivity and personnel will raise a problem to organizational policies and in the organizational culture.

Economic organizations, according to the evolution of the socio-economic environment, are subject to several challenges related to: frequent internal reorganizations required by the evolution of the socio-economic environment; the increase in operational risks and in the direct requirements and in those related to the procedural environment; integrating all management activities of interhuman relationships, including clients: ensuring the efficiency of the organizational activities and their correlation to the evolution of the business environment and the tendencies of the modern man to use products and services suitable to his lifestyle; gaining new clients by using the economic-financial analysis and the marketing analysis.

Any economic organization functions based on 4 categories of resources: human, material, financial and informational. In the last years, the degree of informational resources used in the organization increased considerably together with the progresses of the Informational Technology and Communications (IT&C), so that currently one can say that this category of resources of the organization has become a success factor and an important vector in the overall directions of evolution specific to the informational society and the knowledge society.

The integrated informatics system of the economic organization is subject to a continuous modernization and consolidation in order to be ready to achieve continuity, coherence, opportunity, confidentiality and the security of data, information and knowledge, of all processes and transactions.

The knowledge society, through both its components, informational and durability, have a global character and is a factor of globalization, representing a new stage in the culture, in which the most important will be the culture of knowledge, which implies all forms of knowledge, including artistically, literary and personal knowledge etc. Two large classes of vectors of the knowledge society have been defined

- technological vectors;
- functional vectors.

A vector of the knowledge society represents an instrument that transforms the informational society in a society of knowledge

The category of technological vectors of the knowledge society comprises

- internet development;
- e-music and e-books technology;
- intelligent agents, which represent expert systems (from the domain of artificial intelligence), used, for example, for Data Mining or even for formal knowledge discoveries;
- intelligent environment for man's life and activity;
- nanoelectronics;

The category of functional vectors of the knowledge society comprises:

- management of the moral use of knowledge at global level;

- organizational knowledge management;
- health, physical education and sport at social and individual level;
- enhancing existential knowledge;
- implementing an education system based on methods of the informational and knowledge society (e-learning, e-library, on-line learning);
- protecting the environment and ensuring a durable society;
- generating new technological knowledge;
- developing a culture of knowledge and innovation etc.

Elements from the informational sector that's evolution affect overall the society and the businesses, and the progress of informational resources of the economic organization, in particular, are:

- enhancing knowledge in informatics for managers and a growing number of employees
- developing telecommunications through fiber optic, satellites, computer networks and global communications and databases;
- developing and proliferating personal computers; the manager and the employee have personal computers at work and at home, connected to a central computer, to a databases and to other personal computers;
- computers are perceived and used as "analytical thinkers" (analogous to the function performed by the left hemisphere of the human brain);
- creating a common front against infractionality in the computer domain (against informatics criminality);
- using laser devices for writing and reading information from various supports in various encodings;
- human-computer communication through voice;
- the evolution of technologies in the field of producing electronic micro-chips which led to decreasing power consumption

The image of this manager who is, for example, in an international meeting, anywhere in the world of the informational society is associated with a mobile phone of the last generation and with a laptop permanently connected to the organizational network of the country it represents. The manager has on his laptop all kinds of information about competitors, about the up to date legislation in the concerned fields in the form of databases which can be exploited through specific instruments.

Directions in the evolution of the IT management

The main directions in which can be anticipated the evolution of the IT management are:

- the emergence of a new type of management, based on information;
- harmonization of the managerial priorities with the level of profitability of the company;
- developing new systematic approaches;
- developing the situational perspective;
- perfecting strategic learning for modeling strategic behaviors;
- intensification of the development of the multiple capabilities of the company;
- increasing the range of strategic variables to be taken into account;
- developing new basic managerial principles;
- establishing an optimum level of complexity of the activity of the company;
- increasing organizational flexibility.

Understanding the connection between the competences (resources) of the organization and its competitive position is based on knowing the way in which the activities of the company generate added value, the link being theoretized in what is called **the analysis of the value chain**, which starts with the identification of the activities that are creating value. Thus the activities of an organization can be split into two large categories:

- primary activities** – grouped into 5 main areas:
 - internal logistic – receiving, storing and distributing inputs activity;
 - production (operations) – the activity of transforming inputs in a final product;

- external logistic – the activity of collecting, storing and distributing;
- marketing and sales – generate means through which the consumer can be told about the existence of the product and through which it can be procured;
- service – improving and maintaining the value of the product through repair, installation, preparing the auxiliary personel etc.
- support activities** – are related to primary activities and are grouped into 4 main areas:
 - procurement – the process of acquiring the resources for the primary activities;
 - technology development – know-how related to product (research, design), process or particular resource;
 - human resource management – recruiting, training and motivating the personel of the organization;
 - infrastructure – planning, financing, quality control systems, and elements of organizational culture.

Conclusions

1. The management of an economic organization strongly implies knowledge and using the informational resources of the organization which, in the modern approach, imply managing these resources in an integrated informatics system (organizational structure) of the economic organization, a system conceived and used from a business perspective.
2. For using these informational resources, the manager has the duty to learn the general IT&C concepts and principles for creating dedicated informatics systems, as well as of informatics instruments which can assist the managerial process and the managerial decision.
3. By using the IT&C the efficiency of the organizational activities increases significantly, together with the alignment to similar practices at global level.

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THE IMPORTANCE OF THE IMPLEMENTATION OF INTEGRATED INFORMATION SYSTEMS IN THE RESTRUCTURING AND EUROPEAN INTEGRATION PROCESS OF ORGANIZATIONS

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Many of the organizations that are part of the public and private domain in Romania have reached the stage in which the existing information systems can no longer comply with the requests of users. Therefore, we are compelled by necessity to use integrated information systems which should be able to control all kinds of data and to allow access to them, to ensure the coherence and consistency of the stored information. Managers must be aware of the importance of the implementation of integrated information systems in the background restructuring of the organization, which can thus become consistent and competitive with the European Union one, so the integration process becomes a real and possible one.

Keywords: integrated information systems, ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), SCM (Supply Chain Management)

JEL Classification: M15, O30, O32

1. Introduction

The economic, social and political environment in which the management decisions are currently made is characterized by a sustained and pronounced dynamics. In this respect, many changes are made in the way the competition is evolving on the market, in the legislative framework, in the way in which the enterprises function and organize, in the industrial and data processing technologies. All these processes lead to an increasing pressure over the managers and to new requirements compared to the way in which the decisions are elaborated and adopted, because the success of an enterprise in a competitive economy depends entirely on the quality of the decisions made by its managers.

Making a decision implies more and more the necessity of having a large package of information as well as an entire process of analyzing and synthesizing it. This ability to collect, process and analyze the necessary information in order to make a decision has long exceeded the human limits, as one must use the highest information technologies to support the decision in its making process. The information technology is nowadays a dominant one as well as a welfare source.

Right now many organizations in the public and private domain in Romania have reached the stage in which the existing applications can no longer comply with the requests of users.

We are compelled by necessity to use integrated information systems (integrated unitary systems in which the management positions, the ones of supporting the management decisions as well as the ones of controlling the activities and processing the transactions between different subsystems should be integrated). Part of the Romanian organizational environments has joined the integration game, as the implementation of integrated information systems means performance, efficiency and business control. The other ones are still hesitating, as they consider the integration a difficult step, a very difficult decision and, most of all, investment to make.

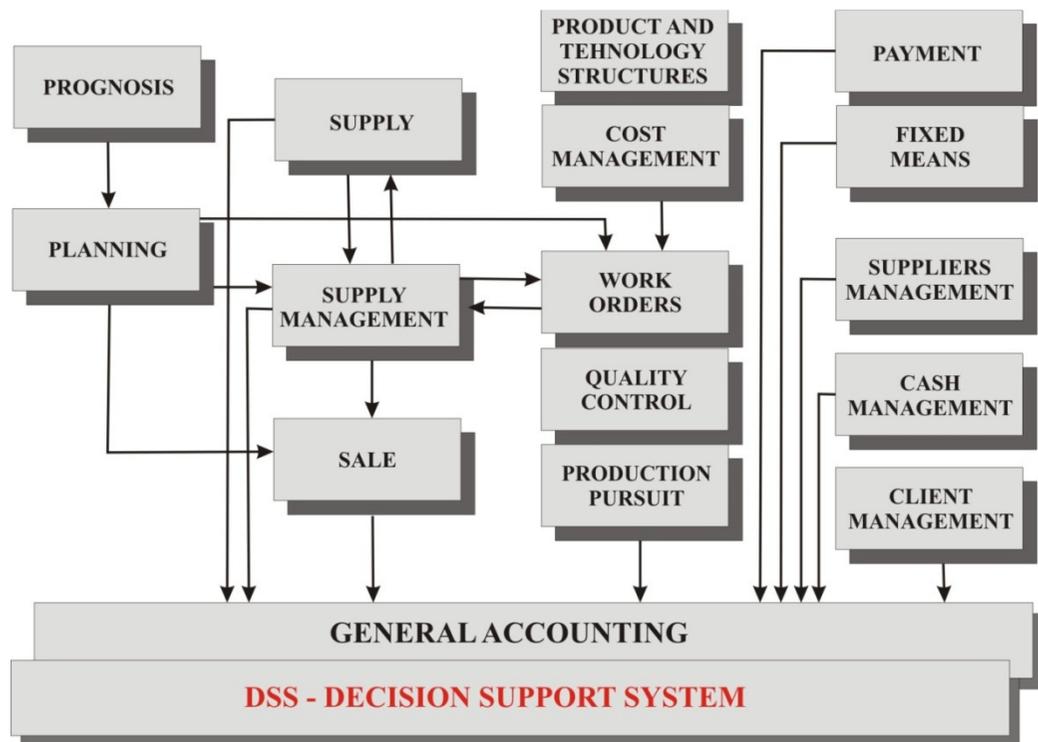


Figure 1. The functional architecture of an integrated system¹⁷⁴⁵

„In order to justify the investment in an integrated system we can take into consideration the following benefits:

- cost reduction by efficient resource planning (energy, water, prime matters, labor force, time) and by avoiding penalty charges (payment delays, violation of the terms of agreement);
- quality information and avoiding operations and data redundancy (single database);
- risk prevention and control;
- anticipation of legal requirements and the facilitation of the their compliance;
- the improvement of the company image and credibility on the market (by product certification);
- the improvement of the internal and external communication, decrease in the response time due to reports and ad-hoc information provided by the system;
- technological openness – (the system architecture allows the integration of new types of e-business applications).¹⁷⁴⁶

Information integration must be regarded as a continuous process and a long-term strategic investment, since its benefits appear not immediately, but with time. It may be considered as a form of “life insurance” for the company’s information system.

The approach to integration must be realistic and take into consideration two major alternatives:

- internal integration – focuses on the intra-corporate economic processes, covered by **ERP** application suites (Enterprise Resource Planning);
- external integration - combines the services of several suppliers in order to support the extended operations management, information exchange, coordination and cooperation throughout the extended value chain (expansion of the traditional ERP applications by means of “newer” **CRM** - Customer Relationship Management, **SCM** - Supply Chain Management).

¹⁷⁴⁵ Rusu, L. și colab, (2005), Sisteme integrate și sisteme ERP, Editura Risoprint, p.106

¹⁷⁴⁶ Jones, M., Zound, R., *ERP Usage in Practice: An Empirical Investigation*, Information Resources Management Journal, January-march 2006, p. 23-42

2. ERP (Enterprise Resource Planning) Systems

Defining ERP systems

An ERP is a complex multimodular software application which integrates the economic processes of the companies in order to optimize and increase their efficiency.

From the functionality point of view, an ERP software covers the following domains of interest of a business: production planning; acquisition management and supply management; interaction with the suppliers; customer relationship management; order pursuit; financial management; human resources management.

An ERP system achieves the information integration used by the functions and departments of a company, framing them in a single and coherent system.

The benefits of an ERP system:

An ERP software offers a series of advantages for the financial management, as it is able to present any time a general view of the company in what concerns the financial status of the treasury, sales, debtors and creditors, current contracts.

According to a survey carried out in Great Britain among the organizations that have implemented ERP applications, we can point out the following aspects:

- the organizations have gradually invested human resources, money and technology in order to develop their own ERP systems and in the current financial climate they are trying to consolidate and maximize the results of these investments;
- not all the companies have equally prospered as a consequence of their investments, as many of the organizations have achieved considerably larger benefits using the ERP systems than the others. Among the difficulties encountered we mention: the systems haven't been perfectly set; not all the functionalities of the system have been activated and therefore their efficiency was reduced; the companies haven't ensured and maintained the correct functioning of the system;
- in Fig.no.2 is rendered the share of the factors that have influenced the motivation of the organizations in choosing an ERP solution:

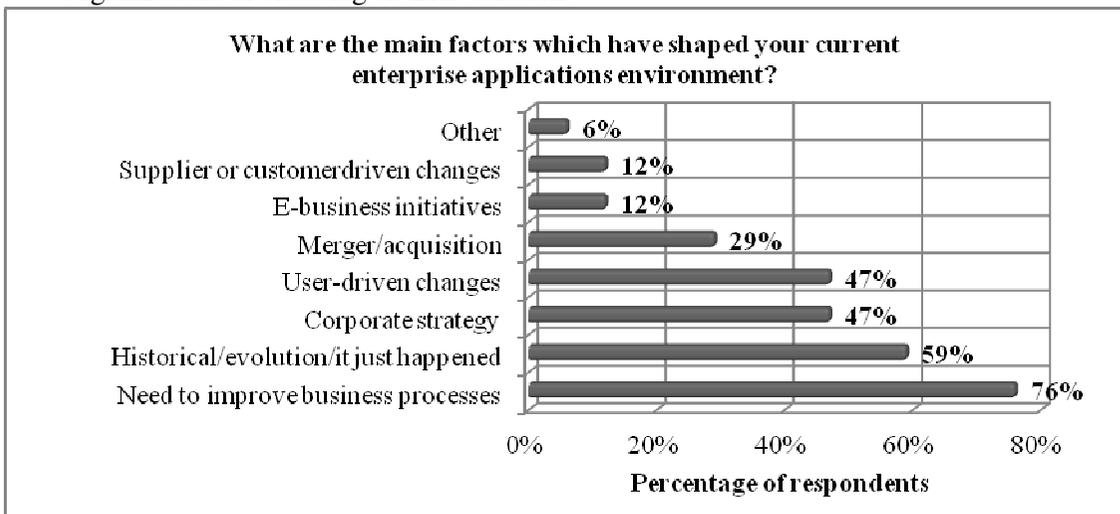


Figure 2. Key drivers for enterprise systems¹⁷⁴⁷

- there are contradictory opinions among the respondents as regarding how easy it is to modify the ERP solutions in order to produce changes in the business processes:

¹⁷⁴⁷ http://www.conspectus.com/2009/october/downloads/Conspectus_ERPSolutions_October09.pdf

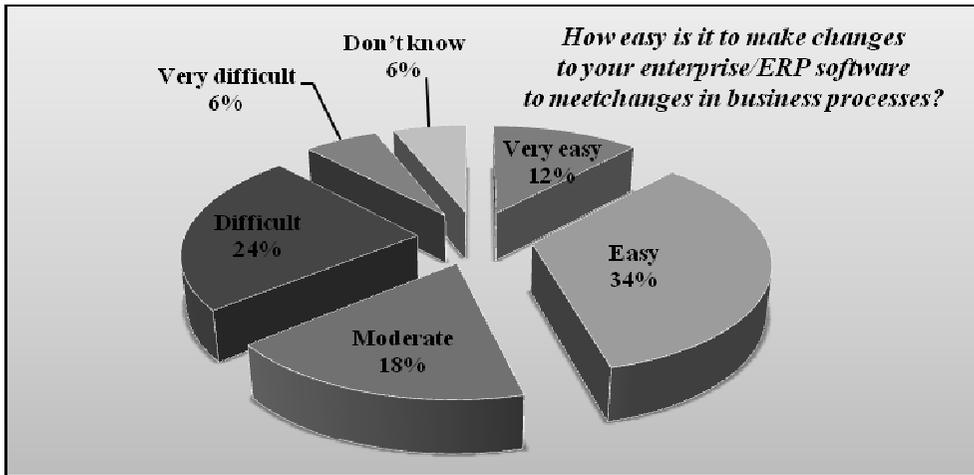


Figure 3. Flexibility of the software¹⁷⁴⁸

2. CRM (Customer Relationship Management) systems

CRM: definition and functionality

"CRM is a complex system that provides a means to improve the experience of a particular client so as he should remain a trusty one; it provides both technological and functional means, in order to identify, attract and keep clients; it provides a single image of the client inside the entire organization." (Paul Greenberg – English analyst).

"CRM extends the sales document from a confidential one, issued by a salesman, to a continuous one that involves the entire staff of a company. It is the art/science of collecting and using the information about the client to strengthen his loyalty and increase his long-term value." (Larry Tuck – American analyst).

"CRM means an integrated approach of the processes of identification, attracting and keeping the clients of an organization." (Siebel Systems).

The advantages given by CRM compared to the traditional marketing are:

- reducing advertising costs;
- focusing the company's policy on the clients' needs;
- quick ascertaining of the efficiency of a campaign;
- the possibility to compete with the main contestants not only on a price level but also through the provided services;
- avoiding extra expenses that are assumed to be made by the less profitable clients and redirecting the resources towards the high profitable ones;
- surpassing the delays arising from the development and marketing of a product (it optimizes the marketing course);
- optimizing the trade channels and the contact with the clients.

So, placing the client in the centre of the organizations' concern in order to suggest to him the most appropriate products and services is the aim of this new generation of information tools in the Customer Relationship Management category.

According to the surveys carried out in Great Britain among the organizations that have already implemented a CRM System, we can point out the following aspects:

- the companies that provide good services and manage to understand their clients' requirements are those that, generally speaking, can survive and prosper on a long time;

¹⁷⁴⁸ http://www.conspectus.com/2009/october/downloads/Conspectus_ERPSolutions_October09.pdf

- in the past, successful companies used to search for their clients instinctively. Nowadays we have to use the CRM systems, but we have to understand very well the fact that a CRM application only provides the process automation of the client relationship management. A company uses the CRM in order to supervise and keep information regarding to its current and future clients. It's not enough to install a CRM system in order to develop and ensure a complete environment for client services. The success doesn't depend entirely on the implementation of the system. A philosophy and a clear strategy for client relationship management have to be developed. O society has to provide a formative support climate and an accurate business environment for the employees in order to completely take advantage of the information systems;
- many organizations have implemented a CRM integrated system to help elaborate a client relationship management strategy. The surveys have pointed out how important these strategies are as opposed to three years before:

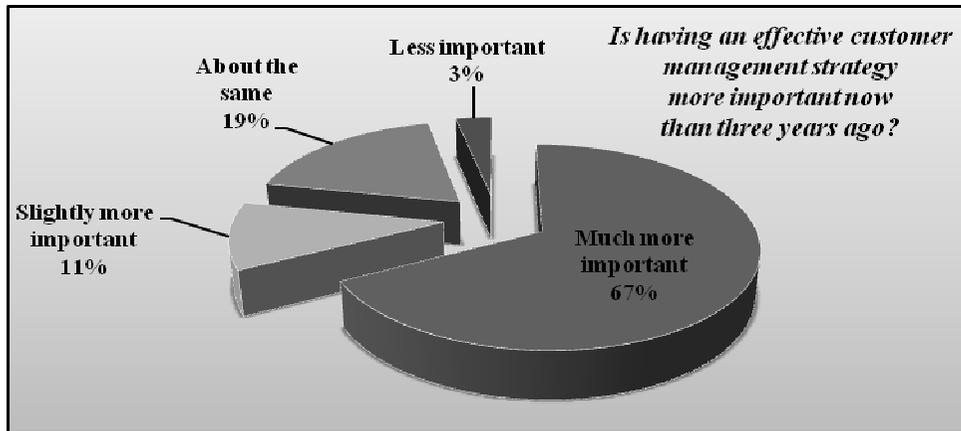


Figure 4. Importance of customer strategy¹⁷⁴⁹

3. SCM (Supply Chain Management) systems

SCM: definition and functionality

The Supply Chain Management is a term encountered in the Romanian literature under the name of supply-sales chain management or distribution chain management and it basically refers to optimizing and automating all the economic processes that take place at a level of an enterprise, starting with materials and raw material supply and ending with the production, transportation and distribution processes of the end products.

"The easiest way the supply-sales chain is defined is as an "umbrella" process under which the products are created and delivered to the clients."¹⁷⁵⁰ The efficient distribution chain management secures the necessary amount of goods and services where they are needed, at the right time, in the solicited quantity and at the best price.

The chain management allows the administration of the expanded processes of the enterprise, integrates both the internal and external processes, secures flexibility and transparency in the development of a business from the raw materials that are necessary to the production supply stage to the delivery towards the end consumer.

The web expansion as a means for the economic transactions to take place and to develop a business-to-business communication, together with the development of new web based SCM technologies, achieve the transition from linear interactions to the network model. We are now talking about the interdependent distribution networks. The enterprises are heading for real time operating by dividing the information and interconnecting the processes with the ones of the business partners.

¹⁷⁴⁹ http://www.conspectus.com/2009/june/downloads/Conspectus_CRM_June09.pdf

¹⁷⁵⁰ Meșniță, G., *Introducere în afaceri electronice*, Editura Junimea, Iași, 2002

According to the surveys carried out in Great Britain we can point out the following aspects:

- the British companies continue to invest in SCM technology, in spite of the uneven results and, sometimes, despite the current economic recession;
- a particular aspect for present-day organizations is to ensure the supply chain. They are designed to support the global business strategy, both in terms of management and marketing aims support and also of financial performances;
- the surveys show to what extent the SCM systems support the entire strategy of the organization:

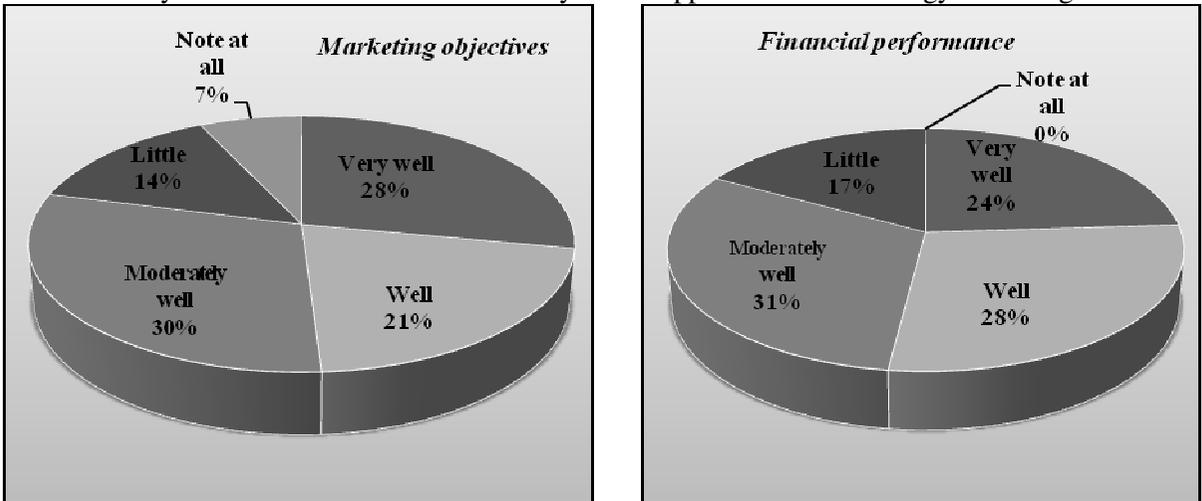


Figure 5. How well do your supply chain operations support the overall strategy of the business?¹⁷⁵¹

Conclusions

The passing to the appliance of some restructuring and changed modern methods and to real-time distributed processing of the information using new approaches like: ERP-Enterprise Resource Planning, CRM-Customer Relationship Management, SCM-Supply Chain Management, is a fact both in the private and public domain, which has to be treated accordingly.

In Romania there already exist a whole series of integrated information systems implementations provided by well-known companies such as: SAP, ORACLE, SIVICO (the first place in providing ERPs in Romania).

The rising number of integrated systems implementation confirms the fact that managers (in public and private domain) are aware of the importance of this solution in the background restructuring of the organization which can become thus compatible and competitive with those of the European Union. Therefore, the integration process becomes a real and possible one.

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THE OBJECTUAL DATABASE DESIGN FOR A VIRTUAL STORE

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Nowadays, the most systems on the Internet are using databases. These databases are relational and normalized. Although the tables of the relational model itself does not have a behaviour in context object, though the diagrams uses different methods. In this article we focus on the database modeling for a virtual store using UML (Unified Modeling Language).

Keywords: Database, Virtual store, UML, Business model

Cod JEL: C88, M15

1. Introduction

For representating and modeling of databases are used several types of diagrams. In the relational world the instructions are not procedural type, still they are result oriented. In the implementation, many times we have to combine programming object to relational databases. UML is a language for visualization, specification, construction and documentation of models. There are no official UML diagrams for modeling data, but we have a scoring system and a data modeling system used and accepted by many CASE tools. The scoring used for data modeling in UML class diagrams comes from other scoring systems used the classical model (entity-relationship).

2. Modeling and database design

2.1. The database modeling

The database modeling is based more on logical and physical models of databases. A logical model of a database consists of entities, attributes and contains relations between entities that may be required or not (Naiburg E. J., Maksimchuk R. A, 2003).

The logic model is a standardized model, which is 3 normal form (3NF). May contain several elements, which is next to the database, but it does not contain any specific software management system or a database.

In this case, it is not important the important optimization factor, neither the application where the database will be managed. In the center is the building of the model. De-normalization process begins with the physical database model. The group of developers try to optimize the model and seek its implementation.

2.2 The database design

Until the modeling is focused on presenting a database, it contains the entire design process starting with specification, continuing with business modeling, logical analysis, the physical structure of the database to its implementation and installation.

For example, in the database design in physical modeling there are already set tables, columns and in modeling addition and hardware and the database system structure.

The Database Design includes (Song E., Yin S., Ray I., 2007): the requirements for modeling, the business processes (which may be today or in future), the business activities, the logical models, the physical database model, the links between database and application, developing of the system. After

the design, it comes the implementation itself, which can be done individually or in most cases the group.

2.3 UML diagrams for database design

There are many types of UML diagrams that help designer databases in their work. These diagrams can be used for meeting requirements for representation of installation, etc. The most important UML diagrams are as follows (Marcos E., Vela B., Cavero J. M., 2001):

Diagram	Description
Use Case	Use Case shows the behavior of the system or a part of the system and a description of a set of action sequences.
Interactions	Sequence or collaboration diagrams, which represent the interaction of objects in the system.
Activity	Activity diagram is a flow chart of activities that have control flow between activities. It is used to model dynamic aspects of the system and requires a process modeling step.
Statechart	Statechart diagram presents the dynamic of the system state or system objects.
Class	The logical model for the system class.
Database	Database shapes including the database modeling structure and constraints.
Component	The diagram of components shows the dependencies between various software components that comprise a computer system. These dependencies are static or dynamic. The software component has a model with a well defined interface.
Deployment	The deployment diagrams present operating configuration of runtime processing elements and components, processes and objects containing them.

Table 1 UML diagrams for database design

3. Business modeling for database design

The understanding the functioning of a company and its work it is not an easy problem. It is important to understand what business do they do, what information exists, who are business partners, etc. The current activity is not only important but also the firm's future perspectives. Most of the companies, firms have a standard representation of activities, especially their modeling tools (Avornicului C., Avornicului M., 2010).

We need the following information to create a correct model:

- How do the employees see business?
- What is their opinion to advance the company?
- What does not the company do well?
- What does each individual do?

3.1. The Business Modeling

The first step is the gathering information and the modeling descriptions. We must have an overall idea about the business, only to read only the words themselves.

We always start with the use case diagrams. A business use case diagram represents the most important functions of a business. In the modeling business is very important to identify and shape the roles of coming into contact with the business.

Business model should include views of interior and exterior views to suggest the most important moments of the business. The use case diagrams and use case actors may contain links. Actor can be anyone and anything that comes into contact with the system. It is important to note that one person can play multiple roles and a role can be characterized more people. The actor can be defined as a set of roles which the user uses when interacting with the use cases. It can be a human role, device or any other system hardware. The use case it may be a number of activities that may be useful for players. They involve the interaction between actors and system. In the business modeling, working groups are not only important but also the way they operate. The working mode is the activity diagram. This is a flow chart presenting the control flows between activities. It is used for modeling the dynamic aspects of the system and it requires a process modeling step. Activity diagrams returns to specific use case. Activity diagrams have several purposes (Song E., Yin S., Ray I., 2007):

- understanding the current business;
- understanding and designing of changes;
- discovery of redundancy in the business;
- discovery of the delays in business;
- revealing those activities that affect business;

3.2 Nowadays business model

By understanding the functioning of today's business systems, we can understand their operation. In this step, it helps to identify the business models having activities that are repeated, they are redundant. If we look at the whole business, we must understand the processes, systems, software, hardware etc. currently there. The essence consists not only in understanding the current business but also in revealing future prospects.

4. Case Study: Creating a database for a virtual store

In this part we deal with database design for a virtual store in Târnăveni, Mures county. The company is dealing with buying and selling computer parts.

A person can see components existing categories to rank and order them online on the Internet. To order our products, the person must register on the site. Insert an email address and password that is stored in databases. A person can order more products. Products will be sent by post or by Cargus (courier) and payment is made on receipt of goods. The administrator can introduce new products that can modify existing information products.

Project purpose:

- reduce human error;
- increase efficiency;
- national coverage (the Internet);

The emphasis is on quality of service and not on human resources management, the bill payment or other processes.

4.1. Business model use case

First part of business modeling is the use business model. It reflects the views of the outside and their contact with services. The outside actors are the business actors. After negotiating with the company, the first step is to identify business actors (Song E., Yin S., Ray I., 2007).

This is a very simple model and it shows us which business actor belongs to which use case. These actors do not relate to all who come into contact with services. For example, Ms. Florica involved in the cleaning company will not be considered in this model, although it contributes indirectly to the company's reputation.

During discussions, new players may appear coming in contact with the company, such as carriers, insurance companies and other corporate stakeholders. Of course, we have many sites use case, but they

must be verified, it will remain only those that are important in terms of business. Figure 1 shows a business use case possible.

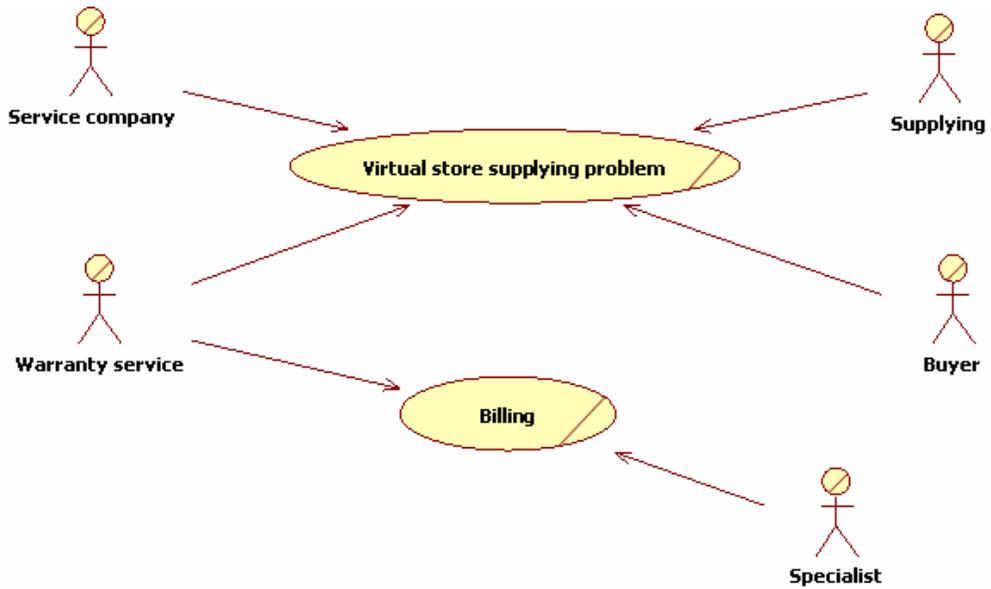


Figure 1 Business model use case

Improving of use case model can be done through a business model for each process. The charts shows business activities and have people who belong to departments.

In a business it is extremely important to look at things in terms of business actors. Because of this, the activity diagrams do not contain internal business functions. Business process ends when the players transfer the business management within the system (records manager – business worker) (Avornicului C., Avornicului M., 2010).

4.2. The design database using UML

In that part we design the model database. StarUML CASE tool is used. In the first phase of building the necessary classes. Figure 2 contains the necessary classes.

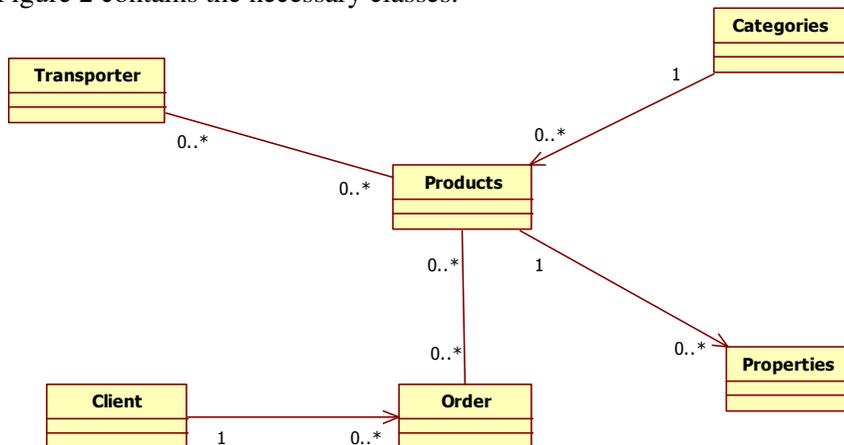


Figure 2 Class diagram for the shop

The following chart contains tables with all attributes.

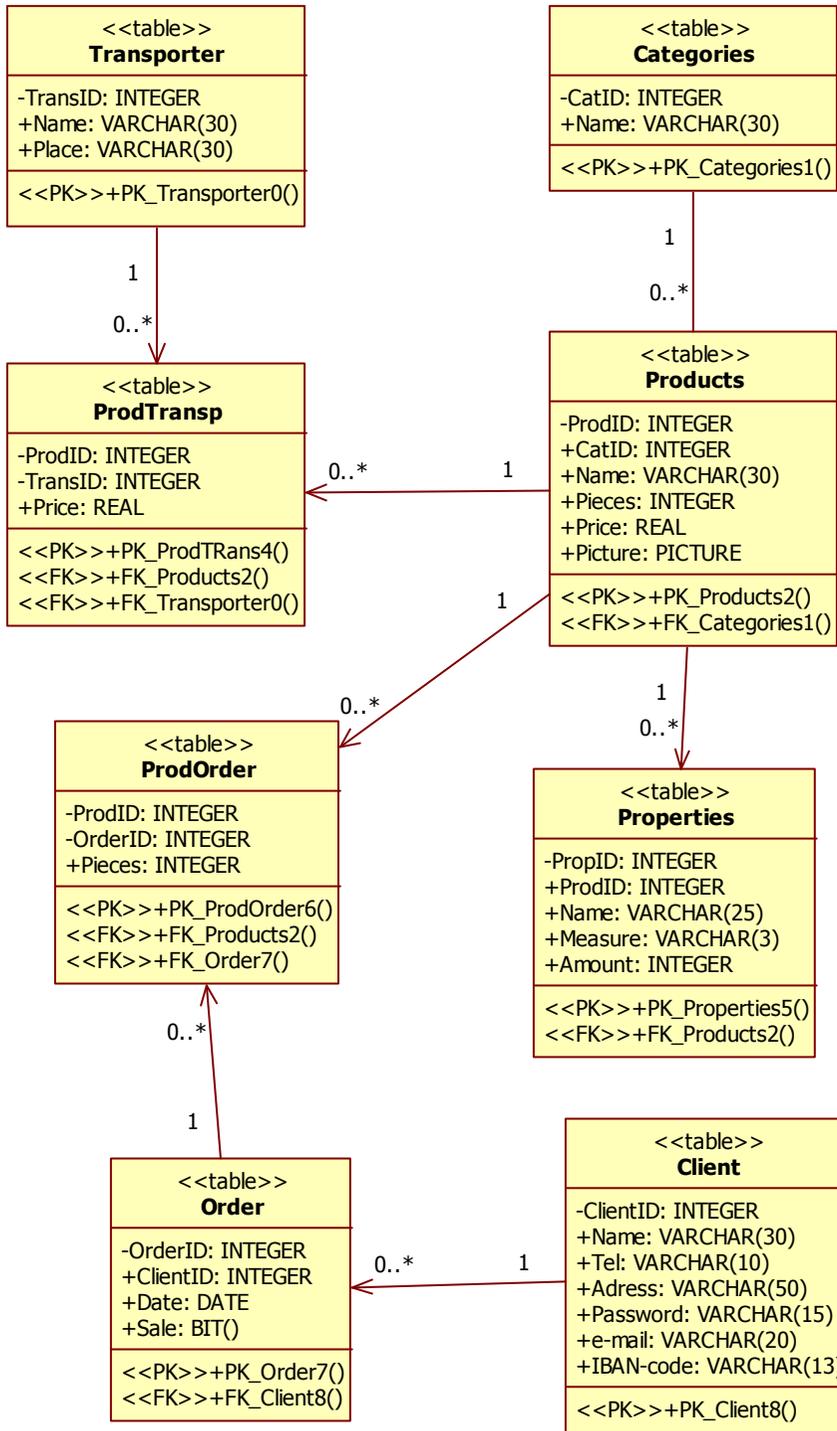


Figure 3 Tables with attributes for virtual store

The database will be implemented in MS SQL Server, Oracle, etc.

5. Conclusions

Even if in UML there are no diagrams for modeling data, we have a scoring system and a modeling data used these are supported by many CASE tools. The scoring used for data modeling in UML class diagrams comes from other scoring systems used the classical model (entity-relationship). Using UML diagrams, we can easily achieve a database that can be used in a virtual store. This paper presents such a database, which is used successfully in a virtual store.

Acknowledgement

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A STUDY ON THE STAGE OF E-LEARNING DEVELOPMENT IN ROMANIA

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This paper evaluates the stage of development of the e-learning system in Romania compared to other EU Member States, in the perspective of the newly proposed Europe 2020 strategy for a “smart, sustainable and inclusive growth”. Official statistics are essential in order to monitor these comparisons. Although Romania’s analyzed indicators are not at the level of other EU countries, a modest but increasing uptake of e-Learning services over the past few years can be observed. However, Romania still has major shortcomings in the field of e-Learning, our country being placed at the lower end of the EU-27 ranking in almost all statistics. As an EU Member State since 2007, Romania has to reduce its gap in the shortest possible time. The first steps were taken through implementing e-Learning projects and defining the barriers that stand in the way of an information society for everyone.

Keywords: e-Learning, indicators, education policies, strategies, initiatives

JEL classification: D83

1. Introduction

In the European Union (EU) e-Learning is considered an important progress in the educational and training systems, in the perspective of reaching the strategic objective assumed for the Union by the European Commission (EC) at Lisbon in March 2000, to become “*the most competitive and dynamic knowledge-based economy in the world by 2010*”. The spread of the Internet and new information and communication technologies (ICT) over the last decade, has allowed European citizens to gain access to incredibly many and varied information and information resources. Successfully using this potential in education is more a strategic and organizational problem than a technological one. The introduction of ICT should be accompanied by substantial restructuring in education. New ICT technologies allow every citizen to be (re)qualified or able to develop new skills at any age and any level of training, which means that the employment opportunities will increase and the competitiveness of European companies will enhance. In addition, this will promote the social inclusion, will increase the civic activity and will ensure the personal development.

2. EU political actions for e-Learning: a short history

The European Commission’s first initiative in the field of e-Learning was in 2000, in order to implement the *eEurope* Action Plan (Lisbon Strategy, 2000) in education. The initiative entitled “*Designing tomorrow education*” [12] set out the principles, objectives and directions for action in e-Learning, to adapt the European educational systems to the knowledge-based economy and digital culture. The *e-Learning Action Plan* (2001-2004) and *e-Learning Programme* (2004-2006) established the priority areas that should channel the efforts in modernizing education and training systems in Europe. In 2001, the EU initiative “*Making the European Area of Life Long Learning become a reality*” stipulated that each Member State should adapt its educational and training system to the requirements of the current modern environment, removing barriers between different educational systems of Europe and giving citizens a chance to develop new ICT skills. Life Long Learning is one of the basic principles governing the European policies in education and training, essential not only for the competitiveness and the employment degree, but also for social inclusion, personal development and civic activism.

A new strategic framework, the “*i2010: a European Information Society for growth and employment*” [10], proposed by the EC in 2005, promoted an open and competitive digital economy, and stressed the role of ICT to improve social inclusion and quality of life. The i2010 Action line “*Inclusion, public services and a better quality of life*” supported the development of e-Learning in all EU countries in a positive manner by promoting technologies that underpin e-Learning strategies.

The *Lifelong Learning Programme 2007–2013* [8] defined the strategic actions to allow EU to achieve the Lisbon goal of becoming the most advanced knowledge economy. This programme’s main objective is to sustain the economic development through lifelong learning and to turn the European educational systems into a world quality reference.

The Adult Learning Action Plan “*It is always a good time to learn*” [7] was adopted by the Commission in 2007, and reinforced by the Conclusions of the Council in 2008. This Action Plan had defined five actions that Member States should implement in order to increase the quality and participation in adult learning.

In May 2009, the European Council signed a new strategic framework for European cooperation in education and training – “*Education and Training 2020*” (ET 2020) – which provides common strategic objectives for Member States, including a set of principles for achieving these objectives, as well as common working methods with priority areas for each periodic work cycle [3]. The ET 2020 has the following four strategic objectives:

- *Making lifelong learning and mobility a reality*: More actions are necessary for increasing the lifelong learning quality and attractiveness, also through the use of new learning technologies. Mobility of students and teachers is an important way of promoting lifelong learning and of improving people adaptability, and thus must be increased.

- *Improving the quality and efficiency of education and training*: The EU economic success depends on quality education and training systems, which can enhance employability. High quality can only be obtained through an efficient use of both public and private resources, in implementing the best policies and practices in education and training.

- *Promoting equity, social cohesion and active citizenship*: The education and training systems should be made accessible to all learners, including those with special needs, so that all people could complete their education.

- *Enhancing creativity and innovation, including entrepreneurship, at all levels of education and training*: Creativity and innovation play an important role in enterprise development, enhancing the EU ability to compete internationally.

To reach the above objectives, a more intense European cooperation in education and training is necessary, which should produce visible results. In order to evaluate the overall progress in achieving the objectives under this framework, the Member States established five benchmarks: “adult participation in lifelong learning”, “low achievers in basic skills”, “tertiary level attainment”, “early leavers from education and training”, and “early childhood education”. The strategic framework ET 2020, along with the initiative “*New Skills for New Jobs*” adopted in December 2008, play a key role in addressing the priorities of the Europe 2020 strategy [1] launched as a proposal in March 2010, in which education is one of the five measurable EU targets for 2020. The *Europe 2020* strategy is taking into consideration the accomplishments and failures of the Lisbon Strategy, and is intended to prepare the EU economy for the next decade.

3. E-Learning Initiatives in Romania

In order to introduce ICT in the educational system, the technologically advanced countries constantly pursue the socio-economical competitiveness rules, providing impressive funds for the appropriate training of human resources, and taking decisions for the following decades based on rigorous studies. In the last decade, the field of e-Learning has begun to develop also in Romania, now existing more functional projects. Under the perspective of developing the information society in Romania, it became obvious the need to adopt a national strategy to support the expansion of electronic communications.

Under these circumstances, the Romanian Ministry of Communications and Information Society (MCSI) adopted in 2009 a *Strategic Plan for 2010-2013* [4] that set out the actions and programs for developing an efficient information society and knowledge economy. Through this strategic plan, MCSI has established the following directions of activity:

- *Electronic Communications* – financed through the budgetary program *The Development of Electronic Communications and Related Areas*, including two sub-programmes: *The National Communications Infrastructure* and *The Sectoral Plan for Research and Development (R&D) in Communications*. These sub-programs attempt to encourage investments in infrastructure, promote innovation and ensure effective management of limited resources, as well as, improve the capacity of R&D systems to support future policy documents, strategies and regulations developed by MCSI.

- *Information Society* – financed by two programs: *The Development of the Information Society* and *The Knowledge-Based Economy*. The first program is structured into three sub-programmes – *Romania's transition to electronic government – e-Government Program*, *e-Europe* and *The Sectoral Plan for R&D in Information Technology* – and aims to ensure an integrated approach according to the European policies, to modernize public administration by managing and promoting information and public services using electronic means, to develop the IT research-innovation sector, and to implement the specific technologies in central and local administration and business environment. The *Knowledge-Based Economy* program contributes to computer skills improvement and facilitates access to modern ICT for citizens in disadvantaged communities.

- *Structural Funds Management* – financed by the program *Access to Technical Assistance by OIPSI for the Efficient Management of the Structural Funds Allocated to Axis III SOP IEC*. The program is trying to achieve a high degree of absorption of structural funds allocated to SOP IEC and an efficient use of interventions.

- *MCSI Administrative Capacity* – financed through the budgetary program *Advanced Institutional Management*, which aims to mobilize the available resources for developing a competitive, knowledge-based information society, promoting ICT services and increasing citizens' comfort.

One of the MCSI most recent projects is "*The implementation of an e-learning system for public administration training to support the development of information society*", developed by the National Agency of Civil Servants (NACS) and MCSI (the financial agreement was signed in March 2010) for an implementation period of 24 months[5]. The total value of this project is 13 million lei: 8.9 million lei allocated by the European Regional Development Fund (Sectoral Operational Programme "Increase of Economic Competitiveness", Priority Axis III – ICT for Private and Public Sectors), 2 million lei representing the national co-financing, and 2.1 million lei VAT. The overall goal of the project is to increase the NACS training offer through the use of ICT. The technical objectives refer to the development of software applications that will allow the implementation of a complete e-learning system (online training and testing, homeworks, automated reports on learner participation and results) and the development of an online software for registration for the various training programs of the NACS portfolio. In the 2 years period, the project aims to obtain an increase of 20% in the number of civil servants trained by NACS using electronic means, and an increase of 20% in the NACS training capacity by developing a greater number of online courses.

4. Measuring the development of e-Learning in Romania

There are rather few studies on the evolution of e-Learning at country level. The most known are the Australian researchers studies – the Flexible Learning Advisory Group (FLAG) – that have developed a benchmarking system of 12 indicators assessing the degree of use, the effect and the impact of using e-Learning in professional and technical education.

However, there are many sources where e-Learning indicators can be found: the Canadian Internet Project: Canada Online, the Canadian Internet Use Survey, the studies prepared by Empirica (Empirica 2007), the eUSER survey (eUSER 2005), EUROSTAT statistics; International Telecommunication Union (ITU) statistics etc.

4.1. ICT development indicators

Even though there are few studies concerning the e-Learning development in Romania, we can start by referring to some international statistics, observing, for example, the country's degree of informatization. One indicator describing this is "the number of Internet users per 100 inhabitants".

Table 1. Internet usage statistics for Romania

Year	Internet Users	Population	Penetration (% pop.)	Statistics Source
2000	800,000	22,217,700	3.6	International Telecommunication Union
2001	1,012,000	22,000,000	4.6	Ministry of Communications and Information Technology
2002	3,520,000	22,000,000	16.0	Ministry of Communications and Information Technology
2004	4,000,000	21,377,426	18.7	International Telecommunication Union
2006	4,940,000	21,154,226	23.4	Computer Industry Almanac
2007	7,000,000	22,276,056	31.4	Internet World Stats
2009	7,430,000	22,215,421	33.4	Internet World Stats

Table 2. Internet usage statistics for Romania and EU-27 (2009)

Internet Usage	Population (2009)	Internet Users	Penetration (% Pop)	Usage Growth (2009/2000)
Romania	22,246,862	7,430,000	33.4%	82.8%
EU-27	489,601,562	311,953,600	63.5%	238.9%

Source: Internet World Stats [6]

Despite the substantial increase in the number of Internet users during 2000-2009 (828% growth rate), Romania is situated behind most EU Member States, ranking 26 out of the 27 EU states, according to the Internet World Stats.

In order to evaluate the information society development, the International Telecommunication Union introduced in March 2009 another indicator: the ICT Development Index (IDI). This is a compound indicator made up of three sub-indices (including 11 indicators): ICT access sub-index (measuring the ICT infrastructure and access), ICT use sub-index (evaluating the ICT use and intensity of use) and ICT skills sub-index (assessing the capacity to use ICTs effectively). The 2010 ITU report [2] presents the results of the IDI indicator for 159 countries and a comparison of the 2002, 2007 and 2008 IDI values for 39 European Countries.

Table 3. IDI changes 2002-2008

Country	IDI 2002	IDI 2007	IDI 2008	IDI change 2002-2008
Romania	2.46	4.11	4.73	2.27
EU-27	4.18	5.78	6.22	2.04
Europe	4.06	5.50	5.92	1.86
World	2.42	3.32	3.58	1.16

Source: International Telecommunication Union [2]

In the 2008 IDI scale Romania has moved up 16 places since 2002, to rank 44, but it is still the last among the EU-27 Member States. Romania improved its IDI index mainly due to the ICT access sub-index (growing from 2.40 in 2002 to 5.30 in 2008). Also it had gained over one point on the ICT skills sub-index (from 7.16 in 2002 to 8.37 in 2008), being among the top ten countries worldwide that most increased this sub-index.

4.2. e-Learning development indicators

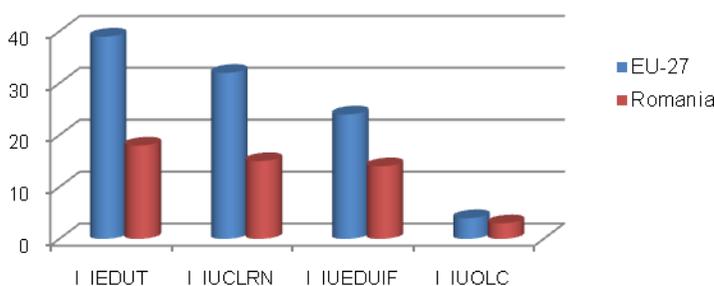
More accurate indicators for assessing the e-Learning development in Romania can be obtained from Eurostat statistics, the website having a section dedicated to Information Society. There are a number of indicators that can give an insight about the population interest towards online education and training, such as: percentage of individuals using the Internet for consultation with the purpose of learning; percentage of individuals who have used Internet for training and education; percentage of individuals using the Internet for seeking information about education, training or course offers; percentage of individuals who have used Internet for doing an online course (of any subject).

Table 4. e-Learning indicators

e-Learning indicators (% of individuals)		2007	2008	2009
Individuals who have used Internet, in the last 3 months, for training and education (I_IEDUT)	Romania	12	16	18
	EU-27	30	33	39
Individuals using the Internet for seeking information with the purpose of learning, within the last three months before the survey (I_IUCLRN)	Romania	8	11	15
	EU-27	23	26	32
Individuals who have used Internet, in the last 3 months, for looking for information about education, training or course offers (I_IUEDUIF)	Romania	8	11	14
	EU-27	19	21	24
Individuals using the Internet for doing an online course, within the last three months before the survey (I_IUOLC)	Romania	1	1	3
	EU-27	3	3	4

Source: Eurostat

The values of these indicators show a modest but increasing uptake of e-Learning services over the past few years, but Romania is still at the lower end of the European ranking, having indices that are about half that of the EU-27 averages.

Figure 1. e-Learning indicators for Romania 2009

The situation is even worse for the lifelong learning indicator, taking into consideration that the value of this index for Romania is more than 6 times lower than the EU-27 mean and about 20 times lower than the top EU-27 countries (Sweden – 32.4 and Denmark – 30.2). In the analyzed 2003-2008 period,

Romania recorded little or no progress in improving this extremely low level of participation. The lifelong learning indicator refers to persons (aged 25 to 64) who have received education or training within the last four weeks preceding the survey.

Table 5. Lifelong learning indicator

Lifelong Learning indicator	2003	2004	2005	2006	2007	2008
Romania	1.1	1.4	1.6	1.3	1.3	1.5
EU-27	8.5	9.3	9.8	9.7	9.5	9.5

Source: Eurostat

The most interesting results came from the commercial sector. According to another indicator offered by Eurostat – “the percentage of enterprises using e-Learning applications for training and education of employees” – Romania is situated among the leading European countries, obtaining values above the EU-27 average. This outcome has been achieved due to the strong competition in the Romanian market, which forced the companies to acknowledge the benefits and advantages offered by e-Learning in training their employees and to invest more in their professional development.

Table 6. Enterprise e-Learning indicator

Enterprises using e-Learning applications for training and education of employees	2004	2005	2006	2007	2008	2009
Romania	30	NA	32	42	41	47
EU-27	20	21	21	23	24	24

Source: Eurostat

Even though for this field Romania obtained a remarkable result, the significant differences between our country and other EU-27 Member States regarding the e-Learning development, cannot be ignored. The reasons are complex, such as the lack of adequate infrastructure and the reduced number of offers in the field of education. Ensuring the availability of educational services and resources on the Internet, and increasing Internet use and computers endowment in educational institutions will certainly lead to a workforce that is better prepared, more flexible and more suited to market requirements, having positive effects on labor productivity and competitiveness. This kind of educational system will probably support the lifelong learning, this field being, for the moment, at a very low level in Romania.

5. Conclusions

e-Learning tends to become a regular presence in education and training systems, and Europe is making progresses in this area. Since the adoption of e-Learning Initiative in May 2000 and the Action Plan in March 2001, interest in the use of technology in education continued to grow. The objective of improving the quality of training and access to education is a foundation stone for building the new knowledge-based society in Europe. Indeed, e-Learning is viewed as a catalyst for the fundamental changes necessary for the transition to the new economy, and at the same time as a tool for achieving the European objectives for social inclusion, differences eradication, and intercultural dialogue.

Regarding the e-Learning development in Romania, even if the indicators are not at the level of other EU countries, one can observe that the situation has improved and electronic training begins to be used increasingly often. However, given that one of the objectives of the European Union is to create an information society for all by 2010, Romania, as a Member State, must align to this requirement. The first steps were taken through implementing e-Learning projects and defining the barriers that stand in the way of an information society for everyone. In the Romanian educational system – rather conservative – changes occur gradually and it takes a long time until the innovations (especially quite radical, such as those generated by the introduction of ICT) are assimilated.

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DATA MINING FOR BUSINESS INTELLIGENCE

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Business Intelligence (BI) solutions have for many years been a hot topic among companies due to their optimization and decision making capabilities in business processes. Data Mining offers a variety of advanced data processing techniques that may beneficially be applied for BI purposes. This process is far from simple and often requires customization of the DM algorithm with respect to a given BI purpose. The comprehensive process of applying BI for a business problem is referred to as the Knowledge Discovery in Databases (KDD) process and is vital for successful DM implementations with BI in mind. In this project the emphasis is on developing a number of advanced DM solutions with respect to desired data processing applications chosen in collaboration with the project partner, gatetrade.net. In the project, gatetrade.net is the primary data supplier.

Keywords: Business Intelligence, Data Mining, Knowledge Discovery in Databases,

Cod JEL :M15.

1. Introduction

Many present Business Intelligence analysis solutions are manually operated making it both time consuming and difficult for users to extract useful information from a multidimensional set of data. By applying advanced Data Mining algorithms for BI it is possible to automate this analysis process, thus making the algorithms able to extract patterns and other important information from the data set. The process of applying DM for BI purposes (referred to as the Knowledge Discovery in Databases process) is the main subject in this project. The data analyzed in the project is provided by gatetrade.net who is keen on exploring the various advanced data processing possibilities of their data.

2. Business Intelligence

Business Intelligence (BI) refers to computer-based techniques used in spotting, digging-out, and analyzing business data, such as sales revenue by products or departments or associated costs and incomes.

BI technologies provide historical, current, and predictive views of business operations. Common functions of Business Intelligence technologies are reporting, online analytical processing, analytics, data mining, business performance management, benchmarking, text mining, and predictive analytics.

Business Intelligence often aims to support better business decision-making.[2] Thus a BI system can be called a decision support system (DSS).[3] Though the term business intelligence is often used as a synonym for competitive intelligence, because they both support decision making, BI uses technologies, processes, and applications to analyze mostly internal, structured data and business processes while competitive intelligence, is done by gathering, analyzing and disseminating information with or without support from technology and applications, and focuses on all-source information and data (unstructured or structured), mostly external to, but also internal to a company, to support decision making.

Business intelligence is a decision support tool used to capture, report, and analyze a subset of organizational data without affecting operational systems. The software provides essential business visibility to help clients' businesses grow by giving them the information they need about product, sales, and customer behavior. It allows clients to look at their businesses in different ways, and helps them to understand the core issues so they can take action to improve performance.

Key Business Intelligence Features: facilitate corporate decision making initiatives; meet compliance and governance standards (i.e. SOX, HIPAA); align business processes with information systems; maximize sales and customer service initiatives; attain return on investment (ROI) on planning initiatives (i.e., product distribution).

BI can help you compete more effectively with your bigger competitors by enabling you to make better and faster decisions. It can extend and strengthen the functionality of your existing enterprise resource planning (ERP) and customer relationship management (CRM) systems. It can help put the past into useful perspective while allowing you to effectively plan for the future. Business intelligence is information about a company's past performance that is used to help predict the company's future performance. It can reveal emerging trends from which the company might profit. Data mining allows users to sift through the enormous amount of information available in data warehouses; it is from this sifting process that business intelligence gems may be found.

3. Knowledge Discovery in Databases

A popular term in the world of intelligent data processing is Knowledge Discovery in Databases (KDD). Fayyad [4] defines KDD as "the nontrivial process of identifying valid, novel, potentially useful, and ultimately understandable patterns in data". Understanding the difference between Knowledge Discovery in Databases and Business Intelligence (and Data Mining) is important for this project and should therefore be elaborated on.

The terms Knowledge Discovery in Databases and Data Mining are often believed to have the same meaning. However, this is not the fact! While Data Mining is the name of a group of intelligent BI methods the term KDD describes the entire process of extracting information from a data warehouse. Moreover, the Data Mining task is part of the KDD process and according to Fayyad the KDD process can be divided into the following steps (once the wanted goals of the process has been decided on).

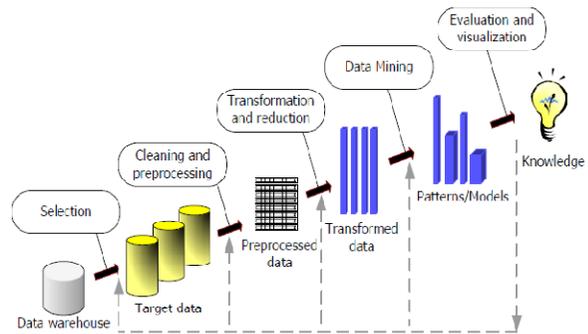


Fig.1. Fayyad's KDD process.

1. Selecting target data from a data warehouse - A data warehouse often contains many databases which each contain large amounts of data. To save resources only relevant target data should be selected from the data warehouse.
2. Cleaning and preprocessing the target data - The raw data is often in an unwanted format and may contain noise and missing data fields. Strategies for handling these factors should be decided on.
3. Transformation and reduction of the preprocessed data - In this step, useful features to represent the data depending on the goal in a given task should be found. Further, dimensionality reduction/transformation can reduce the effective number a variables in consideration.
4. Applying Data Mining to the transformed data - Once the data has been transformed, a proper Data Mining technique should be applied in order to intelligently process the data for patterns and other information.
5. Evaluation/visualization of Data Mining results - The results of the Data Mining step are not always easy to interpret. Using visualization in the evaluation process can therefore be of great advantage. All of the steps in the KDD process are essential to ensure useful models/patterns are extracted from a given data set. Solely applying Data Mining methods to data sets regardless of the other KDD steps often results in discovery of misleading models/patterns and is therefore a risky activity. As shown in figure 1, the KDD process is iteratively involving

numerous steps with many decisions made by the user. Finally, if useful knowledge is extracted in the KDD process this should be implemented in the respective company's business model in order to optimize important factors such as turnover and profit.

4. Data Mining

The most challenging step of the Knowledge Discovery in Databases process (figure 1) is probably performing the actual Data Mining. As mentioned earlier, Data Mining is the task of extracting patterns and other interesting relations from large volumes of data. This nontrivial task is accomplished by the use of complex algorithms in a (semi-)automatic manner.

Data mining is the process of extracting patterns from data. Data mining is becoming an increasingly important tool to transform this data into information. It is commonly used in a wide range of profiling practices, such as marketing, surveillance, fraud detection and scientific discovery.

Data mining can be used to uncover patterns in data but is often carried out only on samples of data. The mining process will be ineffective if the samples are not a good representation of the larger body of data. Data mining cannot discover patterns that may be present in the larger body of data if those patterns are not present in the sample being "mined". Inability to find patterns may become a cause for some disputes between customers and service providers. Therefore data mining is not foolproof but may be useful if sufficiently representative data samples are collected. The discovery of a particular pattern in a particular set of data does not necessarily mean that a pattern is found elsewhere in the larger data from which that sample was drawn. An important part of the process is the verification and validation of patterns on other samples of data.

Data mining commonly involves four classes of tasks:

- **classification** - arranges the data into predefined groups. For example, an email program might attempt to classify an email as legitimate or spam. Common algorithms include decision tree learning, nearest neighbor, naive Bayesian classification and neural networks;
- **clustering** - is like classification but the groups are not predefined, so the algorithm will try to group similar items together;
- **regression** - attempts to find a function which models the data with the least error;
- **association rule learning** - searches for relationships between variables. For example a supermarket might gather data on customer purchasing habits. Using association rule learning, the supermarket can determine which products are frequently bought together and use this information for marketing purposes. This is sometimes referred to as market basket analysis.

Data mining in customer relationship management applications can contribute significantly to the bottom line. Rather than randomly contacting a prospect or customer through a call center or sending mail, a company can concentrate its efforts on prospects that are predicted to have a high likelihood of responding to an offer. More sophisticated methods may be used to optimise resources across campaigns so that one may predict which channel and which offer an individual is most likely to respond to — across all potential offers. Additionally, sophisticated applications could be used to automate the mailing. Once the results from data mining (potential prospect/customer and channel/offer) are determined, this "sophisticated application" can either automatically send an e-mail or regular mail. Finally, in cases where many people will take an action without an offer, uplift modeling can be used to determine which people will have the greatest increase in responding if given an offer. Data clustering can also be used to automatically discover the segments or groups within a customer data set.

Businesses employing data mining may see a return on investment, but also they recognise that the number of predictive models can quickly become very large. Rather than one model to predict which customers will churn, a business could build a separate model for each region and customer type. Then instead of sending an offer to all people that are likely to churn, it may only want to send offers to customers that will likely take to offer. And finally, it may also want to determine which customers are going to be profitable over a window of time and only send the offers to those that are likely to be

profitable. In order to maintain this quantity of models, they need to manage model versions and move to automated data mining.

Another example of data mining, often called the market basket analysis, relates to its use in retail sales. If a clothing store records the purchases of customers, a data-mining system could identify those customers who favour silk shirts over cotton ones. Although some explanations of relationships may be difficult, taking advantage of it is easier. The example deals with association rules within transaction-based data. Not all data are transaction based and logical or inexact rules may also be present within a database. In a manufacturing application, an inexact rule may state that 73% of products which have a specific defect or problem will develop a secondary problem within the next six months.

Market basket analysis has also been used to identify the purchase patterns of the Alpha consumer. Alpha Consumers are people that play a key roles in connecting with the concept behind a product, then adopting that product, and finally validating it for the rest of society. Analyzing the data collected on these type of users has allowed companies to predict future buying trends and forecast supply demands.

Data Mining is a highly effective tool in the catalog marketing industry. Catalogers have a rich history of customer transactions on millions of customers dating back several years. Data mining tools can identify patterns among customers and help identify the most likely customers to respond to upcoming mailing campaigns.

5. gatetrade.net company profile and

It makes good sense to use Fayyad's KDD process [4] in the complex task of exploring gatetrade.net data and extracting useful information from it. Before the different steps of the KDD process are carried out in chapter 5, it is important to have clear goals and intentions of what the applied Data Mining should accomplish with respect to the gatetrade.net data. A short profile of gatetrade.net and its business areas is also relevant.

5.1 gatetrade.net Profile

gatetrade.net is a 100% Danish owned company that is leading in its field of business in Denmark with more than 1500 customers [5]. gatetrade.net specializes in e-trade solutions which basically make e-trading easier and cheaper for buyers and suppliers with typical commodities such as different office supplies and services. The e-trading is taking place on multiple systems [6] and two of these are of interest in the KDD analysis.

- **gatetrade.net - marketplace** : the marketplace system offers a complete basic e-trade solution to companies of all sizes and the ability to fully integrate with prior commerce systems should that be the case. Marketplace is solely web based which makes it easy to generate and handle invoices. By further offering updated supplier catalogues and administration of suppliers price and framework agreements, Marketplace constitutes a cost efficient solution. In order to use Marketplace every buyer and supplier must pay a periodic subscription fee which amount depends on the buyer/supplier's size/usage. Moreover, suppliers must additionally pay a given percentage of their turnover.

gatetrade.net - eProcurement: besides offering a complete basic e-trade solution the eProcurement system also supports full integration with most accounting systems. Moreover, eProcurement is fully integrated with Marketplace allowing the buyer to do trading through Marketplace and benefit from its advantages. eProcurement thereby provides a broader and more complete e-trade solution compared to Marketplace.

5.2 Goals of the KDD process

Fayyad's [4] KDD process requires predefined goals/objectives before any of its steps can be carried out. A list of prioritized goals for BI solutions has therefore been made in collaboration with gatetrade.net. Time-wise, the list should reflect goals that are realistic to complete within the period during which the project is done. This limitation is necessary due to the countless

possibilities/applications of Data Mining and other Business Intelligence methods as mentioned earlier on.

1. Examine transactions that are not made through the Marketplace and the possible reasons for this.
2. Analysis of buyers' use of suppliers in Marketplace. Examine if the number of suppliers of a given buyer can be reduced in order to obtain lower prices for the buyer.
3. Analysis/profiling of monthly buyer/supplier development for Marketplace/eProcurement.
4. Analysis of lost suppliers in Marketplace.
5. Examine in Marketplace if trade is canalized through top buyers in a given company leaving a number of inactive buyers.
6. Examine the possibility of recommending relevant products to buyers in Marketplace.

5.3 Extraction of proper data from gatetrade.net data depot

Locating relevant data from the gatetrade.net data depot should be done with respect to the list of data processing goals. The gatetrade.net data depot holds several databases for both the Marketplace and the eProcurement system. Marketplace data is available from the 15 month period, January 2009 - March 2010 while eProcurement data is available from the 7 month period, September 2009 - March 2010. The structures of the main databases available for both Marketplace and eProcurement are exclusively of a transactional character as order information are continuously being stored in these. Each new order is for both systems stored as an order header (containing various details of buyer, buyer's company, supplier, etc.) and a number of order lines (one line per different product in the order). It should be stressed that although the eProcurement system names its contents "invoice" these are in this project referred to as orders similar to the orders in the Marketplace system. For each order this project operates with three main players - the buyer in the order, the buyer's company and finally the supplier of the product(s) in the order.

The following sections illustrate from which databases data for this project was gathered along with a short description of the data. All gatetrade.net data were extracted in Excel format directly from the data depots.

- Marketplace databases

Data from the Marketplace system was collected from two primary databases in the gatetrade.net data depot. The first database contains order headers (POM_ORDER_HEADERS) while the second stores order lines (POM_ORDER_LINES). The common attribute ORDER_NUMBER binds headers and lines to specific orders. Moreover, POM_ORDER_HEADERS numbered 150.000 + order headers and POM_ORDER_LINES numbered 400.000+ order lines for the given time period. Database relations are illustrated figure 2.

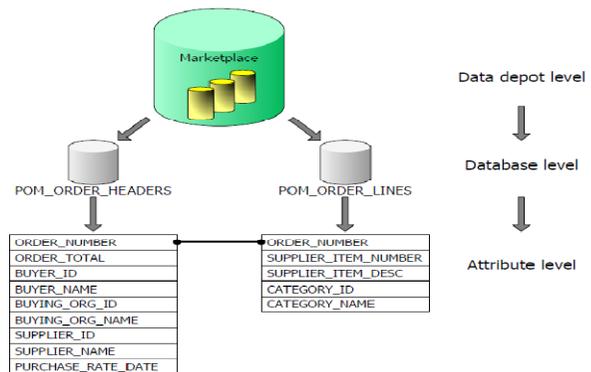


Fig. 2. Overview of extracted Marketplace databases and attributes.

Attribute descriptions of databases POM_ORDER_HEADERS and POM_ORDER_LINES attribute descriptions are found in table 1 and 2 respectively.

Table1. POM_ORDER_HEADERS

Attribute	Description
ORDER_NUMBER	ID number of order
ORDER_TOTAL	Total of order
BUYER_ID	ID of buyer
BUYER_NAME	Name of buyer
BUYER_ORG_ID	ID of buyer's company
BUYER_ORG_NAME	Name of buyer's company
SUPPLIER_ID	ID of supplier
SUPPLIER_NAME	Name of supplier
PURCHASE_RATE_DATE	Date of order

Table 2. POM_ORDER_LINES

Attribute	Description
ORDER_NUMBER	ID number of order
SUPPLIER_ITEM_NUMBER	Supplier's ID of a given product
SUPPLIER_ITEM_DESC	Supplier's description of a given product
CATEGORY_ID	ID of product category
CATEGORY_NAME	Name of product category

- eProcurement databases

Similar to Marketplace, orders from the eProcurement system are collected to two main databases in the gatetrade.net data depot. The first database contains order headers (eProc_INVOICE) while the second stores order lines (eProc_INVOICELINE). The common attribute pkid/invoice_id binds headers and lines to specific orders. Further on, information on eProcurement buyers, companies and suppliers are provided by three smaller databases (eProc_USER, Proc_COMPANY and eProc_SUPPLIERS). Moreover, eProc_INVOICE numbered 65.000+ order headers and eProc_INVOICELINE

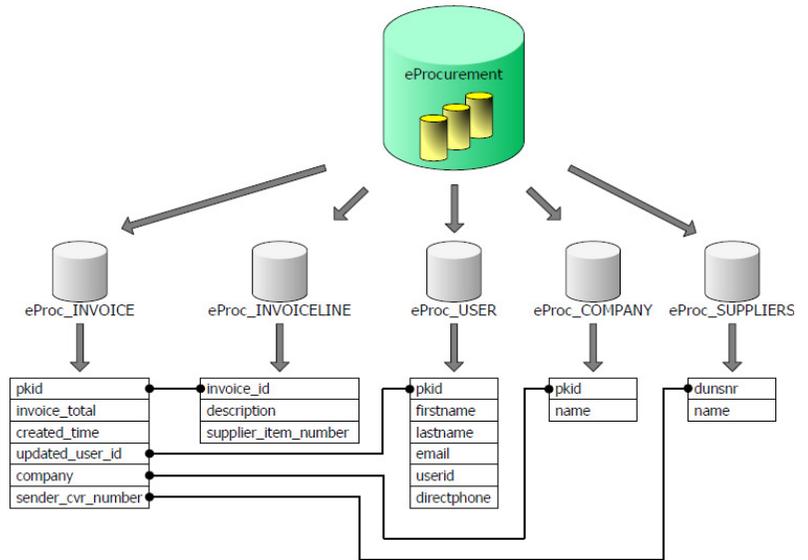


Fig. 3. Overview of extracted Marketplace DB and attributes

numbered 350.000+ order lines for the given time period. All database relations are illustrated in figure 3. Attribute descriptions of databases eProc_INVOICE and eProc_INVOICELINE attribute descriptions are found in table 3 and 4 respectively.

Table 4. eProc_INVOICE

Attribute	Description
pkid	ID of order
invoice_total	Total of order
created_time	Date of order
updated_user_id	ID of buyer
company	ID of company
sender_cvr_number	CVR number of supplier

Table 5: eProc_INVOICELINE

Attribute	Description
invoice_id	ID of order
description	Buyer's description of a given product
supplier_item_number	Supplier's ID of a given product

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STUDY REGARDING THE USE OF SPREADSHEET APPLICATIONS IN THE ECONOMIC FIELD

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Among the specialized analysis tools, spreadsheet applications are the most accessible. In addition, techniques and tools for organizing, processing and presentation of basic data, such as strengthening multiple lists, filtering, running sum, pivot tables they offer, largely satisfy the needs of organization and data analysis activities in the field of economics. For this reason we conducted a study in which we sought to obtain information on how these applications are used in the economic field.

Keywords: data analysis, worksheet, economic analysis activity, working reports

JEL codes: C80, M21

1. Introduction

Economic activity involves many decision situations. Their complexity involve organizing, processing and analyzing of a large volume of information. [4] Because of the software tools, more diverse and better, information can be organized and processed quickly, accurately and in depth. For the same amount of data processed a larger volume of complex and diverse information can be achieved, allowing to get a more complete picture of the decision analysis situation. [2]

In the data analysis activity traditional methods and software tools can be used, such as: dispersion analysis software, multi-factor techniques, regression analysis software, data-series analysis software is useful in data-series analysis in their trend format, seasonality and of the other dynamic series components.

But where would be a more complex economic analysis, viewing the information in the form of diagrams is necessary to use specialized software tools for analysis, such as spreadsheet applications, multidimensional analysis tools, data mining applications. [1]

Among the specialized analysis tools, spreadsheet applications are the most accessible, regarding the price. In addition, techniques and tools for organizing, processing and presentation of basic data, such as strengthening multiple lists, filtering, running sum, pivot tables they offer, largely satisfy the needs of organization and data analysis activities in the field of economics. [3] For this reason we conducted a study in which we sought to obtain information on how these applications are used in the economic field.

2. Data analysis and interpretation

The study was conducted with the help of the masters in economics students from the University of Oradea. The specializations covering the activities of marketing, management and accounting were

taken into account. The most of the master degree students, both first and second year, have a job in state institutions and private companies in the western part of the country, being involved in economic activities. Thus they can provide valuable information on how spreadsheet software are used in business, the importance that managers attaches to improve the knowledge for their employees in using these applications.

Economic activities involving the subjects were grouped as follows:

- Management activities;
- Marketing activities;
- Accounting activities.

The sample chosen for study is representative because of the large number of institutions and companies in which students work. The table below presents the number of institutions and companies considered:

Investigated domain	Number of students	Number of institutions	Number of companies	Institution and companies
Management	150	27	104	131
Marketing	150	11	123	134
Accounting	150	24	106	130
Total	450	36	298	334

From the table above one can see that the subjects who participated in the study came from 36 institutions and 298 private or state companies.

To collect the necessary information a questionnaire was compiled, which was served with either students or was sent by email. Questionnaires were completed by almost all students entered in their possession. Therefore, the total of 450 questionnaires distributed, 446 were completed, returned and used for analysis, resulting in a response rate of 99.11%.

Response rate is very high compared to the situation in which questionnaires were sent for completion to persons who are not involved in an continuous learning activity. This conclusion has been driven during previous studies in which questionnaires were sent only by e-mail to people working in the economic field, without involving students. Response rate in those cases ranged between 50% - 60%.

The questions were grouped as follows:

- Questions related to the activity field of the subjects (management, marketing, accounting) and their studies.
- Questions related to the number of employees of the institution or company, the share in the total number of the company's employees of the people working in the activity field of the respondent.
- Questions related to the graduated domain, informatics studies attended, software application known.
- Questions related to the complexity of the reports they manage.
- Questions related to the activity of the economic data analysis.
- Questions related to the software applications they use in their activity.
- Questions related to the spreadsheet solutions used: the complexity of the processed data, instruments for data management, data processing and data analysis.

Collected data showed that:

- % of the subjects use spreadsheet solutions in data management, data processing and data analysis activity.
- % of the subject do not use spreadsheet solutions. Examples for this situation:
 - Subjects employed in a small business private company (under 10 employees). These companies usually use software only for accounting activities. Data analysis is reduced only to compare levels at different period of time (usually the current and previous month) for management decisions. For example current month's sales are compared to those of the

previous month, the result being used to make a decision regarding the level of the next month's supply.

- Subjects that works as accountants. They use only accounting software to generate accounting reports.

- Subjects which use other software applications in data analysis, such as: data-mining specialized software, database software which include data mining instruments.

- % of the subjects which do not use spreadsheet solutions works as accountants. In most cases, they use specialized software to generate specific (desired) reports based on the software's graphic user interface- GUI (menus, commands, and so on). Data analysis and processing is made by other employees of the company.

- % of the subjects use "working reports" type software, created inside company or institution. This is the case of the employees working in a company or institution with specialized workers, employed to create personalized software.

- % of the subjects uses Microsoft Excel ® as spreadsheet solution. In most cases spreadsheets are used only for simple calculus, such as summation. Using the results, a person can make a decision, usually regarding what to do next month, based on the current month data, compared to the data acquired in the previous month. In other cases are used instruments for organizing, statistic processing and simple analysis of the data offered by the spreadsheet software: multiple lists consolidation, summation, filtering, subtotals, pivot tables, trend diagrams and relations, alternative comparison for optimum decisions.

-The most people using spreadsheet applications or type of work reports, ie 47.80%, works in managerial domain. Short distance behind, with a percentage of 42.65% is the marketing domain. The accounting domain is the worst, those who use spreadsheet applications or type of work reports representing only 9.55%.

Results are synthesized in the table below:

Software used \ Field of activity	N	A	B	C	D	E
Management	%	78 52,00	3 2,00	11 7,34	38 25,33	20 13,33
Marketing	%	67 45,27	6 4,05	14 9,47	29 19,59	32 21,62
Accounting	%	19 12,84	-	4 2,70	3 2,02	122 82,44
Total	%	164 36,77	9 2,02	29 6,50	70 15,70	174 39,01

A - Microsoft Excel

B - Other spreadsheet applications

C - "Working reports" type software applications realized inside the respondent's institution or company

D - Bought "working reports" type software applications

E - Do not use neither spreadsheet application nor "working reports" type software

It appears that 39.24% of the respondents used in their work spreadsheet applications and 36.77% of them use Microsoft Excel ®. Using mainly of Microsoft Excel ® can be explained as follows:

- Institutions and companies largely use the Microsoft Office software package, which includes the Excel spreadsheet application.

- The economic students, have in their syllabus, information on how to use this application

- Possibility of obtaining certification by ECDL accredited test centers in some schools in Oradea and in several localities of Bihor county and the Faculty of Economics, certification that entitles their owners to the use of Microsoft Excel.

3. Conclusions

Most of the University of Oradea students in master's cycle in the economy domain, are employed in state institutions or private companies, being involved in economic activities. They use pretty much in their activities of management and marketing, spreadsheet applications, or “working reports” type software. The survey found that 60.99% of the respondents use such applications.

Among those who know and use spreadsheet applications for drawing up the reports necessary for carrying out the work, 94.80% use the Microsoft Excel. This is due, on the one hand, to the fact that institutions and firms use mainly Microsoft Office software package, and secondly, that economic graduates know how to use Microsoft Excel application from school.

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INCREASING EFFICIENCY OF ELECTRONIC PUBLIC SERVICES TO CITIZENS AND BUSINESSES IN CONNECTION WITH THE IMPLEMENTATION OF INTEGRATED ELECTRONIC SOLUTIONS

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European Union enlargement, the existence of new needs and demands, requires the development of innovation and quality of public administration, which means improving public services in the global economy as a requirement of competitiveness.

The European Union hopes to achieve the major objectives in what concerns the electronic government by 2010; actions necessary to achieve them are adopting solutions based on information and communication technologies in the Romanian public administration, aimed at developing modern public services. This paper presents some best experiences of e-governance in Romania and the results of e-governance in Gorj County, and the degree of implementation and use by citizens.

Keywords: electronic government, information technology and communications, public services.

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1. Development of e-Government services in the current European context

The existence of efficient and innovating public administrations is essential in a global and competitive Europe. Government is the key element for the management and putting the potential of the public sector to good use.

The electronic governance is the acceptance of general Government use of IT applications and other information technologies based on the Internet, combined with processes that implement these technologies to improve access and delivery of government information and services to the public, or to other agencies and government entities. This brings improvements in the workings of government that result in increased effectiveness, efficiency and service quality.

In general, the administrations of most developed cities make use of initiatives and programs at national and international level in order to achieve and develop an environment for e-government services in the city. Their policy is focused on developing several types of services and the establishment of a wide range of services (for citizens and businesses).

Strategy shift to e-government transformation and modernization of government is imposed by information technology and communications. Digital Governance refers to the web infrastructure to provide online services. According to an analysis of websites of major cities, which took into account five variables (security and confidentiality, can / utilization, content, type of online services offered,

answer citizens and ensuring their participation through websites), increase participation is a key to the e-government strategies¹⁷⁵².

Providing information and knowledge needed in the sector was a priority for governments from the beginning. They must be integrated through interactive tools that allow, for example, involving people in defining and evaluating public policies. The most important electronic governance models focus on user involvement and citizens on the one hand, and the services provided to users in urban areas, on the other.

E-Government services involve the public sector to the challenges and requirements of the new economy. Therefore, accelerating the implementation of electronic government is important in order to innovate and modernize public services¹⁷⁵³.

Throughout the world, governments are showing interest in new technologies and electronic services of the future, allowing the implementation of electronic government, but must not forget that this involves major changes in public institutions and facilities.

Internet is easy to use and involves low cost of use, this making it a digital instrument that anyone can use. This is why the Internet is now an opportunity for the Board to serve citizen information technology intensively. Internet access isn't the only element that influences the level of development of applications for electronic government. The use of this application depends also on *education* and on *the change of mentality*, and the success of implementing these applications determines the acceptance and the impact they have in modern society. Not so long ago, citizens perceived public service negatively, being most often displeased of their quality. The level of satisfaction of the citizens is tied to their expectations regarding public service.

The European Union has identified five priorities or **major objectives regarding e-government for 2010**, which are¹⁷⁵⁴:

- ***Efficiency and efficacy***, which implies an important contribution of e-government services to the increase of satisfaction, transparency and responsibility, to the reduction of bureaucracy and to the increase of efficiency by the year 2010.

- ***Implementing key services, with major impact on the citizens and on the business environment***, so, by the year 2010, public acquisitions will be 100% available online. The achievement of this objective also involves the future cooperation for the development of online services that have strong impact on the citizens.

- ***Offering services for all citizens***, which means stimulating the inclusion through e-government, so all citizens will benefit from secure, innovative and easy to use services by 2010.

- ***The introduction of identification keys, which allow authenticated access to public services, based on laws concerning the protection of data***. This allows citizens and the business environment to benefit of authenticated convenient access by 2010, secure and interoperable to public services from Europe (for example, eIDM, and the management of electronic identification for interoperable access to public services).

- ***Strengthening the participation of citizens to the process of government and the democratic adoption of decisions***, by promoting public debate and the participation to the process of making decisions in a democratic way.

The i2010 plan for e-government – „Accelerating e-government in Europe for everyone's benefit”¹⁷⁵⁵ has as main goals accelerating the process of obtaining attainable advantages for all citizens and for the

¹⁷⁵² M. Păceșilă, *E-government services at European Level – Features and Trends, Theoretical and Empirical Researches in Urban Management*, Year 2, Number 5, 2007

¹⁷⁵³ Source: “*i2010 eGovernment Action Plan: Accelerating eGovernment in Europe for the Benefit of All*”, Communication From the Commission to the Council, the European Parliament, Brussels, 2006, page 3.

¹⁷⁵⁴ Patrick Wauters, Graham Colclough, „Online Availability of Public Services: How Is Europe Progressing? Web Based Survey on Electronic Public Services, Report of the 6th Measurement”, June 2006, Capgemini, www.capgemini.com/public, page 15.

business environment; the assurance that national e-government does not lead to new barriers on the unique market because of fragmentation and lack of interoperability; expanding the advantages for the European Union through large scale economies that can be obtained in member states and cooperation in order to find solutions to common problems that appear in Europe; ensuring the cooperation of all European Union stakeholders in planning and providing e-government services. For the development of electronic government services concentrated actions are necessary, like:

- establishing a common guide, approved by member countries that will align the development of electronic government with the accessibility of electronic communication;
- advancing specifications for strategies of providing services that will allow access to e-government services through varied channels like digital television, fixed and mobile telephony and other interactive environments;
- establishing a common measurement of the impact of e-government services;
- exploiting the mechanism that ensures long term financial and operational durability for infrastructure and electronic services;
- accelerating the establishment of common specifications for public acquisitions in the European Union and launching pilot programs in this area;
- testing instruments based on information technology and communications that facilitates the transparency and involvement of the public in adopting decisions and also backing exchange of experience;
- establishing an advanced form of electronic democracy, etc.

The actions presented above and announced through i2010 were introduced in the period 2006 – 2010 and will need the cooperation of all stakeholders in order to develop electronic government in the European Union.

2. Integrated development and implementation of online public services in the Gorj County Council

Objective of the project concept development and implementation of electronic administration in the Gorj County Council, focuses on quality growth and development of electronic public services for the benefit of citizens, providing online public services to citizens / public administration at a level of sophistication environment and efficient activities of the County Council, using specific information technology by implementing new work flows, related to e-administration services.

The project will have the main results and increase satisfaction in Gorj County citizens through: transparency in providing information and electronic public services, equal access for all citizens, and better information and service them through public service available "on line" simplify, accelerate and strategic management of economic processes to be conducted on the basis of solutions, ensuring the security of transactions in a centralized, 24 hour availability of services 24, 7 days a week, in a solution integrated, consistent, easily integrated with other systems and easy to manage. Also, another significant result pursued by the project is the efficient activities of the Gorj County Council, using specific means of ICT, by: improving the quality of the administrative act and change deep relationship between public administration and citizen, increase efficiency of public administration, elimination bureaucracy and increase the quality of public services, creating a centralized system for routing administrative documents (administrative forms), ensuring the security of transactions in a centralized, retraining public servants, raise their professional standard.

¹⁷⁵⁵ Source: “i2010 eGovernment Action Plan: Accelerating eGovernment in Europe for the Benefit of All”, Communication From the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Brussels, 25.04.2006, COM(2006) 173 final, pages 3-4.

3. The overall system architecture

In defining the architecture that will support the Information System Development and increased efficiency of electronic public services to citizens and businesses in Gorj country, were taken of the following general features of the system:

- Availability: Availability of IT& C depends largely on the care with which it was designed, the discipline with which it is operated, the rigor with which it was tested and optimization to over exploitation. Key availability is found in insulation capacity of that "single point of failure" existing in the individual components of the system (equipment and / or applications), thereby maximizing its uptime. Techniques and technologies to increase the availability of time are: to ensure redundancy (multiple-way communication between server and client) in the communications, and using technologies like clustering to services.
- Data security: risk management by ensuring adequate protection of networks and systems should ensure confidentiality and integrity of information circulating through the system, is an important goal in designing any system IT & C The only solution for doing so in a consistent manner is strict observance of a policy in the organization, named "defense-in-depth".
- Defense-in-depth multi-level security defines bidirectional, organized in areas of security, which ensures the compartmentalization system so that if one part of it is compromised by a potential attack, it can not compromise the other compartments.
- Scalability: scalability is the ability of a system to cope with an ascending continuous charging, without decreasing performance. In general, the major components of a system architecture that is subject to scalability are: topologies and network systems, application servers, infrastructure services, infrastructure management components and subsystems responsible for storing data.
- Safety in operation: is based on the repetitiveness with which architecture has been implemented successfully as standard system architecture. Reliability of operation may directly affect the system availability at the macro level and indirectly, the degree of success that can be achieved in areas such as security, scalability, and performance management capacity. Safety in operation is addressed to several levels (layers) and is especially critical for solution scalability and performance of individual applications.
- Standardization: implementation of infrastructure components, standardized by well-known architectural elements, creates predictable and reliable systems to exploit. Standardization creates a solid foundation for growth management system, ensuring integration of processes / applications and technologies within the organization.

The system should not allow the loss of data, in this sense is necessary to restore capabilities in case of accidents and ways to prevent them. Also, system architecture will be a component of security infrastructure that does not allow unauthorized access to data. The information and communication system will be arranged on two levels:

- Level of infrastructure: including all subsystems necessary for the functioning and security specific applications. This level contains the following subsystems:
 - Subsystem Hardware.
 - Communications Subsystem.
 - Subsystem Software Basic.
 - Security Subsystem.
- The level of specific applications: includes all the subsystems that support the activities of carrying on specific activities management. This level contains the following subsystems operating on different applications within each organization in part:
 - Economic Management Subsystem.
 - Subsystem HR and payroll.
 - Subsystem local taxes.
 - Subsystem "Marital status".
 - Subsystem "Agricultural Register".

- Subsystems necessary to complete the electronic services delivery system:
 - Subsystem Design and simulation work processes.
- Subsystem document management and workflow (including electronic registry).
- Project Management Subsystem.
- Subsystem external portal (the management of electronic identity for citizens enrolled in the system and operators).
- Public area of the portal institution with the functions of advertising and promotion of information of general interest.
- Component type discussion forum - which will be held on various issues - instead of being extracted information on the areas of interest to citizens for the development of new services coming to meet local community needs.
- Component type probe public opinion on the subject of attention of public opinion about various aspects of community life to find solutions closest to the characteristics of the local community.
- Subsystem management relationship with citizens and businesses.
- Implementation of computer application project specific indicators.
- Business Intelligence Subsystem.
- Subsystem Management Application.

Principle of the computer system architecture and communications for “Integrated development of online public services in Gorj” can be represented as follows:

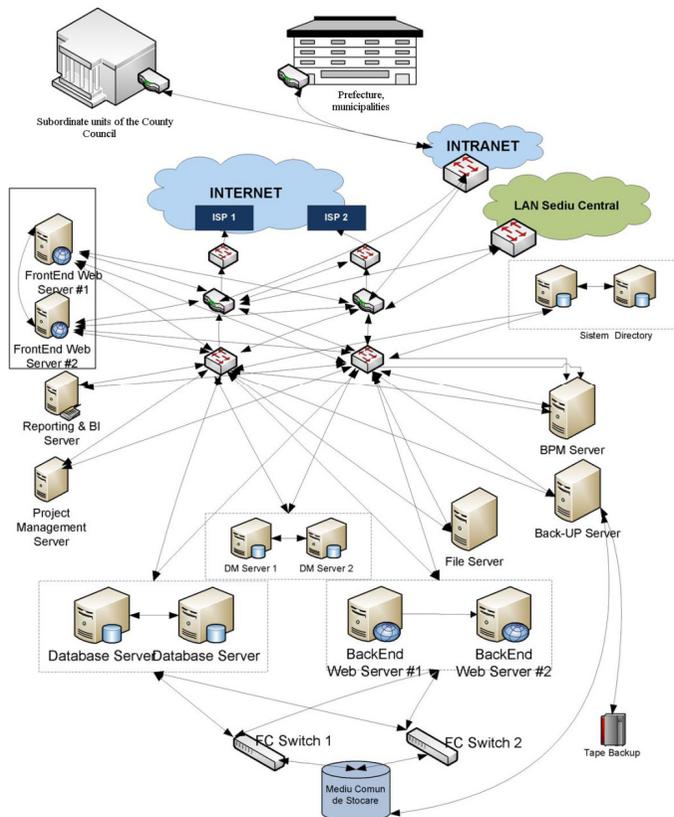


Fig. 1 County computer system architecture: Online public services

To achieve system and the Communications Council, have been taken into account these technical possibilities of designing the architecture: a centralized system, this calls for a single Data-Center, centrally, and connecting all secondary locations via VPN network , the centralized database management requires a single point, making data transfer is vertical; due to the necessity of obtaining and processing data in real time, seen fit to implement a system to connect all users to a central system. Of course, such architecture requires a communication system adequate to ensure access any information from the system operator, with reasonable response times.

4. Conclusions

In the macroeconomic context of Romania in the last few years, the IT&C sector has grown in importance, becoming a valuable instrument and important element of success, capable of generating economic growth, promoting education and, last but not least, offering real support to democracy. In this context, the initiatives of e-government of creating an electronic infrastructure that will bond educational institutions, governmental agencies, and public sectors to private sectors have formed the premise for the development of the IT&C sector.

New information technologies and communication has favored gathering, analyzing and access to information, leading to more efficient activities, a better act of decision and more transparent public and local institutions in their relationship with the citizen, who has a right for free access to information.

The Romanian strategy for e-Government is tied to the growth of the entire sector of information technology and communications and it concentrates on the government's effort to implement those electronic services that have high economic and social potential. Only through actions of developing modern electronic services can e-Government ensures transparency and institutional credibility and reduce costs necessary for managerial process in public services. In this context, the main objectives for e-Government are the use IT instruments in the sector of public administration in order to make day to day activities more efficient, the presence of public administrations on the Internet, providing more accessible information to citizens and companies, the growth of utility and usage of interactive services for citizens and companies and last but not least changing the experience of e-Government nationwide.

The achievement of these goals is not possible if a strong partnership between all sides involved (public authority, public administration and civil society), that leads to creating intelligent public services based on new information technology and communications, does not exist.

The development of public services bring benefit both in the public and private sectors, translated into economic growth, a favorable environment for investments and better use of public resource, including Structural and Cohesion Funds.

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